SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **JUNE 30, 2014**

2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **000-005-469-606**

4. Exact name of issuer as specified in its charter **PHILIPPINE BUSINESS BANK, INC.**

5. **CALOOCAN**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **350 Rizal Avenue corner 8th Avenue Gracepark, Caloocan City** **1400**
Address of principal office Postal Code

8. **(02) 363-33-33**
Issuer's telephone number, including area code

9. **NOT APPLICABLE**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**343,333,400**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No [ ]

The Bank was listed in Philippine Stock Exchange last February 19, 2013

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Indicate by check mark whether the registrant:

1. has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [√] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ] No [√]

PART I – FINANCIAL INFORMATION

Item I:
Management's Discussion & Analysis of Financial Position and Results of Operations

Item II:
Financial Statements (Attachment 1 - Unaudited Interim Financial Statements)

PART II – OTHER INFORMATION

Please refer to the following:

Attachment 2 – Aging of Past Due Loans and Other Receivables
Attachment 3 – Consolidated Financial Ratios

There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIPPINE BUSINESS BANK, INC.
Issuer

By:

FRANCIS T. LEE
Chairman

ALICE P. RODIL
SVP / Controller

Item 1. Financial Statements.

The accompanying financial reporting package (FRP) of Philippine Business Bank ("PBB" or the "Bank") which comprise the financial position as of June 30, 2014 and December 31, 2013 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six-month ended June 30, 2014 and June 30, 2013 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

A. **Management's Discussion and Analysis**

a) ***Financial Performance Highlights***

The Bank's core income, composed of net interest income and fee-based income and exclusive of trading gains, increased from Php846.67 million to Php1,134.71 million or a 34.02% growth rate.

The Bank posted a net income of Php258.33 million for the first half of 2014, a 67.50% decrease over last year's same period earnings of Php794.83 million, which translated to an annualized Return on Equity (ROE) and Return on Assets (ROA) of 7.03% and 1.04% respectively.

Total resources grew from Php47.16 billion in December 2013 to Php52.01 billion in June 2014. Loans rose by 10.20% to Php34.82 billion. Liquid assets increased to 15.19 billion in June 2014 from Php13.84 billion in December 2013. Overall earning assets grew by 10.07% totaling Php50.01 billion in June 2014. Total deposits increased from Php37.88 billion in December 2013 to Php41.91 billion in June 2014 or a growth rate of 10.60%.

NPL ratio from December 2013 to June 2014 is constant at 2.33%. NPL cover is at 95.03% and CAR is at 24.26%, above the BSP requirement of 10%.

Operating expenses were 7.44% higher than last year due to increase in expenses related to the Bank's branch expansion initiative. Provision for credit losses decreased from Php142.33 million in June 2013 to Php34.00 million in June 2014 as the Bank accelerated its loan loss provisioning in 2013, and the Php34.00 million provision for the six month period ending June 2014 is to cover the Allowance for general loan loss provisions of the additional loans booked.

b) ***Revenues***

The Bank's core income, composed of net interest income and fee-based income and exclusive of trading gains, increased from Php846.67 million to Php1,134.71 million or a 34.02% growth rate. Operating income decreased from Php1.627 billion to Php1.124 billion or a decrease of 30.88%. The decrease was due to the unfavorable rates in the market that resulted in the decrease in income opportunities from treasury transactions. Other income sources such as trading gains posted a loss of Php10.21 million in June 2014 from an income of Php780.19 in June 2013.

c) ***Net Interest Income***

Net interest income improved to Php1,071.62 million versus last years Php754.36 million, a 42.06% increase. The higher net interest income was a result of the increase in loan portfolio coupled with a decline cost of funds. Net Interest Margin (NIM) improved to 4.49% from 4.06% for the six-month period ending June 30, 2014 and 2013 respectively, even with the continuing decline in corporate loan interest rates. In addition, the CASA ratio to total deposits continued to increase to 43.38%. CASA accounts are low-cost funds.

d) ***Trading Income***

Due to expectations of increasing interest rates, the Bank maintained a neutral approach in its treasury business this year, taking no medium to long term positions. Trading loss amounting to Php10.22 million and trading income of Php780.19 ware booked in June 2014 and 2013, respectively.

e) ***Operating Expenses***

Operating expenses increased by 7.45% to Php746.91 million due to the increase in expenses related to the branch expansion. Compensation and fringe benefits of Php228.81 million was higher by Php39.40 million or 20.80% from the first six months of 2013 due to the increase in personnel to handle branch operations and corporate lending.

Non controllable expenses such as rent, insurance premiums, expenses on permits and other local taxes likewise increase due to the expansion.

f) ***Provision for Credit Losses***

The Bank continued its conservative provisioning on account of its loan expansion by setting up an additional Php34.00 million to cover general loan loss provisions.

g) ***Loans and Other Receivables***

Total net loans and other receivables increased by 10.20% to Php34.82 billion from Php31.60 billion in December 2013. The Bank's expansion of its lending activities to the SME's coupled with the opportunity to improve the loan portfolio resulted in the increase in the Bank's primary earning assets, improvement in the core earnings and increase in NIM.

h) ***Deposits***

Total bank deposits increased from Php37.88 billion to Php41.91 billion or a 10.64% growth. CASA deposits, the Bank's source of low cost funds increased from Php13.73 billion to Php18.17 billion or a 32.34% increase. These low cost funds comprised 43.37% of the total deposits.

High costs funds slightly decreased from Php24.16 billion to Php22.72 billion or 1.79%. FCDU deposits increased from USD51.89 million to USD76.50 million, a 47.37% growth rate.

i) ***Capital***

The Bank's total equity as of June 30, 2014 is Php7.67 billion or a 9.11% increase over December 31, 2013 from Php7.03 billion. The increase was due to a decline in net unrealized loss on AFS assets from Php1,043.28 million in December 31, 2013 to Php600.09 million in June 30, 2014: and net income of Php258.33 for the six-month ending June 30, 2014.

On February 19, 2013 the Bank issued additional common shares of 101,333,400 at market price of Php31.50 during its IPO, equivalent to 29.51% of the total bank shares..

In 2012, the Bank also declared stock dividends from its unrestricted surplus worth Php2.0 billion to its common stockholders as approved by the BSP and SEC.

On May 30, 2014, the Board of Directors of the Bank approved the declaration of 25% stock dividends to common stockholders amounting to Php858,333,500 equivalent to 85,833,350 common shares with record date of July 17, 2014 and payment date of August 11, 2014. Simultaneously, cash dividends due to preferred shareholders were also approved for Php621,335,000 with payment date of August 11, 2014.

B. Key Performance Indicators

a. ***Capital Adequacy***

The Bank's capital adequacy ratio (CAR) is at 21.31% as of June 30, 2014 from 26.26% in December 2013.

b. ***Asset Quality***

The Bank's current NPL ratio slightly increased to 2.31% as of June 2014 from 2.37% in December 2013 while NPL cover was 95.84% in June 2014 from 98.37% in December 2013.

c. ***Profitability***

Return on equity decreased as of June 2014 to 7.03% from 20.60% in December 2013. Net interest margin also decreased to 4.49% for June 2014 as compared to 4.60% in December 2013.

d. ***Liquidity***

The Bank's loans to deposit ratio as of June 2014 is at 83.09% from 83.42% in December 2013. Moreover, allowance for impairment on loans to total NPL is at 95.84% as of June 2014 from 98.37% in December 2013.

e. ***Cost Efficiency***

Cost to income ratio is up at 66.42% in June 2014 from 42.70% in June 2013.

C. Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

Financial Condition (June 30, 2014 vs. December 31, 2013)

- PBB's assets reached Php52.02 billion as of June 30, 2014. This is 10.31% higher compared to Php47.16 billion as of December 31, 2013. Significant changes (more than 5%) in assets were registered in the following accounts:

  a) Cash and Other Cash items declined by Php174.84 million or 23.77% due to cash management and to reduce non-interest bearing assets.

  b) Due from BSP and Other Banks increased by Php474.29 million or 13.19% due to aggressive generation of deposit in the first six months of the year.

  c) Investment Securities at fair value through profit or loss increased by Php336.24 million or 36.64% due to acquisition of various government securities.

  d) Loans and Receivables grew by Php3.22 billion or 10.20% from Php31.60 billion in December 31, 2013 to Php34.82 billion in June 30, 2014 as a result of deployment of funds to borrowing clients.

  e) Bank Premises grew by Php22.57 million or 4.73% due to branch expansion.

  f) Real and Other Properties Owned decreased by 7.07% or Php31.52 million due to sale of foreclosed properties during first six months of 2014.

- PBB's liabilities amounted to Php44.35 billion as of June 30, 2014. This is Php4.22 billion or 10.51% higher compared to December 31, 2013's level of Php40.13 billion.

- High cost liability in the form of Bills Payable was reduced greatly by 89.00% or Php172.60 million from Php193.93 million in December 2013 to Php21.33 million in June 2014. This is because of set maturities and use of IPO proceeds in lieu of discounting lines with the BSP.

Results of Operations for the second quarter ended June 30, 2014 and June 30, 2013

- The Bank's core income, composed of net interest income and fee-based income and exclusive of trading gains, increase from Php475.74 million to Php581.23 million or a 22.17% growth rate. PBB posted a Php145.47 million net income for the second quarter ending June 30, 2014. This is a 27.91% or Php56.32 million decrease compared to the same quarter last year. The decrease was due to the unfavorable market conditions that resulted in trading income of Php32.16 in the second quarter of 2014 compared to trading income booked in the second quarter of June last year amounting to Php114.24 or a net decrease of 71.85% or Php82.08 million.

- Interest income for the second quarter of 2014 from loans increased by 46.06% or Php191.06 million for the same period last year due to the increase in volume of the loan portfolio. Total interest income increased by 30.05% or P160.44 million compared to the same period last year.

- Service charges, fees and commissions increased by 31.68% from Php15.34 million in the second quarter of 2014 to Php20.20 million for the same period this year resulting from the increase in the volume of transactions in consumer lending.

- Trading gains decreased by 71.85% from Php114.24 in the second quarter of 2013 to Php32.16 million in the second quarter of 2014 due to unfavorable market conditions during the period.

- Miscellaneous income decreased in the second quarter 2014 by 73.10% to Php9.83 million from Php36.55 million in the same period of 2013.

- Manpower costs continue to rise from Php94.48 million in the second quarter of 2013 to Php118.73 million in the same quarter this year on account of the Bank's business expansion and larger branch network.

- The Bank continued its conservative provisioning on account of its loan expansion by setting up an additional Php23.00 million for general loan loss provisions.

- Taxes and licenses increased by 19.08% as a direct result of decreased operating income, depreciation and amortization, insurance, representation and entertainment, and miscellaneous expenses increased by 58.32%, 40.09%, 12.74%, 29.31% respectively, the Bank continued its expansion activities.

Results of Operations for the six-month period ended June 30, 2014 and June 30, 2013

- PBB posted a Php258.33 million net income for the six-month period ending June 2014. This is a 67.50% or Php536.49 million decrease compared to the same period last year. The decrease was due to the unfavorable market conditions that resulted in a trading loss of Php10.22 million in the first six months of 2014 from a trading income of Php780.19 million in the same period last year.

- Interest income for the six-month period ending June 2014 from loans increased by 44.49% or Php344.24 million for the same period last year due to increased loan portfolio volume. Total interest income increased by 34.17% or P343.90 million compared to the same period last year.

- Service charges, fees and commissions increased by 19.23% from Php32.04 million in the six-month period ending June 2013 to Php38.20 million for the same period this year resulting from a slight increase in the volume of transaction of consumer lending.

- Trading gains decreased in the six-month period ending June 2014 by 101.31% to a trading loss of Php10.22 million from trading income of Php780.19 million in the same period last year due to unfavorable market conditions during the period.

- Miscellaneous income decreased in the first six months of June 2014 by 58.70% to Php24.90 million from Php60.27 million in the same period of 2013.

- Manpower costs continued to rise from Php189.42 million in the first six months of June 2013 to Php228.81 million in the same period this year on account of the Bank's business expansion and larger branch network.

- The Bank continued its conservative provisioning on account of its loan expansion by setting up additional Php34.00 million for general loan loss provisions.

- Taxes and licenses, management and other professional fees decreased by 10.84% and 52.31% respectively as a direct result of decreased operating income. Depreciation and amortization, insurance, representation and entertainment, and miscellaneous expenses increased by 58.35%, 32.32%, 8.71%, 23.10% respectively, on account of the Bank's business expansion.

Significant Elements of Income or Loss

Significant elements of the net income of the Bank for the six-month period ended June 30, 2014 came from its operations. A significant portion came from the core business of interest income on loans and trading gains/loss from sale of Peso securities.

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the six months period ended June 30, 2014 and 2013 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

Attachment 1

PHILIPPINE BUSINESS BANK, INC.

Interim Consolidated Financial Statements
As of June 30,2014 (Unaudited) and December 31, 2013 (Audited)
And for the Six Months Ended June 30, 2014 and 2013 (Unaudited)

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND December 31, 2013
(Amounts in Philippine Pesos)

	Unaudited June 30, 2014	Audited December 31, 2013
RESOURCES		
CASH AND OTHER CASH ITEMS	P 560,825,105	P 735,667,668
DUE FROM BANGKO SENTRAL NG PILIPINAS	4,071,504,612	3,597,209,300
DUE FROM OTHER BANKS	1,123,883,714	671,482,943
TRADING AND INVESTMENT SECURITIES		
At Fair Value Through Profit or Loss	1,253,870,810	917,630,877
Available-For-Sale	2,210,499,331	7,908,049,843
Held-To-Maturity	5,970,543,501	8,656,409
LOANS AND OTHER RECEIVABLES - Net	34,822,730,948	31,599,913,333
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	499,406,522	476,837,632
INVESTMENT PROPERTIES - Net	414,142,711	445,660,554
OTHER RESOURCES - Net	1,087,852,107	796,520,701
TOTAL RESOURCES	P 52,015,259,361	P 47,157,629,260
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES		
Demand	P 434,742,006	P 4,944,474,190
Savings	17,740,226,798	8,781,500,500
Time	23,736,153,747	24,156,036,054
Total Deposit Liabilities	41,911,122,551	37,882,010,744
BILLS PAYABLE	21,328,806	193,927,801
ACCRUED EXPENSES AND OTHER LIABILITIES	2,416,297,823	2,055,211,767
Total Liabilities	44,348,749,180	40,131,150,312
EQUITY	7,666,510,181	7,026,478,948
TOTAL LIABILITIES AND EQUITY	P 52,015,259,361	P 47,157,629,260

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF INCOME
FOR SIX MONTHS ENDED JUNE 30, 2014, AND JUNE 30, 2013
(Amounts in Philippine Pesos)

