13 March 2014

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 Preliminary 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

1	5	5	5	2

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

1,577

Total No. of Stockholders as of February 28, 2014

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 12, 2014
(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	**(x) Preliminary Information Statement** **( ) 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, 2014 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	**April 2, 2014**
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, 2014, Monday, 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 19, 2013
4. Annual report to the Stockholders
5. Confirmation of all acts of the Board of Directors, the Executive Committee and the Management
6. Appointment of the External Auditor
7. Election of the members of the Board of Directors
8. Other matters
9. Adjournment

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, 2014 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 March 07, 2014 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.

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, 2014**, 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, 2014 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.*

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

PART I. INFORMATION STATEMENT

A. GENERAL INFORMATION

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

Monday, April 28, 2014, 3:00 P.M., at the 19th Floor, PSBank Hall, PSBank Center, 777 Paseo de Roxas corner Sedeño St., Makati City 1226

Complete mailing address of the principal office of Philippine Savings Bank:

- PSBank Center, 777 Paseo de Roxas cor. Sedeño St., Makati City 1226

Approximate date that Definitive Information Statement shall be sent to security holders:

- April 2, 2014

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. Interest 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, 2014 : **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 : **March 7, 2014**

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 Records and Beneficial Owners

e.1) The following stockholders own more than 5% of the common voting securities as of February 28, 2014:

Title of Class	Name, address of Record Owner and relationship with issuer	Name of Beneficial Owner and relationship with Record Owner	No. of Shares Held	Citizenship	Percent
Common Stock	Metropolitan Bank and Trust Co. Metrobank Plaza, Gil Puyat Avenue, Makati City (Parent Company of PSBank)	Arthur V. Ty (Chairman of Metrobank)	182,535,895	Filipino	75.977
Common Stock	PCD Nominee Corporation 37th Floor, Enterprise Bldg. Tower 1 Ayala Avenue, Makati City	Various Stockholders via PCD	18,142,869	Filipino	7.552
Common Stock	Danilo L. Dolor # 56 Tamarind Rd., Forbes Park, Makati City	Danilo L. Dolor	12,610,891	Filipino	5.249

As of February 28, 2014, there is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

e.2) Security Ownership of Management as of February 28, 2014:

Title of Class	Name	No. of Shares	Citizenship	Percent
Common Stock	Jose T. Pardo, Chairman	1,852	Filipino	.000771
Common Stock	Arthur V. Ty, Vice Chairman	117	Filipino	.000049
Common Stock	Vicente R. Cuna, Jr., Director/President	100	Filipino	.000042
Common Stock	Joaquin Aligguy, Director	400	Filipino	.000166
Common Stock	Maria Theresa G. Barretto, Director	3,557	Filipino	.001481
Common Stock	Margaret Ty Cham, Director	100	Filipino	.000042
Common Stock	Jeanne Frances T. Chua, Director	100	Filipino	.000042
Common Stock	Samson C. Lim, Director	100	Filipino	.000042
Common Stock	Benedicto Jose R. Arcinas, Director	100	Filipino	.000042
Common Stock	Gilda Brigida C. Alunan, Officer	200	Filipino	.000083
Common Stock	Dulce D. Arcebal, Officer	628	Filipino	.000261
	Total (Directors and Officers)	**7,254**		**.002998**

e.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.

e.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

Directors

The following are the Directors for 2013 – 2014:

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	75	Filipino	**<u>Present Involvements</u>** • Chairman/Independent Director, Philippine Savings Bank • Chairman/Independent Director, Philippine Stock Exchange • Chairman/Independent Director, Securities Clearing Corporation of the Philippines • Chairman/Independent Director, Bank of Commerce • Director, National GRID Corporation of the Philippines • Independent Director, JG Summit Holdings, Inc.* • Chairman, EC Pay Network Inc. • Director, ZNN Radio Veritas	None

			• Chairman, Franchise Investment Holdings Inc. • Chairman, De La Salle University, Inc. • Chairman, ECOP Council of Business Leaders • Chairman, PCCI Council of Business Leaders • Chairman, Philippine Business Center Inc. • Chairman, Foundation for Crime Prevention • Co-Chairman, De La Salle Philippines • Chairman, Assumption (Antipolo) • Vice Chairman, EDSA People Power Commission, Office of the President • Chairman, EDSA People Power Foundation • Chairman, Philippine-Japan Vocational Technical Foundation **<u>Past Experiences/ Positions Held</u>** • 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 • Director, San Miguel Purefoods Inc. • Director, GMA Network, Inc. (Channel 7) • Director, Metropolitan Bank and Trust Company (Metrobank) • Director, C.C. Unson Co., Inc. (Battery Manufacturing) • Director, Mabuhay Philippine Satellite Corporation • Director, Coca-Cola Bottlers Philippines, Inc. • Director, ABC Development Corporation (ABC-5) • Director, Associated Broadcast Marketing Corp. **<u>Past Experiences/Positions Held in Government Service</u>** • Cabinet Secretary, Department of Finance • Cabinet Secretary, Department of Trade and Industry • 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 • Vice Chairman, Economic Coordinating Council • Member, National Dev't Company • Fellow, Development Academy of the Philippines • Member, Bangko Sentral Monetary Board • Commissioner, Career Executive Service Board • Commissioner, Presidential Anti-Crime Commission • Member, Presidential Council of Economic Advisers • Member, CB Monetary Board • ASEAN Free Trade Area (AFTA) Advisory Council	
Arthur V. Ty Vice Chairman	47	Filipino	**<u>Present Involvements</u>** • Chairman, Metropolitan Bank and Trust Company* • Vice Chairman/Director, Philippine Savings Bank • Vice Chairman/Director, First Metro Investment Corporation • Director, Federal Land, Inc. • Chairman/Director, Global Treasure Holdings, Inc. • Vice Chairman, Great Mark Resources Corporation • President/Director, Horizon Royale Holdings, Inc. • Vice Chairman, Metrobank Foundation, Inc. • President/Director, Philippine Securities Corporation • Chairman, GT Capital Holdings Inc.* • Chairman/Director, Grand Titan Capital Holdings, Inc. • Chairman/President, Nove Ferum Holdings, Inc. • Chairman, Metropolitan Bank (China) Ltd. • Chairman, Ferum Cee Inc. • Chairman, GT Metro Foundation Inc.	Margaret Ty Cham (Sister)

			Past Experiences/Positions Held • President, Philippine Savings Bank • President, Metrobank • Treasurer, FMIC Equities, Inc. • Chairman, First Metro International Investment Corp. (Hong Kong) • Vice Chairman/Director, Global Business Holdings • Chairman, Great Mark Resources Corporation • Vice Chairman/Director, Metropolitan Bank (Bahamas), Ltd. • Chairman/Director, Metrobank Card Corp. • Senior Vice President, Metrobank Foundation, Inc. • EVP/ Director, Philippine Securities Corporation • Director, SMBC Metro Investment Corporation • Director, Lepanto Consolidated Mining Company • Director, Baywatch Realty Corp. • Vice Chairman, Metro Remittance Singapore Pte. Ltd. • Vice Chairman, Metro Remittance Center, Inc. (U.S.A) • Chairman, MB Remittance Center (Hawaii), Ltd. • Chairman, Metro Remittance Center, Inc. (Canada) • Vice Chairman, Metro Remittance (Italia) SpA • Director, MBTC Remittance GmbH (Vienna) • Vice Chairman, Metro Remittance (UK) Ltd. • Director, Global Business Power Corp. • Vice Chairman, GT Capital Holdings Inc. • Vice Chairman/Director, Cathay International Resources Corp.	
Vicente R. Cuna, Jr. President / Director	52	Filipino	**Present Involvements** • Director/President, PSBank • Senior Executive Vice President, Metrobank (seconded to PSBank with prior BSP approval) • Director, First Metro Investment Corporation **Past Experiences/ Positions Held** • Executive Vice President, Institutional Banking Sector, Metrobank • Adviser, Metrobank • Chairman, Metro Remittance (Canada), Inc. • Vice Chairman, Metro Remittance Center, Inc. (U.S.A)	None

			• Vice Chairman, MB Remittance Center (Hawaii) LTD. • Vice Chairman, PSBank • Adviser, Phil. Charter Insurance Corp. • Director, Asia Pacific Top Mgt. Int'l., Resources Corp. • Director, SMBC Metro Investment Corp. • Vice President, Citibank Manila • Vice President, Citibank New York	
Margaret Ty Cham Director / Assistant Vice President	46	Filipino	**<u>Present Involvements</u>** • Director and Member of the Executive Committee, Philippine Savings Bank • Director, Orix Metro Leasing Corporation • 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 • Corporate Secretary, Metrobank Foundation • Assistant Corporate Secretary, GT Capital Holdings, Inc. • Vice President, Global Treasure Holdings, Inc. • Vice President, Grand Titan Capital Holdings, Inc. **<u>Past Experiences/ Position Held</u>** • Corporate Secretary, Baywatch Realty Corp.	Arthur V. Ty (Brother)
Samson C. Lim Independent Director	65	Filipino	**<u>Present Involvements</u>** • Director, Philippine Savings Bank • Chairman, Automatic Appliances Inc. • Chairman, Collins International Trading Corporation • Chairman, Francorp Philippines • Chairman Emeritus/International Relation, Philippine Franchise Association • Chairman Emeritus, Philippine Retailers Association • Chairman/Tourism Committee, Philippine Chamber of Commerce and Industry • President, Blims Fine Furniture • President, Canadian Tourism & Hospitality Institute	None

			<u>Past Experiences/ Positions Held</u> • Executive Director, Federation of Filipino-Chinese Chamber of Commerce and Industry • President, LG Collins Electronics, Phils. • Chairman, Federation of Asian Retailers Association (FARA) • Vice Chairman for Asia, World Franchise Council • Founding Member, Institute of Corporate Governance • Chairman, Asia-Pacific Franchise Confederation • President, Philippine Chamber of Commerce and Industry • President, Appliance Distributors Association • President & Adviser, Philippines- Korea Economic Council • Director, Chamber of Furniture Industries of the Philippines **<u>Various Positions in Government Service</u>** • Undersecretary & General Manager, Department of Trade & Industry - National Dev't Company (NDC) • Chairman, First Cavite Industrial Estate • Director, Philippine Industrial Trading Corporation (PITC) • Co-Chairman, Domestic Trade Development Council (Office of the President) • Philippine Representative, Asian Fertilizer Corporation (Ventulu)	
Benedicto Jose R. Arcinas Independent Director	57	Filipino	**<u>Present Involvements</u>** • Director, Philippine Savings Bank • Director, Arcinas Freres Inc. **<u>Past Experiences/Positions Held</u>** • Executive Vice President and Chief Investment Officer, Government Service Insurance System • Director, GSIS Family Bank • Executive Vice President and Treasurer, Export and Industry Bank • Director, Asia Pacific Recoveries Corporation and Asia Special Situations M3P2 Inc. • Managing Director, Structured Solutions Inc. • Managing Director, ATR-Kim Eng Fixed Income Inc. • Director, Peregrine Fixed Income Philippines and Peregrine Fixed Income Ltd. HK • Senior Vice President – Treasury,	None

			Metropolitan Bank and Trust Company	
Maria Theresa G. Barretto Director	73	Filipino	**Present Involvements** • Director and Member of the Trust Committee, Philippine Savings Bank • Director, Endel Enterprises Corp. • Director, Rural Bank of Candelaria **Past Experiences/ Position Held** • Director, Board of Trustees DLSU-Zobel • Director, Assumption Alumnae Association	None
Joaquin Aligguy Director	59	Filipino	**Present Involvements** • Director, Philippine Savings Bank • President, KNBO Management Consultants Inc. • Corporate Secretary, Manila Doctors Hospital • Adviser, Metrobank Foundation • Trustee, Angelo King Foundation • Director, Writers Union of the Phils. • Director, Philippine Association of Chinese Studies • Consultant, Asiaticus Management Corporation **Past Experiences/Positions Held** • Director, Asia Pacific Land (Nanjing) Ltd. • Director, Aspac Land Development (Shanghai) Co., Ltd. • General Manager/Director, Philippine Chinese Daily • Secretary General, Federation of Filipino-Chinese Chambers of Commerce and Industry • Plant Manager/Director, Non-woven Fabric Philippines • Director, Resources Consultants Phils., Inc.	None
Jeanne Frances Ty Chua Director	48	Filipino	**Present Involvements** • Director, Philippine Savings Bank • Vice President, Legaspi Import & Export Corp. **Past Experiences/Positions Held** • Vice President, Solid State Risk Consultancy Inc. • Senior Vice President and Corporate Secretary, Century Savings Bank • Finance Officer, Luzon Petrochemical Corporation	Arthur V. Ty (cousin)

* Company listed at The Philippine Stock Exchange, Inc.

Nominee Directors

Executive Officers

Name/ Position	**Age**	**Citizenship**	**Experiences**	**Relatives up to 4th Civil degree**
Vicente R. Cuna, Jr. President/ Director	52	Filipino	**<u>Present Involvements</u>** • Director/President, PSBank • Senior Executive Vice President, Metrobank (seconded to PSBank with prior BSP approval) • Director, First Metro Investment Corporation **<u>Past Experiences/ Positions Held</u>** • Executive Vice President, Institutional Banking Sector, Metrobank • Adviser, Metrobank • Chairman, Metro Remittance (Canada), Inc. • Vice Chairman, Metro Remittance Center, Inc. (U.S.A) • Vice Chairman, MB Remittance Center (Hawaii) LTD. • Vice Chairman, PSBank • Adviser, Phil. Charter Insurance Corp. • Director, Asia Pacific Top Mgt. Int'l., Resources Corp. • Director, SMBC Metro Investment Corp. • Vice President, Citibank Manila • Vice President, Citibank New York	None
Jose Vicente L. Alde Executive Vice President	48	Filipino	**<u>Present Involvement</u>** The following businesses and support groups report to Mr. Alde as EVP: - Branch Banking - Direct Sales Channel - Indirect Sales Channel - Electronic Delivery Channel - Asset Sales - Specialized Lending - Large Enterprises - Marketing Communications **<u>Past Involvements</u>** • Held various Branch Banking and Treasury Positions as Vice President of ABN-AMRO Bank	None
Noli S. Gomez Senior Vice President	48	Filipino	**<u>Present Involvement</u>** • Head of the Bank's Operations Group **<u>Past Involvements</u>** • Head of Systems and Methods and	None

			Chief Risk Officer at DBS Bank Phils., Inc. • System Management Officer of the Bank of the Philippine Islands	
Perfecto Ramon Z. Dimayuga, Jr. Senior Vice President	52	Filipino	**Present Involvement** • Chief Finance Officer and Finance Group Head **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.	None
Jose Jesus B. Custodio Senior Vice President	54	Filipino	**Present Involvement** • Head of the Bank's Indirect Sales Channel Group **Past Involvements** • Head of Auto Loans-Retail Sales at CityTrust Banking Corporation • Head of Fleet and Floorstock Department at BPI Family Savings Bank	None

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 the nomination of a director to the Nominations Committee.

2) The nominating stockholder shall submit his proposed nomination in writing to the Nominations Committee together with the acceptance and conformity by the would-be nominee.

3) The Nominations Committee shall screen the nomination of directors prior to the stockholders' meeting 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*

Involvement in Certain 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 themselves and 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, 2013 and 2012.

	2013	2012
Total outstanding DOSRI Loans	**₱1,709,337,946**	**₱ 1,564,583,651**
% of DOSRI Loans to Total Loans	**1.95%**	**2.03%**
% of Unsecured DOSRI Loans to Total DOSRI Loans	**15.90%**	**18.64%**
% of Past due DOSRI Loans to Total DOSRI Loans	**26.32%**	**31.88%**
% of Non Performing DOSRI Loans to Total DOSRI Loans	**26.32%**	**31.88%**

Total interest income from DOSRI loans amounted to ₱53.2 million, ₱55.4 million and ₱60.4 million in 2013, 2012 and 2011, 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	Year	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 Vice President *(retired November 2013)*			
TOTAL	2014*	38.76	14.23
	2013	35.24	12.94
	2012	32.67	8.24

Name and Principal Position	Year	Salary***	Bonus***
All Officers (AVP up) and Directors	2014**	147.76	43.70
	2013	134.33	39.73
	2012	134.18	33.63

* Estimated (Increased 2013 figures by 10%)

** Estimated (Increased 2013 figures by 10%)
*** In Million Pesos

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 ₱13.0 million, ₱12.9 million, and ₱11.3 million 2013, 2012 and 2011, respectively. This translates to an average of ₱120,490.00, ₱119,093.00 and ₱104,556.00, per month/per director in 2013, 2012 and 2011, respectively. 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.

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 2014. 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.

Audit Committee's Approval of Policies and Procedures on External Audit

As Metrobank subsidiary, the Bank adopted the Parent's policies and procedures on audit engagement contract for external auditors.

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 or discharge of external auditors; to review and evaluate the external auditors' performance; 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*
Joaquin Aligguy, Director	*Member*

Item 8. Financial and Other Information

See attached Management's Discussion and Analysis

Item 9. Restatement of Accounts

Amendments to PAS 19, Retirement Benefits, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The adoption of PAS 19 (Revised), which required retrospective application, resulted in the restatement of previously reported retirement obligation of the Bank. The adjustment amounts were determined by the Bank with the assistance of an external actuary.

