Office of the Senior Vice President and Controller

PNB

Direct Lines: 573-4074 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4422,2312

May 15, 2014

MS. JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
Philippine Stock Exchange
3/F The Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Dear Ms. Encarnacion:

In compliance with the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we provide you the SEC Form 17-Q report of the Philippine National Bank as of March 31, 2014.

Thank you,

Very truly yours,

MARLYN M. PABRUA
Senior Vice President &
Controller

COVER SHEET

A	S	0	9	6	-	0	0	5	5	5	5

S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

Company's Full Name)

9th Floor PNB Financial Center

Macapagal BLvd., Pasay City

(Business Address: No. StreetCity/Town/Province)

MARLYN M. PABRUA	**891-60-40**
Contact Person	Company Telephone Number

3	**3 1**	**17 - Q**	
Month	*Day*	FORM TYPE	*Month* *Day*
Fiscal Year			Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SEC Number AS096-005555
File Number ______________

PHILIPPINE NATIONAL BANK
AND SUBSIDIARIES

(Company's Full Name)

PNB Financial Center,
Pres. Diosdado P. Macapagal Boulevard, Pasay City

(Company's Address)

(632) 891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-Q REPORT

Form Type

(Amendment Designation (if applicable)

MARCH 31, 2014

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarter ended March 31, 2014

2. Commission Identification No. ASO96-005555

3. BIR Tax Identification No. 000-188-209-000

4. Exact name of issuer as specified in its charter: Philippine National Bank

5. Philippines .
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. PNB Financial Center, Pres. Diosdado P. Macapagal Blvd, Pasay City — 1300
Address of principal office — Postal Code

8. (632)/891-60-40 up to 70 /(632)526-3131 to 70
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 Code or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstandingand Amount of Debt Outstanding
Common Shares	1,119,426,764[1/]

11. Are any or all of these securities listed on a Stock Exchange:

Yes [√] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange — Common Stocks

12. Indicate by check mark whether the registrant:
    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 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 that 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 [ ]

[1] A total of 423,962,500 common shares were issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB with ABC effective February 9, 2013. Said shares are for registration with the Securities and Exchange Commission (SEC) and to be listed to the Philippine Stock Exchange, Inc. (PSE).

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of March 31, 2014 and December 31, 2013 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three months ended March31, 2014 and March 31, 2013have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) and in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

The same accounting policies and methods have been followed in the preparation of the accompanying financial statements, consistent with the 2013 Audited Financial Statements except for the new, amendments and improvements to PFRS which became effective as of January 1, 2014.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A. Financial Condition

The Group's consolidated assets reached ₱611.9 billion as of March 31, 2014, slightly lower by ₱6.2 billion compared to ₱618.1 billion total assets reported by the Bank as of December 31, 2013. Changes (more than 5%) in assets were registered in the following accounts:

- Due from Other Banks increased by ₱12.5 billion from ₱14.9 billion to ₱27.4 billion while Cash and Other Cash Items and Due from BangkoSentralngPilipinas decreased by ₱2.0 billion from ₱11.8 billion to ₱9.8 billion and by ₱21.2 billion from ₱153.2 billion to ₱132.0 billion, respectively. Special Deposit Accounts with BSP decreased by ₱14.6 billion.

- Interbank Loans Receivable is at ₱3.1 billion as of March 31, 2014, a decrease of ₱5.3 billion from ₱8.4 billion as of December 31, 2013 due mainly to maturing interbank lending transactions to various banks.

- Securities Held Under Agreements to Resell with BSP stood at ₱5.1 billion in March 2014.

- Financial Assets at Fair Value Through Profit or Loss at ₱13.6 billion grew by ₱1.9 billion from ₱11.7 billion attributed mainly to purchases of various investment securities.

- Available for Sale Investments went down to ₱63.4 billion as of March 31, 2014, ₱16.9 billion lower than the ₱80.3 billion level as of December 31, 2013 attributable mainly to the reclassification of ₱18.3 billion investment securities to Held to Maturity Investments two years after the sale of a significant amount of Held to Maturity Securities in October 2011.Held to Maturity Investments now stood at ₱21.6 billion.

- Loans and Receivables accounted for 44.3% of the Bank's total assets at ₱270.7 billion as of March 2014.

- Other Assets and Deferred Tax Assets were higher by₱2.2 billion from ₱3.4 billion to ₱5.6 billion and by ₱115 million from ₱254.0 million to ₱369.0 million, respectively.

The consolidated liabilities decreased by ₱10.1 billion from ₱534.2 billion as of December 31, 2013 to ₱524.1 billion as of March 31, 2014. Major changes in liability accounts were as follows:

- Deposit Liabilities is lower by ₱9.5 billion from ₱462.4 billion to ₱452.9 billion.Demand deposits declined by ₱15.3 billion while Savings and Time deposits increased by ₱3.4 billion and ₱2.4 billion, respectively. ₱3.25 billion LTNCD was redeemed in March 2014.

- Bills and Acceptances Payable decreased by ₱6.7 billion from ₱13.1 billion to ₱6.4 billion due mainly to the settlement of interbank borrowings.

- Other Liabilities increased by ₱5.9 billion, from ₱35.1 billion in December31, 2013 to ₱41.0 billion as of March 31, 2014. This account includes ₱9.2 billion deposits for subscription to the increase in the Bank's capitalization.

The consolidated equity now stood at ₱87.9 billion as of March 31, 2014, up by ₱4.0 billion from ₱83.9 billion as of December 31, 2013. The increase in capital accounts was accounted for by the following:

- ₱2.1 billion proceeds from issuance of 33 million common shares in line with the stock rights offering in February 2014
- ₱1.3 billion net income for the three months period ended March 31, 2014
- ₱0.4 billion recovery of mark-to-market losses on AFS
- ₱0.2 billion increase in non-controlling interest
- ₱0.2 billion decrease in the accumulated translation adjustment

B. **Results of Operations**

- The Group's net income reached ₱1.3 billion for the first three months of the year, ₱1.5 billion lower than the ₱2.8 billion net income reported for the same period last year.

- Net interest income amounted to ₱4.5 billion in March 2014, exceeding by ₱1.9 billion the net interest income for the same period last year of ₱2.6 billion. Interest income was up by ₱1.3 billion from ₱4.1 billion to ₱5.4 billion, partly due to higher collections on past due accounts while interest expense was lower at ₱0.9 billion, or by ₱0.6 billion from ₱1.5 billion last year due to lower interest rates in the current year.

- Net service fees and commission income was the same at ₱0.6 billion in March 2014 and 2013.

- Fee-based and other income decreased by ₱2.9 billion to ₱1.5 billion for the three months ended March 31, 2014 from ₱4.4 billion for the same period last year. The decrease was attributed to lower gains from Trading and Investment Securities and Miscellaneous Income which declined by ₱3.0 billion and ₱0.1 billion, respectively, partly offset by the ₱0.6 billion increase in Foreign Exchange Gains from ₱0.3 billion in March 2014 to ₱0.1 billion in 2013.

- Administrative and other operating expenses totaled ₱4.8 billion, ₱0.7 billion more than last year's ₱4.1 billion. Increases were registered in Compensation and Fringe Benefits by ₱0.4 billion, Occupancy and Equipment-related Costs and Depreciation and Amortization also increased by ₱0.1 billion and ₱0.2 billion, respectively.

- Provision for Income Tax was ₱0.4 billion and ₱0.7 billion for the three months ended March 31, 2014 and 2013, respectively.

- Total Comprehensive Income for the period ending March 31, 2014 amounted to ₱1.6 billion, ₱2.2 billion lower compared to the ₱3.8 billion comprehensive income reported for the period ending March 31, 2013. Current year's comprehensive income came mainly from the three months net income of₱1.3 billion.

C. Key Performance Indicators

- Capital Adequacy

The PNB Group's consolidated risk-based capital adequacy ratios (CAR) computed based on BSP Circular 781 (BASEL III guidelines) was at 19.50% while the December 31, 2013 CAR ratio based on BASEL II guidelines stood at 19.68%, consistently exceeding the regulatory 10% CAR.

- Asset Quality

The PNB Group's non-performing loans (gross of allowance) decreased to ₱10.3 billion as of March 31, 2014 compared to ₱10.7 billion as of December 31, 2013. NPL ratio (as computed based on BSP guidelines)was 1.30% (net of valuation reserves) and 4.11% (at gross).

- Profitability

	Three Months Ended	
	3/31/14	3/31/13 (as restated)
Return on equity [1/]	**6.3%**	**18.4%**
Return on assets [2/]	**0.9%**	**2.6%**
Net interest margin[3/]	**3.5%**	**2.8%**

[1/] *Annualized net income divided by average total equity for the period indicated*
[2/] *Annualized net income divided by average total assets for the period indicated*
[3/] *Annualized net interest income divided by average interest-earning assets for the period indicated.*

ROE for the period ending March 31, 2014 is at 6.3% or 12.1% lower compared to the ratio registered for same period last year at 18.4%. The reduction was traced to lower net income of the merged bank at P1.3 billion compared to ₱2.8 billion last year or a decrease of 52.7% or by ₱1.5 billion and by the increase in average capital of the merged bank at ₱85.9 billion, or an increase of 37.4% (P 23.4 billion) from the March 2013 average of ₱62.5 billion. Without the goodwill, however, 2014 ROE will improve to 7.5%.

March 2014 ROA is at 0.9% or 1.7% lower compared to March 2013 figures of 2.6%. This can be attributed to the 52.7% decrease in the net income and by the increase in average assets of the merged bank at ₱615.0 billion, or an increase of 39.7% (P 174.7 billion) from the March 2013 average of ₱440.3 billion.

NIM ratio of the merged bank for March 2014 is at 3.5% based on net interest margin of ₱4.4 billion and total average interest-earning assets of ₱510.6 billion, 0.7 percentage point higher compared to the 2.8% NIM ratio of the same period last year.

- Liquidity

  The ratio of liquid assets to total assets is lower at 41.6% as of March 31, 2014 compared to 44.0% as of December 31, 2013, respectively. The PNB Group is in compliance with the regulatory required liquidity floor on government deposits and legal reserve requirements for deposit liabilities.

