PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

20 March 2015

THE PHILIPPINE STOCK EXCHANGE
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1226

ATTENTION: MS. JANET A. ENCARNACION
Head, Disclosure Department

Dear Ms. Encarnacion,

We would like to submit to the Philippine Stock Exchange the attached Definitive Information Statement of Philippine Savings Bank (PSBank).

We hope that you will find everything in order.

Thank you very much.

Very truly yours,

PERFECTO RAMON Z. DIMAYUGA JR.
SVP and Chief Finance Officer

COVER SHEET

15552

SEC Registration Number

PHILIPPINE SAVINGS BANK

(Company's Full Name)

PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City

(Business Address: No. Street City/Town/Province)

Perfecto Ramon Z. Dimayuga Jr.

(Contact Person)

885-8208

(Company Telephone Number)

12 31

Month *Day*

(Fiscal Year)

20-IS

(Form Type)

04 28

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Corporation Finance Dept.

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,553

Total No. of Stockholders as of January 31, 2015

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

PHILIPPINE SAVINGS BANK
(COMPANY'S NAME)

PSBANK CENTER
777 Paseo de Roxas cor. Sedeno St. Makati City
(COMPANY'S ADDRESS)

885-82-08
(TELEPHONE NUMBER)

DECEMBER 31
(FISCAL YEAR ENDING MONTH & DAY)

SEC Form 20-IS
(FORM TYPE)

March 18, 2015
(PERIOD ENDED DATE)

Government Securities Dealer
(SECONDARY LICENSE TYPE AND FILE NUMBER)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20- IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1.	Type of Statement	**( ) Preliminary Information Statement** **(x) Definitive Information Statement**
2.	Name of Registrant as specified in its character	**PHILIPPINE SAVINGS BANK**
3.	Province, country or other jurisdiction or incorporation or organization	**Manila, Philippines**
4.	SEC Identification No.	**15552**
5.	BIR Tax Identification No.	**000-663-983-000**
6.	Address of principal office & Postal Code	**PSBank Center, 777 Paseo de Roxas corner Sedeño Sts., Makati City** **1226**
7.	Registrant's Telephone No. including area code	**(632) 885- 8208**
8.	Date, time, and place of meeting of security holder	**April 28, 2015 3:00 PM, 19th Floor, PSBank Hall, PSBank Center, 777 Paseo de Roxas corner Sedeño St., Makati City 1226**
9.	Approximate date on which the Information Statement is first to be sent or given to security holders	**March 25, 2015**
10.	In case of Proxy Solicitations Name of Person Filing the Statement Address and Telephone Number	 **Not Applicable** **Not Applicable**
11.	Securities registered pursuant to Section 4 and 8 of RSA (information on number of shares and amount is applicable only to corporate registrant)	**Common Shares** **240,252,491 outstanding**
12.	Are any or all of registrant's Securities listed on the Philippine Stock Exchange	**Yes**

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the annual meeting of stockholders of this Corporation will be held on April 28, 2015, Tuesday, at 3:00 p.m. at the 19th Floor PSBank Center, 777 Paseo de Roxas corner Sedeño St., 1226 Makati City to pass upon the following matters:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held on April 28, 2014
4. President's Report
5. Confirmation of all acts of the Board of Directors, the Executive Committee and the Management
6. Election of the members of the Board of Directors
7. Appointment of the External Auditor
8. Other Matters
9. Adjournment

In case you cannot attend the meeting in person and you wish to be represented, you may designate your authorized representative by submitting a proxy instrument on or before April 21, 2015 to Metrobank Trust Banking - Stock Transfer Department 17th Floor, GT Tower International, 6813 Ayala Avenue corner H.V. dela Costa St., Makati City.

Only stockholders of record as of February 05, 2015 shall be entitled to vote in the Meeting.

Pocholo V. dela Peña
Corporate Secretary

Philippine Savings Bank Head Office: 777 Paseo de Roxas corner Sedeño St., 1226 Makati City

In case of any change in your address or contact details, please get in touch with PSBank's Stock Transfer Agent, attention Allarson Caperina or Celia dela Cruz of Metrobank Trust Banking Group through 857-5694 / 857-5698 or allan.caperina@metrobank.com.ph or celia.delacruz@metrobank.com.ph.

EXPLANATION OF AGENDA ITEMS

1. **Call to Order**
   - Chairman Jose T. Pardo will welcome stockholders and guests to formally begin the 2015 Annual Stockholders' Meeting of PSBank.

2. **Certification on Notice and Quorum**
   - The Corporate Secretary, Pocholo V. dela Pena, will certify that the Notice of Meeting has been sent out as of March 25, 2015 as required by the PSBank By-Laws and will announce whether or not a quorum is present either in person or by proxy, constituting two-thirds of the outstanding capital stock.

3. **Approval of the Minutes of the Annual Stockholders' Meeting held on April 28, 2014**
   - The stockholders will be asked to approve the minutes of the Annual Stockholders' Meeting held on April 28, 2014, which contain among others, the (a) Annual report to Stockholders, (b) Confirmation of all acts of the Board of Directors, the Executive Committee and the Management, (c) Appointment of the External Auditor, (d) Election of the members of the Board of Directors, (e) Amendment in PSBank's principal office address in the Articles of Incorporation, per SEC Memorandum Cir. No. 6 s2014.

4. **President's Report**
   - The PSBank President will render his Annual Report on the Bank's activities, business and financial performance for year-end 2014.

5. **Confirmation of all acts of the Board of Directors, Executive Committee and the Management**
   - The stockholders will be asked to confirm all acts, transactions and resolutions of the Board of Directors, including transactions with the Bank's DOSRI and other related parties, the Executive Committee and the Management during the year 2014.

6. **Election of the members of the Board of Directors**
   - The Chairman will present nominees for election as members of the Board of Directors, including independent directors. This is in compliance with regulatory requirements of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission on the nomination of directors, and after the Nominations Committee's review and evaluation of the qualifications of all persons nominated to the Board.

7. **Appointment of the External Auditor**
   - The stockholders will ratify selected External Auditor for 2015-2016.

P R O X Y

I, ____________________ do hereby nominate, constitute and appoint ________________________ as my proxy and representative at the Annual Meeting of Stockholders of PSBank to be held on **April 28, 2015**, with authority to participate in the deliberations thereof, and to vote in my behalf all the shares standing in my name for the election of directors and/or transactions of any business which may properly arise during the said meeting or any adjournment thereof.

____
Date and place of issue

____
PSBank Stockholder

NOTE: *This form is being provided for your convenience. In case you cannot attend the meeting in person and you wish to be represented thereat, you may designate your authorized representative by submitting a proxy instrument on or before April 21, 2015 to Metrobank Trust Banking – Stock Transfer Department 17th Floor, GT Tower International, 6813 Ayala Avenue corner H.V. dela Costa Street, Makati City. Notarization of this proxy form is not required.*

PART I. INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting of Security Holders

Date	:	April 28, 2015, Tuesday
Time	:	3:00 P.M
Place	:	19th Floor, PSBank Hall, PSBank Center 777 Paseo de Roxas corner Sedeño St., Makati City 1226
Mailing address of the principal office	:	PSBank Center 777 Paseo de Roxas cor. Sedeño St., Makati City 1226

Approximate date on which copies of the Information Statement
are first to be given to security holders : **March 25, 2015**

WE ARE NOT ASKING YOU FOR A PROXY AND
YOU ARE REQUESTED NOT TO SEND US A PROXY.

Item 2. Dissenters' Right of Appraisal

There is no matter or proposed action in the Agenda which may give rise to the exercise by the security holders of their right of appraisal. Generally, however, in instances mentioned by the Corporation Code of the Philippines, the exercise of the right of appraisal must conform to certain procedures.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which vote was taken for payment of the fair value of his shares: Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days after the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, that upon payment by the corporation of the agreed awarded price, the stockholder shall forthwith transfer his shares to the corporation.

Item 3. Interests of Certain Persons in or Opposition to Matters to be Acted Upon

Other than election to office, there is no matter to be acted upon in which any director, executive officer, or nominee for election as director (or any associates of the foregoing), is involved or has a direct, indirect or substantial interest. There is also no incumbent director who has informed the Bank in writing that he intends to oppose any action to be taken at the Annual Stockholders' Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

a) No. of Shares outstanding as of January 31, 2015 : **240,252,491 Common Shares**
No. of votes to which each share is entitled : **one (1) vote per share**

b) Record date to determine stockholders entitled to Notice and to vote at the regular meeting : **February 5, 2015**

c) Election of Directors:

Majority vote is required for the election of directors. Security holders shall have the right to cumulative voting. Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed the number of shares registered in the name of that security holder in the books of the Bank as of the record date multiplied by the whole number of directors to be elected. There is no condition precedent to the exercise of the right to cumulative voting.

d) Arthur V. Ty is the person authorized to vote the MBTC shares in PSBank.

e) Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of January 31, 2015, the following stockholders own more than 5% of the common voting securities:

Title of Class	Name, address of Record Owner and relationship with issuer	Name of Beneficial Owner and relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Metropolitan Bank and Trust Co. Metrobank Plaza, Gil Puyat Avenue, Makati City (Parent Company of PSBank)	Arthur V. Ty, Chairman of Metrobank	Filipino	182,535,895	75.977
Common	PCD Nominee Corporation 37th Floor, Enterprise Bldg. Tower 1 Ayala Avenue, Makati City	Various Stockholders via PCD	Filipino	18,354,256	7.640
Common	Danilo L. Dolor # 56 Tamarind Rd., Forbes Park, Makati City	Danilo L. Dolor	Filipino	12,610,891	5.249

There is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

(2) Security Ownership of Directors and Management as of January 31, 2015

Title of Class	Name	Position	Citizenship	No. of Shares	Percent
Directors					
Common	Jose T. Pardo*	Chairman	Filipino	1,852	.000771
Common	Arthur V. Ty	Vice Chairman	Filipino	117	.000049
Common	Vicente R. Cuna, Jr.	Director/President	Filipino	100	.000042
Common	Cabal. Amelia B.	Director	Filipino	100	.000042
Common	Maria Theresa G. Barretto	Director	Filipino	3,557	.001481
Common	Margaret Ty Cham	Director	Filipino	100	.000042
Common	Jeanne Frances T. Chua	Director	Filipino	100	.000042
Common	Samson C. Lim*	Director	Filipino	100	.000042

Title of Class	Name	Position	Citizenship	No. of Shares	Percent
Common	Benedicto Jose R. Arcinas*	Director	Filipino	100	.000042
	Sub-total			**6,126**	**.002550**
Officers					
Common	Gilda Brigida C. Alunan	Manager	Filipino	220	.000092
Common	Dulce D. Arcebal	Senior Assistant Manager	Filipino	628	.000261
	Sub-total			**848**	**.000353**
	Total (Directors and Officers)			**6,974**	**.002903**

* Independent director

(3) Voting Trust Holders of 5% or more

There is no person who holds more than 5% of the Bank's securities under a voting trust or similar agreement.

(4) Changes in Control

There is no arrangement that may result in a change in control of the registrant. There is no change in control that has occurred since the beginning of the last fiscal year.

Item 5. Directors and Executive Officers

a) Directors

The following are the Directors for 2014 – 2015:

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
Jose T. Pardo Chairman of the Board of Directors / Independent Director	76	Filipino	<u>Present Involvements</u> • Chairman since Jan 2003/Independent Director since May 2007, Philippine Savings Bank* • Chairman and Independent Director, Philippine Seven Corporation since Jan 2015* • Chairman/Independent Director, Philippine Stock Exchange since 2011 • Chairman/Independent Director, Securities Clearing Corporation of the Philippines since 2011 • Chairman/Independent Director, Bank of Commerce since 2003 • Director, National GRID Corporation of the Philippines since 2009 • Independent Director, JG Summit Holdings, Inc.* since 2013 • Director, ZNN Radio Veritas since 2006 • Calaca High Power Corp • Chairman, De La Salle University, Inc. since 2010 • Chairman, ECOP Council of Business Leaders since 2009 • Chairman, PCCI Council of Business Leaders since 2007 • Chairman, Philippine Business Center Inc. • Chairman, Foundation for Crime Prevention since 2007 • Co-Chairman, De La Salle Philippines • Chairman, Assumption (Antipolo) since 2006 • Vice Chairman, EDSA People Power Commission, Office of the President since 2010 • Chairman, EDSA People Power Foundation since 2011	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			• Chairman, Philippine-Japan Vocational Technical Foundation Past Experiences/ Positions Held • President/Chairman, Philippine Seven Corporation (Philippine Area Licensee of 7-Eleven, USA) • President/Chairman, Wenphil Corporation (Philippine Area Licensee of Wendy's, USA) • President/Chairman, Asian Holdings Corporation • President/Chairman, Land and Housing Development Corporation • President/Chairman, Overseas Ohsaki Construction Corp. • President/Chairman, Capital Market Integrity Corporation in 2011 • Chairman, Franchise Investment Holdings Inc. • Chairman, EC Pay Network Inc. in 2003 • Director, San Miguel Purefoods Inc. • Director, GMA Network, Inc. (Channel 7) • Director, Metropolitan Bank and Trust Company • Director, C.C. Unson Co., Inc. (Battery Manufacturing) • Director, Mabuhay Philippine Satellite Corporation in 2001 • Director, Coca-Cola Bottlers Philippines, Inc. • Director, ABC Development Corporation (ABC-5) in 2004 • Director, Associated Broadcast Marketing Corp. in 2004 Past Experiences/Positions Held in Government Service • Cabinet Secretary, Department of Finance from 2000-2001 • Cabinet Secretary, Department of Trade and Industry from 1998-2000 • Governor for the Philippines, Asian Development Bank • Alternate Governor for the Philippines, International Monetary Fund • Governor, International Fund for Agricultural Development • Chairman, Committee on Privatization • Chairman, Philippine Deposit Insurance Corporation • Chairman, Trade and Investment Development Corporation • Chairman, Mount Pinatubo Commission • Chairman, Council of ASEAN Trade Ministers from 1998-1999 • Vice Chairman, Economic Coordinating Council • Member, National Dev't Company • Fellow, Development Academy of the Philippines • Member, Bangko Sentral Monetary Board from 1998-2001 • Commissioner, Career Executive Service Board • Commissioner, Presidential Anti-Crime Commission • Member, Presidential Council of Economic Advisers in 1992 • ASEAN Free Trade Area (AFTA) Advisory	

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Council from 1992-1994	
Arthur V. Ty Vice Chairman	48	Filipino	<u>Present Involvements</u> • Chairman, Metropolitan Bank and Trust Company* since April 2012 • Vice Chairman/Director, Philippine Savings Bank* since August 2001 • Vice Chairman/Director, First Metro Investment Corporation since April 2012 • Director, Federal Land, Inc. since 2002 • Chairman/Director, Global Treasure Holdings, Inc. since 2006 • Vice Chairman, Great Mark Resources Corporation since 2012 • President/Director, Horizon Royale Holdings, Inc. since 2000 • Vice Chairman, Metrobank Foundation, Inc. since 2006 • President/Director, Philippine Securities Corporation since 2005 • Chairman, GT Capital Holdings Inc.* since 2014 • Chairman/Director, Grand Titan Capital Holdings, Inc. since 2007 • Chairman/President, Nove Ferum Holdings, Inc. since 2009 • Chairman, Metropolitan Bank (China) Ltd. since 2010 • Chairman, Ferum Cee Inc. since 2011 • Chairman, GT Metro Foundation Inc. since 2010 <u>Past Experiences/Positions Held</u> • President, Philippine Savings Bank from 2000-2001 • President, Metropolitan Bank and Trust Company from 2006-2012 • Treasurer, FMIC Equities, Inc. from 2001-2006 • Chairman, First Metro International Investment Corp. (Hong Kong) from 2006-2009 • Vice Chairman/Director, Global Business Holdings from 2002-2006 • Chairman, Great Mark Resources Corporation from 2006-2012 • Vice Chairman/Director, Metropolitan Bank (Bahamas), Ltd. from 2006-2009 • Chairman/Director, Metrobank Card Corp. from 2002-2009 • Senior Vice President, Metrobank Foundation, Inc. from 2003-2005 • EVP/ Director, Philippine Securities Corporation from 2001-2003 • Director, SMBC Metro Investment Corporation from 2001-2005 • Director, Lepanto Consolidated Mining Company from 1997-2003 • Director, Baywatch Realty Corp. from 2000-2003 • Vice Chairman, Metro Remittance Singapore Pte. Ltd. from 2004-2009 • Vice Chairman, Metro Remittance Center, Inc. (U.S.A) from 2008-2009 • Chairman, MB Remittance Center (Hawaii), Ltd. from 2007-2009	Margaret Ty Cham (Sister)

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			• Chairman, Metro Remittance Center, Inc. (Canada) from 2008-2009 • Vice Chairman, Metro Remittance (Italia) SpA from 2008-2009 • Director, MBTC Remittance GmbH (Vienna) from 2008-2009 • Vice Chairman, Metro Remittance (UK) Ltd. from 2007-2009 • Director, Global Business Power Corp. from 2009 to 2012 • Vice Chairman, GT Capital Holdings Inc. from 2012 to 2014 • Vice Chairman/Director, Cathay International Resources Corp. from 2006-2012	
Vicente R. Cuna, Jr. President / Director	53	Filipino	Present Involvements • Director/President, Philippine Savings Bank* since April 2013 • Director, Metropolitan Bank and Trust Company* since April 2014 • Director, First Metro Investment Corporation since April 2011 Past Experiences/ Positions Held • Executive Vice President, Institutional Banking Sector, Metrobank in 2012 • Executive Vice President – Corporate Banking Group, Metrobank from 2006- 2012 • Adviser, Metrobank in 2007 • Chairman, Metro Remittance Center (California), Inc. from 2010-2013 • Chairman, Metro Remittance (Canada), Inc. from 2010-2013 • Vice Chairman, Metro Remittance Center, Inc. (U.S.A) from 2010-2013 • Vice Chairman, MB Remittance Center (Hawaii) LTD. from 2010-2013 • Vice Chairman, PSBank from 2009-2011 • Adviser, Charter Ping An Insurance from 2006-2008 • Director, Asia Pacific Top Mgt. Int'l., Resources Corp. from 2008-2013 • Director, SMBC Metro Investment Corp. from 2006-2009 • Adviser, FMICC-HK from 2006-2008 • Vice President, Citibank New York from 1995-2006	None
Margaret Ty Cham** Director / Assistant Vice President	47	Filipino	Present Involvements • Director, Philippine Savings Bank* from April 2004 to Jan 2015 • Director, Orix Metro Leasing Corporation since Jan 2004 • Director, Federal Land, Inc. • President/Director, Glam Holdings Corp. • Chairman/President, Glamore Holding Corp. • Vice President, Great Mark Resources Corp. • Vice President/Corporate Secretary, Norberto and Tytana Ty Foundation • Trustee/Vice President/Corporate Secretary, GT Metro Foundation	Arthur V. Ty (Brother)

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			• Corporate Secretary, Metrobank Foundation • Assistant Corporate Secretary, GT Capital Holdings, Inc. • Vice President, Global Treasure Holdings, Inc. • Vice President, Grand Titan Capital Holdings, Inc. Past Experiences/ Position Held • Corporate Secretary, Baywatch Realty Corp.	
Samson C. Lim Independent Director	66	Filipino	Present Involvements • Independent Director, Philippine Savings Bank* since April 2008 • Honorary Chairman, Automatic Appliances Inc. since 2014 • Chairman, Collins International Trading Corporation since 2002 • Chairman, Francorp Philippines since 2002 • Chairman Emeritus/International Relation, Philippine Franchise Association since 2005 • Chairman Emeritus, Philippine Retailers Association since 2000 • Chairman/Tourism Committee, Philippine Chamber of Commerce and Industry since 2014 • Chairman, Blims Fine Furniture since 2014 • President, Canadian Tourism & Hospitality Institute since 2010 Past Experiences/ Positions Held • President, LG Collins Electronics, Phils. from 1988-1999 • Chairman, Federation of Asian Retailers Association (FARA) from 1992-1993 • Vice Chairman for Asia, World Franchise Council from 2001-2002 • Founding Member, Institute of Corporate Governance in 1999 • President & Adviser, Philippines- Korea Economic Council from 1997-1999 • Director, Chamber of Furniture Industries of the Philippines in 2001 • USAID – Trade and Investment Policy Analysis and Advocacy in 1992	None
Benedicto Jose R. Arcinas Independent Director	58	Filipino	Present Involvements • Independent Director, Philippine Savings Bank* since April 2012 • Director and General Manager, Arcinas Freres Inc. since 1989 Past Experiences/Positions Held • Executive Vice President and Chief Investment Officer, Government Service Insurance System from 2010-2011 • Director and Risk Oversight Committee Chairman, GSIS Family Bank from 2010-2011 • Consultant, Philippine Consumer Credit, Veda Advantage Australia in 2012 • Director, Valuegen Financial Insurance Co. Inc. from 2009-2011 • Director, EIB Securities Inc. from 2009-2012 • Executive Vice President and Treasurer, Export	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			and Industry Bank from 2007-2010 • Director, Asia Pacific Recoveries Corporation from 2005-2010 • Director, Asia Special Situations M3P2 Inc. from 2005-2011 • Managing Director, Structured Solutions Inc. from 2002-2007 • Managing Director, ATR-Kim Eng Fixed Income Inc. from 1998-2002 • Director, Peregrine Fixed Income Philippines and Peregrine Fixed Income Ltd. HK in 1997 • Senior Vice President – Treasury, Metropolitan Bank and Trust Company from 1991-1997	
Maria Theresa G. Barretto Director	74	Filipino	<u>Present Involvements</u> • Director, Philippine Savings Bank* since April 2006 • Director, Endel Enterprises Corp. since June 1995 • Director, Rural Bank of Candelaria since Nov 2011 <u>Past Experiences/ Position Held</u> • Director, Board of Trustees DLSU- Zobel from 1978-1980 • Director, Assumption Alumnae Association from 1987-1989	None
Jeanne Frances Ty Chua Director	49	Filipino	<u>Present Involvements</u> • Director, Philippine Savings Bank* since April 2013 • Vice President, Legaspi Import & Export Corp. since Jan 2000 <u>Past Experiences/Positions Held</u> • Vice President, Solid State Risk Consultancy Inc. • Senior Vice President and Corporate Secretary, Century Savings Bank from 2013-2012 • Finance Officer, Luzon Petrochemical Corporation from 1990-1991	Arthur V. Ty (cousin)
Amelia B. Cabal Director	68	Filipino	<u>Present Involvements</u> • Director, Philippine Savings Bank* since April 2014 • Independent Director, Deutsche Regis Partners Inc. since 2012 • Independent Director, Ionics, Inc. since 2012 • Independent Director, Ionics EMS, Inc. since 2012 • Bank Supervisor, Metropolitan Bank (China) Ltd. since 2010 <u>Past Experiences/ Position Held</u> • Chairman, External Audit Committee of the International Monetary Fund from 2011-2012 • Director, Metropolitan Bank and Trust Company * from 2009-2014	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			• Senior Adviser, Sycip Gorres Velayo and Co. from 2007-2009 • Vice Chairman and Senior Partner, Sycip Gorres Velayo and Co. from 1985-2007	

* Company listed at The Philippine Stock Exchange, Inc.
** Tendered her resignation as Director as of February 26, 2015

b) Executive Officers

Name/ Position	Age	Citizenship	Experience	Relatives up to 4th Civil degree
Vicente R. Cuna, Jr. President/ Director	53	Filipino	<u>Present Involvements</u> • Director/President, Philippine Savings Bank* since April 2013 • Director, Metropolitan Bank and Trust Company* since April 2014 • Director, First Metro Investment Corporation since April 2011 <u>Past Experiences/ Positions Held</u> • Executive Vice President, Institutional Banking Sector, Metrobank in 2012 • Executive Vice President – Corporate Banking Group, Metrobank from 2006- 2012 • Adviser, Metrobank in 2007 • Chairman, Metro Remittance Center (California), Inc. from 2010-2013 • Chairman, Metro Remittance (Canada), Inc. from 2010-2013 • Vice Chairman, Metro Remittance Center, Inc. (U.S.A) from 2010-2013 • Vice Chairman, MB Remittance Center (Hawaii) LTD. from 2010-2013 • Vice Chairman, PSBank from 2009-2011 • Adviser, Charter Ping An Insurance from 2006-2008 • Director, Asia Pacific Top Mgt. Int'l., Resources Corp. from 2008-2013 • Director, SMBC Metro Investment Corp. from 2006-2009 • Adviser, FMICC-HK from 2006-2008 • Vice President, Citibank New York from 1995-2006	None
Jose Vicente L. Alde Executive Vice President	49	Filipino	<u>Present Involvement</u> The following businesses and support groups report to Mr. Alde as EVP since Nov 2007: - Branch Banking - Direct Sales Channel - Indirect Sales Channel - Asset Sales - Specialized Lending - Large Enterprises - Marketing and Customer Experience <u>Past Involvements</u> • Held various Branch Banking and Treasury Positions as Vice President of ABN-AMRO Bank from 1996-2007	None

Name/ Position	Age	Citizenship	Experience	Relatives up to 4th Civil degree
Noli S. Gomez Senior Vice President	49	Filipino	Present Involvement • SVP and Head of the Bank's Operations Group since Jan 2006 Past Involvements • Chief Finance Officer at PSBank from 2001-2005 • Head of Systems and Methods and Chief Risk Officer at DBS Bank Phils., Inc. from 1998-2001 • System Management Officer of the Bank of the Philippine Islands from 1996-1997	None
Perfecto Ramon Z. Dimayuga, Jr. Senior Vice President	53	Filipino	Present Involvement • SVP, Chief Finance Officer and Finance Group Head since Jan 2006 • Corporate Secretary, Sumisho Motor Finance Corp. since Dec 2009 Past Involvements • Held various treasury positions in Development Bank of Singapore (DBS) Phils., Inc. , Bank of the Philippine Islands, Mindanao Development Bank, Citytrust Banking Corp. and Rizal Commercial Banking Corp. from 1988-2002	None
Jose Jesus B. Custodio Senior Vice President	55	Filipino	Present Involvement • SVP and Head of the Bank's Indirect Sales Channel Group since July 2011 Past Involvements • Head of Auto Loans at PSBank from 2001-2011 • Head of Fleet and Floorstock Department at BPI Family Savings Bank from 1995-2000 • Head of Auto Loans-Retail Sales at CityTrust Banking Corporation from 1991-1995	None
Emmanuel A. Tuazon Senior Vice President	51	Filipino	Present Involvement • SVP and Head of the Bank's Marketing and Customer Experience Group since July 2014 Past Involvements • Former Senior Vice President and Chief Marketing Officer, Allied-PNB Savings from 2013-2014 and Philippine National Bank from 2010-2013 • Former Vice President for Marketing at ABN AMRO Bank from 1999-2000 and Jardine Pacific Finance from 1997-1999	None

* Company listed at The Philippine Stock Exchange, Inc.

None of the Bank's directors and officers works with the government. All of the above-mentioned officers have been involved in the banking industry for more than five years.

c) Significant Employees

Except for the above-mentioned executives, there are no other significant employees as contemplated under the Securities Regulations Code.

Nomination Procedures

1) A stockholder may submit nominations for directorial positions to the Nominations Committee.

2) The nominating stockholder shall submit his proposed nomination in writing to the Nominations Committee together with the biodata, acceptance and conformity by the would-be nominee. In case of a nominee for the position of an independent director, the would-be nominee is also required to submit a Certification that he/she has all the qualifications and none of the disqualifications to become an independent auditor.

3) The Nominations Committee shall screen the nomination of directors prior to the submission of the Definitive Information Statement and come up with the Final List of Candidates.

4) Only nominees whose names appear in the Final List of Candidates shall be eligible for election as director.

5) The nomination process of the Bank is incorporated in the company's amended Code of By-Laws duly approved by the Securities and Exchange Commission as early as September 27, 2006.

   The following are the members of the Bank's Nominations Committee:

Name	Position
Samson C. Lim, Independent Director	Chairman
Jose T. Pardo, Chairman/ Independent Director	Member
Arthur V. Ty, Vice Chairman	Member

Nominee Directors

The following have been duly nominated to become members of the Bank's 2015-2016 Board of Directors: incumbent directors Jose T. Pardo, Arthur V. Ty, Samson C. Lim, Benedicto Jose R. Arcinas, Amelia B. Cabal, Ma. Theresa G. Barretto, Jeanne Frances T. Chua and Vicente R. Cuna, Jr. (please refer to the table above for brief professional background) and the new nominee, Severinus Petrus Paulus Hermans.

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
Severinus Petrus Paulus Hermans	50	Dutch	Present Involvement • President and Chief Executive Officer, Philippine AXA Life Insurance Corporation since February 2009 Past Involvements • Head of Marketing and Executive Board Member, ING Financial Services (Poland) and Board Member of ING Life Insurance from 2006-2009 • Head of Retail Financial Services and Executive Board Member of ING Insurance Malaysia from 2003-2006 • Chief Marketing Officer at ING Asia Pacific from 2002-2003 • President/CEO and Executive Board Member, ING Life Philippines from 1999-2002 • President/CEO of Orange Healthcare (Aetna) from 2000-2002 • Executive Board Member of Aetna Healthcare from 2001-2008 • Board Member of Lion Philippines Ventures and Aetna Life Philippines from 2001-2008 • Regional Manager for Strategy and Marketing Support at ING Financial	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Services in 1999 • Vice President for Strategy and Planning at ING Netherlands from 1994-1998 • Product / Marketing Manager at Postbank from 1990-1994	

All nominations were submitted, evaluated and approved by the Bank's Nominations Committee. As such, all nominees possess the qualifications and none of the disqualifications to become directors of the Bank for 2015-2016.

Of the above named nominees, Messrs. Jose T. Pardo, Samson C. Lim and Benedicto Jose R. Arcinas have been nominated as Independent Directors by Mr. Joaquin Aligguy, Ms. Gilda Brigida A. Alunan and Ms. Dulce D. Arcebal, respectively, with whom they are not related. Based on the Bank's Manual of Corporate Governance and as required by existing laws and regulations, the stockholders must elect at least two (2) independent directors.

Messrs. Pardo, Lim and Arcinas process the qualifications and none of the disqualifications to become independent directors.

Legal Proceedings

To the knowledge and information of the Bank, neither itself nor any of its affiliates, subsidiaries, the Bank's and their respective Directors and Executive Officers are involved or have been involved for the past five (5) years in any legal proceeding affecting/involving a material or substantial portion of their property before any court of law or administrative body in the Philippines or elsewhere.

Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has loans and other transactions with subsidiaries or affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). The existing banking regulations limit the amount of loans, other credit accommodations and guarantees to DOSRI, 70% of which must be secured and should not exceed the total of their respective unencumbered deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total capital funds or 15% of the Bank's total loan portfolio.

The following table shows information relating to DOSRI loans as of December 31, 2014 and 2013.

	2014	2013
Total outstanding DOSRI Loans	**₱ 2,802,720,372**	₱1,709,337,946
% of DOSRI Loans to Total Loans	**2.82%**	1.95%
% of Unsecured DOSRI Loans to Total DOSRI Loans	**7.13%**	15.90%
% of Past due DOSRI Loans to Total DOSRI Loans	**14.12%**	26.32%
% of Non Performing DOSRI Loans to Total DOSRI Loans	**14.12%**	26.32%

Total interest income from DOSRI loans amounted to ₱49.5 million, ₱53.2 million and ₱55.4 million in 2014, 2013 and 2012, respectively.

Further discussion on transactions with related parties are found in Note 29 of the Audited Financial Statements.

Others

No director has resigned or declined to stand for re-election because of any disagreement with the Bank on any matter relating to the Bank's operations, policies or practices.

No director has informed the Bank in writing that he intends to oppose any action to be taken by the Bank at the Annual Stockholders' Meeting.

Item 6. Compensation of Directors and Executive Officers

Name and Principal Position	2015 (estimate)*	
	Salary	Bonus
Vicente R. Cuna, Jr. – President		
Jose Vicente L. Alde – Executive Vice President		
Noli S. Gomez – Senior Vice President		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Jose Jesus B. Custodio – Senior Vice President		
Total	**₱40.46 million**	**₱19.97 milion**
All Officers (AVP up) and Directors	**₱146.10 million**	**₱46.57 million**

*Increased 2014 figures by 10%

Name and Principal Position	2014	
	Salary	Bonus
Vicente R. Cuna, Jr. – President		
Jose Vicente L. Alde – Executive Vice President		
Noli S. Gomez – Senior Vice President		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Jose Jesus B. Custodio – Senior Vice President		
Total	**₱36.78 million**	**₱18.15 million**
All Officers (AVP up) and Directors	**₱132.82 million**	**₱42.34 million**

Name and Principal Position	2013	
	Salary	Bonus
Vicente R. Cuna, Jr. – President		
Pascual M. Garcia III – President (*retired April 2013*)		
Jose Vicente L. Alde – Executive Vice President		
Noli S. Gomez – Senior Vice President		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Jose Jesus B. Custodio, Senior Vice President		
Yolanda L. Dela Paz, Senior First Vice President *(retired November 2013)*		
Total	**₱35.24 million**	**₱12.94 million**
All Officers (AVP up) and Directors	**₱134.33 million**	**₱39.73 million**

The directors receive fees, bonuses and allowances that are already included in the amounts stated above. Aside from said amounts, they have no other compensation plan or arrangement with the bank. The executive officers receive salaries, bonuses and other usual bank benefits that are also included in the amounts stated above. Aside from these, they have no other compensation plan or arrangement with the bank.