	For the quarter ended June 30, 2014	For the quarter ended June 30, 2013	Unaudited For the six months ended June 30, 2014	Unaudited For the six months ended June 30, 2013
INTEREST INCOME				
Loans and other receivables	**P 605,883,994**	P 414,820,078	**P 1,117,972,111**	P 773,729,378
Investment and trading securities	**82,955,769**	108,971,695	**216,855,961**	201,309,874
Securities purchased under reverse repurchase agreements	-	46,354	-	2,657,451
Due from Bangko Sentral ng Pilipinas and other banks	**5,562,369**	10,122,122	**15,386,692**	28,620,441
	694,402,132	533,960,249	**1,350,214,764**	1,006,317,144
INTEREST EXPENSE				
Deposit liabilities	**142,918,884**	108,977,291	**277,444,465**	248,435,996
Bills payable	**286,830**	1,136,598	**1,152,267**	3,523,437
	143,205,714	110,113,889	**278,596,732**	251,959,433
NET INTEREST INCOME	**551,196,418**	423,846,360	**1,071,618,032**	754,357,711
IMPAIRMENT LOSSES	**23,000,000**	72,121,343	**34,000,000**	142,331,033
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	**528,196,418**	351,725,017	**1,037,618,032**	612,026,678
OTHER INCOME				
Trading gains - net	**32,161,665**	114,240,277	**(10,215,346)**	780,193,588
Service charges, fees and commissions	**20,200,433**	15,340,973	**38,202,374**	32,039,781
Miscellaneous	**9,831,338**	36,550,624	**24,889,826**	60,269,097
	62,193,436	166,131,874	**52,876,854**	872,502,466
OTHER EXPENSES				
Salaries and other employee benefits	**118,727,824**	94,479,485	**228,814,431**	189,417,593
Taxes and licenses	**70,398,880**	59,118,808	**131,663,638**	147,669,630
Management and other professional fees	**26,620,078**	28,276,899	**44,975,187**	94,307,794
Depreciation and amortization	**35,432,620**	22,379,706	**70,113,281**	44,278,642
Insurance	**26,507,942**	18,922,385	**48,776,857**	36,863,384
Representation and entertainment	**7,891,822**	7,000,321	**16,859,749**	15,509,419
Miscellaneous	**112,036,993**	86,643,809	**205,706,765**	167,099,801
	397,616,159	316,821,413	**746,909,908**	695,146,263
PROFIT BEFORE TAX	**192,773,695**	201,035,478	**343,584,978**	789,382,881
TAX EXPENSE	**47,300,982**	(756,886)	**85,252,501**	(5,442,404)
NET PROFIT	**P 145,472,713**	P 201,792,364	**P 258,332,477**	P 794,825,285
Earnings Per Share				
Basic			**P 0.75**	P 2.32
Diluted			**P 0.75**	P 2.32

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR SIX MONTHS ENDED JUNE 30, 2014,AND JUNE 30, 2013
(Amounts in Philippine Pesos)

	For the quarter ended June 30, 2014	For the quarter ended June 30, 2013	Unaudited For the six months ended June 30, 2014	Unaudited For the six months ended June 30, 2013
NET PROFIT	**P 145,472,713**	P 201,792,364	**P 258,332,477**	P 794,825,285
OTHER COMPREHENSIVE INCOME				
Fair value loss on available-for-sale securities during the year - net	**(8,839,767)**	(1,052,099,472)	**121,384,211**	(717,579,332)
Fair value (loss) gain recycled to profit or loss	**325,258,242**	(8,528,190)	**321,804,551**	(323,402,989)
	316,418,475	(1,060,627,662)	**443,188,762**	(1,040,982,321)
TOTAL COMPREHENSIVE INCOME	**P 461,891,188**	(P 858,835,298)	**P 701,521,239**	(P 246,157,036)

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR SIX MONTHS ENDED JUNE 30, 2014, AND JUNE 30, 2013
(Amounts in Philippine Pesos)

	Capital Stock		Additional Paid-in	Surplus		Unrealized Fair Value Gains (Losses) on Available-for-sale		Total
	Preferred Stock	Common Stock	Capital	Appropriated	Unappropriated	Securities		Equity
BALANCE AS OF JANUARY 1, 2014	P 620,000,000	P 3,433,334,000	P 1,998,396,816	P 1,764,202	P 2,045,920,225	(P 1,043,281,000)	(P 29,655,291)	P 7,026,478,952
Prior period adjustment	-	-	(107,372)	-	942,862	-		P 835,490
Cash dividends declared	-	-	-	-	(62,325,500)	-		(P 62,325,500)
Total comprehensive income (loss)	-	-		-	258,332,477	443,188,762	-	701,521,239
BALANCE AS OF June 30, 2014	**P 620,000,000**	**P 3,433,334,000**	**P 1,998,289,444**	**P 1,764,202**	**P 2,242,870,064**	**(P 600,092,238)**	**(P 29,655,291)**	**P 7,666,510,181**
BALANCE AS OF JANUARY 1, 2013	P 620,000,000	P 2,420,000,000	P	P P 873,498	P 1,038,902,212	P 322,575,800	-	P 4,402,351,510
Share issuance during the year	-	1,013,334,000	1,986,666,000	-	-	-		3,000,000,000
Total comprehensive income (loss)	-	-	-	-	794,825,285	(1,040,982,321)	-	(246,157,036)
BALANCE AS OF June 30, 2013	**P 620,000,000**	**P 3,433,334,000**	**P 1,986,666,000**	**P 873,498**	**P 1,833,727,497**	**(P 718,406,521)**	**-**	**P 7,156,194,474**

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF CASH FLOWS
FOR SIX MONTHS ENDED JUNE 30, 2014, AND JUNE 30, 2013
(Amounts in Philippine Pesos)

	Unaudited 2014	Unaudited 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 343,584,978	P 789,382,881
Adjustments for:		
Depreciation and amortization	35,623,526	44,278,642
Impairment losses	34,000,000	142,331,033
Loss (gain) on foreclosure - net	-	-
Gain on sale of properties - net	-	-
Operating profit before working capital changes	413,208,504	975,992,556
Increase in financial assets at fair value through profit or loss	(336,239,933)	(389,184,081)
Increase in HTM	(5,961,887,092)	
Decrease in AFS	5,697,550,512	
Increase in loans and other receivables	(3,256,817,615)	(5,165,556,986)
Decrease (increase) in other resources	(281,131,406)	(33,125,677)
Increase (decrese) in deposit liabilities	4,029,111,807	6,557,419,389
Increase (decrease) in payables	62,325,000	
Increase (decrease) in accrued expenses and other liabilities	215,679,905	333,139,781
Cash generated from (used in) operations	581,799,682	2,278,684,982
Cash paid for income taxes	(74,804,221)	(37,256,906)
Net Cash From (Used in) Operating Activities	506,995,461	2,241,428,076
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale (AFS) securities	98,605,790	18,429,366,853
Proceeds from sale of AFS securities	344,582,972	(22,458,527,216)
Proceeds from sale of investment and other properties	31,517,843	(40,106,016)
Net acquisitions of bank premises, furniture, fixtures and equipment	(57,249,551)	(71,200,014)
	-	-
Net Cash From (Used In) Investing Activities	417,457,054	(4,140,466,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) of bills payable	(172,598,995)	(619,144,190)
Proceeds from capital stock issueance	-	3,000,000,000
	-	-
Net Cash From (Used in) Financing Activities	(172,598,995)	2,380,855,810
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	751,853,520	481,817,493
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
Cash and other cash items	735,667,668	435,898,545
Due from Bangko Sentral ng Pilipinas	3,597,209,300	3,073,180,153
Due from other banks	671,482,943	1,000,089,458
Securities purchased under reverse repurchase agreements	-	-
	5,004,359,911	4,509,168,156
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and other cash items	560,825,105	305,912,052
Due from Bangko Sentral ng Pilipinas	4,071,504,612	3,745,915,816
Due from other banks	1,123,883,714	939,157,781
Securities purchased under reverse repurchase agreements	-	-
	P 5,756,213,431	P 4,990,985,649

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
NOTES TO UNAUDITED
INTERIM FINANCIAL INFORMATION

1. CORPORATE MATTERS

1.01 Incorporation and Operations

Philippine Business Bank, Inc. A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP.
The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791) and other relevant laws.

On January 9, 2013, the Philippine Stock Exchange (PSE) approved the Bank's application for the listing of its common shares. The approval covered the initial public offering (IPO) of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013 (see Note 21.01).