- Cost Efficiency

  The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income was72.9% for the three months ended March 31, 2014 compared to 53.9% for the same period last year.

- Other financial soundness indicators are shown in Annex A

D. **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 and continuing operations within the next twelve (12) months.

E. **Events that will trigger direct or contingent financial obligation**

In the normal course of business, the PNB Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because such disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, Provisions, Contingent Liabilities and Contingent Assets. The PNB Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have material adverse effect on the financial statements.

F. **Material off-balance sheet transactions, arrangements or obligations**

The summary of various commitments and contingent accounts as of March 31, 2014 and December 31, 2013 at their equivalent peso contractual amounts is presented in Note 20 of the Selected Notesto Consolidated Financial Statements on page 90 of this report.

G. **Capital Expenditures**

The Bank has commitments for capital expenditures. The Bank plans to purchase the hardware and software requirements needed for the implementation of information technology priority projects. Expected sources of funds for the projects will come from sale of acquired assets and funds generated from the Bank's operations.

H. **Significant Elements of Income or Loss**

Significant elements of the consolidated net income of the PNB Group for the three months endedMarch31, 2014and 2013came from its continuing operations.

I. Issuances, Repurchased and Prepayment of Debts and Equity Securities

Long-term Negotiable Certificates of Time Deposits
Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Parent Company:

Issue Date	Maturity Date	Face Value	Carrying Value	Coupon Rate	Interest Repayment Terms
October 21, 2013	April 22, 2019	₱4,000,000	₱3,971,075	3.25%	Quarterly
August 5, 2013	February 5, 2019	₱5,000,000	₱4,968,004	3.00%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

(1) Issue price at 100.00% of the face value of each LTNCD.

(2) The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

(3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

(4) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

(5) Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

(6) The LTNCDs are insured by the PDIC up to a maximum amount of ₱500,000 subject to applicable laws, rules and regulations, as the same may be amended from time to time.

(7) Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

J. Seasonal Aspects

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

K. Other Bank's Activities

A. Products and Services launched by the Bank during the 1st quarter of 2014:

Credit Cards - To cater to Philippine National Bank's increasing market share, following its merger with Allied Banking Corporation, and the tough competition between banks, PNB's credit card group has been working hard to provide its clients with additional perks and benefits to further increase customer retention and draw in new account holders.

For the first quarter of 2014, the group has released several promos namely:

1. Swipe and Be Rewarded Summer Run
2. Chinese New Year Free Tikoy with SM Supermarkets
3. Beat the Heat Free Pepsi with SM Supermarkets
4. P200 Off at Lazada.com
5. Agoda.com campaign
6. Travel Treats and Foodies Perks (which will continuously run for the whole of 2014)

Electronic Remittance of Sickness, Maternity & Employees Compensation Benefit - PNB took the lead in the electronic remittance of employee benefits through the employer for further credit to the employee. This replaced the current disbursement method through check issuance. The system involved automated generation and transmission of report, with auto reversal of unsuccessful transactions.

B. Merger of PNB Europe, Plc. (PNBE) And Allied Bank (UK) Philippines (ABUK)

Following the merger of Philippine National Bank (PNB) and Allied Banking Corporation (ABC), the subsidiaries of both banking institutions in London, UK (i.e. PNBE and ABUK) are to consolidate and streamline its operations into one single entity under the name of PNB Europe Plc (PNBE). The PNB Board under Res. No. 26/09-27-13 approved the structuring of the merger of PNBE and ABUK. All requirements by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) of London have been completed and the legal merger was implemented on April 2, 2014, through the execution of the Business Sale Agreement (BSA) between PNBE and ABUK transferring the assets and liabilities of ABUK to PNBE, thus, making PNBE as the surviving UK subsidiary bank.

C. Stock Rights Offering and Share Offering

The Bank has successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.00 per share at a price of ₱71.00 each. The Rights Shares were offered to all eligible shareholders of the Bank at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014.

A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock and, as such , were already issued and listed with the Philippine Stock Exchange. This is an exempt transaction under Section 10.1 of the Securities Regulation Code as confirmed by the SEC.

The remaining 129,712,914 Rights Shares will be sourced from an increase in authorized capital stock of the Bank will apply for with the SEC after receipt of the endorsement of the BSP. The listing of the said shares will be accordingly announced as soon as the SEC approves the increase in the Bank's authorized capital stock.The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. The Offer strengthens the Bank's capital position under the Basel III standards, which took effect on January 1, 2014.

PART II – OTHER INFORMATION

ITEM 1. Any information not previously reported in a report on SEC Form 17-C

There is nothing to report under this item.

ITEM 2. Aging of Loans Receivables

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown on page 95 of this report.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of March 31, 2014
(With Comparative Audited Figures as of December 31, 2013)
(In Thousands)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Cash and Other Cash Items	**₱9,801,433**	₱11,804,746
Due from BangkoSentralngPilipinas(Note 6)	**132,017,882**	153,169,330
Due from Other Banks	**27,373,260**	14,881,541
Interbank Loans Receivable	**3,080,149**	8,405,250
Securities Held Under Agreements to Resell	**5,131,000**	–
Financial Assets at Fair Value Through Profit or Loss	**13,584,549**	11,709,348
Available-for-Sale Investments (Note 7)	**63,366,167**	80,304,149
Held to Maturity Investments	**21,552,430**	
Loans and Receivables (Notes 8, 12 and 19)	**270,715,495**	274,276,083
Property and Equipment (Notes 9 and 12)		
At cost	**1,433,165**	1,463,308
At appraised value	**20,952,947**	21,155,051
Investment in an Associate (Note 10)	–	–
Investment Properties (Notes 11 and 12)	**21,262,216**	21,452,962
Deferred Tax Assets	**369,069**	253,946
Intangible Assets	**2,313,350**	2,378,040
Goodwill (Note 12)	**13,375,407**	13,375,407
Other Assets (Notes 12 and 19)	**5,586,155**	3,436,355
TOTAL ASSETS	**₱611,914,674**	₱618,065,516

LIABILITIES AND EQUITY

LIABILITIES		
Deposit Liabilities (Notes 12 and 19)		
Demand	**₱109,986,033**	₱125,359,053
Savings	**288,985,730**	285,542,213
Time	**53,897,687**	51,464,182
	452,869,450	462,365,448
Financial Liabilities at Fair Value Through Profit or Loss (Notes 4 and 12)	**8,353,817**	8,074,895
Bills and Acceptances Payable (Note 13)	**6,482,824**	13,171,997
Accrued Taxes, Interest and Other Expenses	**5,424,395**	5,523,523
Subordinated Debt (Note 13)	**9,957,487**	9,953,651
Income Tax Payable	**626,441**	48,448
Other Liabilities (Notes 12 and 16)	**40,346,932**	35,029,926
TOTAL LIABILITIES	**524,061,346**	534,167,888

(Forward)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock (Notes 1, 12 and 14)	**₱ 44,777,071**	₱43,448,337
Capital Paid in Excess of Par Value (Notes 1,12 and 14)	**27,422,156**	26,499,909
Surplus Reserves	**524,003**	524,003
Surplus	**13,772,513**	12,432,838
Revaluation Increment on Land and Buildings	**2,489,722**	2,489,722
Remeasurement Losses on Retirement Plan	**(1,278,372)**	(1,278,372)
Accumulated Translation Adjustment	**136,307**	291,371
Net Unrealized Gain (Loss) on Available-for-Sale Investments	**(3,180,813)**	(3,581,865)
Parent Company Shares Held by a Subsidiary	**–**	–
	84,662,587	80,825,943
NON-CONTROLLING INTERESTS (Note 2)	**3,190,741**	3,071,685
TOTAL EQUITY	**87,853,328**	83,897,628
TOTAL LIABILITIES AND EQUITY	**₱ 611,914,674**	₱618,065,516

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

	For the Three Months Ended March 31	
	2014 (Unaudited)	2013 (Audited)
INTEREST INCOME ON		
Loans and receivables (Note 19)	**₱3,761,890**	**₱2,914,132**
Trading and investment securities	**813,105**	**927,878**
Deposits with banks and others (Note 6)	**782,073**	**250,068**
Interbank loans receivable	**3,424**	**6,964**
	5,360,492	**4,099,042**
INTEREST EXPENSE ON		
Deposit liabilities (Note 19)	**716,919**	**1,058,968**
Bills payable and other borrowings	**197,075**	**417,787**
	913,994	**1,476,755**
NET INTEREST INCOME	**4,446,498**	**2,622,287**
Service fees and commission income	**821,887**	**762,442**
Service fees and commission expense	**183,912**	**152,523**
NET SERVICE FEES AND COMMISSION INCOME	**637,975**	**609,919**
OTHER INCOME		
Trading and investment securities gains - net (Note 7)	**237,346**	**3,272,105**
Foreign exchange gains - net	**343,754**	**40,815**
Net gain on sale or exchange of assets	**134,583**	**167,226**
Miscellaneous (Notes 10 and 15)	**758,710**	**884,238**
TOTAL OPERATING INCOME	**6,558,866**	**7,596,590**
OPERATING EXPENSES		
Compensation and fringe benefits (Note 16)	**1,691,822**	**1,342,281**
Taxes and licenses	**475,119**	**447,900**
Occupancy and equipment-related costs	**349,976**	**274,094**
Depreciation and amortization	**412,439**	**296,535**
Provision for impairment, credit and other losses	**291,125**	**180,048**
Miscellaneous (Note 15)	**1,560,749**	**1,554,241**
TOTAL OPERATING EXPENSES	**4,781,230**	**4,095,099**
INCOME BEFORE INCOME TAX	**1,777,636**	**3,501,491**
PROVISION FOR INCOME TAX (Note 17)	**434,810**	**661,892**
NET INCOME	**1,342,826**	**2,839,599**
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**1,339,675**	**2,827,420**
Non-controlling Interests	**3,151**	**12,179**
	₱ 1,342,826	**₱2,839,599**
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 18)	**₱1.21**	**₱2.99**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	For the Three Months Ended March 31	
	2014 (Unaudited)	2013 (Audited)
NET INCOME	**₱1,342,826**	₱2,839,599
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized loss on available-for-sale investments	**401,052**	2,031,700
Accumulated translation adjustment	**(155,064)**	80,617
Share in equity adjustments of an associate (Note 10)	–	–
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan (Note 16)	**–**	(1,138,507)
Revaluation increment on land and building	**–**	
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**245,988**	973,810
TOTAL COMPREHENSIVE INCOME FOR PERIOD	**₱ 1,588,814**	₱3,813,409
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**₱1,469,758**	₱3,704,358
Non-controlling Interests	**119,056**	109,051
	₱ 1,588,814	₱3,813,409