There are no warrants or options held by the Bank's officers and directors

Each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy. The total per diem and transportation allowance paid to directors for their attendance in Board meetings amounted to ₱16.3 million, ₱13.0 million and ₱12.9 million in 2014, 2013 and 2012, respectively. This translates to an average of ₱116,343.00, ₱120,490.00 and ₱119,093.00, per month/per director in 2014, 2013 and 2012, respectively. Aside from said amounts, they have no other compensation plan or arrangement with the Bank.

Item 7. Independent Public Accountants

SGV & Co. has acted as the Bank's external auditors since 1979. In compliance with the 5-year rotation requirement, the new certifying partner from SGV and Co. is Vicky L. Salas. The Bank has no disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period.

The same group of independent public accountants has been recommended by the Audit Committee to be re-appointed as the external auditors of the company for the year 2015. The re-appointment of SGV complies with the requirement of SEC under SRC Rule 68 (3) (b) (IV).

Representatives of SGV are expected to be present at the Annual Stockholders' Meeting and will have the opportunity to make a statement if they desire to do so and will be available to answer appropriate questions.

Item 8. Financial and Other Information

See attached Management's Discussion and Analysis.

Item 9. Restatement of Accounts

In January 2014, the Bank changed its method of recording foreclosure of repossessed vehicles to align with Metrobank Group's policy. With the new method, any gains or losses on the foreclosure representing the difference between the net carrying value of loan and the fair value of chattel mortgage properties are recognized as 'Gain on foreclosure and sale of chattel mortgage properties - net'. Prior to the change, the Bank recovers the previously provided allowance on the loan before recognizing gain or loss on foreclosure of assets. Gain or loss on foreclosure is recognized as the difference between the fair value of the chattel mortgage property and gross amount of the loan. The change has an effect only on the presentation in the statement of income and has no effect on the net income.

The effects of adoption are further discussed in Note 2 of the Audited Financial Statements.

C. <u>OTHER MATTERS</u>

Item 10. Other Proposed Action

1. Approval of the Minutes of the Annual Meeting of Stockholders in the annual stockholders meeting held on April 28, 2014, the following transpired:

a. The meeting was called to order by the Chairman of the Board. Upon declaration of quorum, the meeting proceeded. The Corporate Secretary certified that there were 182,543,528 common shares actually present in person or by proxy, out of 240,252,491 common shares outstanding. This represented 75.97% of the outstanding capital stock.

b. Upon motion duly made and seconded, the Minutes of the Annual Stockholders' Meeting held on April 19, 2013 were approved.

c. The President, Vicente R. Cuna Jr., rendered to the stockholders his annual report for 2013.

d. An open forum was held.

Stockholder Guillermo F. Gili Jr. asked a copy of the minutes of the previous ASM. President Vicente R. Cuna Jr. said the minutes were provided to all stockholders through the Definitive Information Statement (DIS). He directed one of the officers to provide Mr. Gili with a DIS copy.

After the President's Report, stockholder Philip Turner asked about the increase in PSBank's unrealized gains in 2013 versus 2012, and what accounts for the difference. President Cuna explained the increase was brought about by the sale of the Bank's investment portfolio. He said there was Php 11 billion worth of securities that had appreciated and that the Bank decided that it was good time to sell the securities and realize gains from them.

Stockholder Turner noted the reduction in the Bank's NPLs in 2013 and asked about the status of NPAs. President Cuna explained that NPLs are considered a sub-component of NPAs, together with ROPA or foreclosed properties that result from the Bank's lending business. He said that ratios for these have improved in 2013.

Stockholder Turner also noted that it is expensive to produce Annual Reports and suggested that better, more biodegradable materials be used in next year's Annual Report. President Cuna said the Bank will seriously consider his suggestion.

During the period allotted for Other Matters, stockholder Turner asked about the various charities that the Bank supports and its practice of ensuring that allocated funds are able to reach proper recipients. President Cuna said that the Bank channels its CSR activities mostly through Metrobank Foundation which has strict accreditation procedures. He further explained that on its own, PSBank has CSR activities that are geared mostly towards children and that these charities are evaluated on an annual basis. He added that the PSBank employees themselves are involved in these projects such as in the case of Operation Smile, which helps children with cleft palates.

Stockholder Gili asked the President how the bank is preparing for ASEAN integration, and to discuss any of its positive and negative aspects. President Cuna said that ASEAN banking integration is inevitable and the Bank is already preparing for it. He noted that the local banking landscape is challenging as it is, but is expected to become even more challenging with the ASEAN banking integration. He explained that PSBank is taking steps to address this through the use of technology to improve the service that the Bank provides and through further improvements in the efficiency of its operations. President Cuna said that these are two important areas that will allow the Bank to remain competitive for that eventuality.

2. Ratification of Corporate Acts

Upon motion duly made and seconded, the minutes of the meetings of the Board of Directors and the Executive Committee, and all acts, transactions and resolutions of the Board of Directors, the Executive Committee and the Management in 2013 were ratified and confirmed.

3. Appointment of the External Auditor

The stockholders ratified the selection of auditors by the Audit Committee and the Board of Directors.

4. Election of Directors

The stockholders elected nine (9) directors. Their qualifications had previously been reviewed and evaluated by the Nominations Committee. The said directors were:

1. Jose T. Pardo
2. Arthur V. Ty
3. Vicente R. Cuna, Jr.
4. Samson C. Lim
5. Jeanne Frances T. Chua
6. Maria Theresa G. Barretto
7. Margaret Ty Cham
8. Benedicto Jose R. Arcinas
9. Amelia B. Cabal

5. Amendment in the Bank's principal office address in the Articles of Incorporation

In compliance with SEC Memorandum Circular No. 6, series of 2014, the Bank proposed to amend the Third Article of the Articles of Incorporation to specify the principal office address to " PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226". The matter was approved by the Board at a regular meeting held on March 24, 2014.

Item 11. Voting Procedures

1) Majority vote is required for the approval of the Minutes of the Annual Meeting of Stockholders and Confirmation of all acts of the Board of Directors, the Executive Committee and the Management.

2) Majority vote is required for the election of a member of the Board of Directors. Nominees receiving the highest number of votes shall be declared elected following the provisions of the Corporation Code.

3) Every stockholder entitled to vote on the particular question or matter involved shall be entitled to one vote (1) vote for each share of stock in his name. Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed that number of shares registered in his name in the books of the bank as of the record date multiplied by the whole number of directors elected. Matters submitted to stockholders for ratification shall be decided by the required vote of stockholders present, in person or by proxy.

4) All votes will be counted by the Corporate Secretary, to be assisted by the Bank's stock transfer agent Metrobank Trust.

THE BANK SHALL PROVIDE EACH STOCKHOLDER WITHOUT CHARGE A COPY OF SEC FOR 17-A (ANNUAL REPORT) UPON WRITTEN REQUEST ADDRESSED TO:

Mr. Pocholo V. dela Pena
Corporate Secretary
3rd Floor, PSBank Center,
777 Paseo de Roxas cor. Sedeño St., Makati City 1226

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on March 18, 2015.

PHILIPPINE SAVINGS BANK

By:

Pocholo V. dela Pena
Corporate Secretary

PART II. MANAGEMENT REPORT

Brief Description and General Nature and Scope of Business of Registrant

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer market. On September 6, 1991, the Bank was authorized to perform trust functions.

The original Certificate of Incorporation of the Bank was issued by the Securities and Exchange Commission on June 30, 1959. On March 28, 2006, the Board of Directors (BoD) of the Bank approved the amendment of Article Four of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059.

On March 23, 2010, the Board of Directors approved the amendment of the Bank's Articles of Incorporation and By-laws for the purpose of reducing the number of directors from (11) eleven to a maximum of (9) nine.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2014 and 2013, the Bank had 245 and 224 branches, respectively. In 2014, the Bank added 44 Automated Tellering Machines (ATMs) in Metro Manila and in provincial locations, bringing its total number of ATMs to 595 as of December 31, 2014 from 551 as of December 31, 2013.

The Bank is seventy-six percent (76%) owned by Metropolitan Bank & Trust Company (MBTC), its parent company. The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 1,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies.

The Bank's principal place of business is located at PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City.

Market Price Information

PSBank common shares were listed in the Philippine Stock Exchange (PSE) in 1994. The shares are traded under the symbol "PSB".

The high and low sales prices of the Shares as reported in the PSE for each quarter in the years ending December 31, 2014, 2013 and subsequent interim periods were as follows:

	Highest	Lowest
	In Php	
2015:		
January	101.00	100.20
February	95.60	95.60
2014:		
First quarter	139.00	136.80
Second quarter	137.00	132.00
Third quarter	134.90	128.50
Fourth quarter	106.00	100.10
2013:		
First quarter	140.00	117.10
Second quarter	140.00	122.00
Third quarter	124.10	121.00
Fourth quarter	140.00	131.00

Closing price as of March 16, 2015 was at ₱95.20 per share.

Dividends and Dividend Policy

Dividends to be paid in cash by the Bank are subject to approval by a majority of the Board of Directors and no further approval from the Bank's shareholders is required. Dividends to be paid in the form of stock requires both the approval of a majority of the Board of Directors and the approval of shareholders representing not less than two-thirds of the Bank's outstanding capital stock. All dividends to be declared are subject to the approval of the BSP and the SEC. There are no known restrictions to the Bank's ability to pay dividends on shares.

Pursuant to existing Philippine SEC rules, cash dividends declared by the Bank must have a record date not less than 10 or more than 30 days from the date the cash dividends are declared. With respect to stock dividends, the record date is to be not less than 10 or more than 30 days from the date of shareholders' approval, provided however, that the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of stock dividend. In relation to banks, however, the record date can only be fixed after receipt of the BSP's approval for the dividend declaration. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the SEC.

Subject as described herein, the Bank has historically paid and intends to continue to pay (subject as described below) dividends on its Shares. The payment of dividends in the future will depend on the Bank's earnings, cash flow, financial condition and other factors. Dividends may be declared only from unrestricted retained earnings and subject to approval from the BSP. Circumstances which could restrict the payment of cash dividends include, but are not limited to, when the Bank undertakes major projects and developments requiring substantial cash expenditures or when it is restricted from paying cash dividends by its loan covenants. The Board of Directors may, at any time, modify the Bank's dividend payout ratio depending on the results of operations and future projects and plans of the Bank.

The bank declared cash dividends to stockholders on the following dates:

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
October 27, 2011	0.15	36,037,874	November 23, 2011	December 20, 2011	January 5, 2012
January 24, 2012	0.15	36,037,874	February 09, 2012	March 8, 2012	March 23, 2012
April 27, 2012	0.75	180,189,368	May 15, 2012	June 7, 2012	June 25, 2012
July 23, 2012	0.75	180,189,368	August 13, 2012	September 11, 2012	September 26, 2012
October 23, 2012	0.75	180,189,368	November 21, 2012	December 27, 2012	January 14, 2013
January 22, 2013	0.75	180,189,368	February 8, 2013	March 5, 2013	March 20, 2013
April 19, 2013	0.75	180,189,368	May 28, 2013	June 18, 2013	July 3, 2013
July 18, 2013	0.75	180,189,368	August 8, 2013	September 4, 2013	September 19, 2013
October 22, 2013	0.75	180,189,368	November 12, 2013	November 29, 2013	December 16, 2013
October 22, 2013	3.00	720,757,473	November 12, 2013	November 29, 2013	December 16, 2013
January 24, 2014	0.75	180,189,368	February 12, 2014	March 5, 2014	March 20, 2014
April 28, 2014	0.75	180,189,368	June 6, 2014	July 1, 2014	July 16, 2014
July 22, 2014	0.75	180,189,368	August 12, 2014	September 2, 2014	September 17, 2014
October 30, 2014	0.75	180,189,368	November 27, 2014	January 12, 2015	January 30, 2015

No unregistered securities were sold or offered for sale by the Bank for the year 2014.

Holders

As of January 31, 2015, the Bank has 1,553 stockholders.

Top 20 Stockholders as of January 31, 2015

	Name of Stockholders	No. of Shares	% to Total
1.	Metropolitan Bank and Trust Co.	182,535,895	75.977
2.	PCD Nominee Corporation (Filipino)	18,354,256	7.640
3.	Dolor, Danilo L.	12,610,891	5.249
4.	Dolor, Erlinda L.	7,605,832	3.166
5.	De Leon, Maria Soledad S.	4,000,000	1.665
6.	De Leon, Gian Carlo S.	2,741,378	1.141

	Name of Stockholders	No. of Shares	% to Total
7.	De Leon, Leonard Frederick S.	2,598,334	1.082
8.	De Leon, Alvin Benjamin S.	2,437,887	1.015
9.	De Leon, Kevin Anthony S.	2,407,964	1.002
10.	PCD Nominee Corp. (Non-Filipino)	1,645,085	0.685
11.	Go, James (c/o Mr. Olayer)	298,823	0.124
12.	Chua, Gabriel	100,337	0.042
13.	Chua, Josephine T.	81,056	0.034
14.	Ng, Samuel Chua &/or Jocelyn	80,100	0.033
15.	Que, Liong H.	68,062	0.028
16.	Choa, Johnny K.	64,843	0.027
17.	Choa, Victoria K.	61,875	0.026
18.	Ty, Alejandro	57,345	0.024
19.	Cheng, Berck Y.	45,000	0.019
20.	Sy, Victor G.	40,975	0.017

As of January 31, 2015, public ownership of the Bank was at 22.09%. Of the total shares issued, 1.68 million shares or 0.70% represents foreign ownership.

Compliance with Leading Practices on Corporate Governance

Corporate Governance

At PSBank, we have a strong commitment to excellence in corporate governance. We continually strive for high standards and pursue new approaches that ensure greater transparency and integrity in what we do.

Our governance culture
We see our compliance with applicable laws, rules and regulations as a minimum requirement. Going beyond such minimum is the true essence of good corporate governance. We always aim to continually build up the trust and confidence of our stakeholders by running our business in a prudent and sound manner, being fair and transparent in all our dealings, providing reliable and better service in response to the ever-growing expectations of our customers, and working with integrity and accountability.

Our core governance policies
The policies and guidelines embodied in our annually updated Corporate Governance Manual, as posted in our website, *www.psbank.com.ph* and in our intranet site InfoChannel for the guidance of all our stakeholders, primarily revolve around the following three basic values that we observe.

Fairness
We see to it that all our dealings with counterparties and other stakeholders are fairly conducted. We ensure that all such dealings, especially with our related parties, are made in the regular course of our business and upon terms not less favorable to us than those offered to others. It is for this particular reason that we initiated the creation of our Board-level Related Party Transactions Committee (RPTC) to help ensure that our transactions with related parties are conducted at arms-length and that our resources are not misappropriated, in accordance with our Board-approved Related Party Transactions (RPT) policy and its specific guidelines and handling procedures.

We also ensure that all our stockholders are treated equally and without discrimination by preserving all stockholders' rights and protecting our minority stockholders' interests including the latter's right to nominate candidates to our Board of Directors.

Integrity and Accountability
We uphold at all times the value of honesty as a best policy. We believe that our reputation precedes us in the business of trust and confidence. We continue to enhance a working culture of integrity, guided by a Code of Conduct that defines the standards that we must follow in all our business dealings and relationships. Our Code of Conduct includes provisions on:

- Disciplinary process;
- General policies to establish a professional working environment and secure a favorable reputation for our Bank;
- Corrective measures for unacceptable behavior or failure to comply with our rules, policies and

procedures;
- Schedule of penalties for attendance and punctuality, attire requirements, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security; and
- Provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information and insider information.

Under our Policy Against Insider Trading, reporting insiders are required to disclose their and their associates' initial beneficial ownership in PSBank shares and any changes thereof within two (2) trading days after their election/appointment in office and from date of said changes, respectively. They are likewise prohibited from selling or buying PSBank shares during "blackout periods" i.e. upon obtaining material nonpublic information up to two trading days after such information is disclosed. The Bank did not have any trading transactions with its reporting insiders and/or their associates in 2014.

In addition, we are also bound by a "whistle-blowing" policy that basically requires all employees to immediately report any noted impropriety or malpractice committed by a co-employee(s) to their Group Heads or directly to the Human Resources Group Head or to the Chief Audit Executive/Internal Audit Group Head for investigation purposes, the concealment or non-reporting of which is considered as an impropriety or malpractice in itself. The policy likewise requires the due protection of informants, i.e., employees reporting such incidents in good faith from any form of harassment and thus considers any attempt to determine their identities as a breach of confidentiality subject to disciplinary sanctions.

Transparency and open communication
We abide by various disclosure requirements of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) as a publicly-listed company. We ensure that we are transparent to our shareholders by posting the latest public disclosures on the Investor Relations section of our website and in press releases. In compliance with SEC Memorandum Circular No. 11 s2014, we updated our website in 2014 to include all required disclosures in accordance with the SEC-prescribed web template for our stakeholders to readily check our corporate governance practices.

We also maintain an open communication line and use feedback from our stakeholders to develop better policies, products and services. We likewise accommodate requests for information pertaining to the management of our Bank, stockholders rights or any other bank-related matters, while remaining mindful of disclosure limitations under existing laws on bank deposits secrecy and data privacy.

Our Corporate Governance Manual (CGM) serves as a valuable guide and reference in our implementation of the corporate governance rules and regulations of both the BSP and the SEC. In 2014, we updated our CGM primarily to integrate all Board-level and Management-level committee charters and their respective annual performance scorecards. We also incorporated recent regulatory issuances and all related reportorial requirements with their corresponding submission deadlines for it to be a centralized reference of all corporate governance-related matters.

Our governance structure Board Oversight

Board of Directors. The Board sets the Corporate Governance tone in the organization by ensuring adherence to its principles and standards. It is accountable to our stakeholders in running our Bank in a prudent and sound manner. It is primarily responsible for approving and overseeing the implementation of our strategic objectives, risk strategy, corporate governance and corporate values. The Board periodically reviews the Bank's vision-mission/strategy to ensure that they remain relevant and consistent with the values, purpose and goals of the Bank.

There are a total of nine directors in our Board who are all qualified business professionals with the required expertise and experience in directing our strategic path.

We have consistently maintained the presence of independent directors who provide independent judgment, outside experience and objectivity. Of the nine Board members, three are independent directors, including our Board Chairman. This is more than the required minimum number of independent directors. The Bank does not have any director holding more than five (5) board seats in other publicly-listed companies.

Our Board Chairman provides active leadership by ensuring that our Board and its different committees function effectively, including maintaining a relationship of trust among Board members. Our Board

Chairman also ensures that our Board follows a sound decision-making process.

Individual directors are tasked to observe the fit and proper rule. They are expected to conduct fair business dealings, avoid conflict of interest and observe confidentiality. They must act honestly, judiciously and in good faith, and uphold the best interests of our Bank and its stakeholders. They must also devote time and attention to their duties and responsibilities and contribute to our Board's decision-making process.

They must exercise independent judgment and have a working knowledge of laws, rules and regulations applicable to our Bank.

With respect to the training and continuing education of our directors, eight of them attended an Anti-Money Laundering (AML) seminar entitled "AML Briefing for Board of Directors and Senior Management" as conducted by the Anti-Money Laundering Council (AMLC) while all of them also attended a refresher program on Corporate Governance conducted by SEC-accredited training providers pursuant to SEC Memorandum Circular No. 20 s2013, together with our key officers in 2014.

Our Board has access to our Corporate Secretary who manages the flow of information to the Board prior to the meetings. All our Directors are provided with documents on our Bank's financial and operational performance, committee activities, regulatory developments, and items for their information and approval at least two business days before actual Board meetings.

Our Board also reviews and approves all manuals to ensure that regulatory changes and best practices are included. They have access to a permanent compilation of documents related to past Board activities. They can readily seek clarification from Senior Management should they have concerns about our Bank or any of the items submitted for their consideration.

Board Meetings. In 2014, our Board had 12 regular meetings, in addition to the annual stockholders and organizational meetings. Our directors achieved a 96% attendance rate.

Board Committees. A number of Board-level committees were created to aid our Board in its various tasks to ensure efficiency and provide greater focus. Four of these committees are in charge of governance oversight functions, as follows:

- The **Corporate Governance Committee** is tasked to assist our Board in fulfilling its duties and responsibilities and monitoring our adherence to the corporate governance principles and guidelines set forth in our Corporate Governance Manual. It also oversees the development and effective implementation of our compliance system. The Committee is composed of three Directors, two of whom are independent directors, including the committee chairperson. The Committee meets monthly and is supported by our Compliance Office (CO).

- The **Risk Oversight Committee (ROC)** is responsible for the development and oversight of our risk management program. The Committee is currently composed of three members of the Board of Directors and two non-voting members appointed as advisors. The incumbent Committee Chairperson is a non-executive member and is an independent director. The ROC members possess a range of expertise and adequate knowledge of our risk exposures which is needed to develop appropriate strategies for preventing or minimizing losses. The Committee meets monthly and is supported by our Risk Management Office (RMO).

- The **AML Oversight Committee** was recently created in 2014 to assist our Board in fulfilling its oversight responsibility over the Bank's compliance management to make sure that the Bank complies with the provisions of the AMLA, as amended, its Revised Implementing Rules and Regulations (RIRRs) and BSP AML regulations to the end that the Bank shall not be used as a vehicle to legitimize the proceeds of unlawful activity or to facilitate or finance terrorism. This committee is composed of four Directors, one of whom is an independent director who is the committee chairperson. The committee meets monthly and is supported by our Compliance Office (CO).

- The **Audit Committee** is designated to provide independent oversight for the Bank's financial reporting process, system of internal control and risk management, internal and external audit functions, and monitoring of compliance with Bank policies, applicable laws, rules, regulations and Code of Conduct. The Committee is composed of three Directors, two of whom are independent, including the committee chairperson. These members have auditing, accounting or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Committee meets monthly and is supported by our Internal Audit Group (IAG).

Other Board-level committees are as follows:

- The **Executive Committee** is tasked to regularly review and approve credit proposals within its limits. It recommends additional conditions and requirements on loan applications for Board approval. The Committee is composed of three Directors including the President, our Credit Administration Group (CAG) Head and a credit representative from our parent Metrobank.

- The **Related Party Transactions Committee** is tasked to assist the Board in ensuring that transactions with related parties are reviewed, appropriate restrictions are followed, and corporate resources are judiciously used. The Committee is composed of three Directors, two of whom are independent directors, including the committee chairperson. The Committee meets monthly and is also supported by our Compliance Office (CO).

- The **Trust Committee** is a special committee tasked to be primarily responsible for overseeing the fiduciary activities of the Bank. The Committee is composed of five members: the President, the non-voting Trust Officer, two non-executive directors and an independent director who is the committee chairperson. The Committee meets quarterly and is supported by our Trust Division.

- The **Nominations Committee** is tasked to review and evaluate all nominees to the Board. The Committee is composed of three Directors, two of whom are independent, including the committee chairperson. The Committee is duly guided by its charter, as well as BSP guidelines for the qualification and disqualification of directors found in the Manual of Regulations for Banks. The Committee meets at least once a year and is supported by our Corporate Affairs Office and Corporate Secretary.

- The **Compensation and Remuneration Committee** is tasked to establish a formal and transparent procedure for developing a policy on executive remuneration. The Committee is composed of three members of the Board, two of whom are independent directors, including the committee chairperson. Our Human Resources Group (HRG) Head sits in the committee as a resource person. The Committee meets at least once a year and is supported by our Human Resources Group (HRG).

Senior Management Oversight

Senior Management. Our Senior Management Team, headed by our President as the Chief Executive Officer (CEO), consists of a core group of senior officers who manage our day-to-day operations and business affairs. They exercise good governance by ensuring that the line managers under their respective areas of responsibility execute their activities in a manner that is consistent with Board-approved policies and procedures that are in turn aligned with applicable laws, rules and regulations as well as standards of good practice.

Management committees. To achieve efficiency and provide greater focus for our Senior Management in overseeing key areas of banking operations, various Management-level committees were also created, as follows:

- **Assets and Liabilities Committee (ALCO)** is tasked to manage our Bank’s assets and liabilities consistent with its liquidity, capital adequacy, growth, risk tolerance & appetite and profitability goals.

- **Credit Committee (CRECOM)** is tasked to regularly review and approve credit proposals within the authority and limits provided by our Board to it.

- **Anti-Money Laundering Compliance Committee (AMLCC)** is tasked to assist our Compliance Office in reviewing, managing and monitoring the effectiveness of our Money Laundering & Terrorism Financing Prevention Program (MLTFFP) and related policies and procedures to ensure our continuing compliance with the provisions of the Anti-Money Laundering Act (AMLA) as amended, its Revised Implementing Rules & Regulations (RIRRs) and BSP Anti-Money Laundering regulations.

- **Outsourcing Oversight Committee (OOC)** is tasked to oversee the accreditation of service providers, performance monitoring, post-implementation reviews and contract renewals in accordance with the Bank's Board-approved risk-based Outsourcing Policy Guidelines pursuant to BSP Circular No. 765 re: Revised Outsourcing Framework for Banks.

- **IT Steering Committee (ITSC)** is tasked to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. It is accountable for designing and implementing our Board-approved Information Technology Risk Management System (ITRMS).

- **Emergency Committee (EMCOM)** is tasked to manage and monitor the effective implementation of our Business Continuity Plan (BCP). It aims to provide our Bank the capability to continue its critical functions and processes by identifying, assessing and managing emergency scenarios and other business interruptions.

- **Policy Committee (POLCOM)** is tasked to resolve policy- related issues which require escalation or cross-functional discussion for resolution.

- **Personnel Committee (PERCOM)** is tasked to assist our Senior Management in evaluating the performance and career growth/advancement of our employees, deciding on employee offenses/administrative cases and in maintaining personnel policies and procedures including the Bank's Code of Conduct.

- **Retirement Committee (RETCOM)** is exclusively tasked to administer our Gratuity and Retirement Benefit Plan.

Our governance vanguards

- Our compliance, risk management and internal audit functions are the forerunners in our never-ending drive to promote and uphold the noblest tenets and highest standards of good corporate governance across all our business operations.

Compliance

- Ensuring our compliance with applicable laws, rules and regulations, as a minimum requirement, is our collective duty and team effort. It begins with our Board and Senior Management at the top down the line to our various business and operating units in accordance with our Board-approved compliance system that we refer to as Compliance Program, the design and implementation of which is overseen, administered and annually updated by our Compliance Office led by our Chief Compliance Officer (CCO) who directly reports to our Corporate Governance Committee and to our Board.

- Our Compliance Program adopts a three-pronged, risk-based approach to effectively manage our business risks and ensure compliance with pertinent banking laws, rules and regulations, codes of conduct, policies and standards of good practice. Its priority, focus and compliance testing frequency depends on the pre-assessed level of risk a unit is exposed to insofar as business risks relative to compliance with pertinent banking laws, rules and regulations, codes of conduct, sound policies and standards of good practice are concerned.

- This three-pronged strategy is structured to be operated by three key players namely: (1) the line units at the 1st line of defense being the business risk owners and managers, (2) Compliance Office (CO) at the 2nd line of defense as the business risk overseers, and (3) Internal Audit Group (IAG) at the 3rd line of defense as the independent assurance provider.

- Aside from monitoring and controlling compliance risk, our Chief Compliance Officer (CCO) also tracks our Bank's adherence to our Corporate Governance Manual. Cases of non-compliance are required to be reported to our Board Chairman who ensures due process and determines appropriate sanctions.

- Our Compliance Office continuously strives to maintain our strong compliance culture amidst the ever-dynamic regulatory landscape in the banking industry by proactively identifying, assessing and addressing emerging compliance issues; vigorously promoting continuing education through formal/ informal trainings, compliance awareness testing, compliance checking, and advisory service through a clear and open communication line; and fostering good corporate governance culture by benchmarking against industry best practices and standards.

Our remuneration policy
Our directors and officers are provided with an industry- competitive compensation package to attract, motivate and retain highly qualified people. The salary scales of our officers are generally based on their positions and ranks. These are reviewed annually and adjusted as needed, based on performance. Our Bank also grants fixed bonuses including a 13th-month pay, in accordance with law. Our Board sees to it that this remuneration strategy is regularly reviewed to ensure that the policy is commensurate with corporate and individual performance and benchmarked against our industry peers and other market considerations while also maintaining internal equity.

Each of our directors receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of our Bank's overall strategy. The total per diem and transportation allowance paid to directors for their attendance in Board meetings for the period January to December 2014 was Php16.3 million.

Our remuneration policy for directors indicates that the Chairman, Vice Chairman and each of the Directors receive reasonable per diems for attendance at any Board meeting. There is nothing in our by-laws that prevents any director from serving any other capacity and receiving compensation.

Our governance evaluation
Every year, our Board, individual directors and their respective oversight committees conduct self-rating exercises on their performance through the use of scorecards in order to determine areas of improvement for which results are reviewed by our Corporate Governance Committee and reported to our Board.

In 2014, we have crafted a similar annual performance evaluation system for all other Board-level as well as Management-level committees for our Board to also gauge the performance and effectiveness of these committees vis- à-vis set performance standards that are consistent with our Bank's strategic objectives and business plans that all boils down to continuously creating value to all our stakeholders.

Our governance achievement
As an affirmation of our good corporate governance practices and compliance with the code of corporate governance, our Bank was recently recognized as one of the Top 10 finalists in the 2014 Philippine Stock Exchange (PSE) Bell Awards for corporate governance, among other publicly-listed companies. This annual awards program seeks to promote corporate governance consciousness and recognize best practices in improving the image of the local market as an investment destination.
PSBank was also recognized by The Asian Banker magazine in 2014 as one of the Top Ten Strongest Banks in the Philippines for the fourth consecutive year. The Bank ranked the 5th strongest bank and is the only thrift bank in the top 5 list.

Sustainable development
PSBank believes that the campaign for environmental protection and sustainable development starts with small initiatives that when combined, produces a culture of concern. Below are the Bank's initiatives:

- Email blasts on environmental awareness
- Bankwide campaign to re-use paper and segregate trash
- Competitions that require employees to create using recyclable materials, such as Halloween Booth Contest and Art Contest for the Environment
- Participation in tree-planting activities
- Participation in Earth Hour campaigns

Health, safety and welfare of employees
PSBank advocates that a work environment free of work hazards is conducive to the well-being and professional development of its employees. The Human Resources Group (HRG) continuously looks for ways to reach out to employees, and one way is by conducting HRG Ikot. In 2014, branches in Cebu, Pangasinan, Baguio, and La Union were visited. During the Ikot, HR meets with branch employees and conducts engagement sessions to check on their welfare and needs. Facilities are also checked if they are in accordance with our occupational health and safety standards.

On top of this, the Bank strictly adheres and even goes beyond general labor standards such as:

- *Establishment of the Occupational Health and Safety Program (OHSP) of the Bank and the constitution of the Health and Safety Committee (HASCOM).* The OHSP provides for the organization of a local committee on Health and Safety found in the branches. This program ensures that adequate guidelines, programs, and measures are adopted to ensure employees' health and safety.

- *First Aid Certification Program.* PSBank HRG has been coordinating with the Philippine Red Cross in conducting certification seminars for head office and branch employees.

- *Health and Wellness Programs*. Employees may join activities such as but not limited to sports tournaments, exercise and dance classes, and pampering sessions. These activities are not only good for the health but also build competiveness and camaraderie. The Bank has partnered with different gym and health institutions, for employees and their families to avail of their wellness programs at great discounts. Also, the Bank has been sponsoring vaccination programs for employees and their dependents at supplier's price**.**

- *Family Welfare Program*. PSBank does not only provide comprehensive health insurance to its employees but also to qualified dependents, with the same coverage. For employees in the Head Office, nurses are available daily and a doctor four times a week to cater to their health needs. The branches, on the other hand, are provided with first aid kits. To provide well-rounded family support, the Bank sponsors activities where employees and their children get the chance to bond, such as Halloween Party and the Educational Fun Day.

- *Spiritual needs.* Every first Friday of the month, Head Office employees get to attend the Holy Mass.

- *Hobbies and Interest*. Employees are encouraged to join clubs to share their talents and interests with their colleagues. This way, our employees get the chance to develop camaraderie with people outside their respective units, and at the same time provide them with an outlet after a busy day at work. As of 2014, the Bank has established clubs catering to employees who are inclined to photography, music, dance exercise, running, bowling and badminton.

Training and development of employees
PSBank has always considered employees as its most important asset. This is why learning and development programs are continuously being revisited and improved to usher PSBankers into a more competitive and performance-driven arena.