The effects of adoption are further discussed in page 4 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 19, 2013, the following transpired:

   a. The meeting was called to order by the Chairman of the Board. Upon declaration of quorum, the meeting proceeded.

   b. Upon motion duly made and seconded, the Minutes of the Annual Stockholders' Meeting held on April 27, 2012 were approved.

   c. The President, Pascual M. Garcia, rendered to the stockholders his annual report for 2012.

   d. An open forum was held.

      A stockholder, Philip Turner, asked if PSBank checks its ATM machines at least once a day to ensure safe and efficient operations. President Garcia said that as early as December 2011, the Bank already placed a number of ATM protection measures, which are supported by appropriate software programs. Because of these, the Bank was able to intercept three attempts to compromise the ATMs. Up to now, none of the PSBank ATMs have been compromised.

      The second question asked, also by Mr. Turner, concerned earnings posted in AFS and asked why this did not translate to an increase in net income, particularly in comprehensive income. President Garcia explained that comprehensive income is an estimated value of the direct and indirect income from the investment portfolio in a particular year. This is affected by the valuation of the investments or their marked-to-market value.

      Lastly, Mr. Turner asked about the loan portfolio of the Bank particularly the small amount of collaterals that are indicated in the financial statements. President Garcia responded by stating that PSBank extends small loans like personal loans to its clients and these are unsecured. As the loan portfolio grows, the unsecured portion also grows. Mr. Garcia explained that the Bank also lends to large corporations and these are also on an unsecured basis. The level of the Bank's total loan portfolio may increase or decrease depending on the level of the Bank's activity. However, he assured Mr. Turner that PSBank loans are managed very well with NPL levels at less than 1% even with the application of new NPL rules by the BSP in the first quarter of 2013.

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 2012 were ratified and confirmed.

3. 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. JOAQUIN ALIGGUY
9. BENEDICTO JOSE R. ARCINAS

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. 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.

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.

Voting shall be made *viva voce*, through the raising of hands, and counted manually by the Corporate Secretary, unless there is a motion duly made and seconded for voting to be made via balloting.

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 12, 2014.

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.

As of December 31, 2013 and 2012, the Bank had 224 and 220 branches, respectively. In 2013, the Bank added 19 Automated Tellering Machines (ATMs) in Metro Manila and in provincial locations, bringing its total number of ATMs to 551 as of December 31, 2013 from 532 as of December 31, 2012.

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 consolidated network that spans over 1,385 automated teller machines (ATMs) nationwide, 632 local branches and 157 foreign branches, subsidiaries and representative offices as of end-2013.

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, 2013, 2012 and subsequent interim periods were as follows:

	Highest	**Lowest**
	In Php	
2014:		
January	139.00	130.00
February	139.50	138.90
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
2012:		
First quarter	83.00	72.00
Second quarter	85.00	79.50
Third quarter	89.00	83.50
Fourth quarter	102.00	84.20

Closing price as of March 11, 2014 was ₱138.70 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
January 20, 2011	0.15	36,037,874	February 23, 2011	March 18, 2011	April 4, 2011
April 4, 2011	0.15	36,037,874	May 13, 2011	August 4, 2011	August 19, 2011
August 1, 2011	0.15	36,037,874	August 16, 2011	September 8, 2011	September 23, 2011
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

No unregistered securities were sold or offered for sale by the Bank for the year 2013.

Top 20 Stockholders as of February 28, 2014

	Name of Stockholders	No. of Shares	% to Total
1.	Metropolitan Bank and Trust Co.	182,535,895	75.977
2.	PCD Nominee Corporation (Filipino)	18,142,869	7.552
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
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)	1,641,626	0.683
11.	Go, James (c/o Mr. Olayer)	298,823	0.124
12.	Ng, Jane Frances	141,781	0.059
13.	Chua, Gabriel	100,337	0.042
14.	Chua, Josephine T.	81,056	0.034
15.	Ng, Samuel Chua &/or Jocelyn	80,100	0.033
16.	Que, Liong H.	68,062	0.028
17.	Choa, Johnny K.	64,843	0.027
18.	Choa, Victoria K.	61,875	0.026
19.	Ty, Alejandro	57,345	0.024
20	Cheng, Berck Y.	45,000	0.019

Total number of stockholders as of February 28, 2014 is 1,577.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31			Increase/(Decrease) 2013 vs. 2012		Increase/(Decrease) 2012 vs. 2011	
	2013	2012 (As restated)	2011 (As restated)	Amount	%	Amount	%
ASSETS							
Cash and Other Cash Items	3,157,499,370	2,811,064,294	3,921,289,371	346,435,076	12.32%	(1,110,225,077)	-28.31%
Due from Bangko Sentral ng Pilipinas	7,401,657,444	5,514,832,823	4,303,595,290	1,886,824,621	34.21%	1,211,237,533	28.14%
Due from Other Banks	8,491,340,954	6,002,439,123	3,736,072,634	2,488,901,831	41.46%	2,266,366,489	60.66%
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	14,527,000,000	6,100,000,000	10,480,000,000	8,427,000,000	138.15%	(4,380,000,000)	-41.79%
Fair Value Through Profit or Loss Investments	184,607,411	120,747,754	54,794,038	63,859,657	52.89%	65,953,716	120.37%
Available-for-Sale Investments	5,649,063,231	3,309,190,548	18,693,113,028	2,339,872,683	70.71%	(15,383,922,480)	-82.30%
Held-to-Maturity Investments	-	13,562,925,624	12,313,815,034	(13,562,925,624)	-100.00%	1,249,110,590	10.14%
Loans and Receivables (Net of allowance and UID)	82,917,120,994	70,412,582,319	58,190,152,155	12,504,538,675	17.76%	12,222,430,164	21.00%
Investments in an Associate and a Joint Venture	1,346,142,412	1,237,181,758	1,237,381,423	108,960,654	8.81%	(199,665)	-0.02%
Property and Equipment	2,389,780,404	2,412,337,390	2,382,152,118	(22,556,986)	-0.94%	30,185,272	1.27%
Investment Properties	2,589,408,311	2,622,918,872	2,802,259,434	(33,510,561)	-1.28%	(179,340,562)	-6.40%
Deferred Tax Assets	243,119,247	1,024,770,681	1,144,829,464	(781,651,434)	-76.28%	(120,058,783)	-10.49%
Goodwill and Intangible Assets	292,832,054	231,741,838	255,179,428	61,090,216	26.36%	(23,437,590)	-9.18%
Other Assets	836,302,917	798,231,274	741,668,569	38,071,643	4.77%	56,562,705	7.63%
	130,025,874,749	116,160,964,298	120,256,301,986	13,864,910,451	11.94%	(4,095,337,688)	**-3.41%**
LIABILITIES AND EQUITY							
Liabilities							
Deposit Liabilities							
Demand	9,050,826,107	7,400,508,552	11,421,806,073	1,650,317,555	22.30%	(4,021,297,521)	-35.21%
Savings	16,181,291,134	12,387,740,595	11,668,374,766	3,793,550,539	30.62%	719,365,829	6.17%
Time	81,286,386,669	74,836,037,160	78,460,154,771	6,450,349,509	8.62%	(3,624,117,611)	-4.62%
	106,518,503,910	94,624,286,307	101,550,335,610	11,894,217,603	12.57%	(6,926,049,303)	-6.82%
Subordinated Notes	2,972,366,024	2,969,797,342	-	2,568,682	0.09%	2,969,797,342	100.00%
Treasurer's, Cashier's and Manager's Checks	1,110,517,230	756,629,354	654,513,679	353,887,876	46.77%	102,115,675	15.60%
Accrued Taxes, Interest and Other Expenses	1,099,730,994	1,054,167,235	1,208,024,456	45,563,759	4.32%	(153,857,221)	-12.74%
Income Tax Payable	132,339	-	-	132,339	100.00%	-	0.00%
Other Liabilities	2,061,548,773	1,728,845,734	1,315,596,125	332,703,039	19.24%	413,249,609	31.41%
	113,762,799,270	101,133,725,972	104,728,469,870	12,629,073,298	12.49%	(3,594,743,898)	-3.43%
Equity							
Common Stock	2,402,524,910	2,402,524,910	2,402,524,910	-	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%
Surplus Reserves	1,035,275,317	1,035,275,317	1,035,275,317	-	0.00%	-	0.00%
Surplus	10,205,364,827	8,718,390,965	7,020,413,054	1,486,973,862	17.06%	1,697,977,911	24.19%
Net Unrealized Gain on Available-for-Sale Investments	22,289,515	206,153,207	2,399,747,805	(183,863,692)	-89.19%	(2,193,594,598)	-91.41%
Equity inNet Unrealized Gain on Available-for-Sale Investments of an Associate	25,000	-	-	-	100.00%	-	0.00%
Remeasurement Losses on Retirement Plan	(178,577,793)	(85,597,229)	(93,898,031)	(92,980,564)	108.63%	8,300,802	-8.84%
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture	(479,690)	(181,342)	-	(298,348)	164.52%	(181,342)	-100.00%
Equity in Cash Flow Hedge Reserve of an Associate	(335,158)	-	-	(335,158)	-100.00%	-	0.00%
Cumulative Translation Adjustment	(41,094,955)	(67,411,008)	(54,314,445)	26,316,053	-39.04%	(13,096,563)	24.11%
	16,263,075,479	15,027,238,326	15,527,832,116	1,235,837,153	8.22%	(500,593,790)	-3.22%
	130,025,874,749	116,160,964,298	120,256,301,986	13,864,910,451	11.94%	(4,095,337,688)	-3.41%

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	December 31			Increase/(Decrease) 2013 vs. 2012		Increase/(Decrease) 2012 vs. 2011	
	2013	2012 (As restated)	2011	Amount	%	Amount	%
INTEREST INCOME							
Loans and receivables	8,122,435,842	7,081,892,924	6,472,860,619	1,040,542,918	14.69%	609,032,305	9.41%
Interbank loans receivable and securities purchased under resale agreements	478,936,597	336,035,526	189,599,307	142,901,071	42.53%	146,436,219	77.23%
Investment securities	375,404,035	1,336,840,933	2,239,511,695	(961,436,898)	-71.92%	(902,670,762)	-40.31%
Due from BangkoSentralngPilipinas	42,216,693	26,549,545	71,366,834	15,667,148	59.01%	(44,817,289)	-62.80%
Due from other banks	8,242,444	4,945,432	3,248,372	3,297,012	66.67%	1,697,060	52.24%
	9,027,235,611	8,786,264,360	8,976,586,827	240,971,251	2.74%	(190,322,467)	-2.12%
INTEREST EXPENSE							
Deposit liabilities	2,157,685,611	2,961,531,016	3,229,805,995	(803,845,405)	-27.14%	(268,274,979)	-8.31%
Subordinated notes	175,251,074	152,868,079	37,327,024	22,382,995	14.64%	115,541,055	309.54%
Bills payable	7,479,125	75,000	-	7,404,125	9872.17%	75,000	100.00%
	2,340,415,810	3,114,474,095	3,267,133,019	(774,058,285)	-24.85%	(152,658,924)	-4.67%
NET INTERESTINCOME	6,686,819,801	5,671,790,265	5,709,453,808	1,015,029,536	17.90%	(37,663,543)	-0.66%
Service fees and commission income	1,040,395,077	938,869,881	777,049,501	101,525,196	10.81%	161,820,380	20.82%
Service fees and commission expense	77,836,620	60,245,557	44,171,323	17,591,063	29.20%	16,074,234	36.39%
NET SERVICE FEES AND COMMISSION INCOME	962,558,457	878,624,324	732,878,178	83,934,133	9.55%	145,746,146	19.89%
OTHER OPERATING INCOME (CHARGES)							
Trading and securities gains - net	4,070,899,035	2,573,600,581	927,695,530	1,497,298,454	58.18%	1,645,905,051	177.42%
Gain on foreclosure and sale of investment properties - net	269,751,500	140,024,754	186,630,855	129,726,746	92.65%	(46,606,101)	-24.97%
Gain on sale of property and equipment	138,464,473	5,846,354	3,289,138	132,618,119	2268.39%	2,557,216	77.75%
Foreign exchange gain(loss)	(3,877,015)	12,116,898	562,092	(15,993,913)	-132.00%	11,554,806	2055.68%
Loss on foreclosure and sale of chattel mortgage properties - net	(130,927,247)	(159,596,581)	(58,630,079)	28,669,334	-17.96%	(100,966,502)	172.21%
Miscellaneous	181,271,100	142,950,201	182,920,066	38,320,899	26.81%	(39,969,865)	-21.85%
	4,525,581,846	2,714,942,207	1,242,467,602	1,810,639,639	66.69%	1,472,474,605	118.51%
TOTAL OPERATING INCOME	12,174,960,104	9,265,356,796	7,684,799,588	2,909,603,308	31.40%	1,580,557,208	20.57%
OTHER EXPENSES							
Compensation and fringe benefits	2,159,694,707	1,976,264,543	1,899,698,062	183,430,164	9.28%	76,566,481	4.03%
Provision for credit and impairment losses	2,139,561,961	1,144,720,862	656,088,921	994,841,099	86.91%	488,631,941	74.48%
Taxes and licenses	1,053,840,964	836,834,289	764,185,382	217,006,675	25.93%	72,648,907	9.51%
Occupancy and equipment-related costs	559,762,849	552,790,599	485,277,052	6,972,250	1.26%	67,513,547	13.91%
Depreciation	483,260,520	489,770,896	428,078,287	(6,510,376)	-1.33%	61,692,609	14.41%
Security, messengerial and janitorial services	252,382,828	234,655,918	193,923,812	17,726,910	7.55%	40,732,106	21.00%
Amortization of intangible assets	68,454,285	57,238,221	53,124,292	11,216,064	19.60%	4,113,929	7.74%
Miscellaneous	1,458,908,377	1,153,147,180	1,208,296,994	305,761,197	26.52%	(55,149,814)	-4.56%
	8,175,866,491	6,445,422,508	5,688,672,802	1,730,443,983	26.85%	756,749,706	13.30%
INCOME BEFORE SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX	3,999,093,613	2,819,934,288	1,996,126,786	1,179,159,325	41.82%	823,807,502	41.27%
SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE	109,569,160	(18,323)	8,271,646	109,587,483	-598087.01%	(8,289,969)	-100.22%
INCOME BEFORE INCOME TAX	4,108,662,773	2,819,915,965	2,004,398,432	1,288,746,808	45.70%	815,517,533	40.69%
PROVISION FOR (BENEFIT FROM) INCOMETAX							
Current	358,673,718	428,830,779	469,577,763	(70,157,061)	-16.36%	(40,746,984)	-8.68%
Deferred	821,500,247	116,501,297	(493,938,013)	704,998,950	605.14%	610,439,310	-123.59%
	1,180,173,965	545,332,076	(24,360,250)	634,841,889	116.41%	569,692,326	-2338.61%
NET INCOME	2,928,488,808	2,274,583,889	2,028,758,682	653,904,919	28.75%	245,825,207	12.12%
Basic/Diluted Earnings Per Share	12.19	9.47	8.44				

Part III. Management Discussion and Analysis

A. Analysis of Statements of Condition

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 billion 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 Other Comprehensive Loss 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.

As of December 31, 2012 (As restated) and 2011 (As restated)

The Bank's Total Assets as of December 31, 2012 stood at ₱116.16 billion. This is 3.41% lower than the previous year's level of ₱120.26 billion as the Bank strategically unloaded its Available-for-Sale (AFS) investments and realized trading profits. The Bank also reflected lower deposit level which was offset by the funds generated from its Tier II issuance last February 2012.

Loans and Receivables, net of allowance and unearned interest discounts, representing 60.62% of total assets grew by 21.0% to ₱70.41 billion. This is higher by ₱12.22 billion from previous year's level of ₱58.19 billion. The Bank registered record gains for its top loan products on account of increased consumer confidence and sustained economic growth. Auto loans rose 24.10% compared to the previous year, while mortgage loan expanded by 18.68%.

Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA) representing 5.25% of total assets decreased by 41.79% or ₱4.38 billion to ₱6.10 billion.

Due from Other Banks which is 5.17% of total assets rose by 60.66% or ₱2.27 billion to ₱6.0 billion due to additional FCDU deposits with foreign banks. Likewise, Due from BSP increased to ₱5.51 billion, 28.14% or ₱1.21 billion higher than previous level. On the other hand, Cash and Other Cash items decreased by 28.31% or ₱1.11 billion to ₱2.81 billion from ₱3.92 billion due to the exclusion of Cash-in-Vault (CIV) as eligible form of reserve, as provided under BSP Circular No. 753 effective April 6, 2012.

The Bank took profit from its FXTN and ROP holdings under its AFS portfolio. Thus, Available for Sale Investments dropped by 82.30% from ₱18.69 billion to ₱3.31 billion during the same period last year. Held-to-Maturity Investments representing 11.68% of total assets increased by 10.14% or ₱1.25 billion to ₱13.56 billion from ₱12.31 billion. Fair Value through Profit or Loss (FVPL) Investments also rose to ₱120.75 million from ₱54.79 million last year.

Investments in an Associate and a Joint Venture representing 25% interest in Toyota Financial Services Philippines Corporation (TFSPC) and 40% interest in Sumisho Motor Financing Corporation (SMFC) slightly increased by less than a percentage point to ₱1.24 billion. The Bank's 25% stake in TFSPC reflected a 9.41% growth from ₱523.25 million to ₱572.50 million due to recognition of share in associate's profit. On the other hand, investment in SMFC decreased to ₱664.68 million in December 2012 from ₱714.90 million in same period last year.