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 14)	**Capital Paid in Excess of Par Value**	**Surplus Reserves**	**Surplus** (Note 2)	**Revaluation Increment on Land and Buildings**	**Accumulated Translation Adjustment**	**Net Unrealized Gain (Loss) on Available-for-Sale Investments**	**Equity in Net Unrealized Gain on AFS Investment of an Associate** (Note 10)	**Parent Company Shares Held by a Subsidiary** (Note 14)	**Remeasurement Losses on Retirement Plan** (Note 2)	**Total**	**Non-controlling Interests** (Note 2)	**Total Equity**
Balance at January 1, 2014, as previously reported	**₱ 43,448,337**	**₱ 26,499,909**	**₱ 524,003**	**₱12,432,838**	**₱2,489,722**	**₱291,371**	**₱ (3,581,865)**	**₱–**	**₱**	**₱ (1,278,372)**	**₱80,825,943**	**₱ 3,071,685**	**₱ 83,897,628**
Total comprehensive income (loss) for the period	–	–	–	**1,339,675**	–	**(155,064)**	**401,052**	–	–	–	**1,585,663**	**119,056**	**1,704,719**
Issuance of capital stock (Notes 12 and 14)	**1,328,734**	**922,247**	–	–	–	–	–	–	–	–	**2,250,981**	–	**2,250,981**
Non-controlling interest arising on a business combination (Note 2)	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer from surplus reserves	–	–	–	–	–	–	–	–	–	–	–	–	–
Disposal of Parent Company shares held by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance at March 31, 2014	**₱ 44,777,071**	**₱ 27,422,156**	**₱ 524,003**	**₱ 13,772,513**	**₱ 2,489,722**	**₱136,307**	**₱ (3,180,813)**	**₱–**	**₱–**	**₱ (1,278,372)**	**₱ 84,662,587**	**₱ 3,190,741**	**₱ 87,853,328**
Balance at January 1, 2013, as previously reported	₱26,489,837	₱2,037,272	₱569,887	₱6,888,348	₱2,816,962	(₱992,620)	₱1,037,252	₱-	(₱4,740)	₱–	₱38,842,198	₱904,693	₱39,746,891
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	331,500	–	–	–	–	–	(781,900)	(450,400)	22	(450,378)
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	46,219	–	–	–	–	–	–	46,219	(850,487)	(804,268)
Balance at January 1, 2013, as restated	26,489,837	2,037,272	569,887	7,266,067	2,816,962	(992,620)	1,037,252	–	(4,740)	(781,900)	38,438,017	54,228	38,492,245
Total comprehensive income (loss) for the period	–	–	–	2,827,420	–	73,780	1,941,665	–	–	(1,138,507)	3,704,358	109,051	3,813,409
Issuance of capital stocks (Note 25)	**16,958,500**	**24,462,637**									**41,421,137**	–	**41,421,137**
Non-controlling interest arising on a business combination (Note 14)												**2,762,937**	**2,762,937**
Transfer to surplus reserves	–	–	145,750	(145,750)	–	–	–	–	–	–	–	–	–
Balance at March 31, 2013	₱43,448,337	₱26,499,909	₱715,637	₱9,947,737	₱2,816,962	(₱ (918,840)	₱2,978,917	₱ (0)	(₱4,740)	(₱1,920,407)	₱83,563,512	₱2,926,216	₱86,489,728

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Three Months Ended March 31	
	2014	2013
	(Unaudited)	(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,777,636**	₱3,501,491
Adjustments for:		
Realized trading gain on available-for-sale (AFS) investments (Note 7)	**(151,928)**	(2,590,049)
Depreciation and amortization	**303,000**	296,535
Amortization of premium on AFS investments	**139,151**	116,064
Provision for impairment, credit and other losses	**291,125**	180,048
Net gain/(loss) on sale or exchange of assets	**(24,864)**	167,226
Mark-to-market loss (gain) on derivatives	**(63,754)**	(192,449)
Increase in aggregate reserve for life policies	**–**	142,906
Gain from step-up acquisition (Notes 10 and 15)	**–**	(140,958)
Amortization of software costs (Note 15)	**30,000**	42,946
Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL)	**(857)**	(99,562)
Amortization of capitalized transaction costs	**2,754**	8,047
Amortization of intangibles	**80,000**	
Share in net income of an associate (Note 10)	**–**	(4,975)
Dividend income	**–**	(160)
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Financial assets at FVPL	**(1,810,590)**	977,460
Loans and receivables	**3,036,610**	(4,914,166)
Other assets	**(2,265,009)**	4,025,956
Increase (decrease) in amounts of:		
Financial assets at FVPL	**278,922**	-
Deposit liabilities	**(9,494,916)**	12,564,259
Accrued taxes, interest and other expenses	**(99,128)**	(254,717)
Other liabilities	**5,333,689**	(3,111,231)
Net cash generated from (used in) operations	**(2,638,159)**	10,714,671
Income taxes paid	**143,183**	(700,063)
Dividends received	**-**	160
Net cash provided by (used in) operating activities	**(2,494,976)**	10,014,768
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS investments	**12,965,581**	**116,959,861**
Investment properties	**382,922**	**480,669**
Property and equipment	**97,873**	**77,138**
Proceeds from redemption of placements with the BangkoSentral ngPilipinas (BSP)	**–**	**–**
Placements with the BSP and other banks	**–**	**(3,484,186)**

(Forward)

	Three Months Period Ended March 31	
	2014 (Unaudited)	2013 (Audited, As restated - Note 2)
Acquisitions of:		
AFS investments	**(₱17,157,266)**	(₱127,768,855)
Property and equipment (Note 9)	**(94,849)**	(208,503)
Software cost	**(118,236)**	(79,233)
Cash and cash equivalents acquired from merger (Note 12)	**–**	64,444,869
Net cash provided by (used in) investing activities	**(3,923,976)**	50,421,760
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills and acceptances payable	**(13,924,630)**	(25,823,741)
Proceeds from bills and acceptances payable	**7,235,457**	24,388,192
Redemption of subordinated debt		(4,500,000)
Transaction cost attributable to issuance of shares	**2,250,981**	(84,792)
Net cash provided by (used in) financing activities	**(4,438,192)**	(6,020,341)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(10,857,143)**	54,416,187
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**11,804,746**	5,599,088
Due from BSP	**153,169,330**	37,175,399
Due from other banks	**14,881,541**	4,042,769
Interbank loans receivable	**8,405,250**	11,498,756
Securities held under agreements to resell	**–**	18,300,000
	188,260,867	76,616,012
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**9,801,433**	7,918,010
Due from BSP	**132,017,882**	83,305,615
Due from other banks	**27,373,260**	11,532,605
Interbank loans receivable	**3,080,149**	8,275,969
Securities held under agreements to resell	**5,131,000**	20,000,000
	₱ 177,403,724	₱131,032,199
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱ 7,794,353**	₱4,227,997
Interest paid	**930,327**	1,480,025
Dividends received	**4,115**	160

See accompanying Notes to Consolidated Financial Statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

The Philippine National Bank (PNB) was established in the Philippines in 1916 and started commercial operations as a government-owned bank that same year. The Philippine Securities and Exchange Commission (SEC) approved the amendments to the Bank's Charter on May 27, 1996, at which date the Bank's status was officially changed to a private corporation. On February 9, 2013, PNB concluded its planned merger with Allied Banking Corporation (ABC) as approved and confirmed by their respective Board of Directors in January 2013. The merger of PNB and ABC will enable the two banks to advance their long-term strategic business interests as they capitalized on their individual strengths and markets.

The Bank provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Bank's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services. Through its subsidiaries, the Bank is also engaged in a number of diversified financial and related businesses such as remittance, life and non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services.

As of March 31, 2014, the Bank has 656 domestic branches. The Bank has also the largest overseas network among Philippine banks with 77 branches, representative offices, remittance centers and subsidiaries in key cities in the United States, Canada, Europe, the Middle East and Asia.

2. Basis of Preparation and Changes to the Group's Accounting Policies

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPL), and available-for-sale (AFS) investments, that are measured at fair value, and land and building that are measured at revalued amount. Amounts in the consolidated financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

The financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these financial statements due to retrospective application of certain accounting policies as discussed in the 'Changes in Accounting Policies and Disclosures' section of this note.

The financial statements of the Parent Company and Allied Savings Bank (ASB) reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos (Php) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined and inter-unit accounts and transactions are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under the 'Basis of Consolidation'.