- The New Employees Orientation (NEO) Program was reviewed and rationalized to significantly improve and reduce the number of on-boarding days from 8 days to 4 days for Head Office personnel, 11 days to 5 days for Branch Officers (Branch Head/Branch Service and Control Officer) and 15 days to 10 days for Branch Staff (Tellers/NACs). With the implemented revisions, the on-boarding process is made more concise and efficient without compromising the level of preparedness inculcated to new PSBankers.

- In 2014, another group of head office and branch rank and file employees underwent the Staff Professional Enhancement and Educational Development (SPEED) program and were promoted as officers after six (6) months of classroom sessions, on-the-job training and mentoring.

- On top of these main training programs, specialized training sessions were also provided to employees, in collaboration with the Bank's subject matter experts.

- Aside from in-house training, PSBank also sends its employees to external training programs aimed at improving their skill sets, complying with the bank regulations, and preparing for the ASEAN integration.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31			Increase/(Decrease) 2014 vs. 2013		Increase/(Decrease) 2013 vs. 2012	
	2014	2013	2012	Amount	%	Amount	%
ASSETS							
Cash and Other Cash Items	4,174,756,446	3,157,499,370	2,811,064,294	1,017,257,075	32.22%	346,435,077	12.32%
Due from Bangko Sentral ng Pilipinas	23,997,102,406	7,401,657,444	5,514,832,823	16,595,444,962	224.21%	1,886,824,621	34.21%
Due From Other Banks	3,382,662,578	8,491,340,954	6,002,439,123	(5,108,678,377)	-60.16%	2,488,901,831	41.46%
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	2,186,320,000	14,527,000,000	6,100,000,000	(12,340,680,000)	-84.95%	8,427,000,000	138.15%
Fair Value Through Profit or Loss Investments	278,909,438	184,607,411	120,747,754	94,302,027	51.08%	63,859,657	52.89%
Available-for-Sale Investments	6,083,317,341	5,649,063,231	3,309,190,548	434,254,110	7.69%	2,339,872,682	70.71%
Held-to-Maturity Investments	1,683,128,162	-	13,562,925,624	1,683,128,161	0.00%	(13,562,925,624)	-100.00%
Loans and Receivables	95,759,749,830	82,917,120,994	70,412,582,319	12,842,628,833	15.49%	12,504,538,678	17.76%
Investments in an Associate and a Joint Venture	668,606,533	1,346,142,412	1,237,181,758	(677,535,877)	-50.33%	108,960,652	8.81%
Property and Equipment	2,469,507,446	2,389,780,404	2,412,337,390	79,727,043	3.34%	(22,556,986)	-0.94%
Investment Properties	2,933,068,849	2,589,408,311	2,622,918,872	343,660,538	13.27%	(33,510,562)	-1.28%
Deferred Tax Asset	731,937,469	243,119,247	1,024,770,681	488,818,221	201.06%	(781,651,434)	-76.28%
Goodwill and Other Intangible Assets	369,140,026	292,832,054	231,741,838	76,307,972	26.06%	61,090,216	26.36%
Other Assets	888,822,949	836,302,917	798,231,274	52,520,034	6.28%	38,071,642	4.77%
	145,607,029,473	**130,025,874,749**	**116,160,964,298**	**15,581,154,722**	**11.98%**	**13,864,910,450**	**11.94%**
LIABILITIES AND EQUITY							
Liabilities							
Deposit Liabilities							
Demand	10,609,490,126	9,050,826,107	7,400,508,552	1,558,664,019	17.22%	1,650,317,555	22.30%
Savings	18,502,557,268	16,181,291,134	12,387,740,595	2,321,266,134	14.35%	3,793,550,539	30.62%
Time	87,415,706,427	81,286,386,668	74,836,037,160	6,129,319,759	7.54%	6,450,349,508	8.62%
	116,527,753,821	**106,518,503,910**	**94,624,286,307**	**10,009,249,912**	**9.40%**	**11,894,217,602**	**12.57%**
Subordinated Notes	5,946,901,321	2,972,366,024	2,969,797,342	2,974,535,297	100.07%	2,568,682	0.09%
Treasurer's, Cashier's and Manager's Checks	1,253,781,718	1,110,517,230	756,629,354	143,264,488	12.90%	353,887,876	46.77%
Accrued Taxes, Interest and Other Expenses	1,128,438,120	1,099,730,994	1,054,167,235	28,707,126	2.61%	45,563,759	4.32%
Income Tax Payable	7,134,677	132,339	-	7,002,338	100.00%	132,339	0.00%
Other Liabilities	3,012,717,598	2,061,548,773	1,728,845,734	951,168,823	46.14%	332,703,040	19.24%
	127,876,727,255	**113,762,799,270**	**101,133,725,972**	**14,113,927,984**	**12.41%**	12,629,073,298	12.49%
Equity							
Common Stock	2,402,524,910	2,402,524,910	2,402,524,910	-	0.00%	0.00%	0.00%
Capital Paid in Excess of Par Value	2,818,083,506	2,818,083,506	2,818,083,506	-	0.00%	0.00%	0.00%
Surplus Reserves	1,035,275,317	1,035,275,317	1,035,275,317	-	0.00%	0.00%	0.00%
Surplus	11,803,283,969	10,205,364,827	8,718,390,965	1,597,919,143	15.66%	1,486,973,860	17.06%
Net Unrealized Gain/(loss) on Available-for-Sale Investments	26,600,463	22,289,515	206,153,207	4,310,950	19.34%	(183,863,692)	-89.19%
Equity in Net Unrealized Gain on Availbale-for-Sale Investment of an Associate	-	25,000	-	(25,000)	-100.00%	25,000	0.00%
Remeasurement Losses on Retirement Plan	(312,363,737)	(178,577,793)	(85,597,229)	(133,785,944)	74.92%	(92,980,564)	108.63%
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture	(1,445,728)	(479,690)	(181,342)	(966,038)	201.39%	(298,348)	164.52%
Equity in Cash Flow Hedge Reserve of an Associates	-	(335,158)	-	335,158	-100.00%	(335,158)	0.00%
Cumulative Translation Adjustment	(41,656,482)	(41,094,955)	(67,411,008)	(561,527)	-1.37%	26,316,053	-39.04%
	17,730,302,218	**16,263,075,479**	**15,027,238,326**	**1,467,226,741**	**9.02%**	**1,235,837,151**	**8.22%**
	145,607,029,473	**130,025,874,749**	**116,160,964,298**	**15,581,154,725**	**11.98%**	**13,864,910,449**	**11.94%**

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	December 31			Increase/(Decrease) 2014 vs. 2013		Increase/(Decrease) 2013 vs. 2012	
	2014	2013 (As restated)	2012 (As restated)	Amount	%	Amount	%
INTEREST INCOME ON							
Loans and receivables	8,814,815,985	8,122,435,842	7,081,892,924	692,380,141	8.52%	1,040,542,920	14.69%
Interbank loans receivable and securities purchased under resale agreements	858,982,128	478,936,597	336,035,526	380,045,532	79.35%	142,901,070	42.53%
Investment securities	363,963,140	375,404,035	1,336,840,933	(11,440,892)	-3.05%	(961,436,899)	-71.92%
Due from Bangko Sentral ng Pilipinas	57,292,813	42,216,693	26,549,545	15,076,120	35.71%	15,667,148	59.01%
Due from other banks	18,355,744	8,242,444	4,945,432	10,113,299	122.70%	3,297,012	66.67%
	10,113,409,810	9,027,235,611	8,786,264,360	1,086,174,201	12.03%	240,971,249	2.74%
INTEREST EXPENSE ON							
Deposit liabilities	2,115,632,785	2,157,685,611	2,961,531,016	(42,052,824)	-1.95%	(803,845,405)	-27.14%
Subordinated notes	276,587,317	175,251,074	152,868,079	101,336,243	57.82%	29,862,120	19.53%
Bills payable	10,807,483	7,479,125	75,000	3,328,358	44.50%	7,404,125	9872.17%
	2,403,027,587	2,340,415,810	3,114,474,095	62,611,777	2.68%	(774,058,285)	-24.85%
NET INTEREST INCOME	7,710,382,223	6,686,819,801	5,671,790,265	1,023,562,424	15.31%	1,015,029,535	17.90%
Service fees and commission income	1,151,818,924	1,040,395,077	938,869,881	111,423,848	10.71%	101,525,196	10.81%
Service fees and commission expense	73,928,520	77,836,620	60,245,557	(3,908,100)	-5.02%	17,591,063	29.20%
NET SERVICE FEES AND COMMISSION INCOME	1,077,890,405	962,558,457	878,624,324	115,331,948	11.98%	83,934,133	9.55%
OTHER OPERATING INCOME (LOSS)							
Gain on sale of investment in an associate	558,663,928	-	-	558,663,928	100%	-	0%
Gain on foreclosure and sale of Chattel Mortgage Properties - net	316,813,642	378,583,708	312,570,714	(61,770,065)	-16.32%	66,012,994	21.12%
Gain on foreclosure and sale of Investment Properties - net	298,854,312	269,751,500	140,024,754	29,102,812	10.79%	129,726,747	92.65%
Trading and securities gains - net	209,952,831	4,070,899,035	2,573,600,581	(3,860,946,203)	-94.84%	1,497,298,453	58.18%
Gain on sale of property and equipment	45,013,382	138,464,473	5,846,354	(93,451,091)	-67.49%	132,618,119	2268.39%
Foreign exchange gain (loss)	7,813,164	(3,877,015)	12,116,898	11,690,178	-301.53%	(15,993,912)	-132.00%
Miscellaneous	343,567,618	181,271,100	142,950,201	162,296,518	89.53%	38,320,899	26.81%
	1,780,678,877	5,035,092,801	3,187,109,502	(3,254,413,922)	-64.63%	1,847,983,299	57.98%
Total Operating Income	10,568,951,507	12,684,471,059	9,737,524,091	(2,115,519,550)	-16.68%	2,946,946,966	30.26%
OTHER OPERATING EXPENSES							
Compensation and fringe benefits	2,395,951,076	2,159,694,707	1,976,264,543	236,256,367	10.94%	183,430,165	9.28%
Provision for credit and impairment losses	1,743,821,080	2,649,072,916	1,616,888,157	(905,251,837)	-34.17%	1,032,184,759	63.84%
Taxes and licenses	1,061,593,720	1,053,840,963	836,834,289	7,752,757	0.74%	217,006,674	25.93%
Occupancy and equipment-related costs	627,737,333	559,762,849	552,790,599	67,974,484	12.14%	6,972,250	1.26%
Depreciation	504,628,955	483,260,520	489,770,896	21,368,438	4.42%	(6,510,378)	-1.33%
Security, messengerial and janitorial services	287,079,453	252,382,828	234,655,918	34,696,624	13.75%	17,726,911	7.55%
Amortization of intangible assets	82,368,321	68,454,285	57,238,221	13,914,035	20.33%	11,216,064	19.60%
Miscellaneous	1,646,584,153	1,458,908,377	1,153,147,180	187,675,771	12.86%	305,761,200	26.52%
	8,349,764,091	8,685,377,447	6,917,589,803	(335,613,362)	-3.86%	1,767,787,644	25.55%
INCOME BEFORE SHARE IN NET EARNINGS OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX	2,219,187,416	3,999,093,613	2,819,934,288	(1,779,906,189)	-44.51%	1,179,159,322	41.82%
SHARE IN NET EARNINGS OF AN ASSOCIATE AND A JOINT VENTURE	76,956,073	109,569,160	(18,323)	(32,613,087)	-29.76%	109,587,482	-598087.01%
INCOME BEFORE INCOME TAX	2,296,143,489	4,108,662,773	2,819,915,965	(1,812,519,275)	-44.11%	1,288,746,804	45.70%
PROVISION FOR (BENEFIT FROM) INCOME TAX	(22,533,126)	1,180,173,965	-	(1,202,707,090)	-101.91%	1,180,173,965	0.00%
Current	408,948,263	358,673,718	428,830,779	50,274,546	14.02%	(70,157,061)	-16.36%
Deferred	(431,481,389)	821,500,247	116,501,297	(1,252,981,636)	-152.52%	704,998,950	605.14%
NET INCOME	**2,318,676,615**	**2,928,488,808**	**2,274,583,889**	**(609,812,185)**	**-20.82%**	**653,904,915**	**28.75%**
Basic/Diluted Earnings Per Share	**9.65**	**12.19**	**9.47**				

Part III. Management Discussion and Analysis

A. Analysis of Statements of Condition

As of December 31, 2014 and 2013

The Bank's Total Assets for the year ending December 31, 2014 stood at ₱145.61 billion. This was 11.98% better than the December 2013 level of ₱130.03 billion. Significant year-on-year increase was due to growth in loan portfolio and higher SDA placement with BSP.

Loans and Receivables, net of allowance and unearned interest discounts, representing 65.77% of total assets increased by 15.49% to ₱95.76 billion from ₱82.92 billion. Auto Loans increased by ₱7.54 billion to ₱45.50 billion from ₱37.96 billion last year. Mortgage Loans also climbed to ₱34 billion from ₱28.01 billion in 2013.

Due from BSP representing 16.48% of total assets rose by ₱16.60 billion or 224.21% to ₱24 billion from ₱7.40 billion in December 2013 as excess funds were placed in SDA with BSP. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) decreased by ₱12.34 billion or 84.95% from last year. The Bank was not able to roll-over its RRP placement with BSP during the last month of the year. Thus, excess funds were invested in SDA.

The Bank's DDA also increased due to the 2.0% hike in statutory reserve requirements imposed on thrift banks by the BSP in April and May 2014.

Available-for-Sale Investments went up by 7.69% or ₱434.25 million to ₱6.08 billion from ₱5.65 billion in 2013. Fair Value through Profit or Loss (FVPL) also increased by ₱94.30 million or 51.08%.

Deferred Tax Assets rose by 201.06% to ₱731.94 million from ₱243.12 million in 2013 due to recognition of deferred tax benefits from the loan-loss provisioning during the year. Meanwhile, Investment in an Associate and a Joint Venture went down by ₱677.54 million to ₱668.61 million, due to the sale of the Bank's 25% ownership in Toyota Financial Services Philippines Corporation (TFSPC) to GT Capital Holdings Inc.

Investment Property increased by 13.27% to ₱2.93 billion as of December 2014 due to higher foreclosures of real estate properties. Property and Equipment also increased by 3.34% or ₱79.73 million to ₱2.47 billion due to newly opened branches and renovation of bank premises, among others. On the other hand, Other Assets went up by 6.28% or ₱52.52 million.

The Bank's deposit level comprising of 91.13% of total liabilities grew by 9.40% or ₱10.00 billion to ₱116.53 billion from ₱106.52 billion recorded in 2013. Time Deposits were higher by 7.54% or ₱6.13 billion to ₱87.42 billion. Likewise, Demand Deposits increased by 17.22% to ₱10.61 billion from ₱9.05 billion in 2013 while Savings Deposits rose by 14.35% to ₱18.50 billion.

On May 23, 2014, the Bank issued a ₱3.0 billion Unsecured Subordinated Notes (Tier II) with an interest rate of 5.50% due on August 23, 2024, callable in 2019. The Notes will qualify as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with BASEL III standards. The issuance has a loss absorption feature to conform with BASEL III requirements. PSBank has an issuer rating of PRS Aaa (corp.) from Philratings. As of December 31, 2014, the total Tier II Notes, including those issued last February 2012 amounted to ₱5.95 billion.

Treasurer's, Cashier's and Manager's Checks increased by 12.90% to ₱1.25 billion from ₱1.11 billion last year. Income Tax Payable representing corporate income tax for the last quarter of 2014 was at ₱7.13 million. This will be remitted on or before April 15, 2015. Other Liabilities rose to ₱3.01 billion from ₱2.06 billion due to dividend payable for the 3rd quarter of 2014 and adjustment made on net retirement liability as a result of latest actuarial valuation report.

As of December 31, 2014 the Bank's Capital stood at ₱17.73 billion, 9.02% better than the ₱16.26 billion level in 2013. Mark-to-market gains on Available-for-Sale Investments were recorded at ₱ 26.60 million in December 31, 2014 versus ₱ 22.29 million last year. As a result of the Bank's sale of its 25% investment in TFS, no Unrealized Gain/Loss and Cash Flow Hedge were reflected in December 2014. Meanwhile, the Bank recorded remeasurement Losses of ₱133.79 million on its Retirement Plan in 2014 due to lower fair value of plan assets. On the other hand, the Bank's share in the Remeasurement Losses on Retirement Plan of a Joint Venture was posted at ₱1.45 million from ₱479.69 thousand in December 2013.

As of end of 2014, Total Capital Adequacy Ratio (CAR) was at 19.57%, this is above the minimum regulatory requirement of 10%. As of December 31, 2014 and 2013, the Bank recorded a loss on its 'Cumulative Translation Adjustment' under equity amounting to ₱41.66 million and ₱41.09 million, respectively.

Meanwhile, Return on Average Equity (ROAE) decreased to 13.64% in 2014 versus 18.72% in 2013. Return on Average Assets (ROAA) also decreased to 1.68% in 2014 from 2.38% in 2013.

As of December 31, 2013 and 2012 (as restated)

The Bank's Total Assets for the year ending December 31, 2013 stood at ₱130.03 billion. This was 11.94% better than the December 2012 level of ₱116.16 billion. Significant year-on-year increase was attributed to the higher loan portfolio and securities purchased under resale agreements with BSP.

Loans and Receivables, net of allowance and unearned interest discounts, representing 63.77% of total assets increased by 17.76% to ₱82.92 billion from ₱70.41 billion. Auto Loans increased by ₱6.87 billion to ₱37.96 billion from ₱31.10 billion last year. Mortgage Loans also climbed to ₱28.01 billion from ₱22.38 billion in 2012.

Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) representing 11.17% of total assets rose by ₱8.43 billion or 138.15% to ₱14.53 billion from ₱6.10 billion in December 2012 due to the increase in overnight and term placements with BSP as of December 2013.

Due from Other Banks which is 6.53% of the total assets went up to ₱8.49 billion from ₱6.00 billion due to additional FCDU placements with foreign and local banks. Due from BSP increased by 34.21% or ₱1.89 billion to ₱7.40 billion in 2013. Cash and Other Cash Items were also higher by 12.32% to ₱3.16 billion.

In March 2013, the Bank reclassified the entire HTM portfolio to AFS as the Bank no longer intends to hold them up to their maturity but rather stands ready to sell such investments.

Such change of intention was primarily driven by the need to increase the Bank's capital position in view of the following directions set forth in BSP Circular No. 781:

- More stringent Basel III and BSP requirements to issue Tier 2 due to the inclusion of loss absorbency feature.
- Ineligibility of the Bank's ₱3.0 Billion Tier 2 capital by January 2016.

The change in intention and eventual disposal of the said HTM investments portfolio in response to the significant increase in regulatory capital requirements is one of the conditions permitted under PAS 39 and thus, is exempt from the tainting rule.

Subsequent to the reclassification, the Bank sold a substantial portion of the said portfolio resulting in realized trading gain of ₱4.0 billion in 2013.

Available-for-Sale Investments rose by 70.71% or ₱2.34 billion to ₱5.65 billion from ₱3.31 billion in 2012. Fair Value through Profit or Loss (FVPL) also increased by ₱63.86 million or 52.89%.

Deferred Tax Assets went down by 76.28% to ₱243.12 million from ₱1.02 billion in 2012 due to reversal of deferred tax benefits arising from the write-off of loan accounts. Meanwhile, Investment in an Associate and a Joint Venture was higher by ₱108.96 million to ₱1.35 billion as a result of improved earnings of our affiliates. Goodwill and Intangible Assets including software costs and license fees increased by 26.36% or ₱61.09 million to ₱292.83 million.

Investment Property decreased by 1.28% to ₱2.59 billion as of December 2013 due to sale of foreclosed real estate properties. Property and Equipment also declined by 0.94% or ₱22.56 million to ₱2.39 billion mainly due to sale of Axa properties amounting to ₱71.98 million. On the other hand, Other Assets went up by 4.77% or ₱38.07 million representing foreclosed chattel mortgage.

The Bank's deposit level comprising of 93.63% of total liabilities grew by 12.57% or ₱11.89 billion to ₱106.52 billion from ₱94.62 billion recorded in 2012. Time Deposits grew by 8.62% or ₱6.45 billion to ₱81.29 billion. Likewise, Savings Deposits increased by 30.62% to ₱16.18 billion from ₱12.39 billion in 2012 while Demand Deposits increased by 22.30% to ₱9.05 billion.

As of December 31, 2013, the Tier II Notes net of debt issuance cost amounted to ₱2.97 billion. The Tier II Notes was issued last February 20, 2012 and has a call option on the 5th year and matures in 2022. Last March 2014, Philratings maintained its PRS Aaa rating for the outstanding P3Billion unsecured subordinated notes. Obligation rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings.

Treasurer's, Cashier's and Manager's Checks increased by 46.77% to ₱1.11 billion from ₱756.63 million last year. Accrued Taxes, Interest and Other Expenses increased by 4.32% to ₱1.10 billion from ₱1.05 billion. Income Tax Payable representing corporate income tax for FCDU was at ₱0.13 million. Other Liabilities rose to ₱2.06 billion from ₱1.73 billion due to higher accounts payable and net retirement liability with the adoption of PAS 19 effective January 2013.

The Bank ended December 31, 2013 with a Capital of ₱16.26 billion, 8.22% better than the ₱15.03 billion level in 2012. With the higher income realized for the year, surplus improved by 17.06% or ₱1.49 billion to ₱10.21 billion from ₱8.72 billion in 2012.

Net Unrealized Gain on AFS Investments dropped to ₱22.29 million in December 2013 from ₱206.15 million the previous year.

As of end of 2013, Capital Adequacy Ratio (CAR) was at 16.92%, This is above the minimum regulatory requirement of 10%. As of December 31, 2013 and 2012, the Bank recorded loss on 'Cumulative Translation Adjustment' under equity amounting to ₱41.09 million and ₱67.41, respectively.

The Bank recorded Remeasurement Losses on Retirment Plan of ₱179.37 million versus loss of ₱85.78 million in 2012 mainly due the impact of PAS 19 on remeasurement of retirement liability which was adopted by the Bank in January 2013.

Meanwhile, Return on Average Equity (ROAE) increased to 18.72% in 2013 versus 14.89% in 2012. Return on Average Assets (ROAA) also rose to 2.38% in 2013 from 1.92% in 2012.

B. Discussion of Results of Operations

For the years ended December 31, 2014 and 2013 (As restated)

The Bank registered a net income after tax of ₱2.32 billion or 20.82% lower than the ₱2.93 billion recorded for the same period last year. The decrease in net income was due to lower trading gains in 2014 versus 2013.

Total Interest Income increased by 12.03% or ₱1.09 billion, better than the ₱9.03 billion recorded last year.

Interest income on Loans and Receivables showed an 8.52% improvement or an increase of ₱692.38 million. On the other hand, Interest income on Investment Securities slid to ₱363.96 million from ₱375.40 million due to lower investment portfolio in 2014. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA increased by 79.35% or ₱380.05 million to ₱858.98 million versus ₱478.94 million. Interest earned from deposits with BSP increased by 35.71% to ₱57.29 million while interest income from other banks was up by 122.70% to ₱18.36 million.

Interest Expense on the Bank's deposit liabilities decreased by 1.95% to ₱2.12 billion due to lower cost of funds in 2014. Interest Expense on Subordinated Notes rose to ₱276.59 million from ₱175.25 million due to the ₱3 billion Unsecured Subordinated Notes (Tier II) issuance in May 2014. The Bank also recorded

10.81 million Interest Expense on Bills Payable as of December 31 2014, ₱3.33 million higher compared to last year.

As of December 2014, Net Interest Income rose by 15.31% to ₱7.71 billion from ₱6.69 billion in 2013.

Net Service Fees and Commission Income increased by 11.98% to ₱1.08 billion from ₱962.56 million in 2013.

Other Operating Income slid by 64.63% or ₱ 3.25 billion to ₱1.78 billion due to lower trading gains recorded in 2014. The Bank registered ₱209.95 million trading income in 2014 versus ₱4.07 billion in 2013.

In January 2014, to align with Metrobank group's policy, the Bank revised its accounting treatment with regards to the foreclosure of chattel mortgage properties. The Bank recorded a net gain on foreclosure and sale of chattel mortgage amounting to ₱316.81 million, ₱61.77 million lower compared with the ₱378.58 million gain during the same period last year. On the other hand, net gain on foreclosure and sale of investment properties increased by ₱29.10 million to ₱298.85 million from ₱269.75 million in 2013.

Income on sale of property and equipment in 2014 was lower at ₱ 45.01 million versus ₱ 138.46 million in 2013. In August 2013, the Bank sold various units located at Philippine Axa Tower.

Foreign Exchange gain was posted at ₱7.81 million from a ₱3.88 million loss in 2013. In 2014, the Bank recognized gain on sale of investment in an associate due to the sale of equity investment in TFSPC. Miscellaneous Income was higher by ₱162.30 million to ₱343.57 million from ₱181.27 million in 2013.

Other Operating Expenses, excluding provision for impairment, was up by 9.44% to ₱6.61 billion from ₱6.04 billion a year ago. Compensation and Fringe Benefits was posted at ₱2.40 billion while Occupancy and equipment-related cost increased by ₱67.97 million or 12.14% to ₱627.74 million due to the opening of twenty one (21) additional branches and installation of forty-four (44) ATMs during the year. As of December 31, 2014, the Bank has 245 branches and 595 ATMs nationwide.

Depreciation and amortization of Bank's properties and leasehold improvements were ₱504.63 million from ₱483.26 million in 2013. Meanwhile, security, messengerial and janitorial services were ₱287.08 million. Amortization of intangible assets was recorded at ₱82.37 million. Miscellaneous Expenses were higher by 12.86% at ₱1.65 billion from ₱1.46 billion last year.

Taxes and Licenses slightly went up by 0.74% or ₱7.75 million compared to last year.

The Bank set aside ₱1.74 billion in provisions for impairment and credit losses.

The Bank recorded its share in the net income of its investments in TFSPC and Sumisho Motor Finance Corporation at ₱76.96 million from ₱109.57 million in the same period last year. This is attributed to the sale of the Bank's 25% ownership in Toyota Financial Services Philippines Corporation (TFSPC) to GT Capital Holdings Inc.

For the years ended December 31, 2013 (As restated) and 2012 (As restated)

The Bank's net income grew 28.75% to ₱2.93 billion in 2013 from ₱2.27 billion in 2012.

Total Interest Income increased by 2.74% or ₱240.97 million, better than the ₱8.79 billion recorded last year.

Interest income on Loans and Receivables showed a 14.69% improvement or an increase of ₱1.04 billion. On the other hand, Interest income on Investment Securities slid to ₱375.40 million from ₱1.34 billion due to disposal of various government securities. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA increased by 42.53% or ₱142.90 million to ₱478.94 million versus ₱336.04 million. Interest earned from deposits with BSP increased by 59.01% to ₱42.22 million while interest income from other banks was up by 66.67% to ₱8.24 million.

Interest Expense on the Bank's deposit liabilities decreased by 27.14% to ₱2.16 billion due to lower cost of funds in 2013. Interest Expense on Subordinated Notes rose to ₱175.25 million from ₱152.87 million due to amortization of debt issuance cost related to the issuance of Unsecured Subordinated Notes (Tier II). The Bank also recorded ₱7.48 million Interest Expense on Bills Payable as of December 31 2013.

As of December 2013, Net interest Income rose to ₱6.69 billion from ₱5.67 billion in 2012.

Net Service Fees and Commission Income increased by 9.55% to ₱962.56 million from ₱878.62 million in 2012.

Other Operating Income also posted a favorable growth of 57.98% or ₱1.85 billion to ₱5.04 billion. The Bank took advantage of the trading opportunities resulting in higher trading income of ₱4.07 billion vs. ₱2.57 billion in 2012 or an increase of ₱1.50 billion.

The Bank registered a net gain on foreclosure and sale of investment properties amounting to ₱269.75 million from ₱140.02 million or an increase of ₱129.73 million. On the other hand, the Bank registered a ₱378.58 million gain on foreclosure and sale of chattel in 2013 versus ₱312.57 million gain in 2012.

Meanwhile, Foreign Exchange loss was posted at ₱3.88 million compared to the FX gain of ₱12.12 million recorded a year ago.

Other Operating Expenses, excluding provision for impairment, was up by 13.88% to ₱6.04 billion from ₱5.30 billion a year ago. Occupancy and equipment-related costs increased by ₱6.97 million or 1.26% to ₱559.76 million due to the opening of two additional branches and installation of nineteen (19) ATMs during the year. As of December 31, 2013, the Bank has 224 branches and 551 ATMs nationwide.

Taxes and Licenses went up by 25.93% or ₱217.01 million due to higher local and gross receipt taxes paid during the year. Compensation and Fringe Benefits rose to ₱2.16 billion from ₱1.98 billion in 2012. Meanwhile, Amortization of Intangible Assets increased by ₱11.22 million or 19.60% from ₱57.24 million to ₱68.45 million. Miscellaneous Expenses went up by 26.52% to ₱1.46 billion due to higher information technology, litigation and advertising expenses.

C. Analysis of Key Performance Indicators

		2014	2013	2012 (As restated)
Return on Average Equity	ROAE	**13.64%**	18.72%	14.89%
Return on Average Assets	ROAA	**1.68%**	2.38%	1.92%
Net Interest Margin on Average Earning Assets	NIM	**6.58%**	5.88%	5.19%
Earnings per share	EPS	**₱9.65**	₱12.19	₱9.47
Capital-to-Risk Assets Ratio	CAR	**19.57%**	16.92%	17.14%
Liquidity Ratio	LR	**47.01%**	51.68%	41.66%
Debt-Equity Ratio	DER	**7.21:1**	7.00:1	6.73:1
Asset-to-Equity Ratio	AER	**8.21:1**	8.00:1	7.73:1
Interest Rate Coverage Ratio	IRC	**1.96:1**	2.76:1	1.91:1

2014 vs. 2013 Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) decreased from 18.72% in 2013 to 13.64% in 2014. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.

2. Return on Average Assets (ROAA) decreased to 1.68% in December 2014 from 2.38% in 2013. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.

3. Net Interest Margin on Average Earning Assets (NIM) improved from 5.88% in 2013 to 6.58% in 2014. NIM is calculated by dividing the net interest income by the average earning assets.

4. Earnings per Share (EPS) decreased to ₱9.65 in 2014 from ₱12.19 in 2013. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) increased from 16.92% to 19.57% in 2014. The Bank issued a P3.0 billion Unsecured Subordinated Notes (Tier II) in May 2014. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

6. Liquidity Ratio (LR) decreased in 2014 at 47.01% compared to 51.68% in 2013. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) was at 7.21:1 as of December 2014 versus 7.00:1 in 2013. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) increased to 8.21:1 in 2014 versus 8.00:1 in 2013. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRC) went down to 1.96:1 as of December 31, 2014 from 2.76:1 the same period last year. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

2013 vs. 2012 (As restated) Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) improved from 14.89% to 18.72% in 2013. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.

2. Return on Average Assets (ROAA) rose to 2.38% in December 2013 from 1.92% in 2012. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.

3. Net Interest Margin on Average Earning Assets (NIM) also increased from 5.19% in 2012 to 5.88% in 2013. NIM is calculated by dividing the net interest income by the average earning assets.

4. Earnings per Share (EPS) was better to ₱12.19 in 2013 from ₱9.47 in 2012. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) slightly decreased from 17.14% to 16.92% in 2013. The Bank issued a P3.0 billion Unsecured Subordinated Notes (Tier II) in February 2012. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

6. Liquidity Ratio (LR) improved in 2013 at 51.68% compared to 41.66% in 2012. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) was at 7.00:1 as of December 2013 versus 6.73:1 in 2012. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) increased to 8.00:1 in 2013 versus 7.73:1 in 2012. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRC) rose to 2.76:1 as of December 31, 2013 from 1.91:1 the same period last year. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

D. Key Variables and Other Qualitative and Quantitative Factors

Liquidity

PSBank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, exhibiting healthy growth in both placements with BSP/other banks and securities investments.

With the Bank's high capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, PSBank does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2014.

The Bank also performs liquidity stress testing under various stress scenarios to ensure its ability to meet its funding obligations. The Bank has a Liquidity Contingency Funding Plan to anticipate and manage any funding crisis that may occur.

Events that will Trigger Direct or Contingent Financial Obligation

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Also, several suit and claims, in behalf or against the Bank in relation to its operations, including labor-related cases are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

Material Off-Balance Sheet Transactions, Arrangements and Obligations

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2014	2013	2012
Trust department accounts	**₱1,751,995,244**	₱1,183,684,353	₱1,293,415,295
Stand-by credit line	**78,623,503**	73,413,399	94,632,544
Late deposits/payments received	**70,408,879**	63,998,571	61,753,601
Items held for safekeeping	**309,487**	260,102	303,772
Others	**29,407**	26,095	17,869

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

Material Commitments for Capital Expenditures

The Bank's capital expenditures in 2014 included expenses for twenty one (21) new branches, forty four (44) new on-site and off-site ATMs, upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems, infrastructure, and licenses. For 2015, the Bank plans to open at least twenty (20) branches and forty (40) on-site and off-site ATMs. Capital expenditures were sourced from the Bank's capital.