Year-on-year, Investment Properties decreased by 6.40% or ₱179.34 million to ₱2.62 billion from ₱2.80 billion due to higher number of foreclosed mortgaged properties sold in 2012. Deferred Tax Asset (DTA) was lower by 10.49% at ₱1.02 billion versus a year-ago level of ₱1.14 billion as the Bank did not recognize deferred tax assets on allowance for credit losses amounting to ₱332.4 million in 2012. Meanwhile, Goodwill and Other Intangible Assets went down to ₱231.74 million from ₱255.18 million posted last year. On the other hand, Other Assets increased by 7.63% to ₱798.23 million from ₱741.67 million.

The Bank's deposit level comprising 93.56% of total liabilities slid by 6.82% to ₱94.62 billion from ₱101.55 billion recorded the previous year as the Bank strategically reduced its high cost funds from its Treasury Marketing Unit. This was offset by the funds generated from its Tier 2 issuance during the first quarter of 2012. Demand deposit was lower by 35.21% to ₱7.40 billion while Savings Deposits grew from ₱11.67 billion to ₱12.39 billion. Meanwhile, Time Deposits decreased by 4.62% or ₱3.62 billion to ₱74.84 billion from previous year's level of ₱78.46 billion.

During the first quarter of 2012, the Bank successfully issued a ₱3.0 billion Unsecured Subordinated Notes (Tier II). The Notes were rated "Aaa" by Philratings. As of December 31, 2012, the Tier II Notes, net of debt issuance cost amounted to ₱2.97 billion.

Accrued Taxes, Interest and Other Expenses decreased by 12.74% or ₱153.86 million to ₱1.05 billion from ₱1.21 billion in 2011 due to higher payments of IT expenses and other expenses related to the new Collective Bargaining Agreement in 2012.

Treasurer's, Cashier's and Manager's Checks increased by 15.60% to ₱756.63 million from ₱654.51 million. Other Liabilities composed of Accounts Payables, Retirement Liability, Other Credits-Unclaimed Balances and Dividends Payable, among others, increased by 31.41% or ₱413.25 million to ₱1.73 billion from ₱1.32 billion. The increase came mostly from the retirement liability resulting from the amendment of PAS 19 and the increase in cash dividend to 30% from 6%.

As of December 31, 2012, Capital Funds stood at ₱15.03 billion, 3.22% lower than the ₱15.53 billion level in 2011. Unrealized gain on Available-for-Sale Investments decreased by 91.41% or ₱2.19 billion to ₱206.15 million compared to last year's level of ₱2.40 billion as the Bank sold most of its AFS investments in 2012.

As of end 2012, Capital Adequacy Ratio (CAR) was at 17.14% which is above the minimum regulatory requirement of 10%. As of December 31, 2012 and 2011, the Bank recorded loss on 'Cumulative translation adjustment' under equity amounting to ₱67.41 million and ₱54.31 million, respectively.

In 2012, Other Comprehensive Loss was at ₱85.78 million from a loss of ₱93.90 million a year-ago. This is mainly due to the impact of retrospective application of PAS 19 which is adopted by the Bank in January 2013.

Return on Average Equity (ROAE) decreased to 14.89% in 2012 versus 14.94% in 2011, Return on Average Assets (ROAA) also rose to 1.92% in 2012 from 1.81% in 2011.

B. Discussion of Results of Operations

For the years ended December 31, 2013 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 ₱1.33 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 in 2012.

Other Operating Income also posted a favorable growth of 66.69% or ₱1.81 billion to ₱4.53 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 ₱130.93 million loss on foreclosure and sale of chattel in 2013 versus ₱159.60 million loss in 2012.

Meanwhile, Foreign Exchange loss was posted at ₱3.88 million compared to the FX gain of ₱12.16 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 ₱68.45 million. Miscellaneous Expenses went up by 26.52% to ₱1.46 billion due to higher information technology, litigation and advertising expenses.

The Bank set aside a total of ₱2.14 billion provisions for credit losses.

The Bank also recorded income from its investment in Toyota Financial Services (TFS) and Sumisho Motor Finance Corporation (SMFC) amounting to ₱109.59 million, 100.02% higher than the ₱18.32 thousand loss reflected in 2012. The Bank's share in net income of TFS went up to ₱109.20 million from ₱49.26 million while share in net income of SMFC was at ₱0.37 million in 2013.

For the years ended December 31, 2012 (As restated) and 2011

The Bank reached a record net income of ₱2.27 billion in 2012, 12.12% higher than the year-ago level of ₱2.03 billion primarily due to the outstanding growth in its loan portfolio coupled by gains in its investment portfolio.

Interest Income on Loans and Receivables climbed to ₱7.08 billion, 9.41% better than the ₱6.47 billion recorded last year as a result of the steady growth in the Bank's loan portfolio. Likewise, interest earned from Interbank Loans Receivable and SPURA rose by 77.23% or ₱146.44 million to ₱336.04 million versus ₱189.60 million while interest earned from deposits with other banks also increased to ₱4.95 million from ₱3.25 million. On the other hand, interest income on Investment Securities was lower at ₱1.34 billion versus ₱2.24 billion a year ago due to the sale of various government securities and ROPs under the AFS portfolio. Interest income from deposit with BSP also declined by ₱44.82 million to ₱26.55 million as deposits maintained by banks with the BSP in compliance with the reserve requirement under BSP Circular No. 753 shall no longer earn interest starting April 6, 2012.

Interest Expense on the Bank's deposit liabilities was lower by 8.31% to ₱2.96 billion versus ₱3.23 billion on account of lower deposit level. On the other hand, Interest Expense on Subordinated Notes increased by ₱115.62 million from ₱37.33 million to ₱152.87 million due to the ₱3.0 billion Unsecured Subordinated Notes (Tier II) issued by the bank in February 2012. This replaced the ₱2.0 billion Unsecured Subordinated Notes (Tier II) which was paid off last January 28, 2011.

Net gains on foreclosure of investment properties dropped to ₱140.02 million, 24.97% or ₱186.63 million lower compared to the ₱186.63 million it posted during the same period last year. The Bank also reflected higher gain on sale of property and equipment amounting to ₱5.85 million compared to ₱3.29 million in 2011.

Moreover, the Bank recorded a loss foreclosure and sale of chattel mortgage properties of ₱159.60 million compared to ₱58.63 million loss last year.

As of December 2012, gain on Securities Trading was at ₱2.57 billion, a 177.42% increase from ₱927.70 million recorded in the same period last year. Meanwhile, Foreign Exchange Gain was posted at ₱12.12 million compared to the ₱0.56 million recorded a year ago due to higher gains recognized from sale of foreign currency. On the other hand, Miscellaneous Income declined to ₱142.95 million, 21.85% lower versus ₱182.92 million last year mainly due to lower income recorded from collection of checkbook charges and other miscellaneous income.

Other Operating Expenses, excluding provision for impairment, were moderate and rose by only 5.33% to ₱5.30 billion from ₱5.03 billion. In line with the Bank's thrust to further strengthen its balance sheet, the Bank set aside a total of ₱1.14 billion provision from credit losses as of December 2012 compared to the year-ago level of ₱656.09 million.

Taxes and licenses increased to ₱836.83 million, 9.51% or ₱72.65 million higher than previous year's level of ₱764.19 million due to increase in local taxes paid as of December 2012. The expansion in branches and ATM network also resulted to increases in related costs such as Compensation and Fringe Benefits and Security, Messengerial and Janitorial Services which increased by 4.03% and 21.00%, respectively. In addition, Depreciation rose by 14.41% or

P61.69 million to ₱489.77 million while Amortization of Intangibles reflected a 7.74% increase from ₱53.12 million to ₱57.24 million, year-on-year.

As of December 31, 2012, the Bank recorded loss from its investment in Toyota Financial Services and Sumisho Motor Finance Corporation amounting to ₱18.32 thousand, 100.22% lower than the ₱8.27 million income reflected in the same period last year.

Occupancy and Equipment related Costs increased by 13.91% or ₱67.51 million to ₱552.79 million due to branch and ATM expansion during the year. The Bank opened 20 branches and installed 27 ATMs in 2012 bringing its total branches to 220 and total ATMs to 532.

C. Analysis of Key Performance Indicators

		2013	2012 (As restated)	2011
Return on Average Equity	ROAE	**18.72%**	14.89%	14.94%
Return on Average Assets	ROAA	**2.38%**	1.92%	1.81%
Net Interest Margin on Average Earning Assets	NIM	**5.88%**	5.19%	5.49%
Earnings per share	EPS	**₱12.19**	₱9.47	₱8.44
Capital-to-Risk Assets Ratio	CAR	**16.92%**	17.14%	13.93%
Liquidity Ratio	LR	**51.68%**	41.66%	41.27%
Debt-Equity Ratio	DER	**7.00:1**	6.73:1	6.74:1
Asset-to-Equity Ratio	AER	**8.00:1**	7.73:1	7.74:1
Interest Rate Coverage Ratio	IRC	**2.76:1**	1.91:1	1.61:1

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.

2012 (As restated) vs. 2011 Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) decreased to 14.89% in 2012 from 14.94% in 2011. 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) as of December 2012 improved to 1.92% in 2012 from 1.81% in 2011. 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) decreased from 5.49% in 2011 to 5.19% in 2012. NIM is calculated by dividing the net interest income by the average earning assets.

4. Earnings per Share (EPS) rose to ₱9.47 in 2012 versus ₱8.44 in 2011. 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) improved to 17.14% in 2012 from 13.93% in 2011. 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) was better at 41.66% in 2012 versus 41.27% in 2011. 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) slightly decreased from 6.73:1 in 2011 to 6.74:1 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) was at 7.73:1 as of December 2012 versus 7.74:1 in 2011. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRC) increased to 1.91:1 in 2012 from 1.61:1 in 2011. 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 2013.

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:

	2013	2012	2011
Trust department accounts	1,183,684,353	P1,293,415,295	P1,122,081,012
Stand-by credit line	73,413,399	94,632,544	97,307,821
Late deposits/payments received	63,998,571	61,753,601	68,471,099
Items held for safekeeping	260,102	303,772	363,447
Others	26,095	17,869	15,704

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

In February 2012, PSBank completed the issuance of unsecured subordinated notes or Tier 2 notes worth Php 3 billion. The Tier 2 Notes were issued to further strengthen its capital adequacy ratio, taking into account the effects of the Basel III, as well as for asset growth, including but not limited to lending and investment purposes.

The Bank's Capital Expenditures in 2013 included expenses for four (4) new branches, twenty-nine (29) 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 2014, the Bank plans to open at least twenty (20) branches and forty (40) on-site and off-site ATMs.

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 amended Philippine Accounting Standards (PAS) and PFRS which were adopted as of January 1, 2013.

New and amended standards and interpretations

- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests in Other Entities*
- PAS 27*, Separate Financial Statements* (as revised in 2011)
- PAS 28*, Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation 20*, Stripping Cost in the Production Phase of a Surface Mine*
- PFRS 1*, First-time Adoption of International Financial Reporting Standards – Government Loans* (Amendments)

  Annual Improvements to PFRSs (2009-2011cycle)

- PFRS 1*, First-time Adoption of PFRS – Borrowing Costs*
- PAS 16*, Property, Plant and Equipment – Classification of servicing equipment*
- PAS 32*, Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities*

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

PFRS 7, *Financia lInstruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with

PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. The gross amounts of those recognized financial assets and recognized financial liabilities;
b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. The net amounts presented in the statement of financial position;
d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Bank's financial condition or performance. The additional disclosures required by the amendments are presented in Note 33 to the financial statements.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard has no significant impact on the fair value measurement of financial assets and liabilities at FVPL, AFS investments, land and buildings. Refer to Note 4 for the disclosures required by the standard.

Application of PFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 4.

PAS 1, *Presentation of Financial Statements –Presentation of Items of Other Comprehensive Income or OCI*
The Bank applied the amendments to PAS 1 and changed the grouping of items presented in OCI as follows:

- items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement). These include 'Gain from sale of AFS investments realized in profit or loss', 'Changes in fair values of AFS investments', 'Equity in net unrealized gain on available-for-sale investments of an associate', 'Equity in cash flow hedge reserve of an associate' and 'Cumulative translation adjustment'.
- items that will never be recycled to profit or loss. These include 'Remeasurement gains (losses) on retirement plan' and 'Equity in remeasurement losses on retirement plan of a joint venture'.

The amendments affect presentation only and have no impact on the Bank's financial position or performance.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The adoption of PAS 19 (Revised), which required retrospective application, resulted in the restatement of previously reported retirement obligation of the Bank. The adjustment amounts were determined by the Bank with the assistance of an external actuary.

PAS 1, *Presentation of Financial Statements – Clarification of the requirements for comparative information*
These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Bank has not included comparative information in respect of the opening statement of condition as at January 1, 2012. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

Compliance with SEC Memo Circular No. 3 Series of 2012

On May 28, 2012, the SEC issued Memorandum Circular No. 3 or the Revised Guidelines on the Implementation of PFRS 9 (Financial Instruments: Recognition and Measurement).

The Commission adopted as part of its rules the amendments to PFRS 9 and PFRS 7, which involve the following revision to the original PFRS 9:

- Change of the original 01 January 2013 mandatory effective date of PFRS 9 to 01 January 2015.
- Modification of the relief from restating prior periods; and
- Additional required disclosures on transition from PAS 39, Financial Instrument: Recognition and Measurement to PFRS 9.

Furthermore, in compliance to SEC Circular, the Bank conducted an evaluation on th7e possible financial impact of the adoption of PFRS 9. The Bank believes that there is no pressing need to adopt PFRS 9 in its annual financial reporting for the current year but will continuously assess and evaluate the impact of any market movement to its existing portfolio.

Independent Accountant

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, 2013 and 2012 for professional services rendered by SGV & Co for the audit of the Bank's annual financial statements.

	2013	2012
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	**₱2,275,000.00**	₱2,000,000.00

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 tax services during the last three (3) years. The collective fees for each year ended December 31, 2013, 2012 and 2011 amounted to ₱112,000, ₱2,251,600.00 and ₱739,200.00, 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 ₱192,192.00, ₱117,408.00 and ₱66,336.00, for 2013, 2012 and 2011, 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 or discharge of external auditors; to review and evaluate the external auditors' performance; and to review the external auditors' audit plan and scope among others.

Philippine Savings Bank

Financial Statements
December 31, 2013 and 2012
and for the Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
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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, 2013 and 2012 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, 2013, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Savings Bank as at December 31, 2013 and 2012 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 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 19-2011 and 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
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. 4225181, January 2, 2014, Makati City

February 21, 2014

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
ASSETS			
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
Fair Value Through Profit or Loss Investments (Note 8)	**184,607,411**	120,747,754	54,794,038
Available-for-Sale Investments (Note 8)	**5,649,063,231**	3,309,190,548	18,693,113,028
Held-to-Maturity Investments (Note 8)	–	13,562,925,624	12,313,815,034
Loans and Receivables (Note 9)	**82,917,120,994**	70,412,582,319	58,190,152,155
Investments in an Associate and a Joint Venture (Notes 10 and 29)	**1,346,142,412**	1,237,181,758	1,237,381,423
Property and Equipment (Note 11)	**2,389,780,404**	2,412,337,390	2,382,152,118
Investment Properties (Note 12)	**2,589,408,311**	2,622,918,872	2,802,259,434
Deferred Tax Assets (Note 27)	**243,119,247**	1,024,770,681	1,144,829,464
Goodwill and Intangible Assets (Note 13)	**292,832,054**	231,741,838	255,179,428
Other Assets (Note 14)	**836,302,917**	798,231,274	741,668,569
	₱130,025,874,749	₱116,160,964,298	₱120,256,301,986
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities (Note 16)			
Demand	**₱9,050,826,107**	₱7,400,508,552	₱11,421,806,073
Savings	**16,181,291,134**	12,387,740,595	11,668,374,766
Time	**81,286,386,669**	74,836,037,160	78,460,154,771
	106,518,503,910	94,624,286,307	101,550,335,610
Subordinated Notes (Note 17)	**2,972,366,024**	2,969,797,342	–
Treasurer's, Cashier's and Manager's Checks	**1,110,517,230**	756,629,354	654,513,679
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,099,730,994**	1,054,167,235	1,208,024,456
Income Tax Payable (Note 27)	**132,339**	–	–
Other Liabilities (Notes 19 and 24)	**2,061,548,773**	1,728,845,734	1,315,596,125
	113,762,799,270	101,133,725,972	104,728,469,870
Equity			
Common Stock (Note 21)	**2,402,524,910**	2,402,524,910	2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506	2,818,083,506
Surplus Reserves (Note 30)	**1,035,275,317**	1,035,275,317	1,035,275,317
Surplus (Note 21)	**10,205,364,827**	8,718,390,965	7,020,413,054

(Forward)

	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
Net Unrealized Gain on Available-for-Sale Investments (Note 8)	**₱22,289,515**	₱206,153,207	₱2,399,747,805
Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate (Note 10)	**25,000**	–	–
Remeasurement Losses on Retirement Plan (Note 24)	**(178,577,793)**	(85,597,229)	(93,898,031)
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture (Note 10)	**(479,690)**	(181,342)	–
Equity in Cash Flow Hedge Reserve of an Associate (Note 10)	**(335,158)**	–	–
Cumulative Translation Adjustment	**(41,094,955)**	(67,411,008)	(54,314,445)
	16,263,075,479	15,027,238,326	15,527,832,116
	₱130,025,874,749	₱116,160,964,298	₱120,256,301,986