Statement of Compliance

The March 31, 2014 financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), consistent with the 2013 Audited Financial Statements.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS which became effective as of January 1, 2013. Changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follows:

New and Revised Standards and Interpretations

- PFRS 11, *Joint Arrangements*
- Philippine Accounting Standard (PAS) 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

Improvements to PFRSs (2009-2011 cycle)

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

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

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

PFRS 10, *Consolidated Financial Statements*
PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 13, *Fair Value Measurement*
PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*
PAS 19, *Employee Benefits* (Revised)

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

As of March 31, 2014

Subsidiaries	Nature of Business	Country of Incorporation	Percentage of Ownership Direct	Percentage of Ownership Indirect	Functional Currency
ASB	Banking	Philippines	100.00	–	Php
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	100.00	–	Php
PNB General Insurers, Inc. (PNB Gen) [(a)]	Insurance	- do -	–	100.00	Php
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	100.00	–	Php
PNB Corporation – Guam	Remittance	USA	100.00	–	USD
PNB International Investments Corporation (PNB IIC)	Investment	- do -	100.00	–	USD
PNB Remittance Centers, Inc. (PNB RCC) [(b)]	Remittance	- do -	–	100.00	USD
PNB RCI Holding Co. Ltd. [(b)]	Holding Company of PNB RCC	- do -	–	100.00	USD
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	100.00	–	Great Britain Pound (GBP)
PNB Europe PLC	Banking	- do -	100.00	–	GBP
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	–	100.00	Canadian Dollar (CAD)
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	100.00	–	Hong Kong Dollar (HKD)
PNB Italy SpA (PISpA)	Remittance	Italy	100.00	–	Euro
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	90.41	–	USD
Japan - PNB Leasing and Finance Corporation (Japan-PNB Leasing)	Leasing/Financing	Philippines	90.00	–	Php
Japan -PNB Equipment Rentals Corporation[(d)]	Rental	- do -	–	90.00	Php
PNB Life Insurance, Inc. (PNB LII) *	Insurance	- do -	80.00	–	Php
Allied Leasing and Finance Corporation (ALFC)	Rental	- do -	57.21	–	Php

ACR Nominees Limited [(e)] *	Banking	Hong Kong	–	51.00	HKD
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	- do -	51.00	–	HKD
Oceanic Holding (BVI) Ltd. (OHBVI) *	Holding Company	British Virgin Islands	27.78	–	USD

** Subsidiaries acquired as a result of the merger with Allied Banking Corporation*

<u>As of December 31, 2013</u>

Subsidiaries	Nature of Business	Country of Incorporation	Percentage of Ownership Direct	Percentage of Ownership Indirect	Functional Currency
PNB Capital	Investment	Philippines	100.00	–	Php
PNB Forex, Inc.	FX trading	- do -	100.00	–	Php
PNB Holdings	Investment	- do -	100.00	–	Php
PNB Gen [(a)]	Insurance	- do -	–	100.00	Php
PNB Securities	Securities Brokerage	- do -	100.00	–	Php
PNB Corporation – Guam	Remittance	USA	100.00	–	USD
PNB IIC	Investment	- do -	100.00	–	USD
PNB RCI Holding Co. Ltd. [(b)]	Holding Company of PNB RCC	- do -	–	100.00	USD
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	–	100.00	CAD
PNB GRF	Remittance	Hong Kong	100.00	–	HKD
PNB Italy SpA	Remittance	Italy	100.00	–	Euro
PNB Europe PLC	Banking	United Kingdom	100.00	–	GBP
Japan-PNB Leasing	Leasing/Financing	Philippines	90.00	–	Php
Japan -PNB Equipment Rentals Corporation[(d)]	Rental	- do -	–	90.00	Php

[(a)] Owned through PNB Holdings
[(b)] Owned through PNB IIC
[(c)] Owned through PNB RCI Holding Co. Ltd.
[(d)] Owned through Japan - PNB Leasing
[(e)] Owned through ABCHKL

The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Group has power over the entity when it has existing rights that give it the current ability to direct the relevant activities (i.e., activities that significantly affect the entity's returns). Consolidation of subsidiaries ceases when control is transferred out of the Group or Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income (OCI) to profit or loss or surplus, as appropriate

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company. The Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of the combined voting rights arising from its direct ownership and assigned voting rights of 70.56%.

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Acquisitions of non-controlling interests are accounted for as equity transactions, whereby the difference between the consideration paid and the share in the net assets acquired is recognized in equity.

Significant Accounting Policies

Foreign Currency Translation

Transactions and balances

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

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

FCDU and Overseas subsidiaries

As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the average exchange rate for the year. Exchange differences arising on translation are taken directly to OCI under 'Accumulated translation adjustment'. On disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the consolidated statement of income.

Product Classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF).

DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign currency exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Fair Value Measurement

The Group measures financial instruments such as financial assets at FVPL and AFS investments at fair value at each reporting date while land and building under Property and equipment are carried at revalued amounts. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

As of December 31, 2013 and 2012, the Group has no HTM investments.

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading (HFT) category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the HFT or AFS investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

Reclassifications are made at fair value as of the reclassification date which then becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates (EIR) for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the EIR prospectively.

Derivatives recorded at FVPL
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from
changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and investment securities gains - net' except for currency forwards, where fair value changes are included under 'Foreign exchange gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives
The Group has certain derivatives that are embedded in host financial (such as structured notes, debt investments, and loans receivables) and non-financial (such as purchase orders and service agreements) contracts. These embedded derivatives include credit default swaps (which are linked either to a single reference entity or a basket of reference entities); conversion options in loans receivables; call options in certain long-term debt, and foreign-currency derivatives in debt instruments, purchase orders and service agreements. Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not clearly and closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

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

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

Designated financial assets or financial liabilities at FVPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in ‘Trading and investment securities gains - net’. Interest earned or incurred is recorded in ‘Interest income’ or ‘Interest expense’, respectively, while dividend income is recorded in ‘Miscellaneous income’ according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group’s management has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for three years starting from the date of tainting.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under ‘Provision for impairment, credit and other losses’. The effects of revaluation on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
Significant accounts falling under this category are loans and receivables, amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell.

These are financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

Loans and receivables also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and receivables' include the aggregate rental on finance lease transactions and notes receivables financed by Japan - PNB Leasing and ALFC. Unearned income on finance lease transactions is shown as a deduction from 'Loans and receivables' (included in 'Unearned and other deferred income').

After initial measurement, 'Loans and receivables', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable' and 'Securities held under agreements to resell' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial assets at FVPL', 'HTM investments' or 'Loans and receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - net' in the statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment, credit and other losses' in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as deposit liabilities, bills and acceptances payable, subordinated debt and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date (‘repos’) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date (‘reverse repos’) are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated statement of financial position as ‘Securities held under agreements to resell’, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Impairment of Financial Assets

The Group 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 deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For financial assets carried at amortized costs such as loans and receivables, HTM investments, due from BSP and other banks, interbank loans receivable and securities held under agreements to resell, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical lossexperience 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 reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for impairment, credit and other losses' account.

Restructured loans
Where possible, the Group 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. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost.

Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Offsetting Financial Instruments
Financial instruments are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under 'Other liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'Provision for impairment, credit and other losses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for their brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as HFT and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees

that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Interchange fee and awards revenue on credit cards
Discounts lodged under 'Interchange fees' are taken up as income (presented under 'Service fees and commission income') upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed. The deferred balance is included under 'Other liabilities' in the statement of financial position.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.
Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' account and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Other liabilities' in the statement of financial position.

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

Trading and investment securities gains - net
Trading and investment securities gains - net includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

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

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under ‘Unearned and other deferred income’ which are amortized over the term of the note or lease using the effective interest method consist of:

- Transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- Excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums Revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of ‘Other liabilities’ in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of ‘Other assets’ in the statement of financial position. The net changes in these accounts between end of the reporting periods are credited to or charged against the statement of income for the period.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and when the collectibility of the sales price is reasonably assured.

Expenses
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when incurred.

Taxes and licenses
This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value.

Investments in Subsidiaries and Associate
Investments in subsidiaries
Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation).

Investment in an associate
An associate pertains to an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investment in an associate is accounted for under the equity method of accounting.

Under the equity method, investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less impairment in value, if any. The Group's share of its associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associate's equity reserves or other adjustments is recognized directly in equity. When the Group's share of losses in associates equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.
In the Parent Company's separate financial statements, investments in subsidiaries and an associate are carried at cost, less any impairment in value.

<u>Policy Loans</u>
Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

<u>Reinsurance</u>
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

<u>Deferred Acquisition Cost (DAC)</u>
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the assets section of the consolidated statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Property and Equipment

Depreciable properties such as leasehold improvements, and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

Land is stated at revalued amounts less any impairment in value while buildings are stated at revalued amount less accumulated depreciation and any impairment in value. The revalued amounts were determined by professionally qualified, independent appraisers. The revalued amounts take into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The revaluation increment resulting from revaluation is credited to the 'Revaluation increment on land and buildings' in the consolidated statement of comprehensive income, net of applicable deferred income tax.

The Group has elected to transfer the revaluation increment to Surplus, in full, upon disposal of the asset.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred.In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Leasehold improvements	3 - 10

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income under 'Net gain on sale or exchange of assets'. Foreclosed properties are classified under 'Investment properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 25 to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

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

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.
If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Software costs

Software costs, included in 'Other intangible assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Customer relationship and core deposit intangibles

Customer relationship and core deposit are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposit are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the commercial loans business is amortized on a straight-line basis over its useful life of 3 years while core deposit is amortized on a straight-line basis over its useful life of 10 years.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. The Parent Company, the Acquirer, has elected to measure the non-controlling interests in ABC, the Acquiree, at their proportionate share in ABC's net identifiable assets and liabilities. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, intangible assets and other properties acquired

At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangibles and other properties acquired with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Investment in subsidiaries and an associate
The Parent Company assesses at each reporting date whether there is any indication that its investment in subsidiaries and an associate may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

<u>Life Insurance Contract Liabilities</u>
Life insurance liabilities
Life insurance liabilities refer to liabilities of the Group that are recognized due to the obligations arising from policy contracts issued by PNB LII. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms
The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the liability section of the statement of financial position under 'Other liabilities - Insurance contract liabilities'.

Aggregate reserve for life policies represents the accumulated total liability for policies in force on the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts

PNB LII issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LII's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the statement of income. Collections received from unit-linked policies are separated to segregated fund assets from which PNB LII withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

Nonlife Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Insurance contract liabilities' in the liabilities section of the consolidated statement of financial position. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and IBNR losses

Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, is discharged or cancelled.

Liability Adequacy Test
Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires 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. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in ‘Property and equipment’ account with the corresponding liability to the lessor included in ‘Other liabilities’ account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to ‘Interest expense’.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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

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

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

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

When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

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

Current tax
Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carry-forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

In the consolidated financial statements, deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Parent Company Shares Held by a Subsidiary

Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company’s own equity instruments.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events after the Reporting date
Any post-year-end event that provides additional information about the Group's position at the reporting date (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.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for the detailed disclosure on segment information.

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

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital paid-in excess of par value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital paid-in excess of par value' account. If the 'Capital paid-in excess of par value' is not sufficient, the excess is charged against the 'Surplus'.