As of June 30, 2014, the Bank operates within the Philippines with 102 branches, located nationwide. For the year ended December 31, 2013 the Bank opened 21 additional branches and 2 for the six months period ending June 30, 2014.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.02 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended June 30, 2014 (including the comparative financial statements for December 31, 2013 and the corresponding figures as of January 1, 2012) were authorized for issue by the Board of Directors (BOD) on July 23, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.01 *Basis of Preparation of Financial Statements*

(a) Statement of Compliance with Financial Reporting Standards in the Philippines for Banks

The financial statements of the Bank have been prepared in accordance with the financial reporting standards in the Philippines (FRSP) for banks. FRSP for banks are similar to Philippine Financial Reporting Standards (PFRS), except for the reclassification of certain financial assets previously classified under
available-for-sale (AFS) securities due to the tainting of held-to-maturity (HTM) portfolio to HTM investment category, which are not allowed under PFRS, but allowed under FRSP as permitted by the BSP for prudential regulation, and by the Securities and Exchange Commission (SEC) for financial reporting purposes.

Under PFRS, the Bank is not allowed to classify financial assets under HTM investments for at least two years upon tainting of its investments in 2006. However, in 2008, the Bank reclassified financial assets previously classified as
AFS securities due to tainting of HTM portfolio back to HTM investment category for prudential reporting purposes as allowed under FRSP.
The unamortized fair value gains related to debt securities previously reclassified from AFS securities to HTM investments amounted to P0.2 million and P0.5 million for 2012 and 2011, respectively (nil in 2013 and 2014).

PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents the “Statement of Comprehensive Income” in two statements: a “Statement of Income” and a “Statement of Comprehensive Income”.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

The Bank’s adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts as of December 31, 2012 and in the corresponding figures as of January 1, 2012 [see Note 2.02(a)(ii)]. Accordingly, the Company presents a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Polices, Changes in Accounting Estimates and Errors* and those required by the SEC for listed entities.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank’s functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank’s foreign currency deposit unit (FCDU) which is reported in its functional currency,
the United States (US) dollars, are translated using the closing exchange rate
(for the statement of financial position accounts) and average exchange rate during
the year (for profit and loss accounts).

2.1.1.1 ***Adoption of New and Amended PFRS***

(a) *Effective in 2013 that are Relevant to the Bank*

In 2013, the Bank adopted for the first time the following new PFRS, revisions, amendments and annual improvements thereto that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 13	:	Fair Value Measurements
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)

Discussed below are the relevant information about these new, revised and amended standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss, and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively, hence, the presentation of other comprehensive income has been modified to reflect the changes. Prior period comparatives have been restated as a consequence of this change in presentation.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to the defined benefit plans as follows:

õ eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

õ changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined liability or asset, and,

õ enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

In 2013, the Bank has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of the changes against the December 31, 2012 and January 1, 2012 balances of the affected resources, liabilities, and equity components are shown below and in the succeeding pages.

	December 31, 2012		
	As Previously Reported	Effects of Adoption of PAS 19	As Restated

	As Previously Reported	Effects of Adoption of PAS 19	As Restated
Changes in asset and liability:			
Other resources	P 986,674,737	P 6,755,303	P 993,430,040
Accrued expenses and other liabilities	(1,480,537,015)	(22,517,676)	(1,503,054,691)
Net decrease in equity		(P 15,762,373)	
Changes in components of equity:			
Revaluation reserves	-	(20,570,443)	(20,570,443)
Surplus free	1,039,775,710	4,808,070	1,044,583,780
Net decrease in equity		(P 15,762,373)	

	January 1, 2012		
	As Previously Reported	Effects of Adoption of PAS 19	As Restated
Changes in asset and liability:			
Other resources	P 194,341,988	P 4,115,510	P 198,457,498
Accrued expenses and other liabilities	(6,791,741)	(13,718,367)	(20,510,108)
Net decrease in equity		(P 9,602,857)	
Changes in components of equity:			
Revaluation reserves	-	(14,106,718)	(14,106,718)
Surplus free	1,039,775,710	4,503,861	2,490,066,655
Net decrease in equity		(P 9,602,857)	

The effects of the adoption of PAS 19 (Revised) on the statements of profit or loss and statement of comprehensive income for the years December 31, 2012 and 2011 are shown below.

	2012		
	As Previously Reported	Effects of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Interest expense – others	P -	P 1,297,045	P 1,297,045
Salaries and other employee Benefits	322,525,023	(1,731,629)	320,793,394
Tax expense	56,431,793	130,375	56,562,168
Net decrease in profit or loss		P 304,209	

	2011		
	As Previously Reported	Effects of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Interest expense – others	P -	P 137,274	P 137,274
Salaries and other employee Benefits	255,380,659	(117,381)	255,263,277
Tax expense	99,561,375	(5,968)	99,555,407

Net decrease in profit or loss	P 13,925

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The details and outstanding balances of financial assets and liabilities that are subject to offsetting are disclosed in Note 6.02.

(iv) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial instrument items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. The amendment applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures, the application of this new standard has no significant impact on the amounts recognized in the financial statements.

(v) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Bank:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or make a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than the disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

Consequent to the Bank's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' financial statements, the Bank has presented corresponding figures in a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8 and SEC requirements for listed entities.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment.* The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Bank's financial statements in accordance with the recognition criteria under PAS 16.

(c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Bank's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

(b) Effective in 2013 that are not relevant to the Bank

The following revisions, amendments, annual improvements and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Bank's financial statement:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loan
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interests in Other Entities
PFRS 10, 11 and 12 (Amendments)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12
Annual Improvement PAS 1 (Amendment)	:	First time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Cost
Philippine Interpretation International Financial Reporting Interpretation Committee 20	:	Stripping Costs in the Production Phase *of a Surface Mine*

(c) Effective Subsequent to 2013 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the

number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on The Bank's financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Bank does not expect this amendment to have a significant impact on its financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosure for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets of cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent year's financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.

(iv) PAS 39 (Amendment) *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirement on hedge accounting by allowing entities to continue the use of hedging accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. The Bank enters into transactions involving derivative instruments but does not apply hedge accounting, hence the amendment will not have an impact on the Bank's financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement.* This is the first part of a new standard on financial instruments that will replace PAS 39 in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivative in host contracts that are financial assets is simplified by removing the requirements to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Bank does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Bank and it plans to conduct comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(vi) Annual improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to The Bank but management does not expect a material impact on the Bank's financial statements:

Annual Improvements to PFRS (2010 – 2012 Cycle)

- PAS 16 (Amendment)*, Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets.* The amendments clarify the when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the resources.

- PAS 24 (Amendment), *Related Party Disclosures.* The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party to the latter. It also requires and clarifies that the amounts incurred by a reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

- PFRS 13 (Amendment), *Fair Value Measurement.* The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle) õ PFRS 13 (Amendment), *Fair Value Measurement.* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contract within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

1. PAS 40 (Amendment), *Investment Property.* The amendment clarifies the interrelationship of PFRS 3, *Business Combinations,* and PAS 40, *Investment Property*, in determining the classification of property as an property or owner-occupied property and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an resource or group of resource, or a business combination in reference to PFRS 3.

2 .0 2 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 .0 3 ***Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments*, is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 8.

2.04 Financial Instruments

2.05.01 Financial Assets

Financial assets, which are recognized when the Bank becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, HTM investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs related to it are recognized in profit or loss.

The foregoing categories of financial instruments of the Bank are more fully described below.