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
INTEREST INCOME			
Loans and receivables (Note 9)	**₱8,122,435,842**	₱7,081,892,924	₱6,472,860,619
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**478,936,597**	336,035,526	189,599,307
Investment securities (Note 8)	**375,404,035**	1,336,840,933	2,239,511,695
Due from Bangko Sentral ng Pilipinas	**42,216,693**	26,549,545	71,366,834
Due from other banks	**8,242,444**	4,945,432	3,248,372
	9,027,235,611	8,786,264,360	8,976,586,827
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**2,157,685,611**	2,961,531,016	3,229,805,995
Subordinated notes (Note 17)	**175,251,074**	152,868,079	37,327,024
Bills payable	**7,479,125**	75,000	–
	2,340,415,810	3,114,474,095	3,267,133,019
NET INTEREST INCOME	**6,686,819,801**	5,671,790,265	5,709,453,808
Service fees and commission income (Note 22)	**1,040,395,077**	938,869,881	777,049,501
Service fees and commission expense (Note 22)	**77,836,620**	60,245,557	44,171,323
NET SERVICE FEES AND COMMISSION INCOME	**962,558,457**	878,624,324	732,878,178
OTHER OPERATING INCOME (CHARGES)			
Trading and securities gains - net (Note 8)	**4,070,899,035**	2,573,600,581	927,695,530
Gain on foreclosure and sale of investment properties - net (Note 12)	**269,751,500**	140,024,754	186,630,855
Gain on sale of property and equipment (Note 11)	**138,464,473**	5,846,354	3,289,138
Foreign exchange gain (loss)	**(3,877,015)**	12,116,898	562,092
Loss on foreclosure and sale of chattel mortgage properties - net (Note 14)	**(130,927,247)**	(159,596,581)	(58,630,079)
Miscellaneous (Notes 12 and 23)	**181,271,100**	142,950,201	182,920,066
	4,525,581,846	2,714,942,207	1,242,467,602
TOTAL OPERATING INCOME	**12,174,960,104**	9,265,356,796	7,684,799,588
OTHER EXPENSES			
Compensation and fringe benefits (Note 24)	**2,159,694,707**	1,976,264,543	1,899,698,062
Provision for credit and impairment losses (Note 15)	**2,139,561,961**	1,144,720,862	656,088,921
Taxes and licenses (Note 27)	**1,053,840,964**	836,834,289	764,185,382
Occupancy and equipment-related costs (Note 25)	**559,762,849**	552,790,599	485,277,052
Depreciation (Note 11)	**483,260,520**	489,770,896	428,078,287
Security, messengerial and janitorial services	**252,382,828**	234,655,918	193,923,812
Amortization of intangible assets (Note 13)	**68,454,285**	57,238,221	53,124,292
Miscellaneous (Notes 12 and 26)	**1,458,908,377**	1,153,147,180	1,208,296,994
	8,175,866,491	6,445,422,508	5,688,672,802
INCOME BEFORE SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX	**3,999,093,613**	2,819,934,288	1,996,126,786
SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE (Notes 10 and 29)	**109,569,160**	(18,323)	8,271,646
INCOME BEFORE INCOME TAX	**4,108,662,773**	2,819,915,965	2,004,398,432
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**358,673,718**	428,830,779	469,577,763
Deferred	**821,500,247**	116,501,297	(493,938,013)
	1,180,173,965	545,332,076	(24,360,250)
NET INCOME	**₱2,928,488,808**	₱2,274,583,889	₱2,028,758,682
Basic/Diluted Earnings Per Share (Note 28)	**₱12.19**	₱9.47	₱8.44

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
NET INCOME	**₱2,928,488,808**	₱2,274,583,889	₱2,028,758,682
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Net unrealized gains from AFS investments (Note 8)	**(183,863,692)**	(2,193,594,598)	2,044,596,539
Equity in net unrealized gain on available-for-sale investments of an associate (Note 10)	**25,000**	–	–
Equity in cash flow hedge reserve of an associate (Note 10)	**(335,158)**	–	–
Cumulative translation adjustment	**26,316,053**	(13,096,563)	2,774,238
	(157,857,797)	(2,206,691,161)	2,047,370,777
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan (Note 24)	**(132,829,377)**	11,858,289	–
Equity in remeasurement losses on retirement plan of a joint venture (Note 10)	**(298,348)**	(181,342)	–
Income tax effect (Note 27)	**39,848,813**	(3,557,487)	–
	(93,278,912)	8,119,460	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	**(251,136,709)**	(2,198,571,701)	2,047,370,777
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱2,677,352,099**	₱76,012,188	₱4,076,129,459

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, 2013, as previously reported	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱8,665,409,775**	**₱206,153,207**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱67,411,008)**	**₱15,060,035,707**
Effect of retrospective application of PAS 19 (Revised) (Note 2)	–	–	–	**52,981,190**	–	**(85,597,229)**	–	**(181,342)**	–	–	**(32,797,381)**
Balance at January 1, 2013, as restated	**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, as previously reported	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱6,939,738,262	₱2,399,747,805	₱–	₱–	₱–	₱–	(₱54,314,445)	₱15,541,055,355
Effect of retrospective application of PAS 19 (Revised) (Note 2)	–	–	–	80,674,792	–	(93,898,031)	–	–	–	–	(13,223,239)
Balance at January 1, 2012, as restated	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
Balance at January 1, 2011, as previously reported	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱5,055,131,075	₱355,151,266	₱–	₱–	₱–	₱–	(₱57,088,683)	₱11,609,077,391
Effect of retrospective application of PAS 19 (Revised) (Note 2)	–	–	–	80,674,792	–	(93,898,031)	–	–	–	–	(13,223,239)
Balance at January 1, 2011, as restated	2,402,524,910	2,818,083,506	1,035,275,317	5,135,805,867	355,151,266	(93,898,031)	–	–	–	(57,088,683)	11,595,854,152
Total comprehensive income for the year	–	–	–	2,028,758,682	2,044,596,539	–	–	–	–	2,774,238	4,076,129,459
Cash dividends (Note 21)	–	–	–	(144,151,495)	–	–	–	–	–	–	(144,151,495)
Balance at December 31, 2011	₱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

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱4,108,662,773**	₱2,819,915,965	₱2,004,398,432
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:			
Realized gain on sale of available-for-sale investments (Note 8)	**(4,101,920,941)**	(2,578,092,037)	(937,165,140)
Provision for credit and impairment losses (Note 15)	**2,139,561,961**	1,144,720,862	656,088,921
Depreciation (Note 11)	**483,260,520**	489,770,896	428,078,287
Loss (gain) on foreclosure and sale of:			
Investment properties (Note 12)	**(269,751,500)**	(140,024,754)	(186,630,855)
Chattel mortgage properties (Note 14)	**130,927,247**	159,596,581	58,630,079
Amortization of:			
Intangible assets (Note 13)	**68,454,285**	57,238,221	53,124,292
Debt issuance costs (Note 17)	**2,568,682**	2,023,042	22,858,968
Gain on sale of property and equipment (Note 11)	**(138,464,473)**	(5,846,354)	(3,289,138)
Unrealized trading (gain) loss on fair value through profit or loss investments (Note 8)	**69,370,851**	(13,400,988)	15,492,338
Accretion of premium (discount) on available-for-sale investments	**40,050,334**	(2,910,809)	4,740,900
Share in net (income) loss of an associate and a joint venture (Notes 10 and 29)	**(109,569,160)**	18,323	(8,271,646)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**(133,230,508)**	(52,637,331)	798,033,046
Loans and receivables	**(16,277,467,836)**	(14,585,502,550)	(6,792,102,641)
Other assets	**31,368,117**	151,514,571	360,562,143
Increase (decrease) in:			
Deposit liabilities	**11,907,147,369**	(6,932,460,575)	14,032,151,553
Accrued taxes, interest and other expenses	**45,518,923**	(153,862,579)	75,895,998
Treasurer's, cashier's and manager's checks	**353,887,876**	102,115,675	5,080,080
Other liabilities	**374,312,509**	280,200,275	(1,041,246)
Cash generated from (used in) operations	**(1,275,312,971)**	(19,257,623,566)	10,586,634,371
Income taxes paid	**(358,541,379)**	(581,027,268)	(479,395,569)
Net cash provided by (used in) operating activities	**(1,633,854,350)**	(19,838,650,834)	10,107,238,802
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Held-to-maturity investments	**–**	(2,310,836,826)	(3,708,632,453)
Available-for-sale investments	**(9,442,031,365)**	(2,547,631,076)	(37,970,396,212)
Other intangible assets (Note 13)	**(129,544,501)**	(33,800,631)	(67,619,168)
Property and equipment (Note 11)	**(341,390,933)**	(392,518,800)	(543,808,722)
Proceeds from sale of:			
Available-for-sale investments (Note 8)	**24,316,107,434**	18,318,874,717	38,455,666,062
Chattel mortgage properties (Note 14)	**898,623,700**	675,530,031	499,715,985
Investment properties (Note 12)	**616,169,468**	494,197,154	419,441,067
Property and equipment (Note 11)	**240,849,912**	34,217,685	28,261,806
Proceeds from redemption of held-to-maturity investments at maturity date	**227,265,497**	1,059,435,743	558,072,902
Additional investment in a joint venture (Note 10)	**–**	–	(400,000,000)
Net cash provided by (used in) investing activities	**16,386,049,212**	15,297,467,997	(2,729,298,733)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of subordinated notes (Note 17)	**–**	2,967,774,300	–
Settlement of subordinated notes (Note 17)	**–**	–	(2,000,000,000)
Dividends paid (Note 21)	**(1,615,857,451)**	(435,302,807)	(108,113,622)
Net cash provided by (used in) financing activities	**(1,615,857,451)**	2,532,471,493	(2,108,113,622)
Effect of exchange rate differences	**12,824,117**	(3,909,711)	203,182

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱13,149,161,528**	(₱2,012,621,055)	₱5,270,029,629
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items (Note 16)	**2,811,064,294**	3,921,289,371	3,163,939,540
Due from Bangko Sentral ng Pilipinas (Note 16)	**5,514,832,823**	4,303,595,290	2,899,592,073
Due from other banks	**6,002,439,123**	3,736,072,634	7,520,836,053
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**6,100,000,000**	10,480,000,000	3,586,560,000
	20,428,336,240	22,440,957,295	17,170,927,666
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items (Note 16)	**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
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱2,384,095,368**	₱3,141,671,886	₱3,253,002,555
Interest received	**9,089,387,982**	7,762,993,426	8,697,535,991

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, 2013 and 2012, the Bank had 224 and 220 branches, respectively. In 2013, the Bank added 19 Automated Tellering Machines (ATMs) in Metro Manila and in provincial locations, bringing its total number of ATMs to 551 as of December 31, 2013 from 532 as of December 31, 2012.

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. The Amended Articles of Incorporation were approved by the SEC on September 27, 2006.

As of December 31, 2013, the Bank is seventy-six percent (76%) owned by Metropolitan Bank & Trust Company (MBTC), its parent company.

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

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. An additional statement of condition as at January 1, 2012 is presented in these financial statements due to retrospective application of certain accounting policies.

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, 2013.

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

New and amended standards and interpretations
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests in Other Entities*
- PAS 27*, Separate Financial Statements* (as revised in 2011)
- PAS 28*, Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation 20*, Stripping Cost in the Production Phase of a Surface Mine*
- PFRS 1*, First-time Adoption of International Financial Reporting Standards – Government Loans* (Amendments)

Annual Improvements to PFRSs (2009-2011 cycle)
- PFRS 1*, First-time Adoption of PFRS – Borrowing Costs*
- PAS 16*, Property, Plant and Equipment – Classification of servicing equipment*
- PAS 32*, Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities*

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

PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. The gross amounts of those recognized financial assets and recognized financial liabilities;
b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. The net amounts presented in the statement of financial position;
d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Bank's financial condition or performance. The additional disclosures required by the amendments are presented in Note 33 to the financial statements.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard has no significant impact on the fair value measurement of financial assets and liabilities at FVPL, AFS investments, land and buildings. Refer to Note 4 for the disclosures required by the standard.

Application of PFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 4.

PAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income or OCI*
The Bank applied the amendments to PAS 1 and changed the grouping of items presented in OCI as follows:

- items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement). These include 'Gain from sale of AFS investments realized in profit or loss', 'Changes in fair values of AFS investments', 'Equity in net unrealized gain on available-for-sale investments of an associate', 'Equity in cash flow hedge reserve of an associate' and 'Cumulative translation adjustment'.

- items that will never be recycled to profit or loss. These include 'Remeasurement gains (losses) on retirement plan' and 'Equity in remeasurement losses on retirement plan of a joint venture'.

The amendments affect presentation only and have no impact on the Bank's financial position or performance.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The adoption of PAS 19 (Revised), which required retrospective application, resulted in the restatement of previously reported retirement obligation of the Bank. The adjustment amounts were determined by the Bank with the assistance of an external actuary.

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

	December 31, 2012		
	As previously reported	Effect of retroactive application of PAS 19R	As restated
Statement of Condition			
Investments in an associate and a joint venture	₱1,238,694	(₱1,512)	₱1,237,182
Deferred tax assets	1,011,363	13,408	1,024,771
Other liabilities	1,684,152	44,694	1,728,846
Surplus	8,665,410	52,981	8,718,391
Remeasurement losses on retirement plan	–	(85,597)	(85,597)
Equity in remeasurement losses on retirement plan of a joint venture	–	(181)	(181)
	2012		
Statement of Income			
Compensation and fringe benefits	1,937,512	38,753	1,976,265
Provision for income tax - deferred	128,127	(11,626)	116,501
Statement of Comprehensive Income			
Net unrealized loss on remeasurement of retirement liability - net of deferred income tax	–	8,199	8,199

	January 1, 2012		
	As previously reported	Effect of retroactive application of PAS 19R	As restated
Statement of Condition			
Investments in an associate and a joint venture	₱1,238,145	(₱764)	₱1,237,381
Deferred tax assets	1,139,490	5,340	1,144,830
Other liabilities	1,297,797	17,799	1,315,596
Surplus	6,939,738	80,675	7,020,413
Remeasurement losses on retirement plan	–	(93,898)	(93,898)

PAS 1, *Presentation of Financial Statements – Clarification of the requirements for comparative information*
These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Bank has not included comparative information in respect of the opening statement of condition as at January 1, 2012. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

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 fair value hierarchy as explained above.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>

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, 2013 and 2012, the Bank had no financial liabilities at FVPL.

'Day 1' profit or loss
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1 difference') in the statement of income under 'Trading and securities gains - net', unless it qualifies for recognition as some other type of asset. In cases where the fair value used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1 difference' amount.

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, 2013 and 2012, derivatives comprise 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 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 2013, the Bank recognized its equity in the cash flow hedge reserve of its associate.

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 '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;
- 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 'Miscellaneous' according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2013 and 2012, 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, 2013 and 2012, 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, is 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 'Changes in fair values of 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 '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 'Changes in fair values of 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 EIR 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.

Amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA), 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 EIR 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 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 EIR. 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 equity component being assigned the residual amount after deducting from the fair value of the instrument, as a whole, the amount separately determined for the debt 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.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is 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 'Provision for credit and impairment losses' 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 such credit risk characteristics 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 is based on the reduced carrying amount and is accrued 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. Where 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 cash, securities, letter of credits/guarantees, real estate, receivables and other non-financial assets and credit enhancements. The fair value of collateral is generally assessed, at a minimum, at inception. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such

as real estate and chattel, is valued based on data provided by third parties such as independent appraisers.

Foreclosed collateral
The Bank's policy is to determine whether a foreclosed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of the foreclosed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the foreclosure date in line with the Bank's policy.

Revenue Recognition
Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and these benefits can be measured reliably. 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.

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.

Dividends
Dividend income is recognized when the Bank's right to receive payment is established.

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.

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.

Expense Recognition
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.

Cash and Cash Equivalents
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 cash-generating units (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 Corp. (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 profit or loss 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 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.

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 (loss) on sale of investment properties' 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. 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 5 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 5 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.

<u>Leases</u>
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.

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.

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 wholly before twelve (12) months 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, 2013 and 2012, 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, 2013

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.

PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirements for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank as it does not have any subsidiaries.

Philippine Interpretation 21, *Levies*

Philippine Interpretation 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Philippine Interpretation 21 is effective for annual periods beginning on or after January 1, 2014. The Bank does not expect that Philippine Interpretation 21 will have material financial impact in future financial statements.

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. These amendments are effective for annual periods beginning on or after January 1, 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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 systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments only affect presentation only and have no impact on the Bank's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2, *Share-based Payment – Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. 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 clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. 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 PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Bank shall consider this 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 require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the financial position or performance. The Bank does not expect that PFRS 8 will have material impact on its segment disclosures.

PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Bank's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments 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) contain non-urgent but necessary amendments to the following standards:

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Bank as it is not a first-time adopter of PFRS.

PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model hedge accounting is still ongoing, with a view to replace PAS 39 in its entirety. 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 OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities designated as at FVPL using the fair value option, 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 relating to the entity's own credit risk 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 to PFRS 9, including the embedded derivative bifurcation separation rules and the criteria for using the FVO. 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 potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, 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 financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Bank will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation 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 Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board 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.