'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves
The reserves recorded in equity in the statement of financial position include:

'Revaluation increment on land and building' which comprises changes in fair value of land and building.

'Remeasurement losses on retirement plan' which pertains to remeasurement comprising actuarial losses on the present value of the retirement obligation, net of return on plan assets.

'Accumulated translation adjustment' which is used to record exchange differences arising from the translation of the FCDU accounts and foreign operations to Philippine peso.

'Net unrealized gain (loss) on available-for-sale investments' reserve which comprises changes in fair value of AFS investments.

Future Changes in Accounting Policies

The Group will adopt the Standards and Interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective 2014
Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
Philippine Interpretation IFRIC 21, *Levies*

Effective 2015 onwards
PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
PFRS 9, *Financial Instruments: Classification and Measurement*
Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*

Annual Improvements to PFRSs (2010-2012 cycle)
PFRS 2, *Share-based Payment - Definition of Vesting Condition*
PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
PAS 24, *Related Party Disclosures - Key Management Personnel*
PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
PFRS 13, *Fair Value Measurement - Portfolio Exception*
PAS 40, *Investment Property*

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3. Significant Accounting Judgments and Accounting Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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.

Judgments

(a) Leases

Operating lease

Group as lessor

The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

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

Group as lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance leases

The Group has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models (see Note 5).

The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Financial assets not quoted in an active market

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

(c) Embedded derivatives

Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately.

This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

(e) Contingencies

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (see Note 33).

(f) Functional currency

PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

In making this judgment, the Group considers the following:

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

(g) Product classification

The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's unit-linked products are classified and treated as insurance contracts.

(h) Assessment of control over entities for consolidation

Where the Parent Company does not have majority of the voting interest over an investee, it considers all relevant facts and circumstances in assessing whether it has control over the investee. This may include a contractual arrangement with the other vote holders of the investee or rights arising from other contractual arrangements which gives power to the Parent Company over the investee to affect its returns.

The Parent Company determined that it controls OHBVI through its combined voting rights of 70.56% which arises from its direct ownership of 27.78% and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement.

On the other hand, the Parent Company assessed that there are no rights arising from its contractual arrangement with OPII that gives the Parent Company control over OPII. Accordingly, OPII is no longer consolidated in the Group's financial statements.

(i) Assessment of significant influence over an associate

The Parent Company concluded that it only has significant influence over ACB as of December 31, 2012 through its 39.41% voting interest in the latter. The Parent Company also concluded that it has no de facto control over ACB as another stockholder holds the majority interest in ACB.

Estimates

(a) Credit losses on loans and receivables

The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance.
Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loan or investment rating from the time the account was granted or amended, and such other factors as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows and underlying property prices, among others.

Refer to Notes 9 and 15 for the carrying values of loans and receivables and receivable from SPVs, respectively.

(b) Fair values of structured debt instruments and derivatives

The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Notes 5 and 23 for information on the fair values of these instruments.

(c) Valuation of unquoted AFS equity investments

The Group's investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. Refer to Note 8 for the carrying value of unquoted AFS securities.

(d) *Impairment of AFS debt investments*
The Group reviews its debt investments classified as AFS investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and receivables.
As of December 31, 2013 and 2012, no allowance for impairment losses was provided on AFS debt investments. Refer to Note 8 for the carrying value of AFS debt investments.

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

As of December 31, 2013 and 2012, allowance for impairment losses on AFS equity investments amounted to ₱928.4 million for the Group and Parent Company. Refer to Note 8 for the information on the carrying amounts of these investments.

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

The Group and Parent Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The amounts of recognized and unrecognized deferred tax assets are disclosed in Note 29.

(g) *Fair valuation in business combination*
The Group determines the acquisition-date fair values of identifiable assets acquired and liabilities assumed from the acquiree without quoted market price based on the following:

- for assets and liabilities that are short term in nature, carrying values approximate fair values
- for financial assets and liabilities that are long term in nature, fair values are estimated through the discounted cash flow methodology, using the appropriate market rates (e.g., current lending rates)
- for nonfinancial assets such as property and equipment and investment properties, fair values are determined based an appraisal valuation which follows sales comparison approach and depreciated replacement cost approach
- for deferred tax assets and liabilities, fair values are based on the tax benefit arising from future taxable income from the enlarged operations of the Parent Company

Refer to Note 13 for the details of the fair values of the identifiable assets and liabilities assumed from business combination.

(h) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 27.

(i) *Revaluation of property and equipment*
The Group measures the land and buildings under property and equipment at revalued amounts with changes in fair value being recognized in the consolidated statement of comprehensive income. The Group engaged independent valuation specialists to determine the fair value of land and buildings as of December 31, 2013 and 2012. Refer to Note 10 for the carrying values of land and buildings.

(j) *Impairment of nonfinancial assets*
Property and equipment, investment in subsidiaries and an associate, investment properties, other properties acquired and intangibles
The Parent Company assesses impairment on its investments in subsidiaries and associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.

The Group also assesses impairment on its nonfinancial assets (e.g., investment properties, property and equipment, other acquired properties and intangibles) and considers the following impairment indicators:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset or group of assets being assessed.

The carrying values of the Group's investments in subsidiaries and associate and other nonfinancial assets are disclosed in Notes 10, 11, 12, 14 and 15.

(k) Impairment of goodwill

The Group conducts an annual review for any impairment in the value of goodwill Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support their carrying value. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the relevant CGUs. Average growth rate is derived from long-term Philippine growth rate. The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Key assumptions in value-in-use calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining value-in-use are disclosed in Notes 13 and 14 of the 2013 AFS.

(l) Aggregate reserves for life insurance

In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (IC or the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6.00% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

(m) Valuation of insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty.

Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

(n) *Estimated useful lives of property and equipment, investment properties, intangibles and other properties acquired*
The Group estimates the useful lives of its property and equipment, investment properties, intangibles, and other properties acquired.

This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment, investment properties, intangibles, and other properties acquired.

4. Fair Value Hierarchy of Financial Instruments and Financial Risk Management

A. Fair Value Hierarchy of Financial Instruments

The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL, AFS investments and land and buildings measured at revalued amount.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group and the Parent Company held the following financial assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	Consolidated			
	March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱ 3,376,135**	**₱ 1,303,327**	**₱–**	**₱ 4,679,462**
Derivative assets	**–**	**305,645**	**–**	**305,645**
Private debt securities	**191,764**	**34,895**	**–**	**226,659**
Equity securities	**194,774**	**–**	**–**	**194,774**
Designated at FVPL:				
Segregated fund assets	**2,676,752**	**–**	**5,501,357**	**8,178,109**
	₱6,439,425	**₱1,643,867**	**₱5,501,357**	**₱13,584,649**

AFS investments:				
Government securities	**₱26,756,233**	**₱13,833,118**	**₱–**	**₱40,589,351**
Other debt securities	**19,078,873**	**777,934**	**–**	**19,856,807**
Equity securities*	**1,119,187**	**825,156**	**–**	**1,944,343**
	₱46,954,293	**₱15,436,208**	**₱–**	**₱62,390,501**
Non-financial Assets				
Property and equipment				
Land	**₱–**	**₱–**	**₱14,980,770**	**₱14,980,770**
Buildings	**–**	**–**	**5,972,177**	**5,972,177**
	₱–	**₱–**	**₱20,952,947**	**₱20,952,947**
Liabilities measured at fair value:				
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities**	**₱2,712,265**	**₱–**	**₱5,501,357**	**₱ 8,213,622**
Derivative liabilities	**–**	**140,196**	**–**	**140,196**
	₱2,712,265	**₱140,196**	**₱5,501,357**	**₱8,353,818**
Assets for which fair values are disclosed:				
Financial Assets				
Loans and Receivables				
Receivables from customers	**₱–**	**₱–**	**₱256,645,514**	**₱256,645,514**
Unquoted debt securities	**–**	**–**	**8,733,369**	**8,733,369**
	₱–	**₱–**	**₱265,378,883**	**₱265,378,883**
Non-financial Assets				
Investment property***				
Land	**₱–**	**₱–**	**₱24,176,727**	**₱24,176,727**
Buildings and improvements	**–**	**–**	**3,394,550**	**3,394,550**
	₱–	**₱–**	**₱27,571,277**	**₱27,571,277**
Liabilities for which fair values are disclosed:				
Financial Liabilities				
Financial liabilities at amortized cost				
Time deposits	**₱–**	**₱–**	**₱51,350,907**	**₱51,350,907**
Subordinated debt	**–**	**–**	**10,584,755**	**10,584,755**
	₱–	**₱–**	**₱61,935,662**	**₱61,935,662**

	Consolidated			
	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱1,977,066**	**₱1,093,608**	**₱–**	**₱3,070,674**
Derivative assets	**–**	**92,834**	**165,863**	**258,697**
Private debt securities	**217,808**	**50,963**	**–**	**268,771**
Equity securities	**249,518**	**–**	**–**	**249,518**
Designated at FVPL:				
Segregated fund assets	**2,481,635**	**–**	**5,380,053**	**7,861,688**
	₱4,926,027	**₱1,237,405**	**₱5,545,916**	**₱11,709,348**
AFS investments:				
Government securities	**₱33,571,430**	**₱25,676,335**	**₱–**	**₱59,247,765**
Other debt securities	**19,150,981**	**65,762**	**–**	**19,216,743**
Equity securities*	**1,678,007**	**–**	**–**	**1,678,007**
	₱54,400,418	**₱25,742,097**	**₱–**	**₱80,142,515**
Non-financial Assets				
Property and equipment				
Land	**₱–**	**₱–**	**₱ 14,957,751**	**₱ 14,957,751**
Buildings	**–**	**–**	**6,044,006**	**6,044,006**
	₱–	**₱–**	**₱ 21,155,051**	**₱ 21,155,051**
Liabilities measured at fair value:				
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL:				
Segregated fund liabilities**	**₱2,481,635**	**₱–**	**₱5,380,053**	**₱7,861,688**
Derivative liabilities	**–**	**163,101**	**–**	**163,101**
	₱2,481,635	**₱163,101**	**₱5,380,053**	**₱8,024,789**
Assets for which fair values are disclosed:				
Financial Assets				
Loans and Receivables				
Receivables from customers	**₱–**	**₱–**	**₱256,593,191**	**₱256,593,191**
Unquoted debt securities	**–**	**–**	**8,733,369**	**8,733,369**
	₱–	**₱–**	**₱265,326,560**	**₱265,326,560**
Non-financial Assets				
Investment property***				
Land	**₱–**	**₱–**	**₱24,176,727**	**₱24,176,727**
Buildings and improvements	**–**	**–**	**3,394,550**	**3,394,550**
	₱–	**₱–**	**₱27,571,277**	**₱27,571,277**
Liabilities for which fair values are disclosed:				
Financial Liabilities				
Financial liabilities at amortized cost				
Time deposits	**₱–**	**₱–**	**₱51,350,907**	**₱51,350,907**
Subordinated debt	**–**	**–**	**10,584,755**	**10,584,755**
	₱–	**₱–**	**₱61,935,662**	**₱61,935,662**

* *Excludes unquoted available-for-sale securities*

** *Excludes cash component*

*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost.*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities.