(a) *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities and corporate bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income and are reported as part of the Revaluation Reserves account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *HTM Investments*

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM investments category for the next two financial reporting years after the year the tainting occurred. Under FRSP, however, the Bank was allowed to reclassify from AFS securities to HTM investments category in 2008 despite being tainted until 2008. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are (i) so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (ii) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (iii) are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. The Bank currently holds listed sovereign bonds designated into this category.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

(d) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, securities purchased under reverse repurchase agreements (SPURRA), sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Other Resources (specifically Security deposits, Petty cash fund and Foreign currency notes and coins on hand) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks and SPURRA.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in their value is recognized in profit or loss, except for increases in fair values of reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows. Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

All income and expenses, including impairment losses relating to financial assets are recognized in the statement of comprehensive income.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

Derecognition of financial assets occurs when the contractual rights to receive cash flows from the financial instruments expire and substantially all of the risks and rewards of ownership have been transferred.

2.05.02 Derivative Financial Instruments

The Bank uses derivative financial instruments to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.05.03 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.05.04 Impairment of Financial Assets

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* it is probable that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

a) Assets Carried at Amortized Cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually 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, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Financial 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 of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. 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 foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 on 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 for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of 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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, 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.

b) Assets Carried at Fair Value

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for AFS securities, 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 profit or loss – is removed from equity and recognized in profit or loss.
Impairment losses recognized in the statement of income on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities 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.

c) Assets Carried at Cost

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

2.05.05 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of income.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the statement of income over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank subject to the approval of the BSP.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2 .0 5 *Other Resources*

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably

2 .0 6 *Bank Premises, Furniture, Fixtures and Equipment*

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values and estimated useful lives of Bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

2.07 *Investment Properties*

Investment properties are accounted for under the cost model. The cost of an investment property comprises its purchase price and directly attributable cost incurred. These include land and building acquired by the Bank from defaulting borrowers. For these assets, cost is recognized initially at fair value of the investment properties unless: (i) the exchange transaction lacks commercial substance; or (ii) neither the fair value of the asset received nor the asset given up is reliably measurable. The difference between the fair value of the asset received and the carrying amount of the loan settled through foreclosure of investment properties is recognized as Gain or loss on foreclosure under Miscellaneous Income or Expense account in the statement of income. Investment properties except land are depreciated over a period of five to ten years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized as Gain or loss on sale of properties under Miscellaneous Income or Expenses in the year of retirement or disposal.

2.08 Intangible Assets

Intangible assets include goodwill, acquired branch licenses and computer software included as part of other resources which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful life lives as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.16.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.16). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and is subsequently carried at cost less any accumulated impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Equity

Preferred and common shares represent the nominal value of the shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus pertains to appropriations made by the Bank for a portion of the Bank's income from trust operations set-up in compliance with BSP regulations.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of income, less appropriated surplus and dividends declared.

Revaluation reserves comprise remeasurements of post-employment defined benefit plan.

Unrealized fair value gains (losses) on AFS securities pertain to cumulative mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

2.12 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) the Bank's retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.13 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the expenses and costs incurred and to be incurred can be measured reliably. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. In addition to specific recognition criteria in the succeeding page must also be met before revenue is recognized.

2.13.01 Interest Income and Expense

Interest income and expense are recognized in the statement of income for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

2.13.02 Trading Gains

Trading gains are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains also result from the mark-to-market valuation of the securities classified as FVTPL at the valuation date.

2.13.03 Service Charges, Fees and Commissions

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

2.14 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from a lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as insurance and repairs and maintenance, are expensed as incurred.

(b) *Bank as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.15 Foreign Currency Transactions and Translation

The accounting records of the Bank’s regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars, its functional currency. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.16 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, other properties held for sale (classified as Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.
An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist.An impairment lossis reversed if the cash generating units' recoverable amount exceeds its carrying amount.

2.17 Employee Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Philippine Dealing and Exchange Corporation (PDEX) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense or Interest Income account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.18 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.19 Earnings Per Share (EPS)

Basic earnings per share are determined by dividing net profit by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per common share are also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the SEC. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares.

As of June 30, 2014 and December 31, 2013, the Bank has no convertible preferred shares.

2.20 Trust Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.21 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with FRSP for banks require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates 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. Actual results may ultimately differ from these estimates.

PKMN **Critical Management Judgments in Applying Accounting Policies**

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

(α) *Classifying Financial Assets at HTM Investments*

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under financial assets at FVTPL and AFS securities categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to P18.8 million and P2,130.8 million, respectively, representing the fair value of the reclassified investments on
September 11, 2008, the effective date of reclassification (see Note 12), as allowed under FRSP for banks.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of P2,621.7 million (see Note 12). As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011.

(β) *Impairment of AFS Securities*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that no assets are impaired as of June 30, 2014 and December 31, 2013. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

E¡F *Distinguishing Investment Properties and Owner-occupied Properties*

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(δ) *Classifying of Acquired Properties and Determining Fair Value of Investment Properties and Other Properties Held-for-Sale*

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as Miscellaneous under Other Resources if the Bank expects that the properties (properties other than land and building) will be recovered through sale rather than use, as Investment Properties if the Bank intends to hold the properties for capital appreciation or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(ε) *Distinguishing Operating and Finance Leases*

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(ϕ) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 26.

PKMO **Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Estimating Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)

The Bank reviews its AFS securities, HTM investments and loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

There are no impairment losses recognized on AFS securities and HTM investments in June 30, 2014, December 31, 2013.

(b) Fair Value of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date.

(c) Determining Fair Value of Financial Assets and Liabilities

Financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy based on
PFRS 7. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

õ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

õ Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and, õ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

As of June 30, 2014, financial assets at FVTPL and AFS securities amounting to P1,253.9 million and P2,210.5 million, respectively, are the only financial assets (nil for liabilities) measured at fair value while as of December 31, 2013, financial assets at FVTPL and AFS securities amounting to P917.5 million and P7,908.0 million, respectively are the only financial assets (nil for liabilities) measured at fair value. The financial asset values are determined under Level 1 of the fair value hierarchy.

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

(d) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties Except Land*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 15 and 16, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Determining Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(f) *Estimating Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives (i.e. goodwill and acquired branch licenses), PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

(g) *Valuation of Post-employment Benefits*

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

(h) Fair Value of Financial Assets and Liabilities

Financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy based on PFRS 7. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

	June 30, 2014	
	Cost	Fair Value
Financial Resources:		
Cash and other cash items	**P 560,825,105**	**P 560,825,105**
Due from BSP	**4,071,504,612**	**4,071,504,612**
Due from other banks	**1,123,883,714**	**1,123,883,714**
Loans and other receivables	**35,573,063,595**	**34,822,730,948**
Other resources	**60,408,123**	**60,408,123**
Financial Liabilities:		
Deposit liabilities	**P 41,911,122,551**	**P 41,911,122,551**
Bills payable	**21,328,806**	**21,328,806**
Accrued expenses and other liabilities	**2,416,297,821**	**2,416,297,821**

	December 31, 2013	
	Cost	Fair Value
Financial Resources:		
Cash and other cash items	P 735,667,668	P 735,667,668
Due from BSP,	3,597,209,300	3,597,209,300
Due from other banks	671,482,943	671,482,943
Loans and other receivables	32,316,245,980	31,599,913,333
Other resources	35,816,947	35,816,947
Financial Liabilities:		

Deposit liabilities	P 37,882,010,744	37,882,010,744
Bills payable	193,927,801	193,927,801
Accrued expenses and other liabilities	2,256,575,153	2,256,575,153

(i) Due from BSP and other banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(ii) Loans and other receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(iii) Other resources

Other resources are composed of foreign currency notes and coins, security deposits and petty cash fund. Due to their short duration, the carrying amounts of these items in the statement of financial position are considered to be reasonable approximation of their fair values.

(iv) Deposit and bills payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits and bills payable already approximate their fair values.