Causes for Any Material Changes from Period to Period of Financial Statements

See previous discussion on Analysis of Statement of Condition and Discussion of Results of Operations.

Known Trends, Events or Uncertainties or Seasonal Aspects

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretation, which were adopted as of January 1, 2014.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
- Philippine Interpretation 21,*Levies*

Annual Improvements to PFRSs (*2011-2013 cycle)*

- PFRS 1, First-time Adoption of PFRS

Standards that have been adopted and are deemed to have an impact in the financial statements or the performance of the Bank are described below.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement system (such as central clearing house systems) which apply gross settlement mechanism that are not simultaneous. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.The amendments affect disclosure only and have no impact on the Bank's financial position or performance.

PAS 39, *Financial Instruments: Recognition and Measurement -Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.These amendments have no impact on the Bank as it has not novated its derivatives during the current or prior periods.

Annual Improvements to PFRSs (2010-2012 cycle)
In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has no impact on the Bank's financial position or performance.

Information on Independent Accountant and Other Related Matters

SyCip Gorres Velayo & Co. (SGV & Co.), independent certified public accountants, audited the Bank's financial statements without qualification and in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of its examination, in its report to the stockholders and Board of Directors.

The following table sets out the aggregate fees billed for each of the years ended December 31, 2014 and 2013 for professional services rendered by SGV & Co for the audit of the Bank's annual financial statements.

	2014	2013
Audit and Audit-Related Fees:		
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	₱2,275,000	₱2,275,000

Tax and All Other Fees for Services of External Auditor

The Bank has engaged the services of external auditor for tax accounting, compliance, advice, planning and any other form of services during the last three (3) years. The collective fees for each year ended December 31, 2014, 2013 and 2012 amounted to ₱2,020,000.00, ₱112,000.00 and ₱2,251,600.00, respectively.

Fees for Services of other Tax Consultant

The Bank also engaged the services of Du-Baladad and Associates for tax consultancy. The collective fees amounted to ₱668,976.00, ₱192,192.00 and ₱117,408.00 for 2014, 2013 and 2012, respectively.

Audit Committee's Approval Policies and Procedures for Above Services

As Metrobank subsidiary, the Bank adopted the Parent's policies and procedures on audit engagement contract for external auditors. The same was discussed and approved by the Audit Committee.

Included in the duties and responsibilities of the Audit Committee as provided for in the Audit Committee Charter are to recommend to the Board the appointment, re-appointment and dismissal of external auditors; to review and evaluate the external auditors' qualifications, performance, independence, and objectivity; and to review the external auditors' audit plan and scope among others.

The following are the members of Bank's Audit Committee:

Name	Position
Jose T. Pardo, Independent Director	Chairman
Samson C. Lim, Independent Director	Member
Amelia B. Cabal, Director	Member

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

SECURITIES AND EXCHANGE COMISSION
SEC Building EDSA, Greenhills
Mandaluyong City, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Savings Bank is responsible for the preparation and fair presentation of the financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Sycip, Gorres, Velayo & Co., the independent auditors, appointed by the stockholders for the period December 31, 2014 and 2013, respectively, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

JOSE T. PARDO	**VICENTE R. CUNA, JR.**	**PERFECTO RAMON Z. DIMAYUGA, JR.**
Chairman of the Board	President	Chief Finance Officer

MAR 06 2015 MAKATI CITY

SUBSCRIBED AND SWORN TO before me this _________ affiants exhibiting to me their passports as follow:

Name	Passport No.	Date of Issue	Place of Issue
Jose T. Pardo	EB6622316	10/23/2012	Manila
Vicente R. Cuna, Jr.	EB6579723	10/17/2012	Manila
Perfecto Ramon Z. Dimayuga, Jr.	EB6350218	09/15/2012	Manila

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Book No 10
Series of 2015

ATTY. ROMEO S. MASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-13 UNTIL DECEMBER 31, 2016
UNIT 236 CITYLAND CONDO. 8, NO. 98 G. PUYAT MAKATI CITY
MCLE COMPLIANCE NO. V-0003774. SEPT. 25 '14
IBP NO. 975893. 10/21/14 MAKATI CITY
PTR NO. 4748523/01/05/15/MAKATI CITY
IBP ROLL NO. 45164

Philippine Savings Bank

Financial Statements
December 31, 2014 and 2013
and for the Years Ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Savings Bank, which comprise the statements of condition as at December 31, 2014 and 2013 and the statements of income, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

SGV
Building a better working world

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Savings Bank as at December 31, 2014 and 2013 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751290, January 5, 2015, Makati City

February 26, 2015

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31	
	2014	2013
ASSETS		
Cash and Other Cash Items	**₱4,174,756,446**	₱3,157,499,370
Due from Bangko Sentral ng Pilipinas (Note 16)	**23,997,102,406**	7,401,657,444
Due from Other Banks (Note 29)	**3,382,662,578**	8,491,340,954
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 32)	**2,186,320,000**	14,527,000,000
Fair Value Through Profit or Loss Investments (Note 8)	**278,909,438**	184,607,411
Available-for-Sale Investments (Note 8)	**6,083,317,341**	5,649,063,231
Held-to-Maturity Investments (Note 8)	**1,683,128,162**	–
Loans and Receivables (Note 9)	**95,759,749,830**	82,917,120,994
Investments in an Associate and a Joint Venture (Notes 10 and 29)	**668,606,533**	1,346,142,412
Property and Equipment (Note 11)	**2,469,507,446**	2,389,780,404
Investment Properties (Note 12)	**2,933,068,849**	2,589,408,311
Deferred Tax Assets (Note 27)	**731,937,469**	243,119,247
Goodwill and Intangible Assets (Note 13)	**369,140,026**	292,832,054
Other Assets (Note 14)	**888,822,949**	836,302,917
	₱145,607,029,473	₱130,025,874,749

LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱10,609,490,126**	₱9,050,826,107
Savings	**18,502,557,268**	16,181,291,134
Time	**87,415,706,427**	81,286,386,669
	116,527,753,821	106,518,503,910
Subordinated Notes (Note 17)	**5,946,901,321**	2,972,366,024
Treasurer's, Cashier's and Manager's Checks	**1,253,781,718**	1,110,517,230
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,128,438,120**	1,099,730,994
Income Tax Payable	**7,134,677**	132,339
Other Liabilities (Notes 19 and 24)	**3,012,717,598**	2,061,548,773
	127,876,727,255	113,762,799,270
Equity		
Common Stock (Note 21)	**2,402,524,910**	2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves (Note 30)	**1,035,275,317**	1,035,275,317
Surplus (Note 21)	**11,803,283,969**	10,205,364,827
Net Unrealized Gain on Available-for-Sale Investments (Note 8)	**26,600,463**	22,289,515
Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate (Note 10)	–	25,000
Remeasurement Losses on Retirement Plan (Note 24)	**(312,363,737)**	(178,577,793)
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture (Note 10)	**(1,445,728)**	(479,690)
Equity in Cash Flow Hedge Reserve of an Associate (Note 10)	–	(335,158)
Cumulative Translation Adjustment	**(41,656,482)**	(41,094,955)
	17,730,302,218	16,263,075,479
	₱145,607,029,473	₱130,025,874,749

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31		
	2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)
INTEREST INCOME			
Loans and receivables (Note 9)	**₱8,814,815,985**	₱8,122,435,842	₱7,081,892,924
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**858,982,128**	478,936,597	336,035,526
Investment securities (Note 8)	**363,963,140**	375,404,035	1,336,840,933
Due from Bangko Sentral ng Pilipinas	**57,292,813**	42,216,693	26,549,545
Due from other banks	**18,355,744**	8,242,444	4,945,432
	10,113,409,810	9,027,235,611	8,786,264,360
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**2,115,632,785**	2,157,685,611	2,961,531,016
Subordinated notes (Note 17)	**276,587,317**	175,251,074	152,868,079
Bills payable	**10,807,483**	7,479,125	75,000
	2,403,027,585	2,340,415,810	3,114,474,095
NET INTEREST INCOME	**7,710,382,225**	6,686,819,801	5,671,790,265
Service fees and commission income (Note 22)	**1,151,818,925**	1,040,395,077	938,869,881
Service fees and commission expense (Note 22)	**73,928,520**	77,836,620	60,245,557
NET SERVICE FEES AND COMMISSION INCOME	**1,077,890,405**	962,558,457	878,624,324
OTHER OPERATING INCOME (CHARGES)			
Gain on sale of investment in an associate (Notes 10 and 29)	**558,663,928**	–	–
Gain on foreclosure and sale of chattel mortgage properties - net (Notes 2 and 14)	**316,813,642**	378,583,708	312,570,714
Gain on foreclosure and sale of investment properties - net (Note 12)	**298,854,312**	269,751,500	140,024,754
Trading and securities gains - net (Note 8)	**209,952,831**	4,070,899,035	2,573,600,581
Gain on sale of property and equipment (Note 11)	**45,013,382**	138,464,473	5,846,354
Foreign exchange gain (loss)	**7,813,164**	(3,877,015)	12,116,898
Miscellaneous (Notes 12 and 23)	**343,567,618**	181,271,100	142,950,201
	1,780,678,877	5,035,092,801	3,187,109,502
TOTAL OPERATING INCOME	**10,568,951,507**	12,684,471,059	9,737,524,091
OTHER EXPENSES			
Compensation and fringe benefits (Note 24)	**2,395,951,076**	2,159,694,707	1,976,264,543
Provision for credit and impairment losses (Notes 2 and 15)	**1,743,821,080**	2,649,072,916	1,616,888,157
Taxes and licenses (Note 27)	**1,061,593,720**	1,053,840,964	836,834,289
Occupancy and equipment-related costs (Note 25)	**627,737,333**	559,762,849	552,790,599
Depreciation (Note 11)	**504,628,955**	483,260,520	489,770,896
Security, messengerial and janitorial services	**287,079,453**	252,382,828	234,655,918
Amortization of intangible assets (Note 13)	**82,368,321**	68,454,285	57,238,221
Miscellaneous (Notes 12 and 26)	**1,646,584,153**	1,458,908,377	1,153,147,180
	8,349,764,091	8,685,377,446	6,917,589,803
INCOME BEFORE SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX	**2,219,187,416**	3,999,093,613	2,819,934,288
SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE (Notes 10 and 29)	**76,956,073**	109,569,160	(18,323)
INCOME BEFORE INCOME TAX	**2,296,143,489**	4,108,662,773	2,819,915,965
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**408,948,263**	358,673,718	428,830,779
Deferred	**(431,481,389)**	821,500,247	116,501,297
	(22,533,126)	1,180,173,965	545,332,076
NET INCOME	**₱2,318,676,615**	₱2,928,488,808	₱2,274,583,889
Basic/Diluted Earnings Per Share (Note 28)	**₱9.65**	₱12.19	₱9.47

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)
NET INCOME	**₱2,318,676,615**	₱2,928,488,808	₱2,274,583,889
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Net unrealized gain (loss) from AFS investments (Note 8)	**4,310,948**	(183,863,692)	(2,193,594,598)
Equity in net unrealized gain (loss) on available-for-sale investments of an associate (Note 10)	**(25,000)**	25,000	–
Equity in cash flow hedge reserve of an associate (Note 10)	**335,158**	(335,158)	–
Cumulative translation adjustment	**(561,527)**	26,316,053	(13,096,563)
	4,059,579	(157,857,797)	(2,206,691,161)
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan (Note 24)	**(191,122,777)**	(132,829,377)	11,858,289
Equity in remeasurement losses on retirement plan of a joint venture (Note 10)	**(966,038)**	(298,348)	(181,342)
Income tax effect	**57,336,833**	39,848,813	(3,557,487)
	(134,751,982)	(93,278,912)	8,119,460
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(130,692,403)**	(251,136,709)	(2,198,571,701)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱2,187,984,212**	₱2,677,352,099	₱76,012,188

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 30)	Surplus (Note 21)	Net Unrealized Gain on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate (Note 10)	Equity in Remeasurement Losses on Retirement Plan of a Joint venture (Note 10)	Equity in Cash Flow Hedge Reserve of an Associate (Note 10)	Cumulative Translation Adjustment	Total
Balance at January 1, 2014	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱10,205,364,827**	**₱22,289,515**	**(₱178,577,793)**	**₱25,000**	**(₱479,690)**	**(₱335,158)**	**(₱41,094,955)**	**₱16,263,075,479**
Total comprehensive income (loss) for the year	–	–	–	**2,318,676,615**	**4,310,948**	**(133,785,944)**	**(25,000)**	**(966,038)**	**335,158**	**(561,527)**	**2,187,984,212**
Cash dividends (Note 21)	–	–	–	**(720,757,473)**	–	–	–	–	–	–	**(720,757,473)**
Balance at December 31, 2014	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱11,803,283,969**	**₱26,600,463**	**(₱312,363,737)**	**₱–**	**(₱1,445,728)**	**₱–**	**(₱41,656,482)**	**₱17,730,302,218**
Balance at January 1, 2013	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱8,718,390,965	₱206,153,207	(₱85,597,229)	₱–	(₱181,342)	₱–	(₱67,411,008)	₱15,027,238,326
Total comprehensive income (loss) for the year	–	–	–	2,928,488,808	(183,863,692)	(92,980,564)	25,000	(298,348)	(335,158)	26,316,053	2,677,352,099
Cash dividends (Note 21)	–	–	–	(1,441,514,946)	–	–	–	–	–	–	(1,441,514,946)
Balance at December 31, 2013	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱10,205,364,827	₱22,289,515	(₱178,577,793)	₱25,000	(₱479,690)	(₱335,158)	(₱41,094,955)	₱16,263,075,479
Balance at January 1, 2012	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱7,020,413,054	₱2,399,747,805	(₱93,898,031)	₱–	₱–	₱–	(₱54,314,445)	₱15,527,832,116
Total comprehensive income (loss) for the year	–	–	–	2,274,583,889	(2,193,594,598)	8,300,802	–	(181,342)	–	(13,096,563)	76,012,188
Cash dividends (Note 21)	–	–	–	(576,605,978)	–	–	–	–	–	–	(576,605,978)
Balance at December 31, 2012	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱8,718,390,965	₱206,153,207	(₱85,597,229)	₱–	(₱181,342)	₱–	(₱67,411,008)	₱15,027,238,326

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,296,143,489**	₱4,108,662,773	₱2,819,915,965
Adjustments to reconcile income before income tax to net cash used in operations:			
Provision for credit and impairment losses (Note 15)	**1,743,821,080**	2,649,072,916	1,616,888,157
Gain on sale of investment in an associate (Notes 10 and 29)	**(558,663,928)**	–	–
Depreciation (Note 11)	**504,628,955**	483,260,520	489,770,896
Gain on foreclosure and sale of:			
Chattel mortgage properties (Note 14)	**(316,813,642)**	(378,583,708)	(312,570,714)
Investment properties (Note 12)	**(298,854,312)**	(269,751,500)	(140,024,754)
Accretion of premium (discount) on available-for-sale and held-to-maturity investments	**(118,028,620)**	40,050,334	(2,910,809)
Realized gain on sale of available-for-sale investments (Note 8)	**(99,084,970)**	(4,101,920,941)	(2,578,092,037)
Amortization of:			
Intangible assets (Note 13)	**82,368,321**	68,454,285	57,238,221
Debt issuance costs (Note 17)	**3,963,190**	2,568,682	2,023,042
Share in net (income) loss of an associate and a joint venture (Notes 10 and 29)	**(76,956,073)**	(109,569,160)	18,323
Gain on sale of property and equipment (Note 11)	**(45,013,382)**	(138,464,473)	(5,846,354)
Unrealized trading loss (gain) on fair value through profit or loss investments (Note 8)	**1,108,328**	69,370,851	(13,400,988)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**(95,418,879)**	(133,230,508)	(52,637,331)
Loans and receivables	**(16,072,062,154)**	(16,277,467,836)	(14,585,502,550)
Other assets	**(171,483,937)**	31,368,117	151,514,571
Increase (decrease) in:			
Deposit liabilities	**10,008,975,239**	11,907,147,369	(6,932,460,575)
Accrued taxes, interest and other expenses	**21,703,285**	45,518,923	(153,862,579)
Treasurer's, cashier's and manager's checks	**143,264,488**	353,887,876	102,115,675
Other liabilities	**582,183,755**	374,312,509	280,200,275
Cash used in operations	**(2,464,219,767)**	(1,275,312,971)	(19,257,623,566)
Income taxes paid	**(401,945,925)**	(358,541,379)	(581,027,268)
Net cash used in operating activities	**(2,866,165,692)**	(1,633,854,350)	(19,838,650,834)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Held-to-maturity investments	**(1,683,973,367)**	–	(2,310,836,826)
Available-for-sale investments	**(3,247,058,476)**	(9,442,031,365)	(2,547,631,076)
Other intangible assets (Note 13)	**(158,676,293)**	(129,544,501)	(33,800,631)
Property and equipment (Note 11)	**(458,939,120)**	(341,390,933)	(392,518,800)
Proceeds from sale of:			
Available-for-sale investments (Note 8)	**3,034,958,920**	24,316,107,434	18,318,874,717
Investment in an associate (Notes 10)	**1,312,500,000**	–	–
Chattel mortgage properties (Note 14)	**1,235,235,293**	898,623,700	675,530,031
Investment properties (Note 12)	**478,248,446**	616,169,468	494,197,154
Property and equipment (Note 11)	**89,695,109**	240,849,912	34,217,685
Proceeds from redemption of held-to-maturity investments at maturity date	–	227,265,497	1,059,435,743
Increase in interbank loans receivable (Notes 7 and 32)	**(1,386,320,000)**	–	–
Net cash provided by (used in) investing activities	**(784,329,488)**	16,386,049,212	15,297,467,997
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of subordinated notes (Note 17)	**2,970,572,107**	–	2,967,774,300
Dividends paid (Note 21)	**(542,898,772)**	(1,615,857,451)	(435,302,807)
Net cash provided by (used in) financing activities	**2,427,673,335**	(1,615,857,451)	2,532,471,493
Effect of exchange rate differences	**(154,493)**	12,824,117	(3,909,711)

(Forward)

	Years Ended December 31		
	2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱1,222,976,338)**	₱13,149,161,528	(₱2,012,621,055)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**3,157,499,370**	2,811,064,294	3,921,289,371
Due from Bangko Sentral ng Pilipinas (Note 16)	**7,401,657,444**	5,514,832,823	4,303,595,290
Due from other banks	**8,491,340,954**	6,002,439,123	3,736,072,634
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**14,527,000,000**	6,100,000,000	10,480,000,000
	33,577,497,768	20,428,336,240	22,440,957,295
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**4,174,756,446**	3,157,499,370	2,811,064,294
Due from Bangko Sentral ng Pilipinas (Note 16)	**23,997,102,406**	7,401,657,444	5,514,832,823
Due from other banks	**3,382,662,578**	8,491,340,954	6,002,439,123
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 32)	**800,000,000**	14,527,000,000	6,100,000,000
	₱32,354,521,430	₱33,577,497,768	₱20,428,336,240

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱2,423,202,798**	₱2,384,095,368	₱3,141,671,886
Interest received	**9,808,205,933**	9,089,387,982	7,762,993,426

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2014 and 2013, the Bank had 245 and 224 branches, respectively. In 2014, the Bank added 44 Automated Tellering Machines (ATMs) in Metro Manila and in provincial locations, bringing its total number of ATMs to 595 as of December 31, 2014 from 551 as of December 31, 2013.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the board of directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock approved the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9). This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2014, the Bank is seventy-six percent (76%) owned by Metropolitan Bank & Trust Company (MBTC), its ultimate parent company.

2. **Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis except for fair value through profit or loss (FVPL) investments and available-for-sale (AFS) investments that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statement of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than twelve (12) months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount reported in the statement of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretation, which were adopted as of January 1, 2014.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
- Philippine Interpretation 21, *Levies*

Annual Improvements to PFRSs (*2011-2013 cycle)*
- PFRS 1, First-time Adoption of PFRS

Standards that have been adopted and are deemed to have an impact in the financial statements or the performance of the Bank are described below.

PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement system (such as central clearing house systems) which apply gross settlement mechanism that are not simultaneous. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosure only and have no impact on the Bank's financial position or performance.

PAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Bank as it has not novated its derivatives during the current or prior periods.

Annual Improvements to PFRSs (2010-2012 cycle)
In the 2010-2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has no impact on the Bank's financial position or performance as it presents its short-term receivables and payables at carrying value.

<u>Chattel Mortgage Properties</u>
In January 2014, the Bank changed its method of recording foreclosure of repossessed vehicles to align with Metrobank Group's policy. With the new method, any gains or losses on the foreclosure representing the difference between the net carrying value of loan and the fair value of chattel mortgage properties are recognized as 'Gain on foreclosure and sale of chattel mortgage properties - net'. Prior to the change, the Bank recovers the previously provided allowance on the loan before recognizing gain or loss on foreclosure of assets. Gain or loss on foreclosure is recognized as the difference between the fair value of the chattel mortgage property and gross amount of the loan. The change has an effect only on the presentation in the statement of income as shown below and has no effect on the net income.

The changes have been applied retrospectively. The effects of adoption on the financial statements are as follows (in thousands):

	December 31, 2013		
Statement of Income	As previously reported	Effect of retrospective application	As restated
Gain on foreclosure and sale of chattel mortgage properties - net	(₱130,927)	₱509,511	₱378,584
Provision for credit and impairment losses	2,139,562	509,511	2,649,073

	December 31, 2012		
Statement of Income	As previously reported	Effect of retrospective application	As restated
Gain on foreclosure and sale of chattel mortgage properties - net	(₱159,596)	₱472,167	₱312,571
Provision for credit and impairment losses	1,144,721	472,167	1,616,888

The change has no impact on the basic/diluted earnings per share.

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in Philippine Peso, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (the Philippine Peso) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVPL investments, AFS investments and derivatives, and non-financial assets such as investment properties, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g. an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for FVPL investments and liabilities, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: FVPL investments, AFS investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified into liabilities at FVPL and other financial liabilities at amortized cost. The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management’s intention in acquiring them. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of condition date. As of December 31, 2014 and 2013, the Bank had no financial liabilities at FVPL.

Derivatives recorded at FVPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statement of income and are included in 'Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2014 and 2013, derivatives consist of Republic of the Philippines (ROP) paired warrants acquired to lower the risk weighted assets and improve the capital adequacy ratio of the Bank.

For purposes of hedge accounting, hedges, if any, are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or a liability or a forecasted transaction (cash flow hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Cash flow hedge reserve' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income (OCI) are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

Hedge effectiveness testing
To qualify for hedge accounting, the Bank requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Bank adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated.

The Bank's associate has designated its cross currency interest rate swaps as cash flow hedges of the foreign currency and interest rate risks arising from floating interest rate foreign currency-denominated liabilities. In 2014 and 2013, the Bank has recognized its equity in the cash flow hedge reserve of its associate in its OCI.

Financial assets or financial liabilities held-for-trading (HFT)
Other financial assets or financial liabilities held for trading (classified as FVPL investments) are recorded in the statement of condition at fair value. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term.

Designated financial assets or financial liabilities at FVPL
Designated financial assets or financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVPL upon recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flow that would otherwise be required by the contract.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Changes in fair value are recorded in 'Trading and securities gains - net'. Interest earned or incurred is recorded in interest income or interest expense using the effective interest rate (EIR), while any dividend income is recorded in other operating income under 'Miscellaneous' according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2014 and 2013, the Bank had no designated financial assets or financial liabilities at FVPL.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at fair value through profit or loss.

The Bank assesses whether embedded derivatives are required to be separated from host contracts when the Bank first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Bank determines whether a modification to the cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative and the host contract has changed, and whether the change is significant relative to the previously expected cash flow on the contract.

As of December 31, 2014 and 2013, the Bank does not have any embedded derivatives required to be separated from the host contract.

AFS investments
AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans and receivables as AFS.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, are reported in other operating income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) from AFS investments' in OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gains - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as other operating income under 'Miscellaneous' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income and removed from 'Net unrealized gain (loss) from AFS investments' in OCI.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold until maturity. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest amortization method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income on investment securities' in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as AFS investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTM investments during the following two years.

Loans and receivables
This accounting policy relates to the Bank's 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from Other Banks', 'Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)', and 'Loans and Receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable and SPURA' and 'Loans and Receivables' are subsequently measured at amortized cost using the effective interest amortization method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL and comprises 'Deposit Liabilities', 'Subordinated Notes', 'Treasurer's, Cashier's and Manager's Checks', 'Accrued Taxes, Interest and Other Expenses', 'Accounts Payable', 'Bills Purchased - Contra', 'Other credits', 'Due to BSP', 'Dividends Payable', 'Due to the Treasurer of the Philippines' and 'Deposits for Keys - Safety Deposit Boxes (SDB)', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities not qualified as and not designated as FVPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Bank has transferred substantially all the risks and rewards of the asset, or
  b. the Bank has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of condition. The consideration paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of condition if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Reclassification of Financial Assets

A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value on the date of reclassification, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

Impairment of Financial Assets

The Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganization; and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, which includes loans and receivables, due from banks and HTM investments, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery from charged-off assets' in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The details of credit and impairment losses on financial assets carried at amortized cost are disclosed in Note 15.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

AFS investments
For AFS investments, the Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as greater than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as hold-out on deposits, real estate, receivables and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception. Non-financial collateral, such as real estate and chattel, is valued based on data provided by third parties such as independent appraisers.

Revenue Recognition
Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms and payment excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income and expense
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as AFS and financial instruments designated at FVPL, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount future cash flows for the purpose of measuring the impairment loss.

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period. These fees include fiduciary fees, credit-related fees and other service and management fees.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Trading gains (losses)
Trading gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of financial assets held for trading.

Unrealized gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealized gains and losses for financial instruments which were realized in the reporting period.

Realized gains and losses on disposals of financial instruments at FVPL are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Other operating income'.

Dividends
Dividend income is recognized when the Bank's right to receive payment is established, which is generally when shareholders approve the dividend.

<u>Expense Recognition</u>
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks, amounts due from BSP and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein drawings can be made to meet the Bank's cash requirements, as allowed by the BSP.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investments in an Associate and a Joint Venture

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Bank's investment in an associate represents its 25.00% interest in Toyota Financial Services Philippines Corporation (TFSPC), an entity not listed in the PSE.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Bank's investment in a joint venture represents its 40.00% interest in Sumisho Motor Finance Corporation (SMFC), an entity not listed in the PSE.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Bank's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The reporting period of TFSPC is a fiscal year ending March 31. However, TFSPC prepares financial statements for a 12-month period ending December 31 for the use of the Bank in applying the equity method. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Bank determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share in net income (loss) of an associate and a joint venture' in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

In 2014, the Bank has sold its 25.00% interest in TFSPC.

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years depending on the type of assets
Leasehold improvements	5 years or the term of the related leases, whichever is shorter

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or CGU are written down to their recoverable amount (see policy on Impairment of Non-financial Assets).

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Chattel Mortgage Properties
Chattel mortgage properties comprise repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Intangible Assets
The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Amortization of intangible assets'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Branch licenses
Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets

Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investments in an associate and a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in an associate and a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment in an associate and a joint venture are impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the associate and joint venture and the carrying amount and recognizes such amount in the statement of income.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Bank as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Bank as a lessor
Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

Retirement Cost
The Bank has a funded, non-contributory defined benefit retirement plan, administered by the Retirement Committee, covering their permanent employees.

Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual

reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in the statement of comprehensive income.

Current tax

Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Current income tax and deferred income tax relating to items recognized directly in OCI is also recognized in OCI and not in the statement of income.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year. As of December 31, 2014 and 2013, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statement of condition date are dealt with as subsequent events.

Subsequent Events

Post year-end events that provide additional information about the Bank’s position at the statement of condition date (adjusting events) are reflected in the financial statements.

Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Segment Reporting

The Bank’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank’s assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements, where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2014

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on its financial statements.

New and Amended Standards

PFRS 9, *Financial Instruments – Classification and Measurement (2010 version)*

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will have no impact on the classification and measurement of financial liabilities.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

Effective 2015

The following standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. The Bank does not expect the amendment to have an impact since it has a noncontributory defined benefit plan.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Bank. They include:

PFRS 2, *Share-based Payment – Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition; and
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

This amendment does not apply to the Bank as it has no share-based payments.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*

The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Bank shall consider the amendment for future business combinations.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments affect disclosures only and the Bank does not expect that PFRS 8 will have material financial impact in future financial statements.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendment has no impact on the Bank's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Bank. They include:

PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (*or PFRS 9, as applicable*).

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment has no significant impact on the Bank's financial position or performance.

<u>Effective 2016 onwards</u>
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption

permitted. These amendments are not expected to have any impact to the Bank since it does not use a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank as it does not have any bearer plants.

PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. It is not expected that the amendment would be relevant to the Bank.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after 1 January 2016. It is not expected that the amendment would be relevant to the Bank.

PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. The standard would not apply to the Bank since it is an existing PFRS preparer.

PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Bank is currently assessing the impact of adopting this standard.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Bank is currently assessing the impact of adopting this standard.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally. This new standard issued by the IASB has not yet been adopted by the FRSC.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016, and are not expected to have a material impact on the Bank. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits – regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the

country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classification of operating leases

Bank as lessor
The Bank has entered into leases on its properties. The Bank has determined based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee
The Bank has entered into leases on the premises it uses for its operations. The Bank has determined, based on an evaluation of the terms and conditions of the lease agreements, that all significant risks and rewards of ownership of the properties it leases on operating lease are not transferable to the Bank.

(b) *Fair value of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(c) *Classification of HTM investments*
The classification to HTM investment requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio to AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

(d) *Financial assets not quoted in an active market*
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(e) *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b. the currency in which funds from financing activities are generated; and
c. the currency in which receipts from operating activities are usually retained.

(f) *Change in use of assets*
PAS 40 requires management to use its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cashflows as a stand-alone asset are accounted for as property and equipment.

The Bank assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *Going concern*
The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(b) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables at each statement of condition date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment made by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, at which event, the Bank adjusts the impairment loss and ensures that allowance for it remains adequate.

In addition to specific allowance against individually significant loans and receivables, the Bank also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 9 and 15, respectively.

(c) *Valuation of unquoted AFS equity investments*
The Bank's investments in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

As of December 31, 2014 and 2013, the carrying amounts of unquoted equity securities amounted to ₱1.4 million (Note 8).

(d) *Impairment of quoted AFS equity investments*
The Bank treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20.00% or more of the original cost of the investment, and 'prolonged', greater than twelve (12) months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities.

The carrying values of the Bank's AFS equity investments are disclosed in Note 8.

(e) *Impairment of non-financial assets*

Property and equipment, investment properties and chattel mortgage properties

The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's property and equipment, investment properties and chattel mortgage properties are disclosed in Notes 11, 12 and 14, respectively.

Investments in an associate and a joint venture

The Bank assesses impairment on its investment in an associate and a joint venture whenever events or changes in circumstances indicate that the carrying amount of said asset may not be recoverable. Among others, the factors that the Bank considers important which could trigger an impairment review on its investments in an associate and a joint venture include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes (i.e., technological, market, economic, or legal environment in which the associate or joint venture operates with an adverse effect on the associate or joint venture have taken place during the period, or will take place in the near future).

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's value in use. As of December 31, 2014 and 2013, the carrying values of the Bank's investments in an associate and a joint venture amounted to ₱0.7 billion and ₱1.3 billion, respectively (Note 10).

Goodwill

The Bank's management conducts an annual review for any impairment in value of goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Bank used its weighted average cost of capital in discounting the expected cash flows from specific CGUs. Future cash flows from the business are estimated based on the theoretical annual income of the CGUs. Average growth rate was derived from the average increase in annual income during the last five (5) years.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 11.43%.

Key assumptions in the value-in-use calculation of CGUs are most sensitive to the following assumptions: a) interest margin; b) discount rates; and c) projected growth rates used to extrapolate cash flows beyond the budget period.

As of December 31, 2014 and 2013, the Bank's goodwill amounted to ₱53.6 million (Note 13).

Intangible assets
The Bank's management conducts an annual review for any impairment in value of its intangible assets. Intangible assets are written down for impairment where the recoverable amount is insufficient to support its carrying value. Intangible assets with finite useful lives are assessed for impairment in the same manner as other depreciable non-financial assets. In the case of intangible assets with indefinite useful lives, at a minimum, these are subject to an annual impairment test and more frequently whenever there is an indication that said asset may be impaired. The carrying value of intangible assets is disclosed in Note 13.