Instruments included in Level 3 include those for which there is currently no active market.
In applying the discounted cash flow analysis to determine the fair value of financial liabilities designated at FVPL, the Group and the Parent Company used discount rate ranging from 1.38% to 3.63% and from 1.20% to 4.99% as of March 31, 2014 and December 31, 2013, respectively.

As of March 31, 2014 and December 31, 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

B. Financial Risk Management

Compared with December 31, 2013, the bank's qualifying capital (based on the Capital Adequacy Report submitted to the BSP – on a consolidated basis) as of March 31, 2014 was reduced by ₱1,287 million. The bank's Capital Adequacy Ratio stands at 19.495% in March 2014 versus 19.684% in December 2013. The bank's Risk Weighted Assets (RWA) as of March 2014 equals ₱375,273 million versus ₱378,196 million in December 2013. The decrease in RWA was due primarily to the decrease in Market Risk Weighted Assets of ₱5,337 million as well as the decrease in Operational Risk Weighted Assets of ₱2,704 million offset by the ₱5,119 million increase in Credit Risk Weighted Assets.

The Board and its Risk Oversight Committee operate as the highest level of PNB's risk governance. At management level, risk governance is undertaken by a structured hierarchy of committees each with specified accountabilities. The continues flow of information between the board and board-level committees and the corresponding management committees; allow for consistent evaluation of the risks inherent in the business, raise the alarms, if any, and manage the business effectively with strong adherence to process management guidelines and controls.

The bank has harmonized its risk management framework following the approval of the bank merger between Allied Bank and Philippine National bank in Feb 2013. The various risk management tools are now applied to the merged bank and duly implemented throughout the organization by all business units in coordination with the merged Risk Management Group. The Risk Management Group is primarily responsible for the risk management functions to ensure that a robust risk-oriented organization is maintained. The Risk Management Group is independent from the business lines and is organized in 6 divisions: Credit Risk & BASEL Implementation Division, Market & ALM Division, Operational Risk Management Division, Information Security and Technology Risk Division, Trust Risk Division and Business Intelligence & Data Warehouse Division.

Each division maintains basic policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary. The policies also provide for audits to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight

Committee which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the bank in its ICAAP document. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

At PNB, members of the senior management team play a pivotal role in the day-to-day running of the bank. Senior members of the executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the bank's board of directors. The bank's business objectives are driven for most part by the day-to-day directions decided in these committees.

Risk Categories and Definitions
We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP program:

Risk Category	Risk Definition	Risk Management Tools
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	▪ VAR Limits ▪ Stop Loss Limits ▪ Potential Loss Alerts ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS Holding Period ▪ Traders' Limit ▪ Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	▪ EAR Limits ▪ Stress Testing ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis

Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract.	▪ Trend Analysis (Portfolio / Past Due and NPL Levels ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review
Country Risks	Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their external obligations.	▪ Country Risk Limits against benchmarks ▪ Limits to Exposures to ROPs ▪ Limits to exposures on CLNs and Structured Products
Operational Risk	Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. It encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.	▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Technology (including Information Security Risks)	Information Technology Risk is a business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank (ISACA Risk IT Framework). IT Risk results to Information Security Risk since the risk would somehow result to non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset (NIST IR 7298 Revision 2).	▪ Risk Asset Register ▪ Incident Reporting Management ▪ Information Security Policy Formulation

Strategic Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	▪ Management Profitability Reports ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting
Legal Risk	Legal risk is the current and prospective impact on earnings or capital arising from legal sanctions against the Bank. It includes the risk of exposure to litigation, arbitration, mediation and other non-litigious courses of action.	▪ Status of Legal Cases >Ph50MM at risk ▪ Review of pending tax assessment/s ▪ Adequate provisioning for probable losses ▪ Issuance of circulars, tax guidelines and procedures
Customer Franchise (including Reputational Risks)	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.	▪ Account Closures Report ▪ Service Desk Customer Issues Report ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Review of Stock Price performance
Human Resources Risk	Human resource risk covers the Bank's risk of financial loss due to risks in human capital acquisition, losses due to inadequate training, inexperience or illegal activities of risk-taking and other personnel.	▪ Attrition Analysis ▪ Internal Fraud Analysis ▪ Training Needs Programs ▪ Recruitment Turnaround and Fit Analysis
Merger Risk	Merger risk is the current and prospective negative impact on quantifiable and non-quantifiable benefits expected from the integration of the 2 banks – Allied Bank and PNB. These are: 1. Delays in the implementation of integration activities as planned which can be caused by foreseen and unforeseen events 2. Non-achievement in the planned / targeted cost synergies 3. Delays in the integration of products, processes, technology and non-technology systems 4. Attrition of key personnel which may result in delays or targets not achieved 5. Overruns in the planned integration costs	▪ Integration Progress Reporting ▪ Approvals for major policy changes ▪ Risk Assessment for new/upgrade of information / automated systems ▪ Harmonization Timeline Tracking

Trust / Fiduciary Risks	Fiduciary risk is the measure of uncertainty that fiduciary requirements are actually met. PNB TBG has to contend with a variety of risks as it engages in investment management, rust and other fiduciary activities.	▪ Investment Studies ▪ Target Market ▪ Product Programs ▪ Setting of risk limits ▪ VaR& Stop Loss Limits ▪ Loss Alert Volume Limits ▪ Liquidity Limits ▪ Exposure Limits ▪ Exceptions / Breaches to Limits Reporting to ROC ▪ Stress testing
Compliance Risk	Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.	▪ Circularization of new laws, regulatory agencies' circulars ▪ Compliance Training for employees, BOD & officers ▪ Compliance testing ▪ Enhanced quarterly certification ▪ Monitoring of Corrective Actions on Excepted items
Acquired Assets Disposal Risk	Acquired Assets Disposal Risk is the current and prospective negative impact to the bank because of the inability or delay in the disposal of the Bank's acquired assets.	▪ utilizes the following marketing outlets to promote and advertise (publications, auctions, mailers, social media, etc. ▪ Performance Management Reports ▪ ROPA Risk Dashboard (monthly)

5. Segment Information

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Other Segments - include but not limited to insurance, leasing, remittances and other support services. Other operations of the Group comprise of the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the board of directors, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses and measurement of investment properties. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	Three Months Ended March 31, 2014					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	**₱ 624,699**	**₱ 2,916,263**	**₱ 1,455,867**	**₱ 133,903**	**₱229,761**	**₱ 5,360,492**
Interest expense	**580,315**	**96,605**	**356,811**	**2,366**	**(122,102)**	**913,995**
Net interest margin	**44,384**	**2,819,658**	**1,099,056**	**131,537**	**351,863**	**4,446,497**
Other income	**387,259**	**443,419**	**(504,161)**	**914,648**	**1,055,113**	**2,296,279**
Other expenses	**1,258,930**	**1,163,524**	**157,471**	**535,330**	**715,587**	**3,830,842**
Segment result	**(827,287)**	**2,099,554**	**437,424**	**510,855**	**691,389**	**2,911,935**

(Forward)

	Three Months Ended March 31, 2014					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Inter-segment						
Imputed income	**₱ 945,292**	**₱–**	**₱–**	**₱–**	**₱–**	**₱945,292**
Imputed cost	**–**	**(723,322)**	**(221,971)**	**–**	**–**	**(945,292)**
Segment result to third party	**₱ 118,005**	**₱ 1,376,232**	**₱ 215,453**	**₱ 510,855**	**₱691,389**	**2,911,935**
Unallocated expenses						**1,134,299**
Net income before share in net income of an associate and income tax						**1,777,636**
Share in net income of an associate						**–**
Net income before income tax						**1,777,636**
Income tax						**434,810**
Net income						**1,342,826**
Non-controlling interest						**3,151**
Net income for the period attributable to equity holders of the Parent Company						**₱1,339,675**
Other segment information						
Capital expenditures	**₱ 291,028**	**₱ 22,751**	**₱ 39**	**₱89,212**	**₱–**	**₱403,030**
Depreciation and amortization	**₱ 43,162**	**₱ 34,156**	**₱ 1,875**	**₱ 181,594**	**₱ 89,325–**	**₱350,112**
Unallocated depreciation and amortization						**62,327**
Total depreciation and amortization						**₱412,438**
Provision for (reversal of) impairment, credit and other losses	**₱ 13,547**	**₱ (29,727)**	**₱–**	**₱1,656**	**₱ 305,649**	**₱291,125**

**The eliminations and adjustments column mainly represent the RAP to PFRS adjustments.*

	As of March 31, 2014					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱ 323,227,683**	**₱ 220,778,031**	**₱ 247,007,475**	**₱ 132,658,915**	**(₱313,026,170)**	**₱ 610,645,934**
Unallocated assets						**1,268,740**
Total assets						**₱ 611,914,674**
Segment liabilities	**₱ 427,336,068**	**₱ 48,065,953**	**₱ 41,831,044**	**₱229,118,266**	**(₱311,464,286)**	**₱ 434,887,045**
Unallocated liabilities						**89,174,301**
Total liabilities						**₱ 524,061,346**