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 cash flows 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, 2013 and 2012, 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, 2013 and 2012, the carrying values of the Bank's investments in an associate and a joint venture amounted to ₱1.3 billion and ₱1.2 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 7.66%.

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, 2013 and 2012, 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, 2013 and 2012, the net pension liability of the Bank amounted to ₱429.5 million and ₱257.1 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. As discussed in Note 27, net deferred tax assets as of December 31, 2013 and 2012 amounted to ₱0.2 billion and ₱1.0 billion, respectively.

(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.

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.

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.

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.

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, 2013 was assessed to be insignificant.

Demand deposits, savings deposits, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to 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.

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 following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Quoted in market prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

			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**

			2012		
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱57,384	₱57,384	₱–	₱–	₱57,384
Derivatives - ROP warrants	63,364	–	63,364	–	63,364
AFS investments					
Government debt securities	3,304,768	2,359,608	945,160	–	3,304,768
Quoted equity securities	3,005	3,005	–	–	3,005
	₱3,428,521	₱2,419,997	₱1,008,524	₱–	₱3,428,521

	2012				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Receivables from customers					
Consumption loans	₱31,096,451	₱–	₱32,109,360	₱–	₱32,109,360
Real estate loans	22,384,657	–	22,393,012	–	22,393,012
Commercial loans	11,233,030	–	11,258,606	–	11,258,606
Personal loans	3,409,304	–	5,088,084	–	5,088,084
Other receivables					
Sales contract receivable	351,938	–	352,232	–	352,232
Unquoted debt securities	1,164,134	–	1,353,582	–	1,353,582
Other assets		–		–	
Security deposits	95,619	–	105,914	–	105,914
Non-Financial Assets					
Investment properties	2,622,919	–	2,870,243	–	2,870,243
	₱72,358,052	₱–	₱75,531,033	₱–	₱75,531,033
Financial Liabilities					
Deposit liabilities					
Time	₱74,836,037	₱–	₱78,087,042	₱–	₱78,087,042
Subordinated notes	2,969,797	–	3,397,383	–	3,397,383
	₱77,805,834	₱–	₱81,484,425	₱–	₱81,484,425

There have been no transfers between Level 1 and Level 2 in 2013 and 2012.

As of December 31, 2013, the fair value of the Bank's ROP warrants is classified as Level 3. Due to the unavailability of quoted market prices, evidence of an active market and the sale of the Bank's ROP Global Paired Bonds, the Bank wrote down the carrying value of its warrants to zero.

A reconciliation of the opening and closing balance of financial instruments classified as Level 3 are as follows:

Fair value measurement using significant unobservable inputs (Level 3)

	Derivatives
Opening balance	₱–
Transfers into Level 3[a,b]	63,363,959
Total losses for the period included in profit or loss	(63,363,959)
Closing balance	₱–
Change in unrealized losses for the period included in profit or loss for assets held at the end of the reporting period	(₱63,363,959)

(a) Transferred from Level 2 to Level 3 due to lack of observable market data, resulting from a decrease in market activity to the instruments.
(b) The Bank's policy is to recognize transfers into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer.

Other than these factors mentioned, there are no significant unobservable inputs used by the Bank to arrive at the carrying value of the ROP warrants.

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;
- 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.

Borrower Eligibility
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.

Loan Structure
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.

The CreCom and ExCom recommend to the BOD any credit exceptions that merit approval provided they are supported by strong business rationale. The Bank relays credit approval at once through Short Messaging Service but loan proceeds are paid out after documentations are completed.

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 2013, enhanced stress testing models and stress limits 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):

	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**
Securities Purchased Under Resale Agreements	**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**

	2012			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱834,246	₱3,434,408	₱–	₱834,246
Securities Purchased Under Resale Agreements	4,750,000	4,745,893	4,107	4,745,893
Receivables from customers				
Consumption loans	31,096,451	46,932,047	58,485	31,037,966
Real estate loans	22,384,656	49,957,205	–	22,384,656
Commercial loans	4,317,443	4,312,835	1,951,693	2,365,750
Other receivables				
Accrued interest receivable	661,246	197,219	464,026	197,220
Sales contract receivable	351,938	830,035	–	351,938
Total credit exposure	₱64,395,980	₱110,409,642	₱2,478,311	₱61,917,669

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 investment securities, and no such collateral was held as of December 31, 2013 and 2012.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2013 and 2012, the maximum credit exposure to any borrower amounted to ₱2.7 billion and ₱2.0 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):

	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**

	2012			
	Banking Activities	Trading Activities	Others	Total
Luzon	₱24,738,136	₱21,666,586	₱53,009,720	₱99,414,442
Visayas	155,257	366,367	4,573,036	5,094,660
Mindanao	226,079	591,403	5,014,003	5,831,485
	25,119,472	22,624,356	62,596,759	110,340,587
Less allowance for credit and impairment losses	1,033,584	242,647	3,833,645	5,109,876
Total	₱24,085,888	₱22,381,709	₱58,763,114	₱105,230,711

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, 2013 and 2012 (in thousands):

	2013				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Real estate, renting and business activities	**₱27,338,942**	**₱–**	**₱–**	**₱–**	**₱27,338,942**
Other community, social and personal activities	**22,050,961**	**–**	**–**	**19,413**	**22,070,374**
Wholesale and retail trade	**16,958,965**	**–**	**–**	**–**	**16,958,965**
Transportation, storage and communication	**6,313,193**	**–**	**–**	**–**	**6,313,193**
Financial intermediaries	**5,962,757**	**30,419,998**	**5,879,681**	**111,596**	**42,374,032**
Public administration and defense compulsory social security	**3,613,324**	**–**	**–**	**–**	**3,613,324**
Electricity, gas and water	**531,051**	**–**	**–**	**–**	**531,051**
Manufacturing	**1,909,536**	**–**	**–**	**–**	**1,909,536**
Hotel and restaurants	**1,088,590**	**–**	**–**	**–**	**1,088,590**
Construction	**1,077,213**	**–**	**–**	**54,000**	**1,131,213**
Private households	**190,206**	**–**	**–**	**–**	**190,206**
Agricultural, hunting and forestry	**16,439**	**–**	**–**	**–**	**16,439**
Mining and quarrying	**42,557**	**–**	**–**	**–**	**42,557**
Others	**625,849**	**–**	**–**	**–**	**625,849**
	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**

	2012				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Real estate, renting and business activities	₱24,548,858	₱–	₱–	₱–	₱24,548,858
Other community, social and personal activities	16,877,587	–	–	38,575	16,916,162
Wholesale and retail trade	16,472,254	–	–	2,058	16,474,312
Transportation, storage and communication	5,373,611	–	–	–	5,373,611
Financial intermediaries	4,149,393	17,617,272	17,038,874	113,360	38,918,899
Public administration and defense compulsory social security	2,788,316	–	–	–	2,788,316
Electricity, gas and water	1,727,394	–	–	–	1,727,394
Manufacturing	1,633,859	–	–	–	1,633,859
Hotel and restaurants	696,231	–	–	–	696,231
Construction	631,188	–	–	54,000	685,188
Private households	238,975	–	–	–	238,975
Agricultural, hunting and forestry	72,952	–	–	–	72,952
Mining and quarrying	16,137	–	–	–	16,137
Others	249,693	–	–	–	249,693
	75,476,448	17,617,272	17,038,874	207,993	110,340,587
Less allowance for credit and impairment losses	5,063,866	–	46,010	–	5,109,876
Total	₱70,412,582	₱17,617,272	₱16,992,864	₱207,993	₱105,230,711

* 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)*:

	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**
Sales contract receivable	**230,901**	–	**17,865**	–	**19,796**	**18,313**	**286,875**
Unquoted debt instruments	**200,000**	–	–	–	–	**95,611**	**295,611**
Accounts receivable	**57,482**	**294**	**206**	–	**284,391**	**180,568**	**522,941**
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

	2012						
	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	₱–	₱5,514,833	₱–	₱–	₱–	₱–	₱5,514,833
Due from other banks	–	6,002,439	–	–	–	–	6,002,439
Interbank loans receivable and SPURA	–	6,100,000	–	–	–	–	6,100,000
Receivables from customers							
Consumption loans	25,764,357	1,052,517	302,176	–	4,692,517	–	31,811,567
Real estate loans	16,065,368	1,757,714	395,520	–	3,051,333	467,625	21,737,560
Commercial loans	10,665,760	364,541	290,722	–	763,183	872,818	12,957,024
Personal loans	3,759,613	74,199	30,744	–	1,879,850	–	5,744,406

(Forward)

	2012						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Other receivables							
Accrued interest receivable	₱289,938	₱254,234	₱857	₱–	₱102,650	₱361,293	₱1,008,972
Sales contract receivable	272,073	–	28,473	–	59,856	18,313	378,715
Unquoted debt instruments	1,164,134	–	–	–	–	95,611	1,259,745
Accounts receivable	38,348	120	10	–	299,723	178,680	516,881
Bills purchased	–	–	–	61,578	–	–	61,578
Other assets							
Security deposits	–	–	–	95,619	–	–	95,619
RCOCI	–	–	–	17,644	–	–	17,644
Shortages	–	–	–	97	–	–	97
Total	₱58,019,591	₱21,120,597	₱1,048,502	₱174,938	₱10,849,112	₱1,994,340	₱93,207,080

*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)*:

	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

	2012						
	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	₱–	₱57,384	₱–	₱–	₱–	₱–	₱57,384
Derivatives - ROP warrants	–	63,364	–	–	–	–	63,364
AFS investments							
Government debt securities	–	3,304,768	–	–	–	–	3,304,768
Quoted equity securities	–	–	–	–	–	5,194	5,194
Unquoted equity securities	–	–	–	–	–	45,239	45,239
HTM investments							
Treasury notes	–	9,593,865	–	–	–	–	9,593,865
Government bonds	–	3,969,060	–	–	–	–	3,969,060
Total	₱–	₱16,988,441	₱–	₱–	₱–	₱50,433	₱17,038,874

*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 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)*:

	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						
Accrued interest receivable	**40,001**	**20,071**	**10,168**	**11,319**	**32,151**	**113,710**
Sales contract receivable	–	–	–	**6,378**	**13,418**	**19,796**
Accounts receivable	**2,771**	**4,048**	**916**	**2,589**	**274,067**	**284,391**
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

	2012					
	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	₱2,478,894	₱954,556	₱388,874	₱297,618	₱572,575	₱4,692,517
Real estate loans	2,133,861	651,740	199,463	37,238	29,031	3,051,333
Commercial loans	662,896	42,345	345	12,304	45,293	763,183
Personal loans	236,539	56,091	40,363	87,037	1,459,820	1,879,850
Other receivables						
Accrued interest receivable	39,252	15,526	7,534	5,358	34,980	102,650
Sales contract receivable	29,954	9,750	4,924	4,448	10,780	59,856
Accounts receivable	16,950	2,016	796	1,666	278,295	299,723
Total	₱5,598,346	₱1,732,024	₱642,299	₱445,669	₱2,430,774	₱10,849,112

*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 position, 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 May 31, 2013[1]		**June 1 to December 31, 2013**[2]		2012	
	Peso	**USD**	**Peso**	**USD**	Peso	USD
Year-end	**3,820**	–	–	–	–	–
Year to date average	**3,914**	**41,168**	–	–	3,675	2,516
High	**10,063**	**1,154**	**7,638**	–	13,135	10,390
Low	**1,790**	**507**	**1,213**	–	7	221

[1] *Using Bloomberg Historical Value at Risk*
[2] *Using Internal Model Historical Value at Risk*

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. The Bank also performs stress-testing analysis to measure the impact of extreme interest rate movements. 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.

	2013						
			Sensitivity of Equity				
	Change in basis points	**Sensitivity of net interest income**	**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**

	2012						
			Sensitivity of Equity				
	Change in basis points	Sensitivity of net interest income	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	(31,999,914)	(5,263)	(342,953)	(229,024)	(29,549,207)	(30,126,447)
USD	+10	(85,865)	256,017	–	–	–	256,017
Currency							
PHP	-10	31,999,914	(4,067)	363,798	201,262	30,433,681	30,994,674
USD	-10	85,865	288,044	–	–	–	288,044

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% 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 May 31, 2013[1]	**June 1 to December 31, 2013**[2]	2012
As of year-end		**₱426**	₱1,031
Year to date average		**839**	1,040
High	**₱1,569**	**1,956**	1,952
Low	**251**	**14**	16

[1] *Using Bloomberg Historical Value at Risk*
[2] *Using Internal Model Historical Value at Risk*

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2013 and 2012. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2013	2012
Assets		
Cash	**$1,708**	$1,608
Due from other banks	**178,904**	135,692
FVPL investments	**–**	2,941
AFS investments	**3,968**	3,028
HTM investments	**–**	79,636
Other assets	**81**	1,904
Total assets	**184,661**	224,809
Liabilities		
Deposit liabilities		
Savings deposits	**$31,001**	$25,566
Time deposits	**151,114**	197,328
Accrued taxes, interest and other expenses	**1,230**	698
Other liabilities	**1,355**	659
Total liabilities	**184,700**	224,251
Net exposure	**($39)**	$558

c. *Liquidity Risk*

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cash flow 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) by capping the concentration of LFPs as a percentage of total deposits. This ensures that the Bank will not be vulnerable to a substantial drop in deposit level as a result of an outflow due to large depositors.

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):

	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**
Sales contract receivable	**20**	**–**	**–**	**1**	**9**	**30**	**258**	**288**
Unquoted debt instruments	**–**	**–**	**–**	**205**	**–**	**205**	**96**	**301**
Accounts receivable	**459**	**56**	**3**	**3**	**2**	**523**	**–**	**523**
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**

(Forward)

	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**
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 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**

	2012 (As restated - Note 2)							
	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	₱57	₱–	₱–	₱–	₱–	₱57	₱–	₱57
Derivatives - ROP warrants	63	–	–	–	–	63	–	63
AFS investments								
Government securities	–	30	125	39	479	673	5,710	6,383
Quoted equity securities	–	–	–	–	–	–	5	5
Unquoted equity securities	–	–	–	–	–	–	1	1
HTM investments								
Treasury notes	–	2	–	194	499	695	22,784	23,479
Government bonds	–	–	12	543	133	688	6,105	6,793
Loans and receivables								
Loans and advances to banks								
Due from BSP	5,515	–	–	–	–	5,515	–	5,515
Due from other banks	6,002	–	–	–	–	6,002	–	6,002
Interbank loans receivable and SPURA	6,100	–	–	–	–	6,100	–	6,100
Receivables from customers								
Consumption loans	1,772	27	25	79	221	2,124	39,384	41,508
Real estate loans	73	–	4	27	39	143	22,689	22,832
Commercial loans	648	2	2	31	252	935	11,576	12,511
Personal loans	1,524	24	24	72	225	1,869	3,813	5,682
Bills discounted	12	–	–	–	–	12	–	12
Other receivables								
Accrued interest receivable	757	1	108	8	135	1,009	–	1,009
Sales contract receivable	3	–	35	2	4	44	649	693
Unquoted debt instruments	–	11	–	19	37	67	1,218	1,285
Accounts receivable	506	–	1	–	10	517	–	517
Other assets								
Security deposits	–	7	4	5	14	30	66	96
RCOCI	18	–	–	–	–	18	–	18
	₱23,050	₱104	₱340	₱1,019	₱2,048	₱26,561	₱114,000	₱140,561

	2012 (As restated - Note 2)							
	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	₱7,401	₱–	₱–	₱–	₱–	₱7,401	₱–	₱7,401
Savings	12,388	–	–	–	–	12,388	–	12,388
Time	–	52,578	5,370	1,395	3,310	62,653	16,837	79,490
	19,789	52,578	5,370	1,395	3,310	82,442	16,837	99,279
Subordinated notes	–	–	43	43	86	172	4,423	4,595
Treasurer's, cashier's and manager's checks	757	–	–	–	–	757	–	757
Accrued interest payable	–	185	–	–	–	185	–	185
Accrued other expenses payable	805	–	–	–	–	805	–	805

(Forward)

	2012 (As restated - Note 2)							
	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
Other liabilities								
Accounts payable	₱–	₱–	₱–	₱865	₱–	₱865	₱–	₱865
Other credits	155	–	–	–	–	155	–	155
Dividends payable	–	177	–	–	–	177	–	177
Bills purchased-contra	62	–	–	–	–	62	–	62
Due to Treasurer of the Philippines	7	–	–	–	–	7	–	7
Deposit for keys	1	–	–	–	–	1	–	1
Others	2	–	–	–	–	2	–	2
	₱21,578	₱52,940	₱5,413	₱2,303	₱3,396	₱85,630	₱21,260	₱106,890

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, 2013, 2012 and 2011 follows (in thousands):

	2013				
	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	**46,827**	**157,687**	**254,046**	**4,067,022**	**4,525,582**
Total operating income	**2,065,057**	**699,729**	**7,153,154**	**4,675,273**	**14,593,213**
Non-cash expenses					
Depreciation and amortization	**106,655**	**11,038**	**364,415**	**1,153**	**483,261**
Provision for credit and impairment losses	**748,974**	**91,839**	**1,298,749**	**–**	**2,139,562**
Amortization of other intangible assets	**26,650**	**4,793**	**36,451**	**560**	**68,454**
Total non-cash expenses	**882,279**	**107,670**	**1,699,615**	**1,713**	**2,691,277**
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**