(v) Accrued expenses and other liabilities

Accrued expenses and other liabilities, except for post-employment benefit obligation and tax liabilities, are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

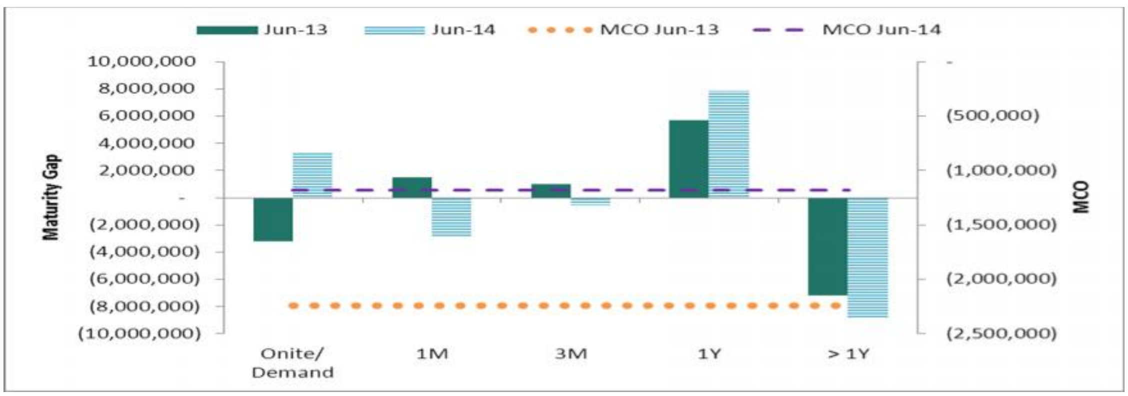
The Bank's financial risks sums up the credit and market risk exposures as a result of its dealings and inventory of financial instruments inherent in its banking functions. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Management Committee (RiskCom), which in turn supervises the Chief Risk Officer and Head of the Risk Management Center in the development and implementation of risk policies, processes and guidelines. The Bank's policy in managing its financial risks is embodied in the BOD-approved Risk Management Manuals.

Liquidity Risks

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the RiskCom prior to the confirmation by the BOD.

Additional measures to mitigate liquidity risks include reporting of funding concentration, available funding sources, and liquid assets analysis. More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly Asset and Liability Committee meetings.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of June 30, 2014 and June 30, 2013 is presented below (amounts in thousands).



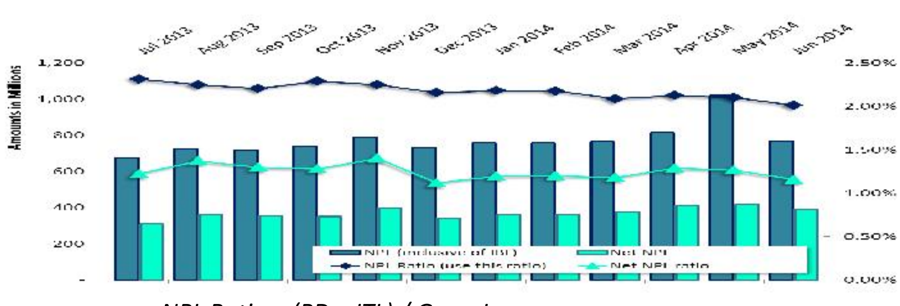
Credit Risks

Credit risk pertains to the risk to income or capital due to non-payment by borrowers or counterparties of their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the Board of Directors (BOD). Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. The Risk Management Center, as guided by the RiskCom, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the RiskCom.

The Bank sets aside loan loss provisions pursuant to the requirement of the BSP and performs regular impairment analysis consistent with the Philippine Accounting Standards (PAS).

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios. As of June 30, 2014, the ratio of the Bank's loan loss provisions to its non-performing loans is at 92%. The table below shows the NPL and Net NPL trend of the Bank for the 12-month period ending June 30, 2014:



NPL Ratio = (PD + ITL) / Gross Loans

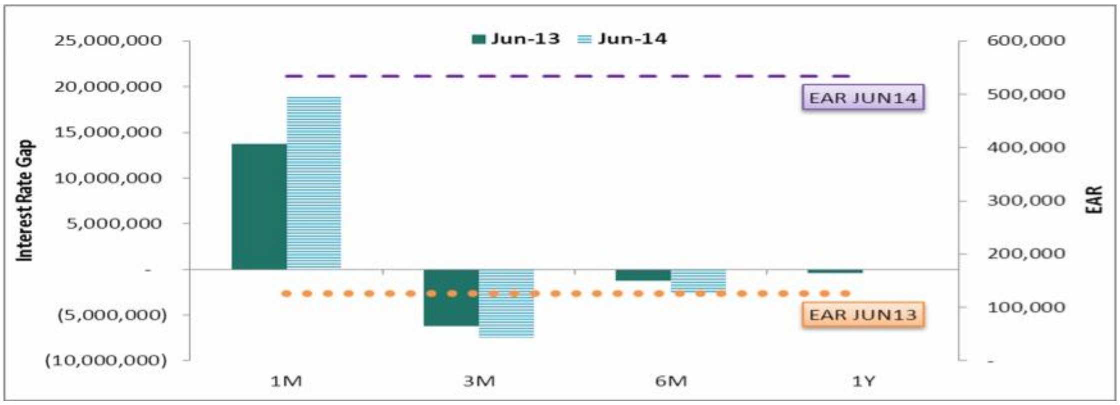
Interest Rate Risks

Interest Rate Risks

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly. Interest rate gap & EAR are presented below (in thousands).



Price Risks

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (VaR) methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days). As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Philippine Dealing Exchange Corporation and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.
In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and 10 days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (1) VaR limit on a per instrument and portfolio; (2) loss limit on per investment portfolio (3) off-market rate limits on per instrument type; and (4) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Table below shows HFT and FX VaR statistics from Jan-Jun 2014:

Value-at-Risk		
in Thou PHP		
	HFT	FX
Average	17,492	1,305
High	30,662	3,158
Low	13,971	12

FX Risks

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The Bank always maintains the BSP required asset cover for its foreign-currency liabilities.

5. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) Consumer banking – includes auto financing, home financing, and salary or personal loans;

(b) Commercial banking – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) Treasury Operations – manages liquidity of the Bank and is a key component in revenue and income generation through its investment and trading activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the first quarter ended June 30, 2014:

Statement of Income

Period Ended June 30, 2014 (Unaudited)	Commercial Banking	Consumer Banking	Treasury Operations	Total
Net interest income	842	70	159	1,071
Non-interest income	63	0	-10	53
Total income (after interest expense)	905	70	149	1,124
Operating expenses	557	29	195	781
Pre-tax profit	348	41	-46	343
Net profit	262	33	-37	258

Statement of Financial Position

As of June 30, 2014 (Unaudited)	Commercial Banking	Consumer Banking	Treasury Operations	Total
Total Resources				
Segment assets	34,744	1,775	15,191	51,710
Intangible assets	45			45
Deferred tax assets	260			260
	35,049	1,775	15,191	52,015
Total Liabilities	31,058	1,706	11,585	44,349
Other segment information				
Depreciation and amortization	49	3	18	70
Capital expenditures	15	1	6	22

The contribution of these various business activities to the Bank's revenues and income for the first quarter ended June 30, 2013:

Statement of Income

Period Ended June 30, 2013 (Unaudited)	**Commercial Banking**	**Consumer Banking**	**Treasury Operations**	**Total**
Net interest income	547	52	155	754
Non-interest income	92	0	781	873
Total income (after interest expense)	639	52	936	1,627
Operating expenses	597	34	207	838
Pre-tax profit	42	18	729	789
Net profit	42	18	734	794

Statement of Financial Position

As of June 30, 2013 (Unaudited)	**Commercial Banking**	**Consumer Banking**	**Treasury Operations**	**Total**
Total Resources				
Segment assets	31,295	1,764	13,839	46,898
Intangible assets	25			25
Deferred tax assets	235			235
	31,555	1,764	13,839	47,158
Total Liabilities	22,873	1,691	10,402	34,966
Other segment information				
Depreciation and amortization	29	2	13	44
Capital expenditures	18	1	8	27