**The eliminations and adjustments column mainly represent the RAP to PFRS adjustments.*

	Three Months Ended March 31, 2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱501,613	₱2,298,028	₱1,271,444	₱107,182	(₱79,225)	₱4,099,042
Interest expense	781,062	212,360	472,736	4,660	5,937	1,476,755
Net interest margin	(279,449)	2,085,668	798,708	102,522	(85,162)	2,622,287
Other income	335,950	334,850	3,106,053	1,108,648	236,350	5,121,851
Other expenses	1,477,492	477,093	62,082	651,871	(1,336,504)	1,332,034
Segment result	(1,420,991)	1,943,425	3,842,679	559,299	1,487,692	6,412,104
Inter-segment						
Imputed income	1,089,959	–	–	–	–	1,089,959
Imputed cost	–	(399,213)	(690,746)	–	–	(1,089,959)
Segment result to third party	(₱331,032)	₱1,544,212	₱3,151,933	₱559,299	₱1,487,692	₱6,412,104
Unallocated expenses						2,915,588
Net income before share in net income of an associate and income tax						3,496,516
Share in net income of an associate						4,975
Net income before income tax						3,501,491
Income tax						661,892
Net income						2,839,599
Non-controlling interest						12,179
Net income for the year attributable to equity holders of the Parent Company						₱2,827,420

(Forward)

	Three Months Ended ended March 31, 2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Other segment information						
Capital expenditures	₱165,111	₱17,675	₱720	₱2,613	₱–	₱186,119
Total capital expenditures						₱228,560
Depreciation and amortization	₱44,578	₱69,004	₱1,671	₱113,307	₱–	₱228,560
Unallocated depreciation and amortization						67,975
Total depreciation and amortization						₱ 296,535
Provision for (reversal of) impairment, credit and other losses	₱57,262	₱120,910	(₱275)	₱400	₱1,751	₱180,048

**The eliminations and adjustments column mainly represent the RAP to PFRS adjustments.*

	As of December 31, 2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱323,066,129	₱210,159,287	₱266,730,411	₱139,624,331	(₱322,900,973)	₱616,679,185
Unallocated assets						1,386,331
Total assets						₱618,065,516
Segment liabilities	₱389,311,223	₱46,909,951	₱54,329,592	₱267,453,559	(₱311,648,370)	₱446,355,955
Unallocated liabilities						87,811,933
Total liabilities						₱534,167,888

**The eliminations and adjustments column mainly represent the RAP to PFRS adjustments.*

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of March 31, 2014, December 31, 2013, and capitalized expenditures and revenues for the threemonth periods ended March 31, 2014 and 2013 by geographic region of the Group follows:

	Assets		**Liabilities**		**Credit Commitments**	
	March 31, 2014	December 31, 2013	**March 31, 2014**	December 31, 2013	**March 31, 2014**	December 31, 2013
Philippines	**₱579,765,085**	₱590,593,475	**₱503,071,502**	₱515,589,812	**₱25,257,851**	₱26,392,845
Asia (excluding Philippines)	**23,547,377**	21,978,224	**16,553,186**	16,266,046	**804,079**	1,754,756
USA and Canada	**7,177,291**	4,325,575	**3,823,928**	2,112,914	**7,130**	487
United Kingdom	**1,398,341**	1,109,611	**392,124**	10,160	**–**	–
Other European Union Countries	**26,580**	58,631	**220,606**	188,956	**–**	–
	₱611,914,674	₱618,065,516	**₱524,061,346**	₱534,167,888	**₱26,069,060**	₱28,148,088

	Capital Expenditure		**Revenues**	
	March 31, 2014	**March 31,** 2013	**March 31, 2014**	**March 31,** 2013
Philippines	**₱351,778**	₱179,770	**₱7,107,752**	₱8,843,731
Asia (excluding Philippines)	**15,331**	**720**	2,283	**342,356**
USA and Canada	**87**	**–**	**147,414**	166,523
United Kingdom	**50,445**	**4,047**	**46,649**	26,293
Other European Union Countries	**–**	**–**	**19**	**12,600**
	₱403,030	₱186,119	**₱7,656,771**	₱9,225,868

The Philippinesis the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the business segments.

6. Due from BSP

This account includes placements in special deposit accounts (SDAs) of the BSP amounting to ₱68.0 billion and₱ 82.6 billion as of March 31, 2014 and December 31, 2013, respectively. These SDAs bear interest at annual interest rates ranging from 2.00% to 3.50% in March 2014 and 2.00% to 3.66% in December 2013.

7. Available-for-Sale Investments

This account consists of:

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Government securities	**₱ 42,171,309**	₱59,247,765
Other debt securities	**19,011,096**	19,216,744
Equity securities - net of allowance for impairment losses of₱0.9 billion as of March 31, 2014 and December 31, 2013	**2,183,761**	1,839,640
	₱ 63,366,167	₱80,304,149

Trading and investment securities gains - net consist of:

	Three Months Ended	
	March 31, 2014 (Unaudited)	March 31, 2013 (Unaudited)
Financial assets at FVPL:		
Held-for-trading	**₱22,521**	₱401,161
Derivatives	**63,754**	23,019
Designated at FVPL	**(857)**	(11,116)
AFS investments	**151,928**	2,590,049
Financial liabilities at FVPL	**-**	268,992
	₱237,346	₱3,272,105

As the BSP and accounting rules already allow the Bank to book investments in the HTM books starting 01 January 2014, the bank reclassified some of its investment securities from the AFS portfolio to the HTM portfolio due to the economic value that it brings to the balance sheet. The reclassification from investments in the AFS books to the HTM books is also to mitigate the substantial swings in the mark-to-market values that is directly recognized in the equity portion of the balance sheet due to the high degree of volatility in the interest rate markets. The amount of securities reclassified are broken down into RBU ₱5.62 billion and FCDU $271.4 million.

8. Loans and Receivables

This account consists of:

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Receivable from customers:		
Loans and discounts	**₱ 237,977,232**	₱233,536,374
Customers' liabilities on acceptances, letters of credit and trust receipts	**9,619,253**	9,978,252
Credit card receivables	**3,740,299**	3,763,087
Bills purchased	**3,919,739**	3,781,305
Lease contracts receivable	**2,754,304**	2,677,235
	258,010,827	253,736,253
Less unearned and other deferred income	**1,110,614**	1,109,950
	256,900,213	252,626,303
Unquoted debt securities	**8,547,643**	11,254,187
Other receivables:		
Accounts receivable	**7,876,477**	10,186,605
Accrued interest receivable	**4,796,052**	7,229,913
Sales contract receivables	**4,200,637**	4,647,352
Miscellaneous	**383,247**	499,314
	282,704,269	286,443,674
Less allowance for credit losses	**11,988,774**	12,167,591
	₱270,715,495	₱274,276,083

The table below shows the industry sector analysis of the Group's receivable from customers before taking into account the allowance for credit losses (amounts in millions):

	March 31, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Carrying Amount	**%**	Carrying Amount	%
Loans and Receivables				
Receivable from customers:				
Primary target industry:				
Wholesale and retail	**₱ 42,051**	**16.30**	₱43,124	17.00
Manufacturing	**34,794**	**13.49**	31,992	12.61
Electricity, gas and water	**38,092**	**14.76**	38,523	15.18
Public administration and defense	**23,830**	**9.24**	23,867	9.41
Transport, storage and communication	**17,175**	**6.65**	18,089	7.03
Financial intermediaries	**21,097**	**8.18**	21,460	8.46
Agriculture, hunting and forestry	**3,524**	**1.37**	3,660	1.44
Secondary target industry:				
Real estate, renting and business activities	**37,937**	**14.7**	36,119	14.23
Construction	**8,122**	**3.15**	6,976	2.75
Others	**31,389**	**12.16**	29,927	11.79
	₱ 258,011	**100.00**	₱253,736	100.00

The information (gross of unearned and other deferred income) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	March31, 2014 (Unaudited)		December 31, 2013 (Audited)	
	Amount	**%**	Amount	%
Secured:				
Real estate mortgage	**₱60,150,835**	**23.31**	₱59,124,844	23.30
Chattel mortgage	**8,637,797**	**3.35**	8,678,328	3.42
Bank deposit hold-out	**5,673,399**	**2.20**	3,572,618	1.41
Shares of stocks	**35,852**	**0.01**	-	-
Others	**29,141,018**	**11.30**	32,094,769	12.65
	103,638,901	**40.17**	49,427,721	40.78
Unsecured	**154,371,926**	**59.83**	150,265,694	59.22
	₱ 258,010,827	**100.00**	₱253,736,253	100.00

Non-performing Loans (NPLs) classified as secured and unsecured as reported to BSP follows:

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Secured	**₱6,846,756**	₱6,842,118
Unsecured	**3,476,785**	3,844,304
	₱10,323,540	₱10,686,422

9. Property and Equipment

For the three months ended March31, 2014, the Group purchased assets with a cost of ₱402.1 million. These exclude assets arising from the business combination (Note 12).

Also, assets with net book value of ₱97.9 million were disposed of by the Group during the three months ended March 31, 2014.

As of December 31, 2013, the Group purchased assets with a cost of ₱652.8 million and disposed assets with net book value of ₱229.2 million.

10. Investment in an Associate

With its business combination with ABC (Note 1), the Parent Company's equity interest in ACB increased from 39.41% to 90.41%. This resulted in change in accounting for such investment from an associate to a subsidiary. In accordance with PFRS 3, *Business Combination*, the step-up acquisition of investment in ACB is accounted for as a disposal of the equity investment in ACB and the line by line consolidation of ACB's assets and liabilities in the Group's financial statements. The disposal resulted in a gain of ₱83.9 million (included under 'Miscellaneous income' in the statements of income for the year ended December 31, 2013), which included recycling to profit or loss of the cumulative translation adjustment of ₱141.3 million arising from the translation of the equity investment to the presentation currency of the Group.

11. **Investment Properties**

For the three months ended March 31, 2014, the Group received foreclosed assets with a fair value of ₱ 287.8 million as settlement of the NPLs. These exclude assets arising from the business combination (Note 12). Also, assets with net book value of ₱160.9 million were disposed of by the Group during the three months ended March 31, 2014.