(f) Fair value of investment properties
The fair values of the Bank's investment properties have been derived on the basis of recent sales of similar properties in the same areas where the investment properties are located, and taking into account the economic conditions prevailing at the time the valuations were made.

The fair value of the Bank's investment properties are disclosed in Note 12.

(g) Present value of retirement obligation
The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The details of assumptions used in the actuarial valuation are disclosed in Note 24.

As of December 31, 2014 and 2013, the net pension liability of the Bank amounted to ₱620.2 million and ₱429.5 million, respectively (Note 24).

(h) Recognition of deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimates of future taxable income indicate that temporary differences will be realized in the future. Net deferred tax assets as of December 31, 2014 and 2013 amount to ₱731.9 million and ₱243.1 million, respectively (Note 27).

(i) Contingent liabilities
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements (Note 31).

(j) Estimated useful lives of property and equipment, investment properties, intangible assets and chattel mortgage properties
The Bank estimates the useful lives of its property and equipment, investment properties, intangible assets and chattel mortgage properties. This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment, investment properties, software cost and chattel mortgage properties. The estimated useful lives of property and equipment, investment properties, chattel mortgage properties and software cost are disclosed in Note 2. The carrying value of property and equipment, investment properties, intangible assets and chattel mortgage properties are disclosed in Notes 11, 12, 13 and 14, respectively.

4. Fair Value Measurement

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, returned checks and other cash items (RCOCI), shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Quoted AFS equity investments - Fair values are based on quoted prices published in markets.

Unquoted AFS equity investments - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. Hence, these investments are carried at cost less allowance for impairment losses.

Currently, there is no available market to sell these unquoted AFS equity investments. The Bank will hold onto these investments until management decides to sell them when there will be offers to buy out such investments or the appearance of an available market where the investments can be sold.

Derivative instruments (included under FVPL) - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Receivable from customers and other receivables except accounts receivable, accrued interest receivable, bills purchased and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans.

Demand deposits, savings deposits, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased - contra, other credits, due to the Treasurer of the Philippines, deposits for keys - SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The Bank's nonperformance risk as at December 31, 2014 was assessed to be insignificant.

Investment Properties - Fair values of the investment properties have been derived on the basis of recent sales of similar properties in the same areas where the investment properties are located, and taking into account the economic conditions prevailing at the time the valuations were made.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the hierarchy described in Note 2 for determining and disclosing the fair value of financial instruments by valuation technique (in thousands):

			2014		
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	**₱278,909**	**₱278,909**	**₱–**	**₱–**	**₱278,909**
AFS investments					
Government debt securities	**3,068,906**	**2,531,241**	**537,665**	**–**	**3,068,906**
Private debt securities	**3,010,068**	**3,010,068**	**–**	**–**	**3,010,068**
Quoted equity securities	**2,925**	**2,925**	**–**	**–**	**2,925**
	₱6,360,808	**₱5,823,143**	**₱537,665**	**₱–**	**₱6,360,808**
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Private	**₱1,683,128**	**₱1,648,500**	**₱–**	**₱–**	**₱1,648,500**
Loans and receivables					
Receivables from customers					
Consumption loans	**45,501,498**	**–**	**48,490,205**	**–**	**48,490,205**
Real estate loans	**33,992,035**	**–**	**36,757,985**	**–**	**36,757,985**
Commercial loans	**12,015,811**	**–**	**13,292,661**	**–**	**13,292,661**
Personal loans	**3,120,326**	**–**	**3,605,699**	**–**	**3,605,699**
Other receivables					
Sales contract receivable	**232,266**	**–**	**250,251**	**–**	**250,251**
Other assets					
Security deposits	**114,005**	**–**	**115,974**	**–**	**115,974**
Non-Financial Assets					
Investment properties	**2,933,069**	**–**	**3,372,177**	**–**	**3,372,177**
	₱99,592,138	**₱1,648,500**	**₱105,884,952**	**₱–**	**₱107,533,452**
Financial Liabilities					
Deposit liabilities					
Time	**₱87,415,706**	**₱–**	**₱91,696,880**	**₱–**	**₱91,696,880**
Subordinated notes	**5,946,901**	**–**	**5,785,495**	**–**	**5,785,495**
	₱93,362,607	**₱–**	**₱97,482,375**	**₱–**	**₱97,482,375**

	2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱184,607	₱184,607	₱–	₱–	₱184,607
AFS investments					
Government debt securities	5,562,123	4,205,436	1,356,687	–	5,562,123
Private debt securities	81,627	81,627	–	–	81,627
Quoted equity securities	3,895	3,895	–	–	3,895
	₱5,832,252	₱4,475,565	₱1,356,687	₱–	₱5,832,252
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Receivables from customers					
Consumption loans	₱37,963,039	₱–	₱41,855,955	₱–	₱41,855,955
Real estate loans	28,013,908	–	28,072,874	–	28,072,874
Commercial loans	12,418,050	–	13,235,241	–	13,235,241
Personal loans	3,329,976	–	3,949,190	–	3,949,190
Other receivables					
Sales contract receivable	257,155	–	276,879	–	276,879
Unquoted debt securities	198,000	–	204,499	–	204,499
Other assets		–		–	
Security deposits	97,034	–	104,499	–	104,499
Non-Financial Assets					
Investment properties	2,589,408	–	2,985,199	–	2,985,199
	₱84,866,570	₱–	₱90,684,336	₱–	₱90,684,336
Financial Liabilities					
Deposit liabilities					
Time	₱81,286,387	₱–	₱87,724,257	₱–	₱87,724,257
Subordinated notes	2,972,366	–	3,504,468	–	3,504,468
	₱84,258,753	₱–	₱91,228,725	₱–	₱91,228,725

There have been no transfers between Level 1 and Level 2 in 2014 and 2013.

As of December 31, 2014 and 2013, the fair value of the Bank's ROP warrants is classified as Level 3. Due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices, the Bank determined the market value of its warrants to be zero.

5. Financial Risk Management Policies and Objectives

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

BOD
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

ROC
The ROC is composed of at least three members of the Board, including at least one (1) independent director, and a chairperson who is a non-executive member. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, a non-executive director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

RMO
The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:

- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:

- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI), and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Senior Credit Officer together with the Credit Risk Manager.

<u>Borrower Eligibility</u>
The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

<u>Loan Structure</u>
The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history. These are sourced from the databases of the Banker's Association of the Philippines and the Credit Management Association of the Philippines.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management
The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱0.1 billion are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators. In 2014, new segmented credit scoring models were implemented for consumer loans.

Maximum Exposure to Credit Risk
The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2014			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱815,107**	**₱53,767**	**₱761,340**	**₱53,767**
Interbank loans receivable and SPURA	**2,186,320**	**2,923,182**	**–**	**2,186,320**
Receivables from customers				
Consumption loans	**45,501,498**	**65,022,102**	**12,845**	**45,488,653**
Real estate loans	**33,992,035**	**64,126,090**	**–**	**33,992,035**
Commercial loans	**4,057,917**	**7,733,953**	**1,366,720**	**2,691,197**
Other receivables				
Accrued interest receivable	**762,560**	**1,362,296**	**–**	**762,560**
Sales contract receivable	**232,266**	**515,454**	**–**	**232,266**
Total credit exposure	**₱87,547,703**	**₱141,736,844**	**₱2,140,905**	**₱85,406,798**

	2013			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱1,021,853	₱3,327,117	₱–	₱1,021,853
Interbank loans receivable and SPURA	14,527,000	15,674,389	–	14,527,000
Receivables from customers				
Consumption loans	37,963,039	55,640,634	10,058	37,952,981
Real estate loans	28,013,908	54,334,022	–	28,013,908
Commercial loans	3,725,021	7,008,866	1,049,932	2,675,089
Other receivables				
Accrued interest receivable	631,068	1,232,799	–	631,068
Sales contract receivable	257,155	552,811	–	257,155
Total credit exposure	₱86,139,044	₱137,770,638	₱1,059,990	₱85,079,054

Collateral and Other Credit Enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:
- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. Generally, collateral is not held over loans and advances to banks except for SPURA. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral usually is not held against holdings in investment securities, and no such collateral was held as of December 31, 2014 and 2013.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2014 and 2013, the maximum credit exposure to any borrower amounted to ₱2.6 billion and ₱2.7 billion, respectively, before taking into account any collateral or other credit enhancement.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2014			
	Banking Activities	**Trading Activities**	**Others**	**Total**
Luzon	**₱32,902,219**	**₱9,544,190**	**₱82,817,100**	**₱125,263,509**
Visayas	**1,970**	**132,197**	**5,798,703**	**5,932,870**
Mindanao	**18,757**	**177,582**	**6,940,640**	**7,136,979**
	32,922,946	**9,853,969**	**95,556,443**	**138,333,358**
Less allowance for credit and impairment losses	**866,532**	**80,363**	**3,738,376**	**4,685,271**
Total	**₱32,056,414**	**₱9,773,606**	**₱91,818,067**	**₱133,648,087**

	2013			
	Banking Activities	Trading Activities	Others	Total
Luzon	₱38,346,605	₱11,497,740	₱62,453,231	₱112,297,576
Visayas	205,388	364,293	4,896,313	5,465,994
Mindanao	273,548	662,488	5,504,665	6,440,701
	38,825,541	12,524,521	72,854,209	124,204,271
Less allowance for credit and impairment losses	968,416	291,240	3,588,816	4,848,472
Total	₱37,857,125	₱12,233,281	₱69,265,393	₱119,355,799

Others include counterparties that are in real estate, public utilities, mining and quarrying, services, agriculture and other community, social and personal activities.

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2014 and 2013 (in thousands):

	2014				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**₱52,228,173**	**₱–**	**₱–**	**₱–**	**₱52,228,173**
Real estate activities	**32,205,553**	**–**	**–**	**–**	**32,205,553**
Financial and insurance activities	**3,523,586**	**29,566,085**	**8,047,544**	**198,273**	**41,335,488**
Other service activities	**5,581,189**	**–**	**–**	**24,624**	**5,605,813**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**1,939,562**	**–**	**–**	**–**	**1,939,562**
Information and communication	**1,758,612**	**–**	**–**	**–**	**1,758,612**
Manufacturing	**875,967**	**–**	**–**	**–**	**875,967**
Transportation and storage	**530,595**	**–**	**–**	**–**	**530,595**
Construction	**361,617**	**–**	**–**	**54,000**	**415,617**
Electricity, gas, steam and air-conditioning supply	**257,760**	**–**	**–**	**–**	**257,760**
Human health and social work activities	**231,011**	**–**	**–**	**–**	**231,011**
Accommodation and food service activities	**230,777**	**–**	**–**	**–**	**230,777**
Water supply, sewage, waste management and remediation activities	**223,656**	**–**	**–**	**–**	**223,656**
Administrative and support service activities	**170,648**	**–**	**–**	**–**	**170,648**
Professional, scientific and technical services	**145,693**	**–**	**–**	**–**	**145,693**

(Forward)

	2014				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Education	**₱144,616**	**₱–**	**₱–**	**₱–**	**₱144,616**
Agricultural, forestry and fishing	**16,052**	**–**	**–**	**–**	**16,052**
Arts, entertainment and recreation	**15,555**	**–**	**–**		**15,555**
Mining and quarrying	**2,210**	**–**	**–**	**–**	**2,210**
	100,442,832	**29,566,085**	**8,047,544**	**276,897**	**138,333,358**
Less allowance for credit and impairment losses	**4,683,082**	**–**	**2,189**	**–**	**4,685,271**
Total	**₱95,759,750**	**₱29,566,085**	**₱8,045,355**	**₱276,897**	**₱133,648,087**

	2013				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	₱46,594,697	₱–	₱–	₱–	₱46,594,697
Real estate activities	26,138,987	–	–	–	26,138,987
Financial and insurance activities	4,527,249	30,419,998	5,879,681	111,596	40,938,524
Other service activities	4,547,803	–	–	19,413	4,567,216
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,497,304	–	–	–	1,497,304
Information and communication	1,773,963	–	–	–	1,773,963
Manufacturing	806,179	–	–	–	806,179
Transportation and storage	429,451	–	–	–	429,451
Construction	283,490	–	–	54,000	337,490
Electricity, gas, steam and air-conditioning supply	71,171	–	–	–	71,171
Human health and social work activities	167,751	–	–	–	167,751
Accommodation and food service activities	170,953	–	–	–	170,953
Water supply, sewage, waste management and remediation activities	230,264	–	–	–	230,264
Administrative and support service activities	160,545	–	–	–	160,545
Professional, scientific and technical services	143,821	–	–	–	143,821
Education	139,152	–	–	–	139,152
Agricultural, forestry and fishing	12,626	–	–	–	12,626
Arts, entertainment and recreation	16,627	–	–		16,627
Mining and quarrying	7,550	–	–	–	7,550
	87,719,583	30,419,998	5,879,681	185,009	124,204,271
Less allowance for credit and impairment losses	4,802,462	–	46,010	–	4,848,472
Total	₱82,917,121	₱30,419,998	₱5,833,671	₱185,009	₱119,355,799

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

Credit Quality

Description of the loan grades for loans, receivables and stand-by credit lines:

Interim Credit Rating System

The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved interim credit rating system which utilizes both the credit scoring results and BSP loan grading system.

Neither Past Due nor Individually Impaired
The Bank classifies those accounts under current status having the following loan grades:

High Grade (ICRS 1 - 4)
1 - Excellent
This is considered as normal risk by the Bank. An excellent rating is given to a borrower who has the ability to meet credit obligation in full and is never delinquent.

2 - Strong
This is also considered as normal risk by the Bank. Borrower has the ability to meet credit obligation in full, except that the borrower had history of 1-29 days delinquency at worst.

3 - Good
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of rating of Loans Especially Mentioned (ICRS=7) at worst.

4 - Satisfactory
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of rating of Substandard (ICRS=8) at worst.

Standard Grade (ICRS 5 - 7)
5 - Acceptable
An acceptable rating is given to a borrower who meets present obligations, except that the borrower had history of Doubtful (ICRS=9) at worst.

6 - Watchlist
This rating is given to a borrower who meets present obligations, except that the borrower had history of Loss (ICRS=10) at worst.

7 - Loan Especially Mentioned
This rating is given to a borrower who has potential weaknesses which when left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

Substandard Grade (ICRS 8)
8 - Substandard
A substandard rating is given to a borrower whose loan or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These loans show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the loan liquidation.

Past Due but Not Individually Impaired
These are accounts which are classified as delinquent but are not subject to individual impairment as of statement of condition date.

9 - Doubtful
This rating is given to a borrower whose loans have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

Unrated grade
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Individually Impaired
Accounts which are subject to individual impairment as of statement of condition date.

The tables below show the credit quality per class of financial assets under loans and receivables (in thousands)*:

	2014						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	₱23,997,102	₱–	₱–	₱–	₱–	₱–	₱23,997,102
Due from other banks	–	3,382,663	–	–	–	–	3,382,663
Interbank loans receivable and SPURA	–	2,186,320	–	–	–	–	2,186,320
Receivables from customers							
Consumption loans	37,697,997	553,663	61,922	–	7,676,887	335,197	46,325,666
Real estate loans	27,537,182	831,210	867,136	–	4,273,636	1,135,546	34,644,710
Commercial loans	11,751,661	667,539	266,540	–	253,125	760,404	13,699,269
Personal loans	2,834,322	96,382	101,463	–	700,073	37,906	3,770,146
Other receivables							
Accrued interest receivable	489,886	145,025	6,269	–	172,594	320,221	1,133,995
Accounts receivable	41,322	170	159	–	266,576	211,874	520,101
Sales contract receivable	211,161	–	874	–	35,754	18,313	266,102
Bills purchased	–	–	–	82,844	–	–	82,844
Other assets							
Security deposits	–	–	–	114,005	–	–	114,005
RCOCI	–	–	–	82,867	–	–	82,867
Shortages	–	–	–	1,401	–	–	1,401
Total	₱104,560,633	₱7,862,972	₱1,304,363	₱281,117	₱13,378,645	₱2,819,461	₱130,207,191

*Shown gross of allowance for credit and impairment losses

	2013						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	₱–	₱7,401,657	₱–	₱–	₱–	₱–	₱7,401,657
Due from other banks	–	8,491,341	–	–	–	–	8,491,341
Interbank loans receivable and SPURA	–	14,527,000	–	–	–	–	14,527,000
Receivables from customers							
Consumption loans	27,193,171	5,035,722	98,884	–	6,216,732	617,970	39,162,479
Real estate loans	18,657,065	3,891,189	1,170,497	–	4,028,029	1,028,991	28,775,771
Commercial loans	11,227,170	338,138	765,668	–	318,221	785,505	13,434,702
Personal loans	2,771,258	529,121	207,640	–	658,165	78,531	4,244,715
Other receivables							
Accrued interest receivable	353,910	159,237	14,214	–	113,710	305,749	946,820
Accounts receivable	57,482	294	206	–	284,391	180,568	522,941
Unquoted debt instruments	200,000	–	–	–	–	95,611	295,611
Sales contract receivable	230,901	–	17,865	–	19,796	18,313	286,875
Bills purchased	–	–	–	49,669	–	–	49,669
Other assets							
Security deposits	–	–	–	97,034	–	–	97,034
RCOCI	–	–	–	14,270	–	–	14,270
Shortages	–	–	–	291	–	–	291
Total	₱60,690,957	₱40,373,699	₱2,274,974	₱161,264	₱11,639,044	₱3,111,238	₱118,251,176

*Shown gross of allowance for credit and impairment losses

External Ratings
In ensuring quality investment portfolio, the Bank uses the credit risk rating based on the rating of Moody's Investors Service (Moody's rating) as follows:

Credit Quality					**External Rating**					
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.

Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

The tables below show the credit quality per class of investment securities (in thousands)*:

	2014						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
FVPL investments							
HFT - government securities	**₱278,909**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱278,909**
AFS investments							
Government debt securities	**3,068,906**	**–**	**–**	**–**	**–**	**–**	**3,068,906**
Private debt securities	**–**	**3,010,068**	**–**	**–**	**–**	**–**	**3,010,068**
Quoted equity securities	**–**	**–**	**–**	**–**	**–**	**5,114**	**5,114**
Unquoted equity securities	**–**	**–**	**–**	**–**	**–**	**1,418**	**1,418**
HTM investments							
Private debt securities	**–**	**6,083,317**	**–**	**–**	**–**	**–**	**6,083,317**
Total	**₱3,347,815**	**₱9,093,385**	**₱–**	**₱–**	**₱–**	**₱6,532**	**₱12,447,732**

*Shown gross of allowance for credit and impairment losses

	2013						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
FVPL investments							
HFT - government securities	₱–	₱184,607	₱–	₱–	₱–	₱–	₱184,607
AFS investments							
Government debt securities	–	5,562,123	–	–	–	–	5,562,123
Private debt securities	–	81,627	–	–	–	–	81,627
Quoted equity securities	–	–	5,311	–	–	773	6,084
Unquoted equity securities	–	–	–	–	–	45,239	45,239
Total	₱–	₱5,828,357	₱5,311	₱–	₱–	₱46,012	₱5,879,680

*Shown gross of allowance for credit and impairment losses

Impairment Assessment

Impairment losses are recognized based on the results of a specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a presence of known difficulties in the payments of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened or when there is inability to pay principal or interest overdue beyond a threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events or data that meet the definition of objective evidence of impairment.

Individually assessed allowances

The Bank determines the allowances appropriate for each significant loan or advance on an individual basis. Items considered when determining amounts of allowances include an account's age, payment and collection history, timing of expected cash flows and realizable value of collateral.

The Bank sets criteria for specific loan impairment testing and uses the discounted cash flow methodology to compute for impairment loss. Accounts subjected to specific impairment and that are found to be impaired shall be excluded from the collective impairment computation.

Collectively assessed allowances

Allowances are assessed collectively for losses on commercial loans and advances that are not individually significant or are found to be not individually impaired. Impairment losses are estimated by taking into consideration the historical losses using a lookback period of five years on the portfolio and the expected receipts and recoveries once impaired. The Bank is responsible for deciding the length of historical loss period which can extend for as long as five years. The impairment allowance is then reviewed by the Bank to ensure alignment with the Bank's overall policy.

The Bank uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The method applies to consumer loans, as well as salary and home equity loans granted to employees of the Bank. For commercial loans, the Bank uses Historical Loss Rate method in determining the credit loss rate based on the actual historical loss experienced by the Bank on each specific industry type.

Aging Analysis of Past Due but not Individually Impaired Loans per Class of Financial Assets
The succeeding tables show the total aggregate amount of gross past due but not individually impaired loans and receivables per delinquency bucket. Under PFRS, a financial asset is past due when the counterparty has failed to make a payment when contractually due (in thousands)*:

	2014					
	Past Due but not Individually Impaired					
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**Over 180 days**	**Total**
Loans and receivables						
Receivables from customers						
Consumption loans	**₱4,076,702**	**₱1,639,227**	**₱697,052**	**₱675,595**	**₱588,311**	**₱7,676,887**
Real estate loans	**2,915,657**	**931,654**	**311,813**	**76,920**	**37,592**	**4,273,636**
Commercial loans	**158,696**	**25,749**	**17,497**	**19,220**	**31,963**	**253,125**
Personal loans	**245,868**	**51,242**	**29,532**	**72,277**	**301,154**	**700,073**
Other receivables						
Accounts receivable	**7,309**	**842**	**2,262**	**254,228**	**1,935**	**266,576**
Accrued interest receivable	**65,019**	**31,818**	**18,068**	**34,153**	**23,536**	**172,594**
Sales contract receivable	**14,203**	**4,271**	**4,766**	**1,767**	**10,747**	**35,754**
Total	**₱7,483,454**	**₱2,684,803**	**₱1,080,990**	**₱1,134,160**	**₱995,238**	**₱13,378,645**

*Shown gross of allowance for impairment and credit losses

	2013					
	Past Due but not Individually Impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	₱3,260,783	₱1,193,254	₱471,740	₱373,342	₱917,613	₱6,216,732
Real estate loans	2,185,064	663,816	222,951	135,392	820,806	4,028,029
Commercial loans	121,785	50,158	3,594	5,218	137,466	318,221
Personal loans	77,210	29,592	27,816	85,930	437,617	658,165
Other receivables						
Accounts receivable	2,771	4,048	916	2,589	274,067	284,391
Accrued interest receivable	40,001	20,071	10,168	11,319	32,151	113,710
Sales contract receivable	–	–	–	6,378	13,418	19,796
Total	₱5,687,614	₱1,960,939	₱737,185	₱620,168	₱2,633,138	₱11,639,044

*Shown gross of allowance for impairment and credit losses

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk. The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 260 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts

therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	January 1 to March 31, 2014 [1]		**April 1 to December 31, 2014** [2]		January 1 to May 31, 2013 [3]		June 1 to December 31, 2013 [1]	
	Peso	**USD**	**Peso**	**USD**	Peso	USD	Peso	USD
Year-end	–	–	**1,469**	**639**	3,820	–	–	–
Average	**5,631**	**424**	**3,460**	**805**	3,914	41,168	–	–
High	**24,695**	**1,089**	**9,125**	**3,145**	10,063	1,154	7,638	–
Low	**320**	**267**	**645**	**197**	1,790	507	1,213	–

[1] *Using Spreadsheet-based model Historical Simulation VaR*
[2] *Using METRISK Historical Simulation VaR*
[3] *Using Bloomberg Historical Simulation VaR*

Non-trading activities

Interest Rate Risk
The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as non-interest rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year and capital. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EAR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The tables below demonstrate the sensitivity of net interest income and equity to reasonably possible changes in interest rates. Net interest income sensitivity was calculated by assuming interest rate shifts upon repricing of floating-rate financial instruments. Equity sensitivity was computed by calculating mark-to-market changes of AFS debt instruments, assuming a parallel shift in the yield curve.

2014

	Change in basis points	Sensitivity of net interest income	Sensitivity of Equity: 0 up to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	More than 5 years	Total
			(Amounts in Pesos)				
Currency							
PHP	+10	(32,521,348)	–	36,712	(84,054)	(14,943,066)	(14,990,408)
USD	+10	(1,828,640)	–	–	(269,545,472)	3,258,555	(266,286,917)
Currency							
PHP	-10	32,521,348	–	49,546	14,474,228	(2,966,865)	11,556,909
USD	-10	1,828,640	–	–	(259,793,377)	4,494,810	(255,298,567)

2013

	Change in basis points	Sensitivity of net interest income	Sensitivity of Equity: 0 up to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	More than 5 years	Total
			(Amounts in Pesos)				
Currency							
PHP	+10	(27,291,526)	–	(36,357)	(4,182,201)	(45,161,855)	(49,380,413)
USD	+10	2,131,666	–	–	(56,988)	(860,699)	(917,687)
Currency							
PHP	-10	27,291,526	–	7,473	3,965,105	44,137,954	48,110,532
USD	-10	(2,131,666)	–	–	57,084	878,646	935,730

The impact on the Bank's equity excludes the impact on transactions affecting the statement of income.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	January 1 to March 31, 2014[1]	**April 1 to December 31, 2014[2]**	January 1 to May 31, 2013[3]	June 1 to December 31, 2013[1]
As of year-end		**₱1,535**		₱426
Average	**₱991**	**443**	₱22	15
High	**2,025**	**1,917**	1,569	1,956
Low	**196**	**2**	251	14

[1] *Using Spreadsheet-based model Historical Simulation VaR*
[2] *Using METRISK Historical Simulation VaR*
[3] *Using Bloomberg Historical Simulation VaR*

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2014 and 2013. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2014	2013
Assets		
Cash	**$1,505**	$1,708
Due from other banks	**61,039**	178,904
Interbank Loans	**31,000**	–
FVPL investments	**5,171**	–
AFS investments	**66,014**	3,968
HTM investments	**3,940**	–
Other assets	**2,335**	81
Total assets	**171,004**	184,661
Liabilities		
Deposit liabilities		
Savings	**33,231**	31,001
Time	**133,392**	151,114
Accrued taxes, interest and other expenses	**912**	1,230
Other liabilities	**2,179**	1,355
Total liabilities	**169,714**	184,700
Net exposure	**$1,290**	($39)

c. *Liquidity Risk*

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits. ALCO is responsible for managing the liquidity of PSBank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan.

Financial assets
Analysis of equity and debt securities at FVPL and AFS investments into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities
The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2014							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVPL investments								
HFT - government securities	₱–	₱2	₱2	₱–	₱4	₱8	₱347	₱355
AFS investments								
Government securities	–	79	18	6	112	215	3,458	3,673
Private debt securities	–	7	38	31	76	152	4,664	4,816
Quoted equity securities	–	–	–	–	–	–	5	5
Unquoted equity securities	–	–	–	–	–	–	1	1
HTM investments								
Government bonds	–	7	20	40	79	146	2,207	2,353
Loans and receivables								
Loans and advances to banks								
Due from BSP	9,697	14,302	–	–	–	23,999	–	23,999
Due from other banks	1,762	180	1,443	–	–	3,385	–	3,385
Interbank loans receivable and SPURA	–	802	–	1,414	–	2,216	–	2,216
Receivables from customers								
Consumption loans	106	611	1,276	2,087	5,023	9,103	62,525	71,628
Real estate loans	118	313	809	1,304	2,942	5,486	56,788	62,274
Commercial loans	1,158	533	518	934	2,130	5,273	13,908	19,181
Personal loans	945	265	422	640	1,442	3,714	1,626	5,340
Other receivables								
Accrued interest receivable	198	6	15	259	656	1,134	–	1,134
Accounts receivable	502	4	3	2	3	514	6	520
Sales contract receivable	26	2	4	8	15	55	333	388
Unquoted debt instruments	–	–	–	–	–	–	–	–
Other assets								
Security deposits	–	5	3	6	13	27	87	114
RCOCI	83	–	–	–	–	83	–	83
Shortages	1	–	–	–	–	1	–	1
	₱14,596	₱17,118	₱4,571	₱6,731	₱12,495	₱55,511	₱145,955	₱201,466

	2014							
	On demand	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 to 12 months**	**Total within 1 year**	**Beyond 1 year**	**Total**
Financial Liabilities								
Deposit liabilities								
Demand	**₱10,609**	**₱–**	**₱–**	**₱–**	**₱–**	**₱10,609**	**₱–**	**₱10,609**
Savings	**18,503**	**–**	**–**	**–**	**–**	**18,503**	**–**	**18,503**
Time	**–**	**17,633**	**45,244**	**4,057**	**1,677**	**68,611**	**23,086**	**91,697**
	29,112	**17,633**	**45,244**	**4,057**	**1,677**	**97,723**	**23,086**	**120,809**
Subordinated notes	**–**	**–**	**85**	**84**	**169**	**338**	**8,521**	**8,859**
Treasurer's, cashier's and manager's checks	**1,254**	**–**	**–**	**–**	**–**	**1,254**	**–**	**1,254**
Accrued interest payable	**–**	**–**	**109**	**36**	**–**	**145**	**–**	**145**
Accrued other expenses payable	**983**	**–**	**–**	**–**	**–**	**983**	**–**	**983**
Other liabilities								
Accounts payable	**–**	**–**	**–**	**1,201**	**–**	**1,201**	**–**	**1,201**
Other credits	**439**	**–**	**–**	**–**	**–**	**439**	**–**	**439**
Dividends payable	**–**	**177**	**–**	**–**	**–**	**177**	**–**	**177**
Bills purchased - contra	**83**	**–**	**–**	**–**	**–**	**83**	**–**	**83**
Due to the Treasurer of the Philippines	**11**	**–**	**–**	**–**	**–**	**11**	**–**	**11**
Deposit for keys	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Others	**3**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
	₱31,886	**₱17,810**	**₱45,438**	**₱5,378**	**₱1,846**	**₱102,358**	**₱31,607**	**₱133,965**

	2013							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVPL investments								
HFT - government securities	₱185	₱–	₱–	₱–	₱–	₱185	₱–	₱185
AFS investments								
Government securities	–	12	41	90	194	337	8,637	8,974
Private debt securities	–	1	1	1	3	6	196	202
Quoted equity securities	–	–	–	–	–	–	5	5
Unquoted equity securities	–	–	–	–	–	–	1	1
Loans and receivables								
Loans and advances to banks								
Due from BSP	7,402	–	–	–	–	7,402	–	7,402
Due from other banks	8,491	–	–	–	–	8,491	–	8,491
Interbank loans receivable and SPURA	–	14,538	–	–	–	14,538	–	14,538
Receivables from customers								
Consumption loans	93	–	101	326	1,280	1,800	39,721	41,521
Real estate loans	183	–	378	674	1,656	2,891	26,086	28,977
Commercial loans	1,025	–	443	354	1,476	3,298	10,213	13,511
Personal loans	884	102	318	503	1,223	3,030	1,446	4,476
Other receivables								
Accrued interest receivable	851	–	15	22	60	948	–	948
Accounts receivable	459	56	3	3	2	523	–	523
Sales contract receivable	20	–	–	1	9	30	258	288
Unquoted debt instruments	–	–	–	205	–	205	96	301
Other assets								
Security deposits	–	6	4	8	18	36	61	97
RCOCI	14	–	–	–	–	14	–	14
	₱19,607	₱14,715	₱1,304	₱2,187	₱5,921	₱43,734	₱86,720	₱130,454

	2013							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Liabilities								
Deposit liabilities								
Demand	₱9,051	₱–	₱–	₱–	₱–	₱9,051	₱–	₱9,051
Savings	16,181	–	–	–	–	16,181	–	16,181
Time	–	54,747	7,639	1,560	1,901	65,847	20,459	86,306
	25,232	54,747	7,639	1,560	1,901	91,079	20,459	111,538
Subordinated notes	–	–	43	43	86	172	4,251	4,423
Treasurer's, cashier's and manager's checks	1,111	–	–	–	–	1,111	–	1,111
Accrued interest payable	–	–	150	20	–	170	–	170
Accrued other expenses payable	871	–	–	–	–	871	–	871
Other liabilities								
Accounts payable	–	–	–	1,067	–	1,067	–	1,067
Other credits	297	–	–	–	–	297	–	297
Dividends payable	–	2	–	–	–	2	–	2
Bills purchased - contra	50	–	–	–	–	50	–	50
Due to the Treasurer of the Philippines	11	–	–	–	–	11	–	11
Deposit for keys	1	–	–	–	–	1	–	1
Others	2	–	–	–	–	2	–	2
	₱27,575	₱54,749	₱7,832	₱2,690	₱1,987	₱94,833	₱24,710	₱119,543

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking - principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2014, 2013 and 2012 follows (in thousands):