6. CASH AND DUE FROM BSP

This account is composed of the following:

	2014	2013
Cash and other cash items	**P 560,825,105**	P 735,667,668

Due from BSP		
Mandatory reserves	**3,048,504,412**	2,157,209,300
Other than mandatory reserves	**1,023,000,000**	1,440,000,000
	4,071,504,612	3,597,209,300
	P 4,632,329,717	P 4,332,876,968

7. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2014	2013
Local banks	**P 577,198,781**	P 406,812,138
Foreign banks	**546,684,933**	264,670,805
	P 1,123,883,714	P 671,482,943

The breakdown of due from other banks by currency follows:

	2014	2013
US dollars	**P 949,221,582**	P 194,091,704
Philippine pesos	**174,662,132**	477,391,239
	P 1,123,883,714	P 671,482,943

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held for trading government securities with fair value of Php1.253.9 million as of June 30, 2014 and Php917.6 million as of December 31, 2013 which earn interest ranging from 3.50% to 6.25% and 5.00% to 8.13% in 2014 and 2013. Total interest income earned amounted to Php23.01 million and Php1.22 million in 2014 and 3 respectively and are included as part of Interest Income on Investment Securities in the statement of income. Related unrealized fair value gains or loss, presented as part of Trading Gains – net in 2014 and 2013 statement of income, amounted to a loss of Php28.78 million and a gain of Php29.0 million respectively. Realized trading gains, presented as part of Trading Gains – net in June 2014 and June 2013 statements of income, amounted to Php64.07 million and Php21.64 million, respectively.

9. AVAILABLE-FOR-SALE SECURITIES

This account is mainly composed of the following:

	2014	2013

Government securities	**P 1,487,028,146**	P 6,671,480,703
Other private debt instruments	**723,471,185**	1,236,569,140
	P 2,210,499,331	P 7,908,049,843

As to currency, this account consists of the following:

	2014	2013
Philippine pesos	**P 136,558,256**	P 5,375,155,582
Foreign currencies	**2,073,941,075**	2,532,894,261
	P 2,210,499,331	P 7,908,049,843

Changes in the AFS securities are summarized below.

	2014	2013
Balance at beginning of year	**7,908,049,843**	P 5,784,536,589
Additions	**98,605,790**	18,429,366,853
Disposals	**(199,176,183)**	(14,456,630,894)
Fair value gains	**121,384,211**	(717,579,332)
Reclassification to HTM Investments	**(6,536,817,859)**	
Foreign currency revaluation	**(38,192,699)**	66,306,435
Elimination of tax component		
Amortization of premium	**856,646,227**	(333,285,020)
	P 2,210,499,331	P 8,772,714,631

The reconciliation of unrealized fair value gains(losses) on AFS securities reported under equity is shown below.

	2014	2013
Balance at beginning of year	**(1,043,281,000)**	P 322,575,800
Changes during the year:		
Fair value gains(losses) during the year	**121,384,211**	(717,579,332)
Amortization of fair value loss (gain) one reclassified to HTM investments	**887,002**	(153,262)
Realized fair value (gains) losses on AFS securities disposed during the year - net	**320,917,549**	(323,249,727)

	443,188,762	(1,040,982,321)
Balance at end of year	(600,092,238)	(718,406,521)

AFS securities earn interest of 3.50% to 9.13% and 4.25% to 9.13% per annum in 2014 and 2013, respectively. Total interest income earned amounted to Php166.58 million and Php146.91 million in 2014 and 2013 respectively, and are included as part of interest income on investment and trading securities in the statement of income. Fair value gains recycle to profit or loss from equity resulting from the sale of AFS securities amounted to a loss of Php321.8 million in 2014 and a gain of Php323.4 million in 2013. These are included as part of Trading Gains - net in the statement of income. Realized trading gains, presented as part of Trading Gains – net amounted to Php7.12 million and Php737.67 million in 2014 and 2013 respectively.

The bank reclassified certain financial assets previously classified as AFS securities to HTM investments. The fair value of AFS securities reclassified amounted to Php5.97 billion including fair value loss of Php511.64 million as of the date of reclassification on May 29, 2014. The annual effective interest rates of the reclassified securities range from 5.25% to 8.13%.

In compliance with current banking regulations relative to the bank's trust functions, certain AFS securities of the bank, with face value of Php70.75 million and Php27.32 million for 2014 and 2013, respectively are deposited with the BSP.

10. HELD TO MATURITY INVESTMENTS

This account is mainly composed of the following: (nil in 2013)

	June 2014
Government Securities	**5,543,067,060**
Other Securities and debt instruments	427,476,442
	5,970,543,502

As to currency, the account consist of the following

	June 2014
Philippine Peso	**5,543,067,060**
Foreign Currency	427,476,442
	5,970,543,502

As to Maturity profile, it is presented by the following:

	June 2014
Within one year	0
Beyond one year	5,973,897,887
	5,973,897,887
Amortized discount(premium)	**(3,354,386)**

5,970,543,502

Effective interest rate on these investments is 5.25% to 8.13% per annum in 2014. The Bank's interest income from these investments amounted to Php25.42 million as shown in the statement of income (nil in 2013).

In compliance with current banking regulations relative to the bank's trust functions, certain HTM securities of the bank, with face value of Php8.00 million (nil in 2013) is deposited with the BSP.

11. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

	2014	2013
Receivables from customers:		
Loans and discounts	**P 29,457,229,312**	P 26,075,818,474
Bills purchased	**1,155,528481**	1,028,574,269
Customers' liabilities on acceptances, letters of credit and trust receipts	**3,219,449,464**	3,574,029,893
	33,832,207,257	30,678,422,636
Unearned discount	**(108,447,752)**	(89,802,180)
	33,723,759,505	30,588,620,456
Other receivables:		
Unquoted debt securities	**1,442,440,680**	1,246,734,856
Accrued interest receivable	**160,612,600**	162,292,562
Sales contracts receivable	**111,234,229**	124,931,623
Accounts receivable	**81,314,948**	131,653,338
Deficiency claims receivable – net	**53,701,633**	61,234,319

SPURRA	-	-
Others		778,826
	1,849,304,090	1,727,625,524
Allowance for impairment losses	**35,573,063,595**	32,316,245,980
	(750,332,647)	(716,332,647)
	P 34,822,730,948	P 31,599,913,333

As of June 30, 2014 and December 31, 2013 non-performing loans of the Bank amounted to Php782.9 million and Php728.2 million, respectively, while restructured loans amounted to Php190.8 million and Php120.6 million, respectively.

The maturity profile of the Bank's loans and discounts follows (amounts in thousands):

	2014	2013
Within one year	**P 22,936,440**	P 22,269,479
Beyond one year	**10,895,767**	8,408,944
	P 33,832,207	P 30,678,423

The Bank's concentration of credit as to industry for its loans and discounts portfolio follows (amounts in thousands):

	2014	2013
Wholesale and retail trade	**P 11,959,118**	P **10,849**,249
Manufacturing (various industries)	**5,167,068**	4,822,980
Real estate, renting and other related activities	**5,182,688**	4,099,320
Agriculture	**458,571**	443,801
Others	**11,064,762**	10,463,073
	P 33,832,207	P 30,678,423

As to security, loans and discounts are classified into the following (amounts in thousands):

	2014	2013
Secured:		
Real estate mortgage	**P 10,378,478**	P 8,671,919

Deposit hold-out	**1,782,092**	2,276,562
Chattel mortgage	**1,815,402**	1,741,714
Others	**368,106**	1,389,941
Unsecured	**19,488,129**	16,598,287
	P 33,832,207	P 30,678,423

12. CAPITAL STOCK

Capital stock consists of:

	Number of Shares		Amount	
	Jun 30, 2014 Unaudited	**Dec 31, 2013 Audited**	**June 30, 2014 Unaudited**	**Dec 31, 2013 Audited**
Preferred shares - P10 par value				
Authorized - 130,000000 shares				
Issued and subscribed				
Balance at beginning of period	62,000,000	6,200,000	620,000,000	620,000,000
Change in par value		55,800,000		
Balance at end of period	62,000,000	62,000,000	620,000,000	620,000,000

Subscriptions receivable				
Balance at beginning of period				(375,000,000)
Collections during the year				375,000,000
Balance at end of period				
			620,000,000	620,000,000
Common shares - P10 par value				
Authorized - 870,000,000 shares				
Balance at beginning of period	242,000,000	4,200,000	2,420,000,000	420,000,000
Issued during the year	101,333,400		1,013,334,000	
Stock dividends		20,000,000		2,000,000,000
Change in par value		217,800,000		
Balance at beginning of period	343,333,400	242,000,000	3,433,334,000	2,420,000,000

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8% per annum. The dividends for preferred shares are declared upon the sole discretion of the Bank's BOD.