(Forward)

	2013				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
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**
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)	38,143	(30,144)	121,226	2,585,717	2,714,942
Total operating income	1,777,767	360,974	6,756,532	3,544,803	12,440,076
Non-cash expenses					
Depreciation and amortization	122,139	14,777	351,396	1,459	489,771
Provision for credit and impairment losses	578,390	49,558	516,773	–	1,144,721
Amortization of other intangible assets	21,668	3,987	31,018	565	57,238
Total non-cash expenses	722,197	68,322	899,187	2,024	1,691,730
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	11,991	1,976,264
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	236,063	4,753,692
Income before share in net loss of an associate and a joint venture and income tax	206,841	130,480	740,709	1,741,904	2,819,934
Share in net loss of an associate and a joint venture	–	(18)	–	–	(18)
Income before income tax	206,841	130,462	740,709	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

	2011 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,513,696	₱381,437	₱5,626,918	₱1,454,536	₱8,976,587
Service fees and commissions	109,924	43,730	623,395	–	777,049
Other operating income	42,503	17,625	259,971	922,369	1,242,468
Total operating income	1,666,123	442,792	6,510,284	2,376,905	10,996,104

(Forward)

	2011 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Non-cash expenses					
Depreciation	₱113,934	₱14,509	₱298,033	₱1,602	₱428,078
Provision for credit and impairment losses	192,103	227,051	236,935	–	656,089
Amortization of intangible assets	20,929	3,709	28,014	472	53,124
Total non-cash expenses	326,966	245,269	562,982	2,074	1,137,291
Interest expense	–	–	2,104,518	1,162,615	3,267,133
Service fees and commissions expense	6,248	2,486	35,437	–	44,171
Subtotal	6,248	2,486	2,139,955	1,162,615	3,311,304
Compensation and fringe benefits	341,956	81,488	1,463,329	12,925	1,899,698
Taxes and licenses	113,703	26,874	476,182	147,426	764,185
Occupancy and equipment-related costs	34,257	5,744	445,131	145	485,277
Security, messengerial and janitorial services	40,665	3,303	149,462	494	193,924
Miscellaneous	193,954	44,536	886,603	83,204	1,208,297
Subtotal	724,535	161,945	3,420,707	244,194	4,551,381
Income before share in net income of an associate and a joint venture and income tax	608,374	33,092	386,639	968,022	1,996,127
Share in net income of an associate and a joint venture	–	8,272	–	–	8,272
Income before income tax	608,374	41,364	386,639	968,022	2,004,399
Benefit from income tax					(24,360)
Net income					₱2,028,759
Segment assets	₱20,986,922	₱7,665,449	₱39,901,337	₱49,320,383	₱117,874,091
Investments in an associate and a joint venture					1,237,381
Deferred tax assets					1,144,829
Total assets					₱120,256,301
Segment liabilities	₱508,123	₱116,847	₱72,154,420	₱31,949,080	₱104,728,470

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2013	2012
Interbank loans receivable (Note 29)	**₱–**	₱1,350,000,000
SPURA	**14,527,000,000**	4,750,000,000
	₱14,527,000,000	₱6,100,000,000

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:

	2013	2012	2011
Interbank loans receivable	**₱25,619,027**	₱74,202,957	₱11,425,626
SPURA	**453,317,570**	261,832,569	178,173,681
	₱478,936,597	₱336,035,526	₱189,599,307

8. Fair Value Through Profit or Loss, Available-for-Sale and Held-to-Maturity Investments

FVPL investments consist of the following:

	2013	2012
HFT securities (Note 29)	**₱184,607,411**	₱57,383,795
ROP warrants	**–**	63,363,959
	₱184,607,411	₱120,747,754

As of December 31, 2013 and 2012, 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. In 2013, the Bank sold its paired bonds that resulted in holding ROP warrants without paired instrument and with no 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, 2013 and 2012, the Bank has no outstanding forward buy and sell contracts.

AFS investments consist of the following:

	2013	2012
Government securities (Notes 29 and 30)	**₱5,562,123,285**	₱3,304,767,708
Private debt securities	**81,627,315**	–
Equity securities		
Quoted	**6,083,796**	5,194,005
Unquoted	**45,239,002**	45,239,002
	5,695,073,398	3,355,200,715
Less allowance for impairment losses	**46,010,167**	46,010,167
	₱5,649,063,231	₱3,309,190,548

Movements in the net unrealized gain on AFS investments follow:

	2013	2012
Balance at beginning of year	**₱206,153,207**	₱2,399,747,805
Gains from sale of AFS investments realized in profit or loss	**(4,101,920,941)**	(2,578,092,037)
Changes in fair values of AFS investments	**3,918,057,249**	384,497,439
	(183,863,692)	(2,193,594,598)
Balance at end of year	**₱22,289,515**	₱206,153,207

In 2013 and 2012, the Bank sold a significant portion of its government securities classified as AFS investments, resulting in net realized trading gain of ₱4.1 billion and ₱2.6 billion.

As of December 31, 2013 and 2012, there were no movements in the allowance for impairment losses on AFS quoted and unquoted equity securities amounting to ₱2.2 million and ₱43.8 million, respectively.

As of December 31, 2013 and 2012, National Food Authority bonds classified as AFS investments and treasury notes classified under HTM investments, respectively, both 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 the following:

	2013	2012
Treasury notes (Note 29)	**₱–**	₱9,593,865,308
Government bonds	**–**	3,969,060,316
	₱–	₱13,562,925,624

Interest income on investment securities consists of:

	2013	2012	2011
FVPL investments	**₱3,897,789**	₱9,367,598	₱18,227,678
AFS investments	**208,967,472**	352,849,005	1,374,710,363
HTM investments	**162,538,774**	974,624,330	846,573,654
	₱375,404,035	₱1,336,840,933	₱2,239,511,695

Peso-denominated AFS investments bear nominal annual interest rates ranging from 2.13% to 9.13% in 2013, 0.00% to 9.13% in 2012, and 0.00% to 14.00% in 2011 while foreign currency-denominated AFS investments bear nominal annual interest rates ranging from 4.00% to 8.88% in 2013, 9.00% in 2012, and 6.38% to 9.50% in 2011. Effective interest rates on AFS financial assets as of December 31, 2013, 2012, and 2011 range from 3.84% to 5.22%, 4.70% to 6.23% and 5.00% to 9.51%, respectively.

On the other hand, peso-denominated HTM investments bear nominal annual interest rates ranging from 6.38% to 18.25% in 2012 and 4.57% to 18.25% in 2011, while foreign currency-denominated HTM investments bear nominal annual interest rates ranging from 5.00% to 10.63% in 2012 and 6.38% to 9.50% in 2011.

Trading and securities gains - net on investment securities consist of:

	2013	2012	2011
FVPL investments			
Realized	**₱38,348,945**	(₱17,892,444)	₱6,022,728
Unrealized	**(69,370,851)**	13,400,988	(15,492,338)
	(31,021,906)	(4,491,456)	(9,469,610)
AFS investments (Note 29)	**4,101,920,941**	2,578,092,037	937,165,140
	₱4,070,899,035	₱2,573,600,581	₱927,695,530

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 on AFS investments' under OCI.

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.

As of December 31, 2013, HTM investments reclassified to AFS investments have a carrying value and market value of ₱700.0 million and ₱797.2 million, respectively.

9. Loans and Receivables

This account consists of:

	2013	2012
Receivables from customers		
Consumption loans	**₱41,146,099,807**	₱36,215,778,334
Real estate loans	**28,775,771,200**	22,653,701,646
Commercial loans	**13,434,702,204**	12,445,083,240
Personal loans	**4,275,070,444**	5,549,553,963
	87,631,643,655	76,864,117,183
Less unearned discounts	**2,013,976,038**	4,613,560,459
	85,617,667,617	72,250,556,724
Other receivables		
Accrued interest receivable (Note 29)	**946,819,930**	1,008,972,301
Accounts receivable (Note 29)	**522,941,011**	516,881,444
Unquoted debt instruments	**295,610,552**	1,259,744,265
Sales contract receivables	**286,874,761**	378,715,272
Bills purchased (Note 19)	**49,669,238**	61,578,434
	87,719,583,109	75,476,448,440
Less allowance for credit losses (Note 15)	**4,802,462,115**	5,063,866,121
	₱82,917,120,994	₱70,412,582,319

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. The convertible notes amounting to ₱95.6 million are provided with 100.00% allowance for credit losses as of December 31, 2013 and 2012.

As of December 31, 2013, 2012 and 2011, 29.52%, 24.59%and 25.18%, respectively, of the total receivables from customers are subject to periodic interest repricing. Remaining receivables earn average annual fixed interest rates of 12.95%, 12.78% and 12.96% in 2013, 2012 and 2011, respectively.

On July 1, 2012, the Bank implemented enhancements to systems and loan documents in compliance with BSP Circular No. 730 requiring banks to charge interest based on the outstanding balance at the start of the interest period and to indicate the effective interest rate and charges related to the loan in all documents and marketing materials. The implementation of the requirements of the BSP Circular resulted in the decrease in the Bank's unearned discounts from ₱4.6 billion in 2012 to ₱2.0 billion in 2013.

As of December 31, 2013, 2012 and 2011, receivable from customers earned interest income at an effective interest rate ranging from 9.70% to 10.95%, 9.94% to 11.89% and 10.53% to 26.86%, respectively.

Interest income on loans and receivables consists of:

	2013	2012	2011
Receivables from customers			
Consumption loans	**₱3,784,845,069**	₱3,056,755,626	₱2,696,080,211
Real estate loans	**2,237,204,178**	1,960,362,055	1,766,540,597
Personal loans	**1,063,057,436**	1,023,481,594	982,080,383
Commercial loans	**904,187,371**	942,512,827	945,005,499
Other receivables			
Unquoted debt instruments	**105,929,392**	60,751,965	32,668,750
Sales contract receivables	**27,212,396**	38,028,857	50,485,179
	₱8,122,435,842	₱7,081,892,924	₱6,472,860,619

Interest income accreted on impaired loans and receivables classified under real estate loans and commercial loans amounted to ₱73.3 million, ₱89.1 million and ₱82.4 million in 2013, 2012 and 2011, respectively.

Interest income from restructured loans amounted to ₱61.8 million, ₱76.8 million and ₱87.1 million in 2013, 2012 and 2011, respectively.

Included in the loan portfolio are receivables purchased from a third party amounting to ₱117.0 million and ₱155.1 million as of December 31, 2013 and 2012, 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:

	2013	%	2012	%
Secured by:				
Chattel	**₱41,146,099,808**	**46.95**	₱36,215,778,334	47.12
Real estate	**28,383,931,714**	**32.39**	23,585,975,405	30.69
Deposit hold-out	**438,595,244**	**0.50**	547,854,897	0.71
Others	**420,249,261**	**0.48**	489,841,624	0.64
	70,388,876,027	**80.32**	60,839,450,260	79.15
Unsecured	**17,242,767,628**	**19.68**	16,024,666,923	20.85
	₱87,631,643,655	**100.00**	₱76,864,117,183	100.00

Details of NPLs follow:

	2013	2012
Secured	**₱2,698,250,112**	₱2,451,434,743
Unsecured	**957,170,661**	2,033,621,628
	₱3,655,420,773	₱4,485,056,371

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:

	2013	2012
Total NPLs	**₱3,655,420,773**	₱4,485,056,371
NPLs fully covered by allowance for credit losses	**1,056,313,169**	2,478,739,555
	₱2,599,107,604	₱2,006,316,816

Restructured loans as of December 31, 2013 and 2012 amounted to ₱577.9 million and ₱753.4 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱15.0 billion and ₱5.3 billion as of December 31, 2013 and 2012, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses):

	2013	**%**	2012	%
Real estate	**₱27,042,971,337**	**30.86**	₱24,288,661,965	31.60
Other community, social and personal activities	**22,517,602,849**	**25.70**	18,434,613,322	23.98
Wholesale and retail trade	**17,640,958,414**	**20.13**	17,718,170,061	23.05
Public utilities	**6,432,450,382**	**7.34**	5,719,824,760	7.44
Banks, insurance and other financial institutions	**5,129,202,091**	**5.85**	3,543,281,031	4.61
Manufacturing	**1,612,275,962**	**1.84**	1,355,008,092	1.76
Services	**1,105,061,636**	**1.26**	754,865,033	0.98
Mining and quarrying	**42,834,562**	**0.05**	17,530,740	0.02
Agriculture	**12,540,799**	**0.01**	66,541,925	0.09
Others	**6,095,745,623**	**6.96**	4,965,620,254	6.46
	₱87,631,643,655	**100.00**	₱76,864,117,183	100.00

Others relates 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:

	2013	2012 (As restated - Note 2)
Investment in an associate	**₱681,396,600**	₱572,504,682
Investment in a joint venture	**664,745,812**	664,677,076
	₱1,346,142,412	₱1,237,181,758

<u>Investment in an Associate</u>
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.

The following table illustrates the summarized financial information of TFSPC:

	2013	2012
Current assets	**₱10,766,542,100**	₱8,443,532,819
Non-current assets	**18,809,486,168**	13,917,886,195
Current liabilities	**11,005,313,543**	12,498,335,964
Non-current liabilities	**15,845,128,328**	7,463,381,307
Net assets	**2,725,586,397**	2,399,701,743
Revenues	**1,931,061,460**	1,751,719,347
Costs and expenses	**1,494,253,157**	1,554,698,365
Net income for the year	**436,808,303**	197,020,982

Movement in this account follows:

	2013	2012
Acquisition cost	**₱270,546,789**	₱270,546,789
Accumulated equity in net income		
Balance at beginning of year	**301,957,893**	252,702,647
Share in net income	**109,202,076**	49,255,246
Balance at end of year	**411,159,969**	301,957,893
Share in cash flow hedge reserve	**(335,158)**	–
Share in unrealized gain on available-for-sale investments	**25,000**	–
	410,849,811	301,957,893
	₱681,396,600	₱572,504,682

During the year, 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' amounted to an unrealized loss of ₱1.34 million. No ineffectiveness was recognized during the fiscal year 2013. The Bank has recognized its equity share on the said reserve.

Investment in a Joint Venture

The Bank owns 8,000,000 shares of SMFC representing 40% 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:

	2013	2012 (As restated - Note 2)
Current assets	**₱1,565,184,683**	₱1,545,130,305
Non-current assets	**174,111,665**	185,444,769
Current liabilities	**67,298,173**	66,714,309
Non-current liabilities	**9,968,173**	6,670,091
Net assets	**1,662,030,002**	1,657,190,674
Revenues	**329,252,972**	299,744,744
Costs and expenses	**328,335,262**	422,928,667
Net income (loss) for the year	**917,710**	(123,183,923)

Movement in this account follows:

	2013	2012 (As restated - Note 2)
Acquisition cost	**₱800,000,000**	₱800,000,000
Accumulated equity in net income (losses)		
Balance at beginning of year	**(135,322,924)**	(85,104,035)
Share in net income (loss)	**367,084**	(49,273,569)
Balance at end of year	**(134,955,840)**	(134,377,604)
Share in unrealized loss on remeasurement of retirement liability	**(298,348)**	(181,342)
Share in effect of retrospective application of PAS 19 (Revised)	**–**	(763,978)
	(135,254,188)	(135,322,924)
	₱664,745,812	₱664,677,076

The Bank has no share in any contingent liabilities or capital commitments of TFSPC and SMFC as of December 31, 2013 and 2012.

11. **Property and Equipment**

The composition of and movements in this account follow:

	2013				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱255,730,364**	**₱1,681,456,739**	**₱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	**266,369,265**	**1,737,005,694**	**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	**₱266,369,265**	**₱1,430,535,384**	**₱453,603,130**	**₱239,272,625**	**₱2,389,780,404**

	2012				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱225,877,870	₱1,617,049,093	₱1,708,381,439	₱413,719,109	₱3,965,027,511
Acquisitions	29,852,494	64,407,646	198,636,527	99,622,133	392,518,800
Disposals	–	–	(60,725,445)	–	(60,725,445)
Balance at end of year	255,730,364	1,681,456,739	1,846,292,521	513,341,242	4,296,820,866
Accumulated Depreciation					
Balance at beginning of year	–	262,430,332	1,098,347,301	222,097,760	1,582,875,393
Depreciation	–	28,550,857	241,797,066	63,614,274	333,962,197
Disposals	–	–	(32,354,114)	–	(32,354,114)
Balance at end of year	–	290,981,189	1,307,790,253	285,712,034	1,884,483,476
Net Book Value	₱255,730,364	₱1,390,475,550	₱538,502,268	₱227,629,208	₱2,412,337,390

In 2013, the Bank reclassified units from previously leased out properties to Bank premises amounting to ₱213.5 million.

Gain on sale of property and equipment amounted to ₱138.5 million, ₱5.8 million and ₱3.3 million in 2013, 2012 and 2011, respectively.

The details of depreciation under the statements of income follow:

	2013	2012	2011
Property and equipment	**₱330,312,249**	₱333,962,197	₱296,708,994
Investment properties (Note 12)	**60,291,941**	64,715,180	64,987,625
Chattel mortgage properties (Note 14)	**92,656,330**	91,093,519	66,381,668
	₱483,260,520	₱489,770,896	₱428,078,287

As of December 31, 2013 and 2012, property and equipment of the Bank with gross carrying amounts of ₱721.3 million and ₱754.0 million, respectively, are fully depreciated but are still being used.