	2014				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱2,096,566**	**₱513,270**	**₱5,825,439**	**₱1,678,135**	**₱10,113,410**
Service fees and commission	**272,034**	**47,454**	**832,331**	**–**	**1,151,819**
Other operating income	**472,611**	**81,951**	**1,008,351**	**217,766**	**1,780,679**
Total operating income	**2,841,211**	**642,675**	**7,666,121**	**1,895,901**	**13,045,908**
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	**992,493**	**(55,175)**	**850,325**	**(43,822)**	**1,743,821**
Depreciation	**107,781**	**8,429**	**387,800**	**619**	**504,629**
Amortization of other intangible assets	**22,430**	**3,171**	**56,437**	**330**	**82,368**
Total non-cash expenses	**1,122,704**	**(43,575)**	**1,294,562**	**(42,873)**	**2,330,818**
Interest expense	**–**	**–**	**1,558,925**	**844,103**	**2,403,028**
Service fees and commission expense	**17,460**	**3,046**	**53,423**	**–**	**73,929**
Subtotal	**17,460**	**3,046**	**1,612,348**	**844,103**	**2,476,957**
Compensation and fringe benefits	**480,544**	**88,291**	**1,815,143**	**11,973**	**2,395,951**
Taxes and licenses	**158,764**	**25,720**	**729,633**	**147,477**	**1,061,594**
Occupancy and equipment-related costs	**37,755**	**4,239**	**585,687**	**56**	**627,737**
Security, messengerial and janitorial services	**36,307**	**3,673**	**246,524**	**575**	**287,079**
Miscellaneous	**257,548**	**38,099**	**1,312,900**	**38,037**	**1,646,584**
Subtotal	**970,918**	**160,022**	**4,689,887**	**198,118**	**6,018,945**
Income before share in net income of an associate and a joint venture and income tax	**730,129**	**523,182**	**69,324**	**896,553**	**2,219,188**
Share in net income of an associate and a joint venture	**–**	**76,956**	**–**	**–**	**76,956**
Income before income tax	**730,129**	**600,138**	**69,324**	**896,553**	**2,296,144**
Benefit from income tax					**22,533**
Net income					**₱2,318,677**
Segment assets	**₱62,641,227**	**₱10,065,356**	**₱35,673,726**	**₱35,826,176**	**₱144,206,485**
Investments in an associate and a joint venture					**668,607**
Deferred tax assets					**731,937**
Total assets					**₱145,607,029**
Segment liabilities	**₱1,024,056**	**₱110,243**	**₱91,831,563**	**₱34,910,865**	**₱127,876,727**

	2013 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,798,034	₱492,637	₱6,128,314	₱608,251	₱9,027,236
Service fees and commission	220,196	49,405	770,794	–	1,040,395
Other operating income	310,194	157,687	500,190	4,067,022	5,035,093
Total operating income	2,328,424	699,729	7,399,298	4,675,273	15,102,724
Non-cash expenses					
Provision for credit and impairment losses	1,012,341	91,839	1,544,893	–	2,649,073
Depreciation	106,655	11,038	364,415	1,153	483,261
Amortization of other intangible assets	26,650	4,793	36,451	560	68,454
Total non-cash expenses	1,145,646	107,670	1,945,759	1,713	3,200,788
Interest expense	–	–	1,703,983	636,432	2,340,415
Service fees and commission expense	16,474	3,696	57,667	–	77,837
Subtotal	16,474	3,696	1,761,650	636,432	2,418,252
Compensation and fringe benefits	395,481	89,349	1,664,982	9,883	2,159,695
Taxes and licenses	210,690	28,738	462,779	351,634	1,053,841
Occupancy and equipment-related costs	48,048	8,216	503,494	5	559,763
Security, messengerial and janitorial services	46,550	5,455	199,554	824	252,383
Miscellaneous	463,682	77,420	905,158	12,648	1,458,908
Subtotal	1,164,451	209,178	3,735,967	374,994	5,484,590

(Forward)

	2013 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Income (loss) before share in net income of an associate and a joint venture and income tax	₱1,853	₱379,185	(₱44,078)	₱3,662,134	₱3,999,094
Share in net income of an associate and a joint venture	–	109,569	–	–	109,569
Income (loss) before income tax	1,853	488,754	(44,078)	3,662,134	4,108,663
Provision for income tax					(1,180,174)
Net income					₱2,928,489
Segment assets	₱49,098,520	₱10,296,750	₱33,326,752	₱35,714,592	₱128,436,614
Investments in an associate and a joint venture					1,346,142
Deferred tax assets					243,119
Total assets					₱130,025,875
Segment liabilities	₱455,304	₱99,653	₱85,968,305	₱27,239,537	₱113,762,799

	2012 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,598,928	₱326,587	₱5,901,663	₱959,086	₱8,786,264
Service fees and commission	140,696	64,531	733,643	–	938,870
Other operating income (loss)	261,670	(30,143)	369,865	2,585,718	3,187,110
Total operating income	2,001,294	360,975	7,005,171	3,544,804	12,912,244
Non-cash expenses					
Provision for credit and impairment losses	801,919	49,558	765,411	–	1,616,888
Depreciation	122,139	14,777	351,396	1,459	489,771
Amortization of other intangible assets	21,668	3,987	31,018	565	57,238
Total non-cash expenses	945,726	68,322	1,147,825	2,024	2,163,897
Interest expense	–	–	1,549,662	1,564,812	3,114,474
Service fees and commission expense	9,028	4,142	47,076	–	60,246
Subtotal	9,028	4,142	1,596,738	1,564,812	3,174,720
Compensation and fringe benefits	327,360	83,857	1,553,056	11,992	1,976,265
Taxes and licenses	122,060	29,295	477,227	208,252	836,834
Occupancy and equipment-related costs	36,165	6,153	510,473	–	552,791
Security, messengerial and janitorial services	41,270	4,418	188,400	568	234,656
Miscellaneous	312,846	34,307	790,742	15,252	1,153,147
Subtotal	839,701	158,030	3,519,898	236,064	4,753,693
Income before share in net loss of an associate and a joint venture and income tax	206,839	130,481	740,710	1,741,904	2,819,934
Share in net loss of an associate and a joint venture	–	(18)	–	–	(18)
Income before income tax	206,839	130,463	740,710	1,741,904	2,819,916
Provision for income tax					(545,332)
Net income					₱2,274,584
Segment assets	₱23,916,405	₱10,280,884	₱46,723,289	₱32,978,433	₱113,899,011
Investments in an associate and a joint venture					1,237,182
Deferred tax assets					1,024,771
Total assets					₱116,160,964
Segment liabilities	₱556,440	₱144,985	₱72,686,179	₱27,746,122	₱101,133,726

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2014	2013
Interbank loans receivable (Note 32)	**₱1,386,320,000**	₱–
SPURA	**800,000,000**	14,527,000,000
	₱2,186,320,000	₱14,527,000,000

The outstanding balance of interbank loans receivable represents term placements with MBTC, the Bank's parent company (Note 29).

SPURA are lending to counterparties collateralized by government securities. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

Interest income on interbank loans receivable and SPURA are as follows:

	2014	2013	2012
Interbank loans receivable	**₱38,147,079**	₱25,619,027	₱74,202,957
SPURA	**820,835,049**	453,317,570	261,832,569
	₱858,982,128	₱478,936,597	₱336,035,526

8. **Fair Value Through Profit or Loss, Available-for-Sale and Held-to-Maturity Investments**

FVPL investments consist of securities held-for-trading amounting to ₱278.9 million and ₱184.6 million in 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the Bank has outstanding ROP paired warrants which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. As of December 31, 2014 and 2013, the Bank wrote down the carrying value of its ROP warrants to zero due to the absence of an active market.

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

As of December 31, 2014 and 2013, the Bank has no outstanding forward buy and sell contracts.

AFS investments consist of the following:

	2014	2013
Government securities (Notes 29 and 30)	**₱3,068,906,157**	₱5,562,123,285
Private debt securities	**3,010,068,344**	81,627,315
Equity securities		
Quoted	**5,114,005**	6,083,796
Unquoted	**1,417,500**	45,239,002
	6,085,506,006	5,695,073,398
Less allowance for impairment losses (Note 15)	**2,188,665**	46,010,167
	₱6,083,317,341	₱5,649,063,231

As of December 31, 2014 and 2013 there were no movements in the allowance for impairment losses on AFS quoted equity securities amounting to ₱2.2 million (Note 15).

Movements in the net unrealized gain on AFS investments follow:

	2014	2013
Balance at beginning of year	**₱22,289,515**	₱206,153,207
Gain from sale of AFS investments realized in profit or loss	**(99,084,970)**	(4,101,920,941)
Changes in fair values of AFS investments	**103,395,918**	3,918,057,249
	4,310,948	(183,863,692)
Balance at end of year	**₱26,600,463**	₱22,289,515

In 2013, the Bank sold a significant portion of its government securities classified as AFS investments, resulting in net realized trading gain of ₱4.1 billion.

In 2014, the Bank sold its unquoted equity securities amounting to ₱43.8 million. The Bank realized net trading gain amounting to ₱191.9 million from the sale.

As of December 31, 2014 and 2013, National Food Authority bonds classified as AFS investments with total face value of ₱50.0 million are pledged by the Bank to MBTC to secure its payroll account with MBTC (Note 29).

HTM investments consist of private bonds amounting to ₱1.7 billion as of December 31, 2014.

Interest income on investment securities consists of:

	2014	2013	2012
FVPL investments	**₱13,330,603**	₱3,897,789	₱9,367,598
AFS investments	**301,938,725**	208,967,472	352,849,005
HTM investments	**48,693,812**	162,538,774	974,624,330
	₱363,963,140	₱375,404,035	₱1,336,840,933

Peso-denominated AFS investments bear nominal annual interest rates ranging from 1.63% to 9.13% in 2014, 2.13% to 9.13% in 2013, and 0.00% to 9.13% in 2012 while foreign currency-denominated AFS investments bear nominal annual interest rates ranging from 3.88% to 9.38% in 2014, 4.00% to 8.88% in 2013, and 9.00% in 2012. Effective interest rates on AFS investments as of December 31, 2014, 2013, and 2012 range from 1.22% to 3.14%, 3.84% to 5.22%, and 4.70% to 6.23%, respectively.

On the other hand, peso-denominated HTM investments bear nominal annual interest rates ranging from 5.21% to 5.61% in 2014 and from 6.38% to 18.25% in 2012, while foreign currency-denominated HTM investments bear nominal annual interest rates ranging from 6.00% to 6.38% in 2014 and from 5.00% to 10.63% in 2012.

Trading and securities gains - net on investment securities consist of:

	2014	2013	2012
FVPL investments (Note 29)			
Realized	**(₱5,598,282)**	₱38,348,945	(₱17,892,444)
Unrealized	**(1,108,328)**	(69,370,851)	13,400,988
	(6,706,610)	(31,021,906)	(4,491,456)
AFS investments (Note 29)	**99,084,970**	4,101,920,941	2,578,092,037
Unquoted debt instruments (Note 9)	**117,574,471**	–	–
	₱209,952,831	₱4,070,899,035	₱2,573,600,581

Reclassification of Financial Assets

In March 2013, as approved by its BOD, the Bank reclassified the entire HTM portfolio to AFS investments as the Bank no longer intends to hold them up to their maturity but rather stands ready to sell such investments.

Such change of intention was primarily driven by the need to increase the Bank's capital position in view of the following directions set forth in BSP Circular No. 781:

- significant increase in the industry's regulatory capital requirements in view of the early implementation of Basel III minimum capital requirements effective 2014;
- inclusion of loss absorbency feature in the issuance of additional Tier 2 capital instruments; and,
- ineligibility of the Bank's ₱3.0 billion subordinated notes as part of Tier 2 capital.

The change in intention and eventual disposal of the said HTM investments portfolio in response to the significant increase in regulatory capital requirements is one of the conditions permitted under PAS 39, *Financial Instruments: Recognition and Measurement* and thus is exempt from the tainting rule.

As of March 2013, the total carrying value of HTM investments classified to AFS investments amounted to ₱13.3 billion, with unrealized gains of ₱4.1 billion deferred under 'Net unrealized gain (loss) on AFS investments' under OCI.

Subsequent to the reclassification, the Bank sold a substantial portion of the portfolio resulting in realized trading gain of ₱4.0 billion in 2013 while the remaining securities were all redeemed in 2014 at par.

9. Loans and Receivables

This account consists of:

	2014	2013
Receivables from customers		
Consumption loans	**₱47,043,267,594**	₱41,146,099,807
Real estate loans	**34,644,709,631**	28,775,771,200
Commercial loans	**13,699,269,088**	13,434,702,204
Personal loans (Note 29)	**3,771,500,037**	4,275,070,444
	99,158,746,350	87,631,643,655
Less unearned discounts	**718,956,205**	2,013,976,038
	98,439,790,145	85,617,667,617
Other receivables		
Accrued interest receivable (Note 29)	**1,133,995,187**	946,819,930
Accounts receivable (Note 29)	**520,100,839**	522,941,011
Sales contract receivables	**266,102,363**	286,874,761
Bills purchased (Note 19)	**82,843,873**	49,669,238
Unquoted debt instruments	**–**	295,610,552
	100,442,832,407	87,719,583,109
Less allowance for credit losses (Note 15)	**4,683,082,577**	4,802,462,115
	₱95,759,749,830	₱82,917,120,994

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

Unquoted debt instruments represent investments in convertible notes and private bonds. As of December 31, 2013, the convertible notes amounting to ₱95.6 million are provided with 100.00% allowance for credit losses.

As of December 31, 2014, 2013 and 2012, 33.09%, 29.52%and 24.59%, respectively, of the total receivables from customers are subject to periodic interest repricing. Remaining receivables earn average annual fixed interest rates of 15.72%, 12.95% and 12.78% in 2014, 2013 and 2012, respectively.

As of December 31, 2014, 2013 and 2012, receivable from customers earned interest income at an effective interest rate ranging from 9.42% to 10.46%, 9.70% to 10.95%, and 9.94% to 11.89%, respectively.

Interest income on loans and receivables consists of:

	2014	2013	2012
Receivables from customers			
Consumption loans	**₱4,294,068,021**	₱3,784,845,069	₱3,056,755,626
Real estate loans	**2,551,584,794**	2,237,204,178	1,960,362,055
Personal loans	**964,681,596**	1,063,057,436	1,023,481,594
Commercial loans	**937,409,641**	904,187,371	942,512,827
Other receivables			
Unquoted debt instruments	**45,250,664**	105,929,392	60,751,965
Sales contract receivables	**21,821,269**	27,212,396	38,028,857
	₱8,814,815,985	₱8,122,435,842	₱7,081,892,924

Interest income accreted on impaired loans and receivables classified under real estate loans and commercial loans amounted to ₱83.5 million, ₱73.3 million and ₱89.1 million in 2014, 2013 and 2012, respectively.

Interest income from restructured loans amounted to ₱51.6 million, ₱61.8 million and ₱76.8 million in 2014, 2013 and 2012, respectively.

Included in the loan portfolio are receivables purchased from a third party amounting to ₱86.6 million and ₱117.0 million as of December 31, 2014 and 2013, respectively.

BSP Reporting
The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2014	**%**	2013	%
Secured by:				
Chattel	**₱47,043,267,594**	**47.44**	₱41,146,099,807	46.95
Real estate	**26,104,394,467**	**26.33**	28,383,931,714	32.39
Deposit hold-out	**422,019,221**	**0.43**	438,595,244	0.50
Others	**400,376,181**	**0.40**	420,249,261	0.48
	73,970,057,463	**74.60**	70,388,876,026	80.32
Unsecured	**25,188,688,887**	**25.40**	17,242,767,629	19.68
	₱99,158,746,350	**100.00**	₱87,631,643,655	100.00

Details of NPLs follow:

	2014	2013
Secured	**₱3,025,836,063**	₱2,698,250,112
Unsecured	**839,843,258**	957,170,661
	₱3,865,679,321	₱3,655,420,773

Generally, NPLs refer to loans and receivables whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans and receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans and receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

Loans and receivables are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought to current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured. Further, as provided for by BSP Circular No. 772 which is effective starting

January 1, 2013, the nonperforming loans to be disclosed shall be presented net of unearned interest and discounts.

Restructured loans and receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit and impairment losses, provided that interest on said receivables shall not be accrued.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2014	2013
Total NPLs	**₱3,865,679,321**	₱3,655,420,773
NPLs fully covered by allowance for credit losses	**803,282,005**	1,056,313,169
	₱3,062,397,316	₱2,599,107,604

Restructured loans as of December 31, 2014 and 2013 amounted to ₱715.5 million and ₱577.9 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱2.6 billion and ₱15.0 billion as of December 31, 2014 and 2013, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses):

	2014	**%**	2013	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱52,467,594,164**	**52.91**	₱48,292,813,955	55.11
Real estate activities	**31,914,207,647**	**32.18**	25,844,098,847	29.49
Financial and insurance activities	**2,632,250,027**	**2.65**	3,600,815,917	4.11
Wholesale and retail trade, repair of motor vehicles and motorcycles	**1,796,926,963**	**1.81**	1,388,718,716	1.58
Information and communication	**1,753,452,568**	**1.77**	1,769,072,128	2.02
Manufacturing	**871,202,817**	**0.88**	503,363,085	0.57
Transportation and storage	**523,667,298**	**0.53**	419,204,282	0.48
Construction	**349,174,323**	**0.35**	270,072,863	0.31
Electricity, gas, steam and air-conditioning supply	**235,892,452**	**0.24**	50,127,859	0.06
Accommodation and food service activities	**227,255,543**	**0.23**	165,567,067	0.19
Human health and social work activities	**224,657,958**	**0.23**	160,987,498	0.18
Water supply, sewerage, waste management and remediation activities	**220,167,705**	**0.22**	226,729,987	0.26
Administrative and support service activities	**167,302,064**	**0.17**	160,005,734	0.18
Professional, scientific and technical activities	**145,333,737**	**0.15**	144,410,181	0.16
Education	**142,260,130**	**0.14**	137,202,832	0.16
Agriculture, forestry and fishing	**15,925,192**	**0.02**	12,540,799	0.01
Arts, entertainment and recreation	**15,532,833**	**0.02**	16,717,412	0.02
Mining and quarrying	**2,189,961**	**0.00**	7,497,053	0.01
Other service activities	**5,453,752,968**	**5.50**	4,461,697,440	5.09
	₱99,158,746,350	**100.00**	₱87,631,643,655	100.00

Others relate to economic activities construction, health and social work, public administration and defense, extra-territorial organization and bodies, and education and fishing.

Thrift banks are not covered by the loan concentration limit of 30.00% prescribed by the BSP.

10. **Investments in an Associate and a Joint Venture**

The composition of this account follows:

	2014	2013
Investment in an associate	**₱–**	₱681,396,600
Investment in a joint venture	**668,606,533**	664,745,812
	₱668,606,533	₱1,346,142,412

Investment in an Associate

As of December 31, 2013, the Banks owns 2,500,000 shares of TFSPC representing 25.00% ownership. TFSPC is involved in financing and leasing services for customers of Toyota vehicles, as well as inventory stock financing for Toyota dealers.

On August 29, 2014, the Bank sold its 25.00% interest in TFSPC to GT Capital Holdings, Inc. for a total consideration of ₱1.3 billion. The sale is in line with the Bank's capital planning initiatives under the new Basel III regime. The gain on sale of the investment in TFSPC amounted to ₱558.7 million (Note 29).

The following table illustrates the summarized financial information of TFSPC:

	2013
Current assets	₱10,766,542,100
Non-current assets	18,809,486,168
Current liabilities	11,005,313,543
Non-current liabilities	15,845,128,328
Net assets	2,725,586,397
Revenues	1,931,061,460
Costs and expenses	1,494,253,157
Net income for the year	436,808,303

Movement in this account follows:

	2014	2013
Acquisition cost	**₱270,546,789**	₱270,546,789
Accumulated equity in net income		
Balance at beginning of year	**411,159,969**	301,957,893
Share in net income	**72,129,314**	109,202,076
Balance at end of year	**483,289,283**	411,159,969
Share in cash flow hedge reserve	**–**	(335,158)
Share in unrealized gain on available-for-sale investments	**–**	25,000
	753,836,072	681,396,600
Disposal	**(753,836,072)**	–
Balance at year end	**₱–**	₱681,396,600

In 2013, TFSPC entered into a cross-currency interest rate swap agreement to hedge the foreign currency and interest rate risks on its foreign loan. As of December 31, 2013, the effective fair value changes on the swaps that were recognized as part of OCI under 'Equity in Cash Flow Hedge Reserve of an Associate' of the Bank amounted to an unrealized loss of ₱0.3 million in 2013. No ineffectiveness was recognized during the fiscal year 2013.

Investment in a Joint Venture
The Bank owns 8,000,000 shares of SMFC representing 40.00% ownership. SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles.

The following table illustrates the summarized financial information of SMFC:

	2014	2013
Current assets	**₱1,619,467,944**	₱1,565,184,683
Non-current assets	**145,678,969**	174,111,665
Current liabilities	**75,001,882**	67,298,173
Non-current liabilities	**18,490,108**	9,968,173
Net assets	**1,671,654,923**	1,662,030,002
Revenues	**378,391,901**	329,252,972
Costs and expenses	**366,325,004**	328,335,262
Net income for the year	**12,066,897**	917,710
Provision for income tax	**41,595,367**	697,132

Movement in this account follows:

	2014	2013
Acquisition cost	**₱800,000,000**	₱800,000,000
Accumulated equity in net losses		
Balance at beginning of year	**(135,254,188)**	(135,322,924)
Share in net income	**4,826,759**	367,084
Balance at end of year	**(130,427,429)**	(134,955,840)
Share in unrealized loss on remeasurement of retirement liability	**(966,038)**	(298,348)
	(131,393,467)	(135,254,188)
	₱668,606,533	₱664,745,812

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of TFSPC and SMFC as of December 31, 2014 and 2013. There are also no agreements entered into by TFSPC and SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

11. Property and Equipment

The composition of and movements in this account follow:

	2014				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,026,931,283**	**₱1,956,227,265**	**₱597,589,277**	**₱4,557,191,501**
Acquisitions	**–**	**60,767,590**	**249,066,190**	**149,105,340**	**458,939,120**
Disposals	**–**	**(38,567,760)**	**(114,737,078)**	**–**	**(153,304,838)**
Balance at end of year	**976,443,676**	**1,049,131,113**	**2,090,556,377**	**746,694,617**	**4,862,825,783**
Accumulated Depreciation					
Balance at beginning of year	**–**	**306,470,310**	**1,502,624,135**	**358,316,652**	**2,167,411,097**
Depreciation	**–**	**32,312,062**	**206,613,113**	**95,605,176**	**334,530,351**
Disposals	**–**	**(27,498,781)**	**(81,124,330)**	**–**	**(108,623,111)**
Balance at end of year	**–**	**311,283,591**	**1,628,112,918**	**453,921,828**	**2,393,318,337**
Net Book Value	**₱976,443,676**	**₱737,847,522**	**₱462,443,459**	**₱292,772,789**	**₱2,469,507,446**

	2013 (As restated)				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱965,804,775	₱971,382,328	₱1,846,292,521	₱513,341,242	₱4,296,820,866
Acquisitions	10,638,901	79,841,998	166,661,999	84,248,035	341,390,933
Disposals	–	(237,755,694)	(56,727,255)	–	(294,482,949)
Reclassifications/transfer	–	213,462,651	–	–	213,462,651
Balance at end of year	976,443,676	1,026,931,283	1,956,227,265	597,589,277	4,557,191,501
Accumulated Depreciation					
Balance at beginning of year	–	290,981,189	1,307,790,253	285,712,034	1,884,483,476
Depreciation	–	36,557,566	221,150,065	72,604,618	330,312,249
Disposals	–	(165,781,327)	(26,316,183)	–	(192,097,510)
Reclassifications/transfer	–	144,712,882	–	–	144,712,882
Balance at end of year	–	306,470,310	1,502,624,135	358,316,652	2,167,411,097
Net Book Value	₱976,443,676	₱720,460,973	₱453,603,130	₱239,272,625	₱2,389,780,404

In 2002, the Bank acquired a piece of property under a condominiumized set-up. It has subsequently established complete legal and effective ownership over the land and its common areas in 2006. The cost of the land was presented as part of building's cost although this has not been depreciated in the Bank's books.

As of December 31, 2014 and 2013, the value of the land was independently reported from the aggregate cost of the building as this was considered a separable asset. The reclassified value of the land, distinct from the building's aggregate cost, amounted to ₱710.1 million.

In 2013, the Bank reclassified units from previously leased out properties to Bank premises amounting to ₱213.5 million (Note 12).

Gain on sale of property and equipment amounted to ₱45.0 million, ₱138.5 million and ₱5.8 million in 2014, 2013 and 2012, respectively.

The details of depreciation under the statements of income follow:

	2014	2013	2012
Property and equipment	**₱334,530,351**	₱330,312,249	₱333,962,197
Investment properties (Note 12)	**68,816,313**	60,291,941	64,715,180
Chattel mortgage properties (Note 14)	**101,282,291**	92,656,330	91,093,519
	₱504,628,955	₱483,260,520	₱489,770,896

As of December 31, 2014 and 2013, property and equipment of the Bank with gross carrying amounts of ₱1.1 billion and ₱0.7 billion, respectively, are fully depreciated but are still being used.

12. Investment Properties

The composition of and movements in this account follow:

	2014		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,446,154,992**	**₱1,714,942,739**	**₱3,161,097,731**
Additions (Note 32)	**304,496,006**	**573,714,584**	**878,210,590**
Disposals	**(261,803,912)**	**(257,826,042)**	**(519,629,954)**
Balance at end of year	**1,488,847,086**	**2,030,831,281**	**3,519,678,367**
Accumulated Depreciation			
Balance at beginning of year	–	**264,943,189**	**264,943,189**
Depreciation (Note 11)	–	**68,816,313**	**68,816,313**
Disposals	–	**(54,320,105)**	**(54,320,105)**
Balance at end of year	–	**279,439,397**	**279,439,397**
Allowance for Impairment Losses			
Balance at beginning of year	**180,779,171**	**125,967,060**	**306,746,231**
Provisions for the year (Note 15)	**423,890**	–	**423,890**
Balance at end of year	**181,203,061**	**125,967,060**	**307,170,121**
Net Book Value	**₱ 1,307,644,025**	**₱ 1,625,424,824**	**₱2,933,068,849**

	2013		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,508,037,942	₱1,751,564,150	₱3,259,602,092
Additions (Note 32)	270,272,251	481,977,191	752,249,442
Disposals	(332,155,201)	(305,135,951)	(637,291,152)
Reclassification	–	(213,462,651)	(213,462,651)
Balance at end of year	1,446,154,992	1,714,942,739	3,161,097,731
Accumulated Depreciation			
Balance at beginning of year	–	395,166,942	395,166,942
Depreciation (Note 11)	–	60,291,941	60,291,941
Disposals	–	(45,802,812)	(45,802,812)
Reclassification	–	(144,712,882)	(144,712,882)
Balance at end of year	–	264,943,189	264,943,189
Allowance for Impairment Losses			
Balance at beginning of year	158,471,002	83,045,276	241,516,278
Provisions for the year (Note 15)	22,308,169	45,000,000	67,308,169
Disposals	–	(2,078,216)	(2,078,216)
Balance at end of year	180,779,171	125,967,060	306,746,231
Net Book Value	₱1,265,375,821	₱1,324,032,490	₱2,589,408,311

The details of the net book value of investment properties follow:

	2014	2013
Real estate properties acquired in settlement of loans and receivables	**₱2,823,595,785**	₱2,467,913,918
Bank premises leased to third parties and held for capital appreciation	**109,473,064**	121,494,393
	₱2,933,068,849	₱2,589,408,311

As of December 31, 2014 and 2013, the aggregate fair value of investment properties amounted to ₱3.4 billion and ₱3.0 billion, respectively.

Gain on foreclosure of investment properties amounted to ₱285.9 million, ₱243.0 million and ₱155.1 million in 2014, 2013 and 2012, respectively. The Bank realized gain on sale of investment properties amounting to ₱12.9 million in 2014, ₱26.8 million in 2013 and a loss on sale amounting to ₱15.1 million in 2012, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱47.8 million, ₱45.0 million and ₱63.5 million in 2014, 2013 and 2012, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense) amounted to ₱11.9 million, ₱9.8 million and ₱10.1 million in 2014, 2013 and 2012, respectively.

13. Goodwill and Intangible Assets

This account consists of:

	2014	2013
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**280,057,951**	207,949,979
Branch licenses	**35,523,737**	31,323,737
	315,581,688	239,273,716
	₱369,140,026	₱292,832,054

The movements in intangible assets follow:

	2014		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱207,949,979**	**₱31,323,737**	**₱239,273,716**
Additions	**154,476,293**	**4,200,000**	**158,676,293**
Amortization	**(82,368,321)**	**–**	**(82,368,321)**
Balance at end of year	**₱280,057,951**	**₱35,523,737**	**₱315,581,688**

	2013		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱147,059,763	₱31,123,737	₱178,183,500
Additions	129,344,501	200,000	129,544,501
Amortization	(68,454,285)	–	(68,454,285)
Balance at end of year	₱207,949,979	₱31,323,737	₱239,273,716

Amortization of software costs in 2012 amounted to ₱57.2 million.

14. **Other Assets**

This account consists of:

	2014	2013
Chattel mortgage properties - net	**₱377,674,410**	₱503,637,099
Prepayments	**179,520,230**	113,065,859
Security deposits (Note 29)	**114,004,619**	97,034,227
RCOCI	**82,866,713**	14,270,316
Sundry debits	**60,380,740**	17,517,652
Documentary stamps on hand	**26,875,404**	27,281,589
Stationeries and supplies on hand	**21,924,014**	16,775,678
Deferred charges	**19,563,815**	12,136,991
Creditable withholding tax	**148,106**	27,666,752
Others	**5,864,898**	6,916,754
	₱888,822,949	₱836,302,917

Prepayments represent prepaid insurance, prepaid rent, prepaid taxes and other prepaid expenses.

The movements in chattel mortgage properties - net follow:

	2014	2013
Cost		
Balance at beginning of year	**₱589,732,311**	₱503,221,482
Additions (Note 32)	**1,286,282,783**	1,025,399,887
Disposals	**(1,436,108,858)**	(938,889,058)
Balance at the end of year	**439,906,236**	589,732,311
Accumulated Depreciation		
Balance at beginning of year	**85,479,122**	68,179,099
Depreciation (Note 11)	**101,282,291**	92,656,330
Disposals	**(125,145,677)**	(75,356,307)
Balance at the end of year	**61,615,736**	85,479,122
Allowance for Impairment Losses		
Balance at beginning and end of year (Note 15)	**616,090**	616,090
Net Book Value	**₱377,674,410**	₱503,637,099

Gain on foreclosure of chattel mortgage properties amounted to ₱392.5 million, ₱343.5 million and ₱334.1 million in 2014, 2013 and 2012, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱75.7 million in 2014, and a gain on sale of ₱35.1 million in 2013 and a loss on sale amounting to ₱21.5 million in 2012.

15. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	2014					
	AFS Investments - Equity Securities					
	Quoted	**Unquoted**	**Loans and Receivables**	**Investment Properties**	**Other Assets**	**Total**
Balance at beginning of year	**₱2,188,665**	**₱43,821,502**	**₱4,802,462,115**	**₱306,746,231**	**₱616,090**	**₱5,155,834,603**
Provision for credit and impairment losses	**–**	**–**	**1,743,397,190**	**423,890**	**–**	**1,743,821,080**
Reversal of allowance on assets sold/settled	**–**	**(43,821,502)**	**(780,105,569)**	**–**	**–**	**(823,927,071)**
Accounts written off	**–**	**–**	**(1,082,671,159)**	**–**	**–**	**(1,082,671,159)**
Balance at end of year	**₱2,188,665**	**₱–**	**₱4,683,082,577**	**₱307,170,121**	**₱616,090**	**₱4,993,057,453**

	2013 (As restated - Note 2)					
	AFS Investments - Equity Securities					
	Quoted	Unquoted	Loans and Receivables	Investment Properties	Other Assets	Total
Balance at beginning of year	₱2,188,665	₱43,821,502	₱5,063,866,121	₱241,516,278	₱616,090	₱5,352,008,656
Provision for credit and impairment losses	–	–	2,581,764,747	67,308,169	–	2,649,072,916
Reversal of allowance on assets sold/settled	–	–	(778,527,761)	(2,078,216)	–	(780,605,977)
Accounts written off	–	–	(2,064,640,992)	–	–	(2,064,640,992)
Balance at end of year	₱2,188,665	₱43,821,502	₱4,802,462,115	₱306,746,231	₱616,090	₱5,155,834,603

A reconciliation of the allowance for credit losses by class of loans and receivables is as follows (in thousands):

	2014									
	Receivables from Customers				Other Receivables					
	Consumption	**Real Estate**	**Commercial**	**Personal**	**Accrued Interest Receivable**	**Accounts Receivable**	**Sales Contract Receivable**	**Unquoted Debt Instruments**	**Bills Purchased**	**Total**
Balance at beginning of year	**₱1,199,440**	**₱761,863**	**₱1,016,652**	**₱914,740**	**₱315,752**	**₱465,382**	**₱29,719**	**₱97,611**	**₱1,303**	**₱4,802,462**
Provisions for the year charged against profit or loss	**791,812**	**40,812**	**516,806**	**275,857**	**105,684**	**8,310**	**4,117**	–	–	**1,743,398**
Reversal of allowance	**(625,190)**	–	–	–	**(50,000)**	**(7,305)**	–	**(97,611)**	–	**(780,106)**
Amounts written off	**(541,896)**	–	–	**(540,775)**	–	–	–	–	–	**(1,082,671)**
Reclassification	–	**(150,000)**	**150,000**	–	–	–	–	–	–	–
Balance at end of year	**₱824,166**	**₱652,675**	**₱1,683,458**	**₱649,822**	**₱371,436**	**₱466,387**	**₱33,836**	**₱–**	**₱1,303**	**₱4,683,083**
Individual impairment	**₱223,786**	**₱585,129**	**₱480,461**	**₱25,655**	**₱157,412**	**₱211,874**	**₱18,888**	**₱–**	**₱–**	**₱1,703,205**
Collective impairment	**600,380**	**67,546**	**1,202,997**	**624,167**	**214,024**	**254,513**	**14,948**	–	**1,303**	**2,979,878**
	₱824,166	**₱652,675**	**₱1,683,458**	**₱649,822**	**₱371,436**	**₱466,387**	**₱33,836**	**₱–**	**₱1,303**	**₱4,683,083**
Gross amount of loans individually impaired, before deducting any individual impairment allowance	**₱335,197**	**₱1,135,546**	**₱760,404**	**₱37,906**	**₱320,221**	**₱211,874**	**₱18,313**	**₱–**	**₱–**	**₱2,819,461**

	2013 (As restated - Note 2)									
	Receivables from Customers				Other Receivables					
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Instruments	Bills Purchased	Total
Balance at beginning of year	₱715,116	₱269,045	₱1,212,053	₱1,930,901	₱347,726	₱465,334	₱26,777	₱95,611	₱1,303	₱5,063,866
Provisions for the year charged against profit or loss	1,362,163	492,818	54,599	430,152	118,026	119,065	2,942	2,000	–	2,581,765
Reversal of allowance	(509,511)	–	–	–	(150,000)	(119,017)	–	–	–	(778,528)
Amounts written off	(618,328)	–	–	(1,446,313)	–	–	–	–	–	(2,064,641)
Reclassification	250,000	–	(250,000)	–	–	–	–	–	–	–
Balance at end of year	₱1,199,440	₱761,863	₱1,016,652	₱914,740	₱315,752	₱465,382	₱29,719	₱97,611	₱1,303	₱4,802,462
Individual impairment	₱617,970	₱708,027	₱539,193	₱78,531	₱158,873	₱180,568	₱18,313	₱95,611	₱–	₱2,397,086
Collective impairment	581,470	53,836	477,459	836,209	156,879	284,814	11,406	2,000	1,303	2,405,376
	₱1,199,440	₱761,863	₱1,016,652	₱914,740	₱315,752	₱465,382	₱29,719	₱97,611	₱1,303	₱4,802,462
Gross amount of loans individually impaired, before deducting any individual impairment allowance	₱617,970	₱1,028,991	₱785,505	₱78,531	₱305,749	₱180,568	₱18,313	₱95,611	₱–	₱3,111,238

16. **Deposit Liabilities**

Interest expense on deposit liabilities consists of:

	2014	2013	2012
Time (Note 29)	**₱1,941,865,601**	₱2,013,767,393	₱2,789,481,681
Demand (Note 29)	**90,918,211**	74,094,382	111,147,863
Savings	**82,848,973**	69,823,836	60,901,472
	₱2,115,632,785	₱2,157,685,611	₱2,961,531,016

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.00% in 2014 and 0.00% to 6.00% in 2013 and 0.00% to 7.00% in 2012, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.50% to 6.00% in 2014, 0.25 to 5.50% in 2013 and 0.25% to 6.00% in 2012. Effective interest rate on deposit liabilities as of December 31, 2014, 2013, and 2012 ranges from 1.69% to 2.32%, 1.78% to 2.93%, and 2.94% to 3.46%, respectively.

As of December 31, 2014, Due from BSP amounting to ₱9.7 billion was set aside as reserves for deposit liabilities, as reported to the BSP.

17. **Subordinated Notes**

This account consists of the following Peso Notes:

			Carrying Value	
	Maturity Date	Face Value	**2014**	2013
2022	February 20, 2022	₱3,000,000,000	**₱2,975,089,454**	₱2,972,366,024
2024	August 23, 2024	3,000,000,000	**2,971,811,867**	–
			₱5,946,901,321	₱2,972,366,024

Unamortized debt issuance costs on these notes amounted to ₱53.1 million and ₱27.6 million as of December 31, 2014 and 2013, respectively.

<u>5.75%, ₱3.0 Billion Unsecured Subordinated Notes</u>

On December 29, 2011, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due 2022 (the Notes) and issued them on February 20, 2012 with an interest rate of 5.75%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.75% per annum from and including February 20, 2012 but excluding February 20, 2022. The interest shall be payable quarterly in arrears at the end of each interest period on every 20th of May, August, November and February of each year, commencing on February 20, 2012 until the maturity date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Issuer and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem the Notes in whole and not only in part at a redemption price equal to 100.00% of the principal amount together with the accrued and unpaid interest upon at least thirty (30) days notice prior to call option date, which is the Banking Day immediately following the fifth anniversary of the issue date of the Notes or February 21, 2017.

e. The Bank may, but is not obliged to, redeem the Notes, in whole but not in part, at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Bank with the Regulations and prevailing requirements for the granting by the BSP of its consent therefor, including (i) the capital adequacy ratio of the Bank is well above the required minimum ratio after redemption; or (ii) the Note is simultaneously replaced, on or prior to the Call Option Date, with issues of new capital which is of the same or of better quality and is done under conditions which are sustainable for the income capacity of the Bank; and (iii) a 30 Banking Day prior written notice to the then Holder on record. Any tax due on interest income already earned by the Holders on the Notes shall be for the account of the Bank.

5.50%, ₱3.0 Billion Unsecured Subordinated Notes

On April 14, 2014, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due August 23, 2024 (the Notes) and issued them on May 23, 2014 with an interest rate of 5.50%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.50% per annum from and including May 23, 2014 to but excluding August 23, 2024. Unless the Notes are earlier redeemed upon at least 30 days prior notice to August 23, 2019, the Call Option Date. Interest shall be payable quarterly in arrears at the end of each Interest Period on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014 until the Maturity Date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Bank and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. The Notes have a loss absorption feature, which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions set out in the "Terms and Conditions of the Notes - Loss Absorption Due to Non-Viability Event; Non-Viability Write-Down", when the Bank or its parent company is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or the inability of the Bank or its parent company to continue business or any other event as determined by the BSP, whichever comes earlier. A non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Bank in writing that it has determined that a: i) Write-Down of the Notes and other capital instruments of the Bank is necessary because, without such Write-Down, the Bank would become non-viable, ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Bank would become non-viable, or iii) Write-Down of the Notes and other capital instruments of the Bank is necessary, because, as a result of the closure of the Bank, the latter has become non-viable;

e. Unless previously converted, and provided a Non-Viability Trigger Event has not occurred and subject to regulations, the Bank shall have the option but not the obligation, upon securing all required regulatory approvals, to redeem the Notes as a whole, but not in part, in the following circumstances: i) at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Issuer with Regulations and prevailing requirements for the granting by the BSP of its consent, ii) prior to the stated maturity and on any Interest Payment Date at par plus accrued but unpaid interest thereon if or when payments or principal or interest due on the Notes become subject to additional or increased taxes, other than any taxes and rates of such taxes prevailing as of the Issue Date, as a result of certain changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank or iii) the non-qualification of the Notes as Tier 2 capital as determined by the BSP. Incremental tax, if any, that may be due on the interest income already earned under the Notes as a result of the exercise by the Bank of its option for early redemption, shall be for its own account.

As of December 31, 2014, the Bank is in compliance with the terms and conditions upon which the subordinated notes have been issued.

Interest expense incurred on these notes amounted to ₱276.6 million, ₱175.3 million and ₱152.9 million in 2014, 2013 and 2012, respectively, net of amortization of deferred financing cost amounting to ₱4.0 million, ₱2.6 million and ₱2.0 million, respectively.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2014	2013
Accrued interest payable	**₱145,380,495**	₱169,518,898
Accrued other taxes, licenses and other payables (Note 29)	**85,661,885**	130,144,785
Accrued other expenses payable (Note 29)	**897,395,740**	800,067,311
	₱1,128,438,120	₱1,099,730,994

Accrued other expenses payable consist of:

	2014	2013
Compensation and fringe benefits	**₱289,360,811**	₱318,441,988
Lease payable	**143,557,837**	127,786,733
Insurance	**126,164,601**	107,787,604
Advertising	**113,504,348**	65,449,497
Litigation	**96,209,686**	33,811,079
Information technology	**35,136,305**	71,882,801
Securities, messengerial and janitorial	**25,359,735**	25,085,591
Professional and consultancy fees	**9,255,822**	9,329,269
Miscellaneous	**58,846,595**	40,492,749
	₱897,395,740	₱800,067,311

Compensation and fringe benefits include salaries and wages as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for membership fees and dues, director's fees, utilities and maintenance and other expenses.

19. **Other Liabilities**

This account consists of:

	2014	2013
Accounts payable (Note 29)	**₱1,429,551,963**	₱1,067,036,467
Net retirement liability (Note 24)	**620,241,085**	429,486,585
Other credits	**439,314,885**	297,084,991
Sundry credits	**100,125,030**	74,504,828
Dividends payable (Note 21)	**176,889,908**	2,330,667
Bills purchased - contra (Note 9)	**82,843,873**	49,669,238
Withholding taxes payable	**57,591,328**	46,107,846
Due to the Treasurer of the Philippines	**10,522,107**	10,859,272
SSS, Medicare, ECP and HDMF premium payable	**8,089,947**	7,065,612
Miscellaneous (Note 29)	**87,547,472**	77,403,267
	₱3,012,717,598	₱2,061,548,773

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱58.2 million and ₱54.7 million as of December 31, 2014 and 2013, respectively.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2014			2013		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱4,174,756**	**₱–**	**₱4,174,756**	₱3,157,499	₱–	₱3,157,499
Due from BSP	**23,997,102**	**–**	**23,997,102**	7,401,657	–	7,401,657
Due from other banks	**3,382,663**	**–**	**3,382,663**	8,491,341	–	8,491,341
Interbank loans receivable and SPURA	**2,186,320**	**–**	**2,186,320**	14,527,000	–	14,527,000
FVPL investments	**278,909**	**–**	**278,909**	184,607	–	184,607
AFS investments - gross (Note 8)	**16,710**	**6,068,796**	**6,085,506**	164,184	5,530,890	5,695,074
HTM investments	**–**	**1,683,128**	**1,683,128**	–	–	–
Loans and receivables - gross (Note 9)	**13,306,924**	**87,854,865**	**101,161,789**	12,542,158	77,191,401	89,733,559
Other assets - gross* (Note 14)	**110,840**	**87,433**	**198,273**	50,198	61,397	111,595
	47,454,224	**95,694,222**	**143,148,446**	46,518,644	82,783,688	129,302,332
Nonfinancial Assets						
Investments in an associate and a joint venture	**–**	**668,607**	**668,607**	–	1,346,142	1,346,142
Property and equipment - gross (Note 11)	**–**	**4,862,826**	**4,862,826**	–	4,557,192	4,557,192
Investment properties - gross (Note 12)	**–**	**3,519,678**	**3,519,678**	–	3,161,098	3,161,098
Deferred tax assets	**–**	**731,937**	**731,937**	–	243,119	243,119
Other assets - gross** (Note 14)	**730,214**	**391,707**	**1,121,921**	710,186	393,450	1,103,636
	730,214	**10,174,755**	**10,904,969**	710,186	9,701,001	10,411,187
Less: Allowance for credit and impairment losses (Note 15)			**4,993,057**			5,155,835
Accumulated depreciation (Notes 11, 12 and 14)			**2,734,373**			2,517,833
Unearned discounts (Note 9)			**718,956**			2,013,976
			8,446,386			9,687,644
	₱48,184,438	**₱105,868,977**	**₱145,607,029**	₱47,228,830	₱92,484,689	₱130,025,875

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.
** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps, chattel mortgage properties, goodwill and intangible assets.

	December 31					
	2014			2013		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱97,569,952**	**₱18,957,802**	**₱116,527,754**	₱90,404,767	₱16,113,737	₱106,518,504
Subordinated notes	**–**	**5,946,901**	**5,946,901**	–	2,972,366	2,972,366
Treasurer's, cashier's and manager's checks	**1,253,782**		**1,253,782**	1,110,517	–	1,110,517
Accrued other expenses payable	**934,077**	**–**	**934,077**	870,651	–	870,651
Accrued interest payable	**145,380**	**–**	**145,380**	169,519	–	169,519
Other liabilities						
Accounts payable	**1,429,552**	**–**	**1,429,552**	1,067,036	–	1,067,036
Other credits	**439,315**	**–**	**439,315**	–	297,085	297,085
Bills purchased - contra	**82,844**	**–**	**82,844**	49,669	–	49,669
Dividends payable	**176,890**	**–**	**176,890**	2,331	–	2,331
Due to the Treasurer of the Philippines	**10,522**	**–**	**10,522**	–	10,859	10,859
Deposits for keys - SDB	**876**	**–**	**876**	902	–	902
Others*	**3,022**	**–**	**3,022**	2,061	–	2,061
	102,046,212	**24,904,703**	**126,950,915**	93,677,453	19,394,047	113,071,500

(Forward)

	December 31					
	2014			2013		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Nonfinancial Liabilities						
Accrued other taxes and licenses payable	**₱48,981**	**₱–**	**₱48,981**	₱59,561	₱–	₱59,561
Income tax payable	**7,135**	**–**	**7,135**	132	–	132
Other liabilities**	**788,007**	**81,689**	**869,696**	557,779	73,827	631,606
	844,123	**81,689**	**925,812**	617,472	73,827	691,299
	₱102,890,335	**₱24,986,392**	**₱127,876,727**	₱94,294,925	₱19,467,874	₱113,762,799

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, withholding taxes, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. Equity

Issued Capital

The Bank's capital stock consists of:

	2014		2013	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	**425,000,000**	**₱4,250,000,000**	425,000,000	₱4,250,000,000
Issued and outstanding				
Balance at beginning and end of year (Note 28)	**240,252,491**	**₱2,402,524,910**	240,252,491	₱2,402,524,910

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2014 and 2013, the total number of stockholders is 1,552 and 1,581, respectively.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
October 27, 2011	0.15	36,037,874	November 23, 2011	December 20, 2011	January 5, 2012
January 24, 2012	0.15	36,037,874	February 09, 2012	March 8, 2012	March 23, 2012
April 27, 2012	0.75	180,189,368	May 15, 2012	June 7, 2012	June 25, 2012
July 23, 2012	0.75	180,189,368	August 13, 2012	September 11, 2012	September 26, 2012
October 23, 2012	0.75	180,189,368	November 21, 2012	December 27, 2012	January 14, 2013
January 22, 2013	0.75	180,189,368	February 8, 2013	March 5, 2013	March 20, 2013
April 19, 2013	0.75	180,189,368	May 28, 2013	June 18, 2013	July 3, 2013
July 18, 2013	0.75	180,189,368	August 8, 2013	September 4, 2013	September 19, 2013
October 22, 2013	0.75	180,189,368	November 12, 2013	November 29, 2013	December 16, 2013
October 22, 2013	3.00	720,757,473	November 12, 2013	November 29, 2013	December 16, 2013
January 24, 2014	0.75	180,189,368	February 12, 2014	March 5, 2014	March 20, 2014
April 28, 2014	0.75	180,189,368	June 6, 2014	July 1, 2014	July 16, 2014
July 22, 2014	0.75	180,189,368	August 12, 2014	September 2, 2014	September 17, 2014
October 30, 2014	0.75	180,189,368	November 27, 2014	January 12, 2015	January 30, 2015

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of an associate and joint venture which amounted ₱411.1million in 2013 is not available for dividend declaration (Note 10). The accumulated equity in net income of investment in associate becomes available for dividend declaration upon receipt of cash dividends from the investees.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- On March 2, 2005, the Bank's BOD approved an amendment to the Bank's Dividend Policy which provides for an annual regular cash dividend of 6.00% of the par value of the total capital stock payable quarterly at the rate of 1.50% or ₱0.15 per share payable not later than March 31, June 30, September 30 and December 31 of each year.
- On February 29, 2012, the Bank's BOD approved a further amendment to the Bank's Dividend Policy to provide for an annual regular cash dividend of 30.00% of the par value of the total capital stock, payable quarterly at the rate of 7.50% or ₱0.75 per share payable not later than March 31, June 30, September 30 and December 31 of each year.
- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos.709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital. The Bank's unsecured subordinated debt will still be eligible as Lower Tier 2 capital until December 31, 2015.

Prior to January 1, 2014, the risk-based capital ratio is computed in accordance with BSP Circular No. 538 or Basel II.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2014	2013
Tier 1 capital	**₱16,869**	₱15,292
Tier 2 capital	**6,851**	3,799
Gross qualifying capital	**23,720**	19,091
Less required deductions	**2,268**	2,072
Total qualifying capital	**21,452**	₱17,019
Risk weighted assets	**₱109,635**	₱100,592
Tier 1 capital adequacy ratio	**13.32%**	13.81%
Capital adequacy ratio	**19.57%**	16.92%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, and cumulative translation adjustment. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred income tax (net of allowance for impairment, if any) and goodwill. In 2013, deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital in accordance with Basel II standards.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2014 and 2013, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538, respectively.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the parent company. Per BSP Circular 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement. The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2014	2013	2012
Return on average equity	**13.64%**	18.72%	14.89%
Return on average assets	**1.68%**	2.38%	1.92%
Net interest margin on average earning assets	**6.58%**	5.88%	5.19%
Liquidity ratio	**46.83%**	51.68%	41.66%
Debt-to-Equity ratio	**7.21:1**	7.00:1	6.73:1
Asset-to-Equity ratio	**8.21:1**	8.00:1	7.73:1
Interest rate coverage ratio	**1.96:1**	2.76:1	1.91:1

22. Net Service Fees and Commission Income

This account consists of:

	2014	2013	2012
Service Fees and Commission Income			
Credit-related fees and commissions	**₱655,161,584**	₱574,481,667	₱499,327,319
Deposit-related and other fees received	**484,105,336**	453,337,245	428,578,828
Trust fees	**12,552,005**	12,576,165	10,963,734
	1,151,818,925	1,040,395,077	938,869,881
Service Fees and Commission Expense			
Commissions	**67,740,038**	71,798,311	49,564,765
Brokerage	**6,188,482**	6,038,309	10,680,792
	73,928,520	77,836,620	60,245,557
Net Service Fees and Commission Income	**₱1,077,890,405**	₱962,558,457	₱878,624,324

23. Miscellaneous Income

This account consists of:

	2014	2013	2012
Recovery of charged-off assets	**₱196,461,347**	₱83,783,149	₱29,240,811
Rental income (Notes 12 and 25)	**49,595,665**	46,878,019	65,555,333
Insurance commission income	**37,701,172**	31,097,664	27,612,017
Others	**59,809,434**	19,512,268	20,542,040
	₱343,567,618	₱181,271,100	₱142,950,201

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, checkbook charges, dividend income and other miscellaneous income.

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the Board of Directors of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determine the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2014.

The amounts of pension expense included in ‘Compensation and fringe benefits’ in the statements of income follow:

	2014	2013
Current service cost	**₱163,091,877**	₱126,765,030
Net interest cost	**16,279,570**	12,851,408
	₱179,371,447	₱139,616,438

The net retirement liability shown under 'Other liabilities' recognized in the Bank's statements of condition follows (in thousands):

	2014										
		Net benefit cost				**Remeasurements in other comprehensive income**					
	January 1, 2014	**Current service cost**	**Net Interest**	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31, 2014**
Present value of defined benefit obligation	**₱1,498,646**	**₱163,092**	**₱70,555**	**₱233,647**	**(₱64,375)**	**₱–**	**₱114,334**	**(₱114,057)**	**₱277**	**₱–**	**₱1,668,195**
Fair value of plan assets	**(1,069,160)**	**–**	**(54,275)**	**(54,275)**	**64,375**	**190,846**	**–**	**–**	**190,846**	**(179,740)**	**(1,047,954)**
Net defined benefit liability	**₱429,486**	**₱163,092**	**₱16,280**	**₱179,372**	**₱–**	**₱190,846**	**₱114,334**	**(₱114,057)**	**₱191,123**	**(₱179,740)**	**₱620,241**

	2013										
		Net benefit cost				Remeasurements in other comprehensive income					
	January 1, 2013	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2013
Present value of defined benefit obligation	₱1,157,211	₱126,765	₱60,114	₱186,879	(₱113,021)	₱–	₱44,411	₱223,167	₱267,578	₱–	₱1,498,647
Fair value of plan assets	(900,155)	–	(47,263)	(47,263)	113,007	(134,749)	–	–	(134,749)	(100,000)	(1,069,160)
Net defined benefit liability	₱257,056	₱126,765	₱12,851	₱139,616	(₱14)	(₱134,749)	₱44,411	₱223,167	₱132,829	(₱100,000)	₱429,487

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱191.1 million to its noncontributory defined benefit plan in 2015.

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	2014	2013
Cash and cash equivalents		
Special deposit account	**₱231,000,000**	₱115,000,000
Certificate of time deposit (Note 29)	**8,663,348**	25,537,612
Equity investments		
Bank's shares (Note 29)	**491,205,802**	636,360,070
SMFC shares (Note 29)	**200,000,000**	200,000,000
Shares of other listed companies	**43,151,287**	92,353,718
Other assets		
Unit Investment Trust Fund	**74,455,986**	–
Receivable from broker	**–**	795,232
Accrued interest receivable (Note 29)	**348,528**	54,396
	1,048,824,951	1,070,101,028
Other liabilities	**871,113**	941,240
	₱1,047,953,838	₱1,069,159,788

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank (Note 29).

The principal actuarial assumptions used in determining retirement liability as of January 1, 2014 and 2013 are shown below:

	2014	2013
Discount rate	**4.55%**	4.86%
Turnover rate	**8.27%**	8.36%
Future salary increases	**8.00%**	9.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2014		December 31, 2013	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(159,038,866)**	+1.00%	(₱150,344,477)
	-1.00%	**185,889,199**	-1.00%	176,485,485
Turnover rate	**+2.00%**	**(125,489,096)**	+1.00%	(68,233,229)
	-2.00%	**153,910,909**	-1.00%	70,083,863
Future salary increase rate	**+1.00%**	**174,659,727**	+1.00%	164,164,654
	-1.00%	**(153,288,859)**	-1.00%	(143,572,611)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2014	2013
Less than one year	**₱124,182,196**	₱119,166,944
More than one year to five years	**585,955,382**	495,234,564
More than five years to 10 years	**1,259,480,497**	1,141,975,503
More than 10 years to 15 years	**1,912,529,956**	1,878,961,153
More than 15 years to 20 years	**1,794,046,936**	1,944,652,713
More than 20 years	**3,450,698,068**	3,813,253,946

25. **Leases**

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rentals charged against profit or loss under these lease contracts amounting to ₱463.6 million in 2014, ₱397.1 million in 2013 and ₱390.9 million in 2012 are shown under 'Occupancy and equipment-related costs' in the statements of income.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2014	2013
Within one year	**₱342,865,740**	₱279,880,296
After one year but not more than five years	**1,051,856,637**	776,358,893
More than five years	**753,111,605**	522,367,070
	₱2,147,833,982	₱1,578,606,259

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2014 and 2013, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱47.8 million in 2014, ₱45.0 million in 2013, and ₱63.5 million in 2012 are shown under 'Miscellaneous income' in the statements of income.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2014	2013
Within one year	**₱49,923,757**	₱20,408,527
After one year but not more than five years	**136,879,646**	7,958,099
	₱186,803,403	₱28,366,626

26. **Miscellaneous Expenses**

This account consists of:

	2014	2013	2012
Insurance	**₱410,805,829**	₱264,634,335	₱245,939,520
Information technology	**199,435,470**	220,459,184	141,565,324
Repairs and maintenance	**187,608,093**	98,794,593	84,755,492
Litigation	**187,421,071**	177,360,033	154,395,978
Communications	**168,180,967**	139,105,183	114,799,829
Advertising	**153,730,772**	159,206,964	116,906,856
Transportation and traveling	**107,908,124**	94,395,679	84,366,717
Stationery and supplies	**71,125,041**	66,536,407	55,293,344
Supervision and examination fees	**32,700,683**	36,687,158	31,925,841
Management and professional fees	**26,569,891**	29,283,846	37,795,726
Fines, penalties and other charges	**25,584,443**	93,456,025	13,183,640
Donations and charitable contributions	**12,072,600**	21,358,243	12,747,490
Banking activities expenses	**10,374,008**	6,891,511	15,899,826
Training and seminars	**8,578,641**	4,762,788	4,406,740
Membership fees and dues	**5,384,549**	11,812,780	10,313,380
Rewards and incentives	**4,249,634**	7,788,534	2,407,329
Meeting allowance	**3,316,271**	2,990,424	2,351,637
Entertainment, amusement and recreation (EAR) (Note 27)	**2,621,330**	1,441,308	1,866,721
Others	**28,916,736**	21,943,382	22,225,790
	₱1,646,584,153	₱1,458,908,377	₱1,153,147,180

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱233.8 million, ₱196.4 million, ₱186.6 million and in 2014, 2013 and 2012, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also include payments to union members amounting to ₱9.9 million in 2014, and ₱9.3 million in 2013 and ₱8.9 million in 2012, for the successful completion of the collective bargaining agreement.

27. **Income and Other Taxes**

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2014 and 2013.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU, and further allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for (benefit from) income tax consists of:

	2014	2013	2012
Current:			
Final tax	**₱218,057,871**	₱190,973,012	₱273,076,804
RCIT	**190,814,945**	167,700,706	155,753,975
MCIT	**75,447**	–	–
	408,948,263	358,673,718	428,830,779
Deferred	**(431,481,389)**	821,500,247	116,501,297
	(₱22,533,126)	₱1,180,173,965	₱545,332,076

The Bank's FCDU paid MCIT in 2014.

Net deferred tax assets consist of:

	2014	2013
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱821,821,970**	₱349,349,619
Net pension liability	**186,072,325**	128,845,976
Accumulated depreciation on investment properties	**72,423,344**	63,162,431
Accrued rent	**43,067,351**	38,336,020
Unamortized pension cost contribution	**2,561,766**	5,679,943
	1,125,946,756	585,373,989

(Forward)

	2014	2013
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(₱284,742,610)**	(₱247,613,399)
Accretion of interest on impaired loans	**(93,470,653)**	(84,227,313)
Unrealized foreign exchange gains	**(15,796,024)**	(10,414,030)
	(394,009,287)	(342,254,742)
	₱731,937,469	₱243,119,247

As of December 31, 2014 and 2013, the Bank did not recognize deferred tax assets on allowance for credit losses, other accrued expenses and excess of MCIT over RCIT amounting to ₱0.7 billion and ₱1.2 billion, respectively. Income tax effect recognized in OCI amounted to ₱57.3 million, ₱39.8 million and ₱3.6 million in 2014, 2013 and 2012, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2014	2013	2012
Statutory income tax	**₱688,843**	₱1,232,599	₱845,975
Tax effect of:			
FCDU income	**54,700**	(6,718)	(76,620)
Tax-paid and tax-exempt income	**(731,727)**	(1,287,110)	(867,385)
Nondeductible expenses	**470,714**	440,495	328,863
Changes in deferred income taxes	**(505,063)**	800,908	314,499
Effective income tax	**(₱22,533)**	₱1,180,174	₱545,332

28. **Earnings Per Share**

The following table presents information used to calculate basic EPS:

	2014	2013	2012
a. Net income	**₱2,318,676,615**	₱2,928,488,808	₱2,274,583,889
b. Weighted average number of common shares for basic EPS (Note 21)	**240,252,491**	240,252,491	240,252,491
c. Basic/Diluted EPS (a/b)	**₱9.65**	₱12.19	₱9.47

As of December 31, 2014, 2013 and 2012, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family member;
- significant investor or parent company,
- joint venture, associate and post-employment benefit plan for the benefit of the Bank's employees, and
- affiliates or other related parties, which are associates, subsidiaries, and joint ventures of the parent company.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectibility or present other unfavorable conditions.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust and Investment Division of the Bank. The total carrying amount and fair value of the retirement fund as of December 31, 2014 and 2013 amounted to ₱1.0 billion and ₱1.1 billion, respectively. The details of the assets of the fund as of December 31, 2014 and 2013 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank and SMFC with the retirement plan of the employees of the Bank as of December 31, 2014 and 2013:

		2014	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Equity investment*	**₱491,205,802**	
	Investment in Money Market Fund**	**74,455,986**	
	Deposit liabilities***	**8,663,348**	
	Accrued interest income	**6,738**	
	Dividends earned		**₱10,507,643**
	Gain on sale of equity securities		**6,541,334**
	Interest income		**382,35**
	Income from Unit Investment Trust Fund (UITF)		**155,041**
Sumisho Motor Finance Corporation	Equity investment	**200,000,000**	

*Includes fair value gains of ₱279.2 million
**Includes fair value gains of ₱0.6 million
***Represent 30 days time deposits and bear interest of 2.00%

		2013	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Equity investment*	₱636,360,070	
	Time deposits**	25,537,612	
	Accrued interest income	2,840	
	Dividends earned		₱33,387,572
	Gain on sale of equity securities		50,095,400
	Interest income		65,513
Sumisho Motor Finance Corporation	Equity investment	200,000,000	

*Includes fair value gains of ₱421.1 million
**Represent 6 to 7 day time deposits and bear interest of 1.00%

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

The Trust Division did not provide any allowance for impairment losses on investments managed for the Bank's retirement fund in 2014 and 2013.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2014	2013
Short-term employee benefits	**₱203,553,036**	₱197,100,931
Post-employment pension benefits	**5,100,084**	41,273,818
	₱208,653,120	₱238,374,749

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱16.3 million, ₱13.0 million, and ₱12.9 million in 2014, 2013 and 2012, respectively.