In a joint special meeting held on July 27, 2007, the Bank's BOD and stockholders approved the increase of the Bank's authorized capital stock from Php1 billion, divided into seven million common shares and three million preferred shares to Php3 billion, divided into 17 million common shares and 13 million preferred shares, both with par value of Php100 per share. In connection with this, on June 19, 2009, the Bank received cash infusion amounting to Php125 million from three subscribers representing 25% of the total subscription price of Php500.0 million representing five million preferred shares to be taken out from the increase in authorized capital stock. The Bank's application for increase in authorized capital stock was approved by the SEC on September 17, 2009. As of December 31, 2011, the balance of subscriptions receivable that relates to the five million subscribed preferred shares amounted to Php375.0 million (nil in 2012). The subscriptions receivable pertaining to the said preferred shares were collected from the subscribers in cash on September 6, 2012.

On July 16, 2012, the BOD and the stockholders representing at least two-thirds of the issued and outstanding capital stock approved the following amendments, among others, to the articles of incorporation of the Bank: (i) increase in the authorized capital stock to Php10 billion divided into 870 million common shares with par value of Php10 per share and 130 million preferred shares with par value of Php10 per share from Php3 billion authorized capital stock divided into 17 million common shares with par value of Php100 per share and 13 million preferred shares with par value of Php100 per share, and; (ii) change in the features of preferred shares from redeemable and non-convertible to redeemable and convertible to common shares at par value at the option of the Bank. On November 27, 2012, the BOD approved to revoke the July 16, 2012 approval to change the features of preferred shares to redeemable and convertible to common at par value. The amended articles of incorporation (excluding the change of the features of preferred shares to redeemable and convertible to common shares) were approved by the BSP and SEC on October 16, 2012 and November 16, 2012, respectively. Also on July 16, 2012, the stockholders representing at least two-thirds of the issued and outstanding capital stock, approved the declaration of cash dividends amounting to Php100.35 million for all issued and outstanding preferred shares and stock dividends totaling 20 million common shares amounting to Php2 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2011. The dividend distribution was approved by the BSP on October 17, 2012.

On February 19, 2013, the Bank offered its 101.3 million unissued common shares by way of IPO at P31.50 per share resulting in the recognition of additional paid-in capital of P1.9 billion, net of transaction costs.

On May 30, 2014, the Board of Directors of the Bank approved the declaration of 25% stock dividends to common stockholders amounting to Php858,333,500 equivalent to 85,833,350 common shares with record date of July 17, 2014 and payment date of August 11, 2014. Simultaneously, cash dividends due to preferred shareholders were also approved for Php621,335,000 with payment date of August 11, 2014.

As of June 30, 2014, the Bank has 100 holders of its equity securities listed in the PSE and its share price closed at P23.40. The Bank has 343.3 million common shares traded in the PSE as of June 30, 2014.

13. RELATED PARTY TRANSACTIONS

The Bank's related parties include entities under common ownership, key management and others. These includes Loans and Deposit Liabilities to related parties as of June 30, 2014 and December 31, 2013 amounted to Php1.19 billion and Php0.78 billion, and Php4.22 billion and Php5.66 billion respectively.

14. EARNINGS PER SHARE

Basic Earnings Per Share

	For the Six Months Ended			
	June 30, 2014 Unaudited		June 30, 2013 **Unaudited**	
Net profit	**P**	**258,332,477**	P	794,825,285
Dividends on preferred shares		**-**		-
Net profit attributable to common shareholders		**258,332,477**		794,825,285
Dividend by the weighted average number of outstanding common shares		**343,333,400**		343,333,400

Basic earnings per share	**P .75**	P **2.32**

As of June 30, 2014 and December 2013, the Bank has no convertible preferred shares.

15. EQUITY TRANSACTIONS

The PSE and the Philippine SEC approved the Bank's application for the listing of its common stock on January 9, 2013 and on February 5, 2013, respectively. The approval covered the initial public offering (IPO) of 101,333,400 million unissued common shares of the Bank at Php31.50 offer price per share and the listing of those shares on PSE's main board on February 19, 2013.

The total proceeds raised by the Bank from the sale of primary offer shares amounted to Php3.2 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to Php3 billion.

16. APPLICATION OF PROCEEDS FROM IPO

For the quarter ended June 30, 2014, the applications of the net proceeds are broken down as follows:

Use of Proceeds	Amount in Pesos
Financial Asets at FVTPL and/or Available-for-sale (AFS) Financial Assets	261,311,343.98
Branch Expansion	100,000,000.00
Information Technology Infrastructure	47,309,135.82
General Corporate Purpose	2,600,000,000.00
Total	**3,008,620,479.80**

Please note that General Corporate Purpose pertain to the funding of Bank's loans to customers.

Attachment 2

SCHEDULE OF AGING OF LOANS RECEIVABLES
(PSE Requirement per Circular No. 2164-99)
As of June 30, 2014

Current Accounts (by maturity)

Up to 12 months	25,848,312,241
Over 1 year to 3 years	2,769,370,273
Over 3 years to 5 years	3,625,557,970
Over 5 years	2,667,791,357
Past due and items in litigations	770,479,505
Loans Receivables (gross)	35,681,511,346
Less:	
Unearned and other deferred income	(108,447,752)
Allowance for credit losses	(750,332,647)
Loans Receivables (Net)	34,822,730,947

Attachment 3

CONSOLIDATED FINANCIAL RATIOS
(As Required by SRC Rule)

	June 30, 2014	June 30, 2013

Current Ratio (1)	83.58%	116.91%
Solvency Ratio (2)	1.17%	1.20%
Debt-to-equity (3)	5.78%	4.89%
Asset-to-equity (4)	6.78%	5.89%
Interest rate coverage ratio (5)	223.33%	413.30%
Return on Equity (6)	7.03%	23.67%
Return on Assets (7)	1.04%	4.36%
Net Interest Margin (8) (9)	4.49%	4.24%
Cost-to-Income Ratio (10)	66.42%	42.73%

Notes:

(1) Current assets divided by current liabilities
(2) Total assets divided by total liabilities
(3) Total liabilities divided by total equity
(4) Total assets divided by total equity
(5) Income before interest and taxes divided by interest expense
(6) Net income divided by average total equity for the periods indicated (annualized)
(7) Net income divided b y average total assets for the periods indicated(annualized)
(8) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans)
(9) Starting April 2012, the BSP stopped paying interest on reserves on customer deposits of banks. The Q1 2013 computation considered the Bank's deposit with BSP as non-earning. In Q1 2012 and previous to that, it is considered part of earning assets. NIM is Q1 2012 would have been 7.3% if this was to be calculated on same basis as that of Q1 2013
(10) Other expenses (excl. provision for impairment and credit losses)divided by the sum of interest and other income for the periods indicated