12. Investment Properties

The composition of and movements in this account follow:

	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**

	2012		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,679,990,492	₱1,740,717,671	₱3,420,708,163
Additions (Note 32)	192,238,853	299,159,777	491,398,630
Disposals	(364,191,403)	(288,313,298)	(652,504,701)
Balance at end of year	1,508,037,942	1,751,564,150	3,259,602,092
Accumulated Depreciation			
Balance at beginning of year	–	372,695,812	372,695,812
Depreciation (Note 11)	–	64,715,180	64,715,180
Disposals	–	(42,244,050)	(42,244,050)
Balance at end of year	–	395,166,942	395,166,942
Allowance for Impairment Losses			
Balance at beginning of year	217,342,500	28,410,417	245,752,917
Provisions for the year (Note 15)	38,695,339	58,062,263	96,757,602
Disposals	(97,566,837)	(3,427,404)	(100,994,241)
Balance at end of year	158,471,002	83,045,276	241,516,278
Net Book Value	₱1,349,566,940	₱1,273,351,932	₱2,622,918,872

The details of the net book value of investment properties follow:

	2013	2012
Real estate properties acquired in settlement of loans and receivables	**₱2,467,913,918**	₱2,426,330,294
Bank premises leased to third parties and held for capital appreciation	**121,494,393**	196,588,578
	₱2,589,408,311	₱2,622,918,872

As of December 31, 2013 and 2012, the aggregate fair value of investment properties amounted to ₱3.0 billion and ₱2.9 billion, respectively.

Gain on foreclosure of investment properties amounted to ₱243.0 million, ₱155.1 million and ₱208.8 million in 2013, 2012 and 2011, respectively. The Bank realized gain on sale of investment properties amounting to ₱26.8 million in 2013 and a loss on sale amounting to ₱15.1 million and ₱22.1 million in 2012 and 2011, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱45.0 million, ₱63.5 million and ₱66.4 million in 2013, 2012 and 2011, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense amounted) to ₱9.8 million, ₱10.1 million and ₱10.0 million in 2013, 2012 and 2011, respectively.

13. **Goodwill and Intangible Assets**

This account consists of:

	2013	2012
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**207,949,979**	147,059,763
Branch licenses	**31,323,737**	31,123,737
	239,273,716	178,183,500
	₱292,832,054	₱231,741,838

The movements in intangible assets follow:

	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**

	2012		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱174,097,353	₱27,523,737	₱201,621,090
Additions	30,200,631	3,600,000	33,800,631
Amortization	(57,238,221)	–	(57,238,221)
Balance at end of year	₱147,059,763	₱31,123,737	₱178,183,500

Amortization of software costs in 2011 amounted to ₱53.1 million.

14. **Other Assets**

This account consists of:

	2013	2012
Chattel mortgage properties - net	**₱503,637,099**	₱434,426,293
Prepayments	**113,065,859**	129,955,436
Security deposits (Note 29)	**97,034,227**	95,618,642
Creditable withholding tax	**27,666,752**	10,136,714
Documentary stamps on hand	**27,281,589**	22,306,737
Sundry debits	**17,517,652**	43,600,933
Stationeries and supplies on hand	**16,775,678**	18,806,637
RCOCI	**14,270,316**	17,644,237
Deferred charges	**12,136,991**	9,497,453
Inter-office float items	**3,581,082**	12,825,657
Others	**3,335,672**	3,412,535
	₱836,302,917	₱798,231,274

Prepayments represent prepaid insurance, prepaid rent, and other prepaid expenses.

The movements in chattel mortgage properties - net follow:

	2013	2012
Cost		
Balance at beginning of year	**₱503,221,482**	₱443,153,670
Additions (Note 32)	**1,025,399,887**	840,698,632
Disposals	**(938,889,058)**	(780,630,820)
Balance at the end of year	**589,732,311**	503,221,482
Accumulated Depreciation		
Balance at beginning of year	**68,179,099**	60,695,661
Depreciation (Note 11)	**92,656,330**	91,093,519
Disposals	**(75,356,307)**	(83,610,081)
Balance at the end of year	**85,479,122**	68,179,099
Allowance for Impairment Losses		
Balance at beginning and end of year	**616,090**	616,090
Net Book Value	**₱503,637,099**	₱434,426,293

Loss on foreclosure of chattel mortgage properties amounted to ₱166.0 million, ₱138.1 million and ₱105.9 million in 2013, 2012 and 2011, respectively. The Bank realized gain on sale of chattel mortgage properties in 2013 amounting to ₱35.1 million, a loss on sale in 2012 amounting to ₱21.5 million and a gain on sale amounting to ₱47.2 million in 2011.

15. Allowance for Credit and Impairment Losses

Details of the provision for credit and impairment losses charged to current operations follow:

	2013	2012
Loans and receivables	**₱2,072,253,792**	₱1,047,963,260
Investment properties (Note 12)	**67,308,169**	96,757,602
	₱2,139,561,961	₱1,144,720,862

Changes in the allowance for credit losses on loans and receivables follow (in thousands):

	2013									
	Receivables from Customers				Other Receivables					
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Investments	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	852,652	492,818	54,599	430,152	237,043	48	2,942	2,000	–	2,072,254
Reversal of allowance	–	–	–	–	(269,017)	–	–	–	–	(269,017)
Amount 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

	2012									
	Receivables from Customers				Other Receivables					
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Investments	Bills Purchased	Total
Balance at beginning of year	₱542,173	₱178,239	₱962,695	₱1,996,440	₱293,475	₱464,733	₱23,899	₱95,611	₱1,303	₱4,558,568
Provisions for the year charged against profit or loss	172,943	90,806	249,358	406,841	124,536	601	2,878	–	–	1,047,963
Reversal of allowance	–	–	–	–	(70,285)	–	–	–	–	(70,285)
Amount written off	–	–	–	(472,380)	–	–	–	–	–	(472,380)
Balance at end 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
Individual impairment	₱–	₱211,487	₱728,675	₱–	₱66,620	₱178,680	₱18,313	₱95,611	₱–	₱1,299,386
Collective impairment	715,116	57,558	483,378	1,930,901	281,106	286,654	8,464	–	1,303	3,764,480
	₱715,116	₱269,045	₱1,212,053	₱1,930,901	₱347,726	₱465,334	₱26,777	₱95,611	₱1,303	₱5,063,866
Gross amount of loans individually impaired, before deducting any individual impairment allowance	₱–	₱467,625	₱872,818	₱–	₱361,293	₱178,680	₱18,313	₱95,611	₱–	₱1,994,340

16. **Deposit Liabilities**

BSP Circular 753, which took effect on April 6, 2012, promulgated the unification of the statutory/legal and liquidity reserve requirement on non-FCDU deposit liabilities from 8.00% to 6.00%. Formerly, there was a separate reserve requirement percentage for liquidity and statutory reserves equivalent to 6.00% and 2.00%, respectively. Also, with the new regulations, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements. This was tantamount to the exclusion of government securities and cash in vault as eligible reserves. As of December 31, 2013 and 2012, the Bank is in compliance with such regulations.

As of December 31, 2013 and 2012, Due from BSP amounting to ₱7.6 billion and ₱5.1 billion, respectively, were set aside as reserves for deposit liabilities, as reported to the BSP.

Interest expense on deposit liabilities consists of:

	2013	2012	2011
Time	**₱2,013,767,393**	₱2,789,481,681	₱2,997,224,597
Demand (Note 29)	**74,094,382**	111,147,863	177,165,549
Savings	**69,823,836**	60,901,472	55,415,849
	₱2,157,685,611	₱2,961,531,016	₱3,229,805,995

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.00% in 2013 and 0.00% to 7.00% in 2012 and 2011, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 5.5% in 2013, 0.25 to 6.00% in 2012 and 0.5% to 8.75% in 2011. Effective interest rate on deposit liabilities as of December 31, 2013, 2012, and 2011 ranges from 1.78% to 2.93%, 2.94% to 3.46%, and 3.19% to 6.92%, respectively.

17. **Subordinated Notes**

On February 20, 2012, the Bank issued ₱3.0 billion in Unsecured Subordinated Notes with an interest rate of 5.75% due 2022 (the Notes). The BSP approved the issuance and sale of the Notes on December 29, 2011.

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 paripassu 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.

As of December 31, 2013, the Bank is in compliance with the terms and conditions upon which the subordinated notes have been issued.

The movements in subordinated notes payable follow:

	2013	2012
Amortized cost	**₱2,969,797,342**	₱2,967,774,300
Amortization of debt issuance costs	**2,568,682**	2,023,042
	₱2,972,366,024	₱2,969,797,342

18. **Accrued Taxes, Interest and Other Expenses**

This account consists of:

	2013	2012
Accrued interest payable	**₱169,518,898**	₱185,177,987
Accrued other taxes, licenses and other payables	**130,144,785**	63,724,110
Accrued other expenses payable (Note 29)	**800,067,311**	805,265,138
	₱1,099,730,994	₱1,054,167,235

Accrued other expenses payable consist of:

	2013	2012
Fringe benefits	**₱318,441,988**	₱305,916,522
Lease payable	**127,786,733**	136,201,285
Insurance	**107,787,604**	98,228,293
Information technology	**71,882,801**	67,599,410
Advertising	**65,449,497**	98,050,242
Litigation	**33,811,079**	32,914,929
Securities, messengerial and janitorial	**25,085,591**	21,537,340
Professional and consultancy fees	**9,329,269**	16,125,758
Miscellaneous	**40,492,749**	28,691,359
	₱800,067,311	₱805,265,138

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:

	2013	2012 (As restated - Note 2)
Accounts payable (Note 29)	**₱1,067,036,467**	₱864,908,017
Net retirement liability (Note 24)	**429,486,585**	257,055,651
Other credits	**297,084,991**	154,747,270
Sundry credits	**74,504,828**	48,310,639
Bills purchased - contra (Note 9)	**49,669,238**	61,578,434
Withholding taxes payable	**46,107,846**	72,767,194
Due to the Treasurer of the Philippines	**10,859,272**	7,002,855
SSS, Medicare, ECP and HDMF premium payable	**7,065,612**	6,437,114
Dividends payable (Note 21)	**2,330,667**	176,673,172
Miscellaneous (Note 29)	**77,403,267**	79,365,388
	₱2,061,548,773	₱1,728,845,734

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 ₱54.7 million, ₱51.3 million and ₱46.2 million as of December 31, 2013, 2012 and 2011, 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					
	2013			2012 (As restated - Note 2)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱3,157,499**	**₱–**	**₱3,157,499**	₱2,811,064	₱–	₱2,811,064
Due from BSP	**7,401,657**	**–**	**7,401,657**	5,514,833	–	5,514,833
Due from other banks	**8,491,341**	**–**	**8,491,341**	6,002,439	–	6,002,439
Interbank loans receivable and SPURA	**14,527,000**	**–**	**14,527,000**	6,100,000	–	6,100,000
FVPL investments	**184,607**	**–**	**184,607**	120,748	–	120,748
AFS investments - gross (Note 8)	**164,184**	**5,530,890**	**5,695,074**	547,785	2,807,416	3,355,201
HTM investments	**–**	**–**	**–**	276,703	13,286,223	13,562,926
Loans and receivables - gross (Note 9)	**12,542,158**	**77,191,401**	**89,733,559**	12,998,468	67,091,540	80,090,008
Other assets - gross* (Note 14)	**50,198**	**61,397**	**111,595**	47,821	65,840	113,661
	46,518,644	**82,783,688**	**129,302,332**	34,419,861	83,251,019	117,670,880

(Forward)

	December 31					
	2013			2012 (As restated - Note 2)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Nonfinancial Assets						
Investments in an associate and a joint venture	**₱–**	**₱1,346,142**	**₱1,346,142**	₱–	₱1,237,182	₱1,237,182
Property and equipment - gross (Note 11)	**–**	**4,198,875**	**4,198,875**	–	4,296,821	4,296,821
Investment properties - gross (Note 12)	**–**	**3,161,098**	**3,161,098**	–	3,259,602	3,259,602
Deferred tax assets	**–**	**243,119**	**243,119**	–	1,024,771	1,024,771
Other assets - gross** (Note 14)	**710,186**	**307,972**	**1,018,158**	672,721	244,207	916,928
	710,186	**9,257,206**	**9,967,392**	672,721	10,062,583	10,735,304
Less: Allowance for credit and impairment losses			**5,155,835**			5,352,010
Accumulated depreciation (Notes 11 and 12)			**2,074,038**			2,279,650
Unearned discounts (Note 9)			**2,013,976**			4,613,560
			9,243,849			12,245,220
	₱47,228,830	**₱92,040,894**	**₱130,025,875**	₱35,092,582	₱93,313,602	₱116,160,964

* 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					
	2013			2012 (As restated - Note 2)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱90,404,767**	**₱16,113,737**	**₱106,518,504**	₱77,891,429	₱16,732,858	₱94,624,287
Subordinated notes	**–**	**2,972,366**	**2,972,366**	–	2,969,797	2,969,797
Treasurer's, cashier's and manager's checks	**1,110,517**	**–**	**1,110,517**	756,629	–	756,629
Accrued other expenses payable	**870,651**	**–**	**870,651**	805,265	–	805,265
Accrued interest payable	**169,519**	**–**	**169,519**	185,178	–	185,178
Accrued income tax payable	**132**	**–**	**132**	–	–	–
Other liabilities						
Accounts payable	**1,067,036**	**–**	**1,067,036**	864,908	–	864,908
Other credits	**–**	**297,085**	**297,085**	–	154,747	154,747
Bills purchased - contra	**49,669**	**–**	**49,669**	61,578	–	61,578
Dividends payable	**2,331**	**–**	**2,331**	176,673	–	176,673
Due to Treasurer of the Philippines	**–**	**10,859**	**10,859**	–	7,003	7,003
Deposits for keys	**902**	**–**	**902**	926	–	926
Others*	**2,061**	**–**	**2,061**	1,993	–	1,993
	93,677,585	**19,394,047**	**113,071,632**	80,744,579	19,864,405	100,608,984
Nonfinancial Liabilities						
Accrued other taxes and licenses payable	**59,561**	**–**	**59,561**	63,724	–	63,724
Other liabilities**	**557,779**	**73,827**	**631,606**	345,622	115,396	461,018
	617,340	**73,827**	**691,167**	409,346	115,396	524,742
	₱94,294,925	**₱19,467,874**	**₱113,762,799**	₱81,153,925	₱19,979,801	₱101,133,726

* 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:

	2013		2012	
	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, 2013 and 2012, the total number of stockholders is 1,581 and 1,625, 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
January 20, 2011	0.15	36,037,874	February 23, 2011	March 18, 2011	April 4, 2011
April 4, 2011	0.15	36,037,874	May 13, 2011	August 4, 2011	August 19, 2011
August 1, 2011	0.15	36,037,874	August 16, 2011	September 8, 2011	September 23, 2011
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

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 to ₱411.1 million in 2013 and ₱302.0 million in 2012 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.

The CAR of the Bank as of December 31, as reported to the BSP, based on the BSP Circular 538 are shown in the table below.

	2013	2012
Tier 1 capital	**₱15,292**	₱13,840
Tier 2 capital	**3,799**	3,651
Gross qualifying capital	**19,091**	17,491
Less required deductions	**2,072**	2,758
Total qualifying capital	**₱17,019**	₱14,733
Risk weighted assets	**₱100,592**	₱85,949
Tier 1 capital adequacy ratio	**13.81%**	13.63%
Capital adequacy ratio	**16.92%**	17.14%

Regulatory qualifying capital consists of Tier 1 (core) capital, which comprises capital stock, surplus, surplus reserves, 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 (supplementary) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt. 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. The Bank's investments in the equity securities of an unconsolidated associate and joint venture were deducted 50.00% from Tier 1 and 50.00% from Tier 2.

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.

The Bank has complied with all externally imposed capital requirements throughout the year.

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 MBTC 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. The BSP requires submission of an ICAAP document every January 31 of each year. The Bank has complied with this requirement.

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 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% 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.

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 outgoing basis.