The Bank also provides banking services to Directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	December 31, 2014		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable		**₱1,386,320**	Peso-denominated lending secured by government securities amounting to ₱1.8 billion, with fixed interest rates ranging from 2.00% to 2.50% and maturities ranging from 1 to 360 days
Deposits/placements	**₱143,386,320**		
Withdrawals/maturities	**142,000,000**		
Due from other banks	**(206,746)**	**815,107**	Secured - ₱815,107 On demand Short-term peso and foreign currency-denominated deposits with fixed rates ranging from 0.00% to 2.50%
Accounts receivable	**679**	**7,704**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Bills payable		**–**	Peso-denominated borrowing with fixed interest rates ranging from 2.00% to 2.50% and maturities ranging from 1 day to 5 days
Deposits/placements	**5,800,000**		
Withdrawals/maturities	**5,800,000**		
Accrued interest receivable		**14,390**	Accrual of interest on outstanding Interbank Loans Receivable
Miscellaneous assets		**919**	Security deposits on lease contracts
Accounts payable		**1,733**	Unpaid association dues and lease contract payable
Miscellaneous liabilities		**6,100**	Advance payments of security deposits from various tenants
Accrued other expense payable		**116,302**	Outstanding information technology expense payable, charges on current and savings accounts processing
Guarantees and commitments		**–**	Letter of guarantee for various loan take-out
AFS investments		**50,000**	Pledge for security of payroll account with MBTC
Interest income	**28,307**		Income from deposits and interbank loans receivables
Rental income	**24,919**		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Information technology expense	**108,956**		Payment of information technology transactions
Trading gain	**(44,209)**		Income from securities transactions
Interest expense	**407**		Interest expense on bills payable
Securities transactions			
Outright purchases	**1,869,342**		Outright purchase of FVPL and AFS investments
Outright sales	**3,700,000**		Outright sale of FVPL and AFS investments
Associate			
Deposit liabilities	**560**	**2,735**	Demand deposits with annual fixed rate of 1.25%
Share in net income of an associate	**72,129**		25.00% share in net income of TFSPC
Interest expense	**32**		Interest on deposit liabilities

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2014		
Joint Venture			
Investment in a joint venture		**₱668,607**	Outstanding balance of capital investment in SMFC
Accounts receivable		**46**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**(₱174,934)**	**79,528**	Demand and short term peso time-deposits with annual fixed rates ranging from 1.00% to 3.65%
Miscellaneous liabilities		**2,610**	Advance payment of security deposits
Rental income	**9,790**		Income from leasing agreements
Share in net income of a joint venture	**4,827**		40.00% share in net income of SMFC
Interest expense	**2,585**		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending with 2.00% to 2.50% fixed interest rate and with maturities ranging from 1 to 4 days
Deposits/placements	**46,694,000**		
Withdrawals/maturities	**46,694,000**		
Receivable from customers		**403,064**	Loans granted bearing an interest ranging from 7.00% to 10.00% with maturities ranging from 1 to 8 years; no impairment
Deposits/placements	**4,200**		
Withdrawals/maturities	**54,479**		Secured - ₱403,063,861; impaired - ₱395,877,638
Miscellaneous assets		**993**	3 months advance security deposits
Accounts receivable	**3,742**	**3,300**	Outstanding rental and utility receivables, non-interest bearing
Prepaid insurance		**6,904**	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Prepaid expense		**13**	Payment for various policy renewals
Deposit liabilities	**5,847,793**	**5,851,387**	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.40%
Bills payable		–	Peso denominated borrowing with 2.00%-2.50% fixed interest rates and maturities ranging from 1 to 5 days
Deposits/placements	**55,920,000**		
Withdrawals/maturities	**55,920,000**		
Accrued other expense payable		**5,165**	Outstanding group life insurance payable
Accounts payable		**130**	Various personal and car insurance payable
Miscellaneous liabilities		**2,107**	Advance payment of security deposits from various tenants
Interest income	**4,620**		Income on receivables from customers and interbank loans receivables
Trading and securities loss	**(6,627)**		Loss from securities transactions
Rental income	**8,946**		Income from leasing agreements with various lease terms
Gain on sale of investment in an associate	**558,163**		Profit on sale of investment in associate
Bank commission	**35,798**		Commission income on ATM service fees
Insurance expense	**37,172**		Payment of insurance premium
Interest expense	**95,846**		Interest on deposit liabilities and bills payable
Rent expense	**3,366**		Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**1,031,278**		Outright purchase of FVPL and AFS investments
Outright sales	**1,894,720**		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		**11,690**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	**2,370**		
Withdrawals/maturities	**5,032**		
Interest income	**913**		Interest income from loans

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2013		
Significant Investor			
Interbank loans receivable		₱–	Peso-denominated lending with fixed interest rates ranging from 2.00% to 3.25% and maturities ranging from 4 to 6 days
Deposits/placements	₱74,880,000		
Withdrawals/maturities	74,880,000		
Due from other banks	187,608	1,021,853	Secured - ₱1,021,853 Short-term peso and foreign currency-denominated deposits with fixed rates ranging from 0.00% to 2.50%
Accounts receivable	4,080	7,025	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Prepaid expense		235	Payment for acquisition of SCA-2 device (HP) with 3 smart cards
Miscellaneous assets		710	Security deposits on lease contracts
Accounts payable		2,261	Unpaid association dues and lease contract payable
Miscellaneous liabilities		6,100	Advance payments of security deposits from various tenants
Accrued other expense payable		71,883	Outstanding information technology expense payable, charges on current and savings accounts processing
Guarantees and commitments	10,005		Letter of guarantee for various loan take-out
AFS investments		50,000	Pledge for security of payroll account with MBTC
Interest income	10,301		Income from deposits and interbank loans receivables
Rental income	23,052		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Information technology expense	148,103		Payment of information technology transactions
Trading and securities gain	50,841		Income from securities transactions
Interest expense	2,156		Interest expense on deposit liabilities
Securities transactions			
Outright purchases	1,500,000		Outright purchase of FVPL and AFS investments
Outright sales	3,048,120		Outright sale of FVPL and AFS investments
Associate			
Investment in an associate		681,397	Outstanding balance of capital investment in TFSPC
Deposit liabilities	(134)	2,175	Demand deposits with annual fixed rate of 1.25%
Share in net income of an associate	109,202		25.00% Share in net income of TFSPC
Interest expense	33		Interest on deposit liabilities
Joint Venture			
Investment in a joint venture		664,746	Outstanding balance of capital investment in SMFC
Accounts receivable	(127)	1,051	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	(457,771)	254,462	Demand and short term peso time-deposits with annual fixed rates ranging from 1.00% to 3.65%
Miscellaneous liabilities		2,610	Advance payment of security deposits
Rental income	9,605		Income from leasing agreements
Share in net income of a joint venture	367		40.00% share in net income of SMFC
Interest expense	15,142		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending with fixed interest rates ranging from 2.00% to 3.63% with maturities ranging from 1 to 3 days
Deposits/placements	28,085,000		
Withdrawals/maturities	28,585,000		
Receivable from customers		453,343	Loans granted bearing an interest ranging from 9.00% to 11.70% with maturities ranging from 1 to 8 years; no impairment
Deposits/placements	6,295		
Withdrawals/maturities	54,280		Secured - ₱368,847; unsecured - ₱84,496; impaired - ₱268,273
Miscellaneous assets		925	3 months advance security deposits
Accounts receivable	(47)	1,242	Outstanding rental and utility receivables, non-interest bearing
Prepaid expense		7,219	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Deposit liabilities	2,365,121	3,593,455	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 3.68%
Accrued other expense payable		3,579	Outstanding group life insurance payable
Accounts payable		207	Various personal and car insurance payable
Miscellaneous liabilities		1,020	Advance payment of security deposits from various tenants
Interest income	55,970		Income on receivables from customers and interbank loans receivables

(Forward)

	December 31, 2013		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Rental income	₱6,245		Income from leasing agreements with various lease terms
Gain on sale of property and equipment	33,798		Gain on sale of Bank-owned properties
Bank commission	6,139		Commission income on ATM service fees
Insurance expense	37,659		Payment of insurance premium
Interest expense	91,888		Interest on deposit liabilities
Securities transactions			
Outright purchases	480,000		Outright purchase of FVPL and AFS investments
Outright sales	600,000		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		₱14,352	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	4,373		
Withdrawals/maturities	6,248		
Interest income	1,170		Interest income from loans

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. In January 13, 2013, BSP Circular No. 785 was issued to exclude loans guaranteed by international financial institutions or multilateral agencies from being covered by DOSRI limits.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2014 and 2013:

	2014	2013
Total outstanding DOSRI accounts	**₱2,802,720,372**	₱1,709,337,946
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**2.82%**	1.95%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**7.13%**	15.90%
Percent of past due DOSRI accounts to total DOSRI accounts	**14.12%**	26.32%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**14.12%**	26.32%

As of December 31, 2014 and 2013, the Bank has no loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of the said circular until said circular or said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income from DOSRI loans amounted to ₱49.5 million, ₱53.2 million, ₱55.4 million in 2014, 2013 and 2012, respectively.

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

In connection with the trust functions of the Bank, government securities (classified under AFS investments) with face value of ₱40.0 million as of December 31, 2014 and 2013 are deposited with the BSP in compliance with trust regulations.

For 2014 and 2013, the Bank did not appropriate any surplus reserve resulting from the operations of the Bank's Trust Department since it is still in a net loss position. No part of such surplus reserve shall at any time be paid out in dividends, but losses accruing in the course of its trust business may be charged against surplus.

31. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2014	2013
Trust department accounts (Note 30)	**₱1,751,995,244**	₱1,183,684,353
Stand-by credit lines	**78,623,503**	73,413,399
Late deposits/payments received	**70,408,879**	63,998,571
Items held for safekeeping	**309,487**	260,102
Others	**29,407**	26,095

Also, several suits and claims, in behalf or against the Bank in relation to its lending operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. Notes to Statements of Cashflows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2014	2013	2012
Additions to investment properties in settlement of loans (Note 12)	**₱878,210,590**	₱752,249,442	₱491,398,630
Additions to chattel mortgage in settlement of loans (Note 14)	**1,286,282,783**	1,025,399,887	840,698,632
Transfers from investment property to property and equipment (Notes 11 and 12)	**–**	68,749,769	–
Change in net unrealized gain on AFS investments (Note 8)	**4,310,948**	(183,863,692)	(2,193,594,598)
Dividends declared and unpaid (Note 21)	**176,889,908**	2,330,667	176,673,172
Cumulative translation adjustment	**(407,034)**	12,735,179	(6,006,080)

Interbank loans receivables not considered as cash and cash equivalents amounted to ₱1.4 billion (Note 29).

33. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2014

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria [d]**		**Net exposure [c-d] [e]**
				Financial instruments	**Fair value of financial collateral**	
Interbank loans receivable	**₱1,386,320,000**	**₱–**	**₱1,386,320,000**	**₱–**	**₱1,819,281,519**	**₱–**
Securities Purchased Under Resale Agreements (SPURA)	**800,000,000**	**–**	**800,000,000**	**–**	**1,103,900,000**	**–**

December 31, 2013

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria [d]		Net exposure [c-d] [e]
				Financial instruments	Fair value of financial collateral	
Securities Purchased Under Resale Agreements (SPURA)	₱14,527,000,000	₱–	₱14,527,000,000	₱–	₱15,674,388,764	₱–

34. Subsequent Events

On January 22, 2015, the BOD of the Bank declared a 7.50% regular cash dividend for the fourth quarter of 2014 amounting to ₱180.19 million or ₱0.75 per share. This is pending approval from the BSP.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements were reviewed by the Bank's Audit Committee on February 23, 2015 and approved for release by the BOD on February 26, 2015.

36. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2014, taxes and licenses of the Bank consist of:

Gross receipts tax	₱528,106,306
Documentary stamps tax	363,060,208
Local taxes	166,494,955
Fringe benefit tax	3,635,549
Others	296,702
	₱1,061,593,720

Withholding Taxes
Details of total remittances of withholding taxes as of December 31, 2014 are as follows:

Withholding taxes on compensation and benefits	₱408,675,406
Final withholding taxes	269,885,301
Expanded withholding taxes	89,087,445
	₱767,648,152

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner Sedeño Street
Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Philippine Savings Bank (the Bank) as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form 17-A, and have issued our report thereon dated February 26, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751290, January 5, 2015, Makati City

February 26, 2015

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2014

Unappropriated Retained Earnings, beginning	₱	**10,205,364,827**
Prior year adjustments		
Less: Non-accrual/unrealized income net of tax		
Equity in net income of an associate		(411,527,053)
Unrealized foreign exchange gains – net		(34,713,433)
Other unrealized gains or adjustments to the retained earningsas a result of certain transactions accounted for under the PFRS		(1,121,478,435)
Unappropriated Retained Earnings, as adjusted to availablefor dividend distribution, beginning		**8,637,645,906**
Net Income during the period closed to Retained Earnings		2,318,676,615
Less: Non-accrual/unrealized income net of tax		
Equity in net income of an associate and a joint venture		(53,869,251)
Unrealized foreign exchange gains - net		(36,857,391)
Recognized deferred tax assets - net		(431,481,389)
Other unrealized gains - gain on foreclosure of investment properties		(200,141,000)
		(722,349,031)
Net income actually earned during the period		**1,596,327,584**
Less:		
Dividend declarations during the period		(720,757,473)
Reversal of equity share in net income of an associate		462,017,572
		(258,739,901)
Retained earnings available for dividend distribution	₱	**9,975,233,589**

Note: The computation of surplus available for dividend declaration in accordance with Securities and Exchange Commission (SEC) Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BangkoSentral ng Pilipinas (BSP) guidelines.

Even after the regular dividend declaration, The Bank's Capital Aqequacy Ratio (CAR) is still above the minimum 10% requirement.

PHILIPPINE SAVINGS BANK

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Framework for the Preparation and Presentation of Financial Statements					
Conceptual Framework Phase A: Objectives and qualitative Characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓	
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓	
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓	
PFRS 2	Share Based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
	Amendment to PFRS 2: Definition of Vesting Condition			✓	
PFRS 3 (Revised)	Business Combinations			✓	
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓	
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓	
PFRS 4	Insurance Contracts			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓	
	Amendment to PFRS 5: Changes in methods of disposal				✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓			
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓			
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9				✓
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	
PFRS 8	Operating Segments	✓			
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓	
	Amendment to PFRS 8: Aggregation of segments, reconciliation of the total of the reportable segments' assets to the entity's assets			✓	
PFRS 9	Financial Instruments	✓			
	Financial Instruments: Classification and Measurement of Financial Assets				✓
	Financial Instruments: Classification and Measurement of Financial Liabilities				✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Reissue to incorporate a hedge accounting chapter and permit early application of the requirements for presenting in other comprehensive income the "own credit" gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9				✓
	Financial Instruments (final version), incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition				✓
PFRS 10	Consolidated Financial Statements			✓	
	Amendments to PFRS 10: Transition Guidance			✓	
	Amendments to PFRS 10: Investment Entities			✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture				✓
PFRS 11	Joint Arrangements	✓			
	Amendments to PFRS 11: Transition Guidance	✓			
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations				✓

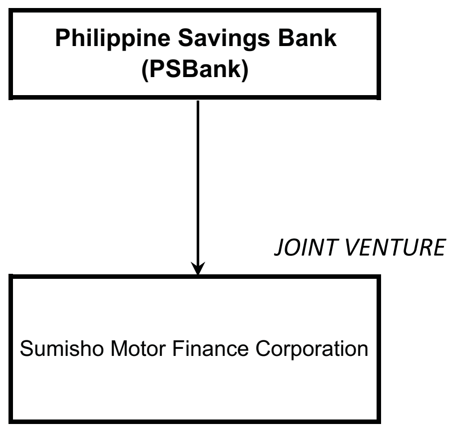
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 12	Disclosure of Interest in Other Entities	✓			
	Amendments to PFRS 12: Transition Guidance	✓			
	Amendments to PFRS 12: Investment Entities				✓
PFRS 13	Fair Value Measurements	✓			
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment to PFRS 13: Portfolio Exception			✓	
PFRS 14	Regulatory Deferral Accounts			✓	
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosure	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓			
PAS 2	Inventories			✓	
PAS 7	Statement of Cash Flows	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Reporting Period	✓			
PAS 11	Construction Contracts			✓	
PAS 12	Income Taxes	✓			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓	
PAS 16	Property, Plant and Equipment	✓			
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization				✓
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
PAS 17	Leases	✓			
PAS 18	Revenue	✓			
PAS 19	Employee Benefits	✓			
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓			
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution				✓
	Amendments to PAS 19: Discount Rate: Regional Market Issue			✓	
PAS 19 (Amended)	Employee Benefits	✓			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation			✓	
PAS 23 (Revised)	Borrowing Costs			✓	
PAS 24 (Revised)	Related Party Disclosures	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓			
PAS 27	Consolidated and Separate Financial Statements			✓	
PAS 27 (Amended)	Separate Financial Statements	✓			
	Amendments for investment entities	✓			
	Amendments to PAS 27: Equity Method in Separate Financial Statements				✓
PAS 28	Investments in Associates and Joint Ventures	✓			
PAS 28 (Amended)	Investments in Associates	✓			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 31	Interests in Joint Ventures	✓			
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendment to PAS 32: Classification of Rights Issues			✓	
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓			
PAS 33	Earnings per Share	✓			
PAS 34	Interim Financial Reporting	✓			
	Amendment to PAS 34: Disclosure of information ‘Elsewhere in the Interim financial report’				✓
PAS 36	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets				✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
	Amendments to PAS 38 : Proportionate Restatement of Accumulated Depreciation on Revaluation				✓
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization				✓
PAS 39	Financial Instruments: Recognition and Measurement	✓			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial	✓			

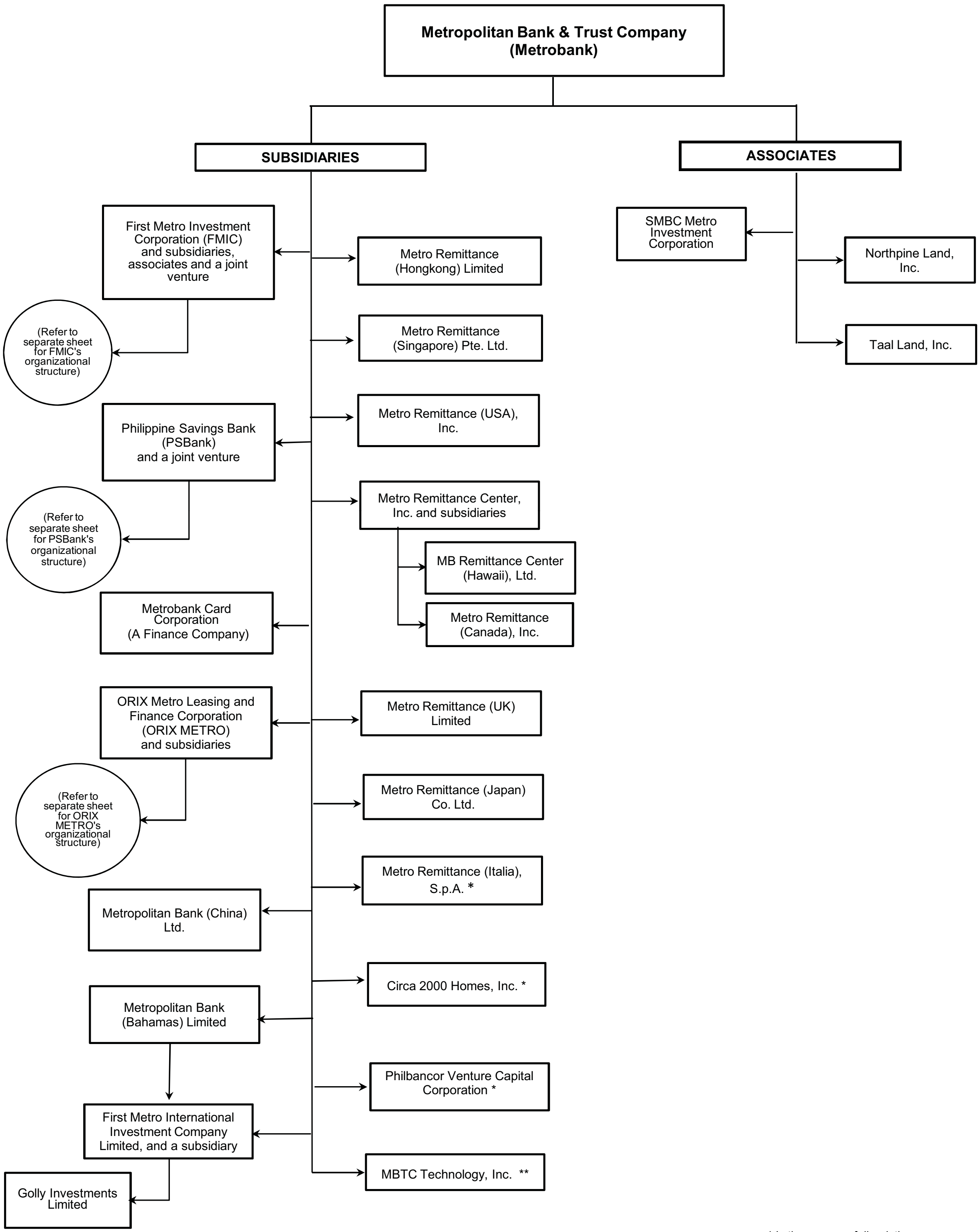
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Liabilities				
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transaction			✓	
	Amendments to PAS 39: The Fair Value Option			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓			
	Amendment to PAS 39: Eligible Hedged Items			✓	
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting				✓
PAS 40	Investment Property	✓			
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property				✓
PAS 41	Agriculture			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants				
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓			
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 8	Scope of PFRS 2			✓	
IFRIC 9	Reassessment of Embedded Derivatives	✓			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓			
IFRIC 10	Interim Financial Reporting and Impairment	✓			
IFRIC 11	PFRS 2- Group and Treasury Share Transactions(Replaced by amendments to PFRS 2)			✓	
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable	Not Early Adopted
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓			
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement	✓			
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓	
IFRIC 17	Distributions of Non-cash Assets to Owners			✓	
IFRIC 18	Transfers of Assets from Customers			✓	
IFRIC 19	Extinguishing Financial Liabilities with Equity Investment			✓	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies			✓	
SIC - 7	Introduction of the Euro			✓	
SIC - 10	Government Assistance - No Specific Relation to Operating Activities			✓	
SIC - 12	Consolidation - Special Purpose Entities			✓	
	Amendment to SIC - 12: Scope of SIC 12			✓	
SIC - 13	Jointly Controlled Entities - Non Monetary Contributions by Venturers			✓	
SIC - 15	Operating Leases - Incentives			✓	
SIC - 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓	
SIC - 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓			
SIC - 29	Service Concession Arrangements: Disclosures			✓	
SIC - 31	Revenue - Barter Transactions Involving Advertising Services			✓	
SIC - 32	Intangible Assets - Web Site Costs			✓	

Philippine Savings Bank
Joint Venture
As of December 31, 2014

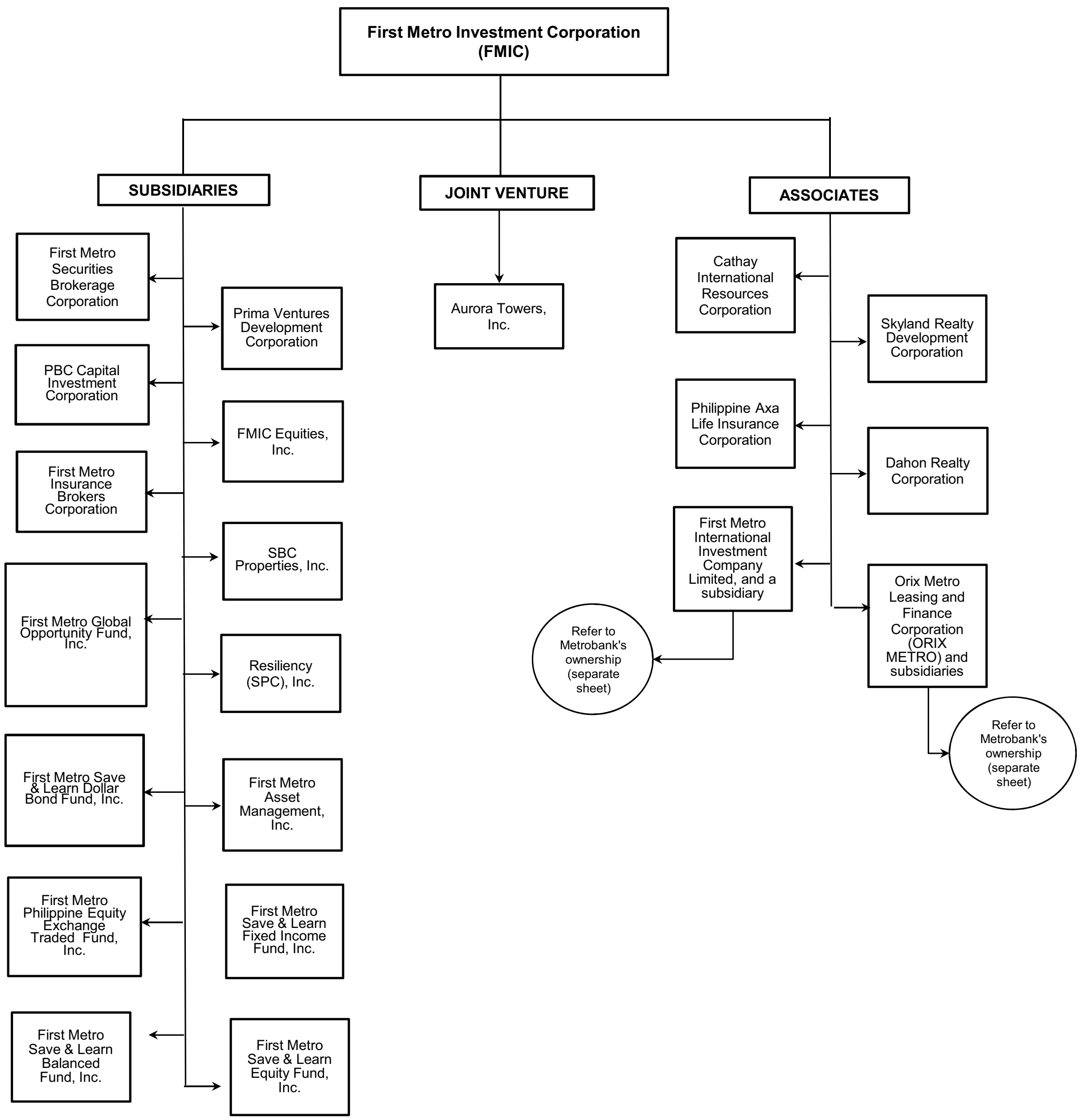


Metropolitan Bank & Trust Company
Subsidiaries and Associates
As of December 31, 2014

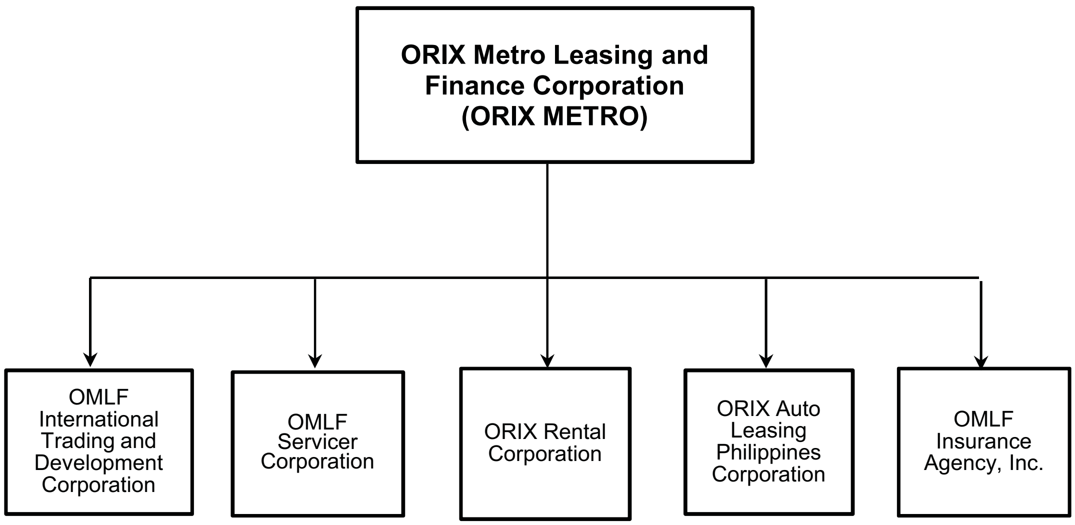


** In the process of dissolution*
*** In the process of liquidation*

First Metro Investment Corporation
Subsidiaries, Joint Venture and Associates
As of December 31, 2014



ORIX Metro Leasing and Finance Corporation (ORIX METRO)
Subsidiaries
As of December 31, 2014



PHILIPPINE SAVINGS BANK

SCHEDULE OF FINANCIAL PERFORMANCE INDICATORS

	Formula	December 31, 2014	December 31, 2013
a. Return on Average Equity	Net Income / Average Stockholders' Equity	13.64%	18.72%
b. Return on Average Assets	Net Income / Average Total Resources	1.68%	2.38%
c. Net Interest Margin	Net Interest Income / Average Earning Assets	6.58%	5.88%
d. Liquidity Ratio	Current Assets / Current Liabilities	46.83%	51.68%
e. Debt to Equity Ratio	Total Liabilities / Total Stockholders' Equity	7.21:1	7.00:1
f. Asset-to-Equity Ratio	Total Assets / Total Stockholders' Equity	8.21:1	8.00:1
g. Interest Rate Coverage Ratio	Earnings Before Interest and Taxes / Interest Expense	1.96:1	2.76:1
h. Capital Adequacy Ratio	Total Qualifying Capital / Total Risk-Weighted Assets	19.57%	16.92%
i. Cost to Income Ratio	Operating Expenses Excluding Provision for Probable Losses and Income Taxes / Net Interest Income + Operating Income	62.31%	49.46%
j. Loans to Deposits Ratio	Gross Loans / Total Deposits	84.48%	80.70%

PHILIPPINE SAVINGS BANK
SCHEDULE A – FINANCIAL ASSETS
As of December 31, 2014

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income accrued
Financial Assets at Fair Value Through Profit or Loss				
Government Bonds				
Peso – denominated	₱50,000,000	₱47,660,563	₱47,660,563	₱503,472
Dollar – denominated	223,600,000	231,248,875	231,248,875	2,269,396
Total FVPL Investments	**₱273,600,000**	**₱278,909,438**	**₱278,909,438**	**₱2,772,868**
Available-for-Sale (AFS) Debt Securities				
Government Bonds				
Peso – denominated	₱500,000,000	₱537,665,342	₱537,665,342	₱13,406,250
Dollar – denominated	1,720,378,400	2,004,944,104	2,004,944,104	72,086,187
Treasury Notes	530,006,417	516,117,748	516,117,748	1,210,947
Retail Treasury Bonds	10,000,000	10,178,963	10,178,963	68,542
Private Corporation	2,986,076,160	3,010,068,344	3,010,068,344	35,086,555
Total	**₱5,746,460,977**	**₱6,078,974,501**	**₱6,078,974,501**	**₱121,858,481**
Available-for-Sale (AFS) Equity Securities				
Quoted	5,177,220	2,925,340	2,925,340	–
Unquoted	1,417,500	1,417,500	1,417,500	–
	6,594,720	**4,342,840**	**4,342,840**	–
Total AFS Investments	**₱ 5,753,055,697**	**₱ 6,083,317,341**	**₱ 6,083,317,341**	**₱ 121,858,481**
Held-to-Maturity				
Corporate Bonds				
Peso – denominated	₱ 1,510,000,000	₱ 1,510,000,000	₱1,473,364,228	₱6,756,281
Dollar – denominated	160,992,000	173,128,162	175,135,326	794,619
Total HTM Investments	**₱1,670,992,000**	**₱1,683,128,162**	**₱1,648,499,554**	**₱7,550,900**

i. Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.
ii. State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.
iii. This column may be omitted if all amounts that would be shown are the same as in the immediate preceding column.

PHILIPPINE SAVINGS BANK
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
As of December 31, 2014

Name and Designation of Debtor (i)	Balance at Beginning of the Period	Additions	Amounts Collected (ii)	Amounts Written-off (iii)	Current	Not Current	Balance at End of the Period

NONE TO REPORT

Note: Transactions to these parties are made in the ordinary course of business.

i. Show separately accounts receivables and note receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms or repayment and collateral, if any.
ii. If collection was other than in cash, explain.
iii. Give reasons for write-off.

PHILIPPINE SAVINGS BANK

SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

As of December 31, 2014

Name and Designation of debtors	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of the period

NOT APPLICABLE

(i) If collection was other than in cash, explain.
(ii) Give reasons for write off.

PHILIPPINE SAVINGS BANK
SCHEDULE D – INTANGIBLE ASSETS
As of December 31, 2014

Description (i)	Beginning Balance	Additions at Cost (ii)	Charge to cost and expenses	Charge to other accounts	Other changes additions (deductions) (iii)	Ending Balance
Goodwill	₱ 53,558,338	₱–	₱–	₱–	₱–	₱ 53,558,338
Software Costs	207,949,979	154,476,292	(82,368,320)	–	–	280,057,951
Branch Licenses	31,323,737	4,200,000	–	–	–	35,523,737
	₱292,832,054	**₱158,676,292**	**(₱82,368,320)**	₱–	₱–	**₱369,140,026**

(i) All items presented are classified as Intangible Assets and no item is classified as Other Assets
(ii) All additions to costs represents acquisitions made by the Bank and are paid in cash and some are in installment basis.
(iii) If provision for amortization of intangible assets is credited in the books directly to intangible asset account, the amounts shall be stated with explanations including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

PHILIPPINE SAVINGS BANK
SCHEDULE E – LONG TERM DEBT
As of December 31, 2014

Title of Issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption "Current portion of Long-Term Debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rate	Maturity Date
Subordinated Debt	₱3,000,000,000	-	₱2,975,089,454	5.75%	Feb. 20, 2022
Subordinated Debt	3,000,000,000	-	2,971,811,867	5.50%	Aug. 23, 2024

(i) Include in this column each type of obligation authorized.
(ii) This column is to be totaled to correspond to the related balance sheet caption.
(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

PHILIPPINE SAVINGS BANK
SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES
(LONG TERM LOANS FROM RELATED PARTIES)
As of December 31, 2014

Name of Related Party (i)	Balance at Beginning of the Period	Balance at the End of the Period (ii)

NONE TO REPORT

(i) The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.
(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance sheet at either the beginning or end of the period.

PHILIPPINE SAVINGS BANK
SCHEDULE G – GUARANTEES OF SECURITIES OF OTHER ISSUES
As of December 31, 2014

Name of issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement if filed	Nature of guarantee (ii)

NONE TO REPORT

i. Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.
ii. State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.
iii. This column may be omitted if all amounts that would be shown are the same as in the immediate preceding column.

PHILIPPINE SAVINGS BANK
SCHEDULE H – CAPITAL STOCK
As of December 31, 2014

Title of Issue (i)	Number of Shares Authorized	Number of Shares Issued and Outstanding at shown under related Balance Sheet caption	Number of Shares reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by related parties (ii)	Directors, Officers, and Employees	Others (iii)
Common Stock - P10 par value	425,000,000	240,252,491	-	187,169,912	6,974	53,075,605

(i) Include each type of issue authorized.
(ii) Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.
(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.