Financial Performance
The following basic ratios measure the financial performance of the Bank:

	2013	2012 (As restated - Note 2)	2011
Return on average equity	**18.72%**	14.89%	14.94%
Return on average assets	**2.38%**	1.92%	1.81%
Net interest margin on average earning assets	**5.88%**	5.19%	5.49%
Liquidity ratio	**51.68%**	41.66%	41.27%
Debt-to-Equity ratio	**7.00:1**	6.73:1	6.74:1
Asset-to-Equity ratio	**8.00:1**	7.73:1	7.74:1
Interest rate coverage ratio	**2.76:1**	1.91:1	1.61:1

22. Net Service Fees and Commission Income

This account consists of:

	2013	2012	2011
Service Fees and Commission Income			
Credit-related fees and commissions	**₱574,481,667**	₱499,327,319	₱373,311,437
Deposit-related and other fees received	**453,337,245**	428,578,828	395,843,819
Trust fees	**12,576,165**	10,963,734	7,894,245
	1,040,395,077	938,869,881	777,049,501
Service Fees and Commission Expense			
Commissions	**71,798,311**	49,564,765	33,574,487
Brokerage	**6,038,309**	10,680,792	10,596,836
	77,836,620	60,245,557	44,171,323
Net Service Fees and Commission Income	**₱962,558,457**	₱878,624,324	₱732,878,178

23. Miscellaneous Income

This account consists of:

	2013	2012	2011
Recovery of charged-off assets	**₱83,783,149**	₱29,240,811	₱8,599,654
Rent (Notes 12 and 25)	**46,878,019**	65,555,333	68,638,888
Insurance commission income	**31,097,664**	27,612,017	8,619,990
Others	**19,512,268**	20,542,040	97,061,534
	₱181,271,100	₱142,950,201	₱182,920,066

Rent 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, 2013.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of comprehensive income follow:

	2013	2012 (As restated - Note 2)
Service cost		
Current service cost	**₱126,765,030**	₱101,515,600
Past service cost	**–**	43,407,200
Net interest cost	**12,851,408**	9,200,557
	₱139,616,438	₱154,123,357

The net retirement liability shown under 'Other liabilities' recognized in the Bank's statements of condition follows (in thousands):

	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)**	**₱–**	**₱44,410**	**₱223,167**	**₱267,577**	**₱–**	**₱1,498,646**
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)**	**₱44,410**	**₱223,167**	**₱132,828**	**(₱100,000)**	**₱429,486**

	2012 (As restated - Note 2)											
		Net benefit cost					Remeasurements in other comprehensive income					
	January 1, 2012	Current service cost	Past 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, 2012
Present value of defined benefit obligation	₱895,111	₱101,516	₱43,407	₱54,370	₱199,293	(₱60,289)	₱–	₱116,417	₱6,679	₱123,096	₱–	₱1,157,211
Fair value of plan assets	(705,320)	–	–	(45,169)	(45,169)	60,289	(134,955)	–	–	(134,955)	(75,000)	(900,155)
Net defined benefit liability	₱189,791	₱101,516	₱43,407	₱9,201	₱154,124	₱–	(₱134,955)	₱116,417	₱6,679	(₱11,859)	(₱75,000)	₱257,056

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱180.0 million to its noncontributory defined benefit plan in 2014.

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	2013	2012	2011
Cash and cash equivalents			
Special deposit account	**₱115,000,000**	₱12,000,000	₱–
Certificate of time deposit (Note 29)	**25,537,612**	10,839,299	3,855,884
Equity investments			
Bank's shares (Note 29)	**636,360,070**	530,074,700	381,610,390
SMFC shares (Note 29)	**200,000,000**	200,000,000	200,000,000
Shares of other listed companies	**92,353,718**	130,722,350	118,157,890
Other assets			
Receivable from broker	**795,232**	16,500,966	1,693,309
Accrued interest receivable (Note 29)	**54,396**	17,934	2,545
	1,070,101,028	900,155,249	705,320,018
Other liabilities	**941,240**	–	–
	₱1,069,159,788	₱900,155,249	₱705,320,018

The fair value of the assets have not materially changed due to the adoption of PFRS 13.

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, 2013, 2012 and 2011 are shown below:

	2013	2012	2011
Average remaining working life	**9**	9	21
Discount rate	**4.86%**	6.30%	11.16%
Turnover rate	**8.36%**	8.32%	8.43%
Future salary increases	**9.00%**	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, 2013	
	Possible Fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱150,344,477)
	-1.00%	176,485,485
Turnover rate	+1.00%	(68,233,229)
	-1.00%	70,083,863
Future salary increase rate	+1.00%	164,164,654
	-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:

	2013	2012
Less than one year	**₱119,166,944**	₱124,974,080
More than one year to five years	**495,234,564**	433,048,090
More than five years to 10 years	**1,141,975,503**	952,233,365
More than 10 years to 15 years	**1,878,961,153**	1,470,454,738
More than 15 years to 20 years	**1,944,652,713**	1,606,488,975
More than 20 years	**3,813,253,946**	2,802,441,863

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 ₱397.1 million in 2013, ₱390.9 million in 2012 and ₱349.6 million in 2011 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:

	2013	2012
Within one year	**₱279,880,296**	₱259,189,820
After one year but not more than five years	**776,358,893**	705,255,989
More than five years	**522,367,070**	467,632,941
	₱1,578,606,259	₱1,432,078,750

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, 2013 and 2012, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to ₱45.0 million in 2013, ₱63.5 million in 2012 and ₱66.4 million in 2011 are shown under 'Miscellaneous income' in the statements of income.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2013	2012
Within one year	**₱20,408,527**	₱43,871,637
After one year but not more than five years	**7,958,099**	25,463,775
	₱28,366,626	₱69,335,412

26. Miscellaneous Expenses

This account consists of:

	2013	2012	2011
Insurance	**₱264,634,335**	₱245,939,520	₱243,985,774
Information technology	**220,459,184**	141,565,324	181,330,604
Litigation	**177,360,033**	154,395,978	118,692,442
Advertising	**159,206,964**	116,906,856	185,498,427
Communications	**139,105,183**	114,799,829	112,408,381
Repairs and maintenance	**98,794,593**	84,755,492	79,863,439
Transportation and traveling	**94,395,679**	84,366,717	82,417,797
Fines, penalties and other charges	**93,456,025**	13,183,640	20,510,728
Stationery and supplies	**66,536,407**	55,293,344	61,626,045
Supervision and examination fees	**36,687,158**	31,925,841	28,141,769
Management and professional fees	**29,283,846**	37,795,726	34,366,528
Donations and charitable contributions	**21,358,243**	12,747,490	1,213,237
Membership fees and dues	**11,812,780**	10,313,380	7,891,814
Rewards and incentives	**7,788,534**	2,407,329	5,899,131
Banking activities expenses	**6,891,511**	15,899,826	11,108,238
Training and seminars	**4,762,788**	4,406,740	6,506,744
Meeting allowance	**2,990,424**	2,351,637	2,343,859
Entertainment, amusement and recreation (EAR) (Note 27)	**1,441,308**	1,866,721	1,759,511
Others	**21,943,382**	22,225,790	22,732,526
	₱1,458,908,377	₱1,153,147,180	₱1,208,296,994

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation amounting to ₱196.4 million, ₱186.6 million and ₱189.1 million in 2013, 2012 and 2011, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also include payments to union members amounting to ₱9.3 million in 2013 and ₱8.9 million in 2012 and 2011, respectively, 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 2013 and 2012.

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:

	2013	2012	2011
Current:			
Final tax	**₱190,973,012**	₱273,076,804	₱399,950,508
RCIT	**167,700,706**	155,753,975	69,627,255
	358,673,718	428,830,779	469,577,763
Deferred	**821,500,247**	116,501,297	(493,938,013)
	₱1,180,173,965	₱545,332,076	(₱24,360,250)

Net deferred tax assets consist of:

	2013	2012 (As restated - Note 2)
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱349,349,619**	₱1,186,714,132
Net pension liability	**128,845,976**	77,116,696
Accumulated depreciation on investment properties	**63,162,431**	60,719,018
Accrued rent	**38,336,020**	40,875,999
Unamortized pension cost contribution	**5,679,943**	9,319,649
	585,373,989	1,374,745,494

(Forward)

	2013	2012 (As restated - Note 2)
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(₱247,613,399)**	(₱237,838,315)
Accretion of interest on impaired loans	**(84,227,313)**	(106,635,388)
Unrealized foreign exchange gains	**(10,414,030)**	(5,501,110)
	(342,254,742)	(349,974,813)
	₱243,119,247	₱1,024,770,681

As of December 31, 2013 and 2012, the Bank did not recognize deferred tax assets on allowance for credit losses and other accrued expenses amounting to ₱1.2 billion and ₱332.4 million, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2013	2012 (As restated - Note 2)	2011
Statutory income tax	**₱1,232,599**	₱845,975	₱601,320
Tax effect of:			
FCDU income	**(6,718)**	(76,620)	(56,710)
Tax-paid and tax-exempt income	**(1,287,110)**	(867,385)	(466,573)
Nondeductible expenses	**440,495**	328,863	408,139
Changes in deferred income taxes	**800,908**	314,499	(510,536)
Effective income tax	**₱1,180,174**	₱545,332	(₱24,360)

28. **Earnings Per Share**

The following table presents information used to calculate basic EPS:

	2013	2012 (As restated - Note 2)	2011
a. Net income	**₱2,928,488,808**	₱2,274,583,889	₱2,028,758,682
b. Weighted average number of common shares for basic EPS	**240,252,491**	240,252,491	240,252,491
c. Basic/Diluted EPS (a/b)	**₱12.19**	₱9.47	₱8.44

As of December 31, 2013, 2012 and 2011, 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, 2013 and 2012 amounted to ₱1.1 billion and ₱0.9 billion, respectively. The details of the assets of the fund as of December 31, 2013 and 2012 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, 2013 and 2012:

		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%

Related Party	Nature of Transaction	2012 Elements of Transaction Statement of Condition	Statement of Income
Philippine Savings Bank	Equity investment*	₱530,074,700	
	Time deposits**	731,143	
	Accrued interest income	158	₱158
	Dividends earned		9,193,516
	Gain on sale of equity securities		14,499,589
Sumisho Motor Finance Corporation	Equity investment	200,000,000	

*Includes fair value gains of ₱287.6 million
**Represent 30-day time deposits and bear interest of 3.25%

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 2013 and 2012.

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:

	2013	2012
Short-term employee benefits	**₱197,100,931**	₱183,888,423
Post-employment pension benefits	**41,273,818**	6,033,540
	₱238,374,749	₱189,921,963

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱13.0 million, ₱12.9 million and ₱11.3 million in 2013, 2012 and 2011, 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, 2013		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
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
Available-for-sale 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 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 earnings 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 earnings 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 Secured - ₱368,847; Unsecured - ₱84,496; impaired - ₱268,273
Deposits/placements	**6,295**		
Withdrawals/maturities	**54,280**		

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2013
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
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

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2012
Significant Investor			
Interbank loans receivable		₱–	Peso-denominated lending with fixed interest rates ranging from 3.88% to 4.78% with maturities ranging from 1 to 6 days
Deposits/placements	₱146,875,000		
Withdrawals/maturities	146,875,000		
Due from other banks	262,078	834,246	Short term peso and foreign currency denominated deposits with fixed rates ranging from 0.00% to 2.50%
Accounts receivable	(3)	2,945	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Property, plant and equipment		73,783	Purchase of a bank property
Miscellaneous assets		3,945	Security deposits from leased properties
Miscellaneous liabilities		6,100	Advance payment of security deposits from various tenants
Accrued other expense payable		67,599	Outstanding information technology expense, charges on current and savings accounts processing
Guarantees and commitments		5,526	Letters of guarantee from various loan take-out
Held-to-maturity investments		50,000	Pledge for security of payroll account with MBTC
Interest income	37,282		Income on deposits and interbank loans receivables
Rental income	22,481		Income from leasing agreements with various lease terms
Information technology expense	76,039		Payment of information technology transactions
Securities transactions			
Outright purchases	900,000		Outright purchase of FVPL and AFS investments
Outright sales	1,530,800		Outright sale of FVPL and AFS investments
Associate			
Investment in an associate		574,397	Outstanding balance of capital investment in TFSPC
Deposit liabilities	257	2,309	Demand deposits with annual fixed rate of 1.25%
Share in net earnings of an associate	51,148		25.00% share in net income of TFSPC
Interest expense	27		Interest on deposit liabilities

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2012
Joint Venture			
Investment in a joint venture		₱689,405	Outstanding balance of capital investment in SMFC
Accounts receivable	₱205	1,178	Outstanding rental and utility receivables, non-interest bearing; no impairment
Deposit liabilities	(235,619)	712,233	Demand and short term peso time deposits with annual fixed rates ranging from 0.75% to 3.65%
Miscellaneous liabilities		2,068	Advance payment of security deposits
Rental income	9,605		Income from leasing agreements
Share in net loss of a joint venture	25,491		40.00% share in net loss of SMFC
Interest expense	34,138		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		500,000	Peso-denominated lending with fixed interest rate ranging from 3.63% to 4.50% and a maturity term ranging from to 5 days
Deposits/placements	54,856,000		
Withdrawals/maturities	54,356,000		
Receivables from customers		501,327	Loans granted bearing an interest ranging from 6.00% to 11.50% with maturities ranging from 2 to 10 years; secured - ₱393,796; unsecured - ₱107,531; impaired - ₱303,195
Deposits/placements	1,700		
Withdrawals/maturities	49,060		
Miscellaneous assets		925	Security deposits from lease properties
Accrued interest receivable		201	Accrual of interest from interbank call loans
Accounts receivable	(313)	1,289	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense		8,957	payment of various motor car vehicles and fire insurance
Deposit liabilities	(8,273,101)	1,228,334	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 4.00%
Miscellaneous liabilities		696	Advance payment of security deposits from various tenants
Accrued other expense payable		6,629	Outstanding group life insurance premium liability
Interest income	63,805		Interest income on receivables from customers and peso denominated interbank call loans
Rental income	25,678		Outstanding rental and utility receivables, non-interest bearing
Bank commission	6,286		Commission on ATM service fees
Insurance expense	28,268		Payment of insurance
Interest expense	252,081		Interest on deposit liabilities
Securities transactions			
Outright purchases	5,250,000		Outright purchase of FVPL and AFS investments
Outright sales	3,650,000		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers			Unsecured, no impairment, with annual fixed interest rates of 6% and maturities ranging from 2 to 10 years
Deposits/placements	4,087	16,227	
Withdrawals/maturities	2,410		
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.

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, 2013 and 2012:

	2013	2012
Total outstanding DOSRI accounts	**₱1,709,337,946**	₱1,564,583,651
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**1.95%**	2.03%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**15.90%**	18.64%
Percent of past due DOSRI accounts to total DOSRI accounts	**26.32%**	31.88%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**26.32%**	31.88%

As of December 31, 2013 and 2012, 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.

BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank to loans of banks to their subsidiaries and affiliates engaged in energy and power generation.

As of December 31, 2013 and 2012, the Bank is in compliance with these requirements.

Total interest income from DOSRI loans amounted to ₱53.2 million, ₱55.4 million and ₱60.4 million in 2013, 2012 and 2011, 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, 2013 and 2012 are deposited with the BSP in compliance with trust regulations.

For 2013 and 2012, 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:

	2013	2012
Trust department accounts (Note 30)	**₱1,183,684,353**	₱1,293,415,295
Stand-by credit lines	**73,413,399**	94,632,544
Late deposits/payments received	**63,998,571**	61,753,601
Items held for safekeeping	**260,102**	303,772
Others	**26,095**	17,869

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. 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.

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:

	2013	2012	2011
Additions to investment properties in settlement of loans (Note 12)	**₱752,249,442**	₱491,398,630	₱600,182,806
Additions to chattel mortgage in settlement of loans (Note 14)	**1,025,399,887**	840,698,632	667,187,188
Transfers from investment property to property and equipment (Notes 11 and 12)	**68,749,769**	–	–
Net increase (decrease) in the fair value of AFS investments	**(183,813,692)**	(2,193,594,598)	2,044,596,539
Dividends declared and unpaid	**2,330,667**	176,673,172	35,370,001
Cumulative translation adjustment	**12,735,179**	(6,006,080)	(1,693,565)

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, 2013						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statement of condition [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Securities Purchased Under Resale Agreements (SPURA)	**₱14,527,000,000**	**₱–**	**₱14,527,000,000**	**₱–**	**₱15,674,388,764**	**₱–**

December 31, 2012						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of condition [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Securities Purchased Under Resale Agreements (SPURA)	₱4,750,000,000	₱–	₱4,750,000,000	₱–	₱4,745,893,484	₱4,106,516

34. Subsequent Events

On January 24, 2014, the BOD of the Bank declared a 7.50% regular cash dividend for the fourth quarter of 2013 amounting to ₱180.19 million or ₱0.75 per share. This was approved by BSP on February 12, 2014.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements were reviewed and approved for release by the Bank's Audit Committee and BOD on February 21, 2014.

36. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010

Supplementary Information under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which requires companies to disclose certain tax information in their respective notes to financial statements.

For the taxable year ended December 31, 2013, the Bank reported the following revenues and expenses for income tax purposes:

Revenues

Services/operations	₱7,837,651,337
Non-operating and taxable other income:	
Service charges, fees and commissions	₱1,025,208,917
Others	295,110,910
	₱1,320,319,827

Expenses

Cost of services:	
Compensation and fringe benefits	₱1,409,987,377
Others	2,444,801,508
	₱3,854,788,885
Itemized deductions:	
Taxes and Licenses	₱784,049,633
Compensation and fringe benefits	628,905,772
Rent	386,265,943
Depreciation	323,224,585
Communication, light and water	287,298,162
Security, messengerial and janitorial	242,402,981
Information technology	215,168,662
Advertising	122,286,076
Repairs and maintenance	94,968,406
Transportation and travel	65,941,734
Management and professional fees	29,283,846
EAR	1,441,308
Others	1,564,949,348
	₱4,746,186,456

Supplementary Information Under 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, 2013, taxes and licenses of the Bank consist of:

Gross receipts tax	₱706,231,683
Documentary stamp tax	287,595,580
Local taxes	34,814,644
Real property tax	15,136,426
Fringe benefit tax	9,108,931
Others	953,700
	₱1,053,840,964

Withholding Taxes
Details of total remittances of withholding taxes for the taxable year ended December 31, 2013 are as follows:

Withholding taxes on compensation and benefits	₱367,994,863
Expanded withholding taxes	81,758,145
Final withholding taxes	273,514,158
	₱723,267,166