As of December 31, 2013, the Group received foreclosed assets with a fair value of ₱ 2.2 billion and disposed assets with net book value of ₱2.7 billion.

The aggregate fair value of the Group's investment properties as of March 31, 2014 and December 31, 2013 amounted to ₱27.6 billion and ₱27.6 billion, respectively, of which ₱27.0 billion and ₱27.0 billion, respectively, pertains to the Parent Company. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

12. **Business Combinations**

As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stock of ABC, a listed universal bank. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities.

Assets acquired and liabilities assumed
In accordance with PFRS 3, the Parent Company determined the assets acquired and liabilities assumed from the business combination and made an assessment of their fair values. The Parent Company used external and in-house appraisers to value ABC's real properties while a professional service organization was hired to value the intangible asset and equity values of the acquired subsidiaries. The fair values of the identifiable assets and liabilities of ABC and its subsidiaries as at the date of acquisition follow:

	Fair value of the net assets recognized on acquisition date	
	Consolidated	Parent Company
Assets		
Cash and other cash items	₱3,138,220	₱2,855,899
Due from BangkoSentralngPilipinas	44,481,495	44,064,998
Due from other banks	12,514,442	3,417,949
Interbank loans receivable	4,310,711	2,865,627
Financial assets at fair value through profit or loss	6,502,108	2,664,734
Available-for-sale investments	18,691,568	12,546,639
Loans and receivables	92,267,493	82,716,610
Investment in subsidiaries	–	7,041,988
Property and equipment (Note 10)	6,457,066	5,777,851
Investment properties (Note 12)	6,707,094	6,415,074
Deferred tax assets	104,819	-
Intangibles	2,349,941	2,289,732
Other assets	731,583	655,859
Total assets	₱198,256,540	₱173,312,960
Liabilities		
Deposit liabilities		
Demand	₱52,128,995	₱50,621,429
Savings	61,959,070	59,568,536
Time	27,090,192	20,443,446
	141,178,257	130,633,411
Financial liabilities at fair value through profit or loss	4,180,728	38,358
Bills and acceptances payable	3,150,837	3,090,837
Accrued taxes, interest and other expenses	1,650,083	1,445,050
Subordinated debt*	4,498,919	4,498,919
Deferred tax liabilities	1,835,101	1,684,989
Other liabilities	8,392,085	3,931,234
Total liabilities	164,886,010	145,322,798
Fair values of identifiable assets and liabilities assumed	₱33,370,530	₱27,990,162

** On March 6, 2013 the Parent Company exercised the option to redeem the subordinated debt issued by ABC prior to its maturity on March 6, 2018. The subordinated debt was redeemed at its face value of ₱4.5 billion.*

The business combination resulted in recognition of goodwill which is determined as follows:

Purchase consideration transferred	₱41,505,927
Add: Proportionate share of the non-controlling interest in the net assets of ABC	2,761,837
Acquisition-date fair value of previously held interest in Subsidiaries	2,478,173
Less: Fair values of net identifiable assets and liabilities assumed	33,370,530
Goodwill	₱13,375,407

The goodwill attributable to the Parent Company amounted to ₱13.5 billion. The goodwill arising from acquisition consists largely of the synergies and economies of scale expected from combining the operations of PNB and ABC. None of the goodwill recognized is expected to be deductible for income tax purposes.

The resulting goodwill differs from those reported by the Parent Company in its published quarterly financials, which was determined based on provisional amounts. The difference primarily resulted from recognition of core deposit intangibles of ₱1.9 billion and customer relationship intangibles of ₱0.4 billion.

The proportionate share and measurement of the non-controlling interests and previously held interest in PNB LII, ACB, ALFC, ABCHK and OHBVI have been determined based on the equity values of these subsidiaries.
For the Group, the total gross contractual amount of receivables acquired as of February 9, 2013 was ₱ 97.5 billion, while the corresponding allowance for probable losses and unearned interest discount amounted to ₱5.1 billion and ₱0.2 billion, respectively. Deferred tax liability on fair value adjustments amounted to ₱1.5 billion and ₱0.2 billion was offset on a per entity basis against the deferred tax asset carried by PNB.

For the Parent Company, the total gross contractual amount of receivables acquired as of February 9, 2013 was ₱87.6 billion, while the corresponding allowance for probable losses and unearned interest discount amounted to ₱4.8 billion and ₱0.1 billion, respectively. Deferred tax liability on fair value adjustments amounted to ₱1.4 billion and ₱0.2 billion was offset on a per entity basis against the deferred tax asset carried by PNB.

The fair value of the 423,962,500 common shares issued as consideration for the net assets of ABC and its subsidiaries was determined on the basis of the closing market price of PNB common shares as of February 9, 2013.

From the date of acquisition, ABC and its subsidiaries have contributed ₱7.5 billion to the Group's revenue and a loss of ₱1.2 billion to the Group's income before income tax. If the combination had taken place at the beginning of the year, contribution to the Group revenue and the income before income tax would have been ₱10.2 billion and ₱40.5 million, respectively.

As of December 31, 2013, an analysis of cash flows arising from the business combination follows:

Net cash acquired arising from the business combination (under investing activities)	₱64,444,868
Less transaction costs attributable to issuance of shares (under financing activities)	84,792
Net cash inflow from the business combination	₱64,360,076

On April 26, 2013, the Group filed a request for a ruling from the Bureau of Internal Revenue (BIR) seeking confirmation that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code). As of December 31, 2013, the ruling request is still pending with the Law Division of the BIR.

The Group believes that the BIR will issue such confirmation on the basis of BIR Preliminary Ruling No. 01-2008 (dated September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction.

As of December 31, 2013, the Group had submitted the required merger documents and other documents pertaining to the assets and liabilities transferred.

13. Financial Liabilities

Bills and Acceptances Payable

As of March 31, 2014, the annual interest rates range from 0.03% to 2.25% for foreign currency-denominated borrowings, and from 0.75% to 12.00% for peso-denominated borrowings of the Group.

As of December 31, 2013, the annual interest rates range from 0.12% to 0.99% for foreign currency-denominated borrowings, and from 1.09% to 3.50% for peso-denominated borrowings of the Group.

Bills payable includes funding from the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions. Lending to such programs is shown under 'Loans and receivables'.

As of March 31, 2014 and December 31, 2013, bills payable with a carrying value of ₱2.24 billion and ₱2.25 Billion is secured by a pledge of certain AFS investments with fair value of ₱2.75 billion and ₱2.74 billion, respectively.

Subordinated Debt

<u>5.88% ₱3.5 Billion Subordinated Notes</u>
On May 9, 2012 , the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital.

The 2012 Notes which bear nominal interest of 5.88% and due in 2022 was issued pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.04%.

<u>6.75% ₱6.5 Billion Subordinated Notes</u>
On May 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital.

The 2011 Notes which bear nominal interest of 6.75% and due in 2021, pursuant to the authority granted by the BSP to the Bank on May 27, 2011. EIR on this note is 6.94%.

<u>7.13% ₱4.5 Billion Subordinated Notes</u>
On July 25, 2007, the BOD of the Parent Company approved and authorized the management to conduct capital raising activity by way of issuance of Lower Tier 2 capital up to the maximum amount of ₱5.0 billion due in 2018 (callable with step-up in 2013) through a public offering subject to the provisions of BSP Circular No. 280 and BSP Memorandum to all banks and financial institutions dated February 17, 2003.

The issuance of the foregoing subordinated debt was approved by the MB in its Resolution No. 98 dated January 24, 2008.

On March 6, 2013, the 2018 Notes were redeemed by the Parent Company at its face value.

As of March 31, 2014 and December 31, 2013, the unamortized transaction cost of subordinated debt amounted to ₱42.5 million and ₱46.3 million, respectively.

As of March 31, 2014 and December 31, 2013, amortization of transaction costs amounting to ₱3.8 million and ₱14.8 million, respectively, were charged to 'Interest expense - bills payable and other borrowings' in the statements of income.

14. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	March 31, 2014	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**
Preferred - ₱40 par value				
Authorized	–	–		
Common - ₱40 par value				
Authorized	**1,250,000,001**	**1,250,000,001**		
Issued and Outstanding				
Balance at the beginning of the year	**1,086,208,416**	**662,245,916**	**₱43,448,337**	**₱26,489,837**
Issued during the year	**33,218,348**	**423,962,500**	**1,328,734**	**16,958,500**
	1,119,426,764	**1,086,208,416**	**43,448,337**	**43,448,337**
Parent Company Shares Held by a Subsidiary	–	–	–	–
	1,119,426,764	**1,086,208,416**	**₱44,777,071**	**₱43,448,337**

The Parent Company shares are listed in the PSE. As of December 31, 2013 and 2012, the Parent Company had 30,469 and 30,825 stockholders, respectively.The Group has nil and 200,112 treasury sharesas of December 31, 2013 and 2012, respectively.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10 billion divided into 100,000,000 common shares with a par value of ₱100.00 per share. Its principal stockholder was the National Government (NG) which owned 25,000,000 common shares. On the other hand, private stockholders owned 8,977 common shares.

To foster a financial intermediation system that is both competitive and efficient, the partial privatization of the Parent Company was carried out through the following public offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
June 1989	Initial Public Offering	10,800,000 common shares	₱100.00	₱100.00	250,000,000 common shares	36,011,569 common shares
April 1992	Second Public Offering	8,033,140 common shares	₱100.00	₱265.00	250,000,000 common shares	80,333,350 common shares
December 1995	Third Public Offering	7,200,000 common shares and 2,400,000 covered warrants	₱100.00	₱260.00	250,000,000 common shares	99,985,579 common shares

After the three (3) public offerings, the NG sold a total of 54.41% of its shareholdings to both the Philippine public and international investors.

On May 27, 1996, the privatization of the Parent Company was completed when the Parent Company's new Articles of Incorporation and By-Laws were approved by the SEC under SEC Registration No. ASO96-005555. As of May 27, 1996, the NG owned 45.59% of the outstanding shares of the Parent Company. The Parent Company's authorized capital stock was increased to ₱25 billion pesos divided into 250,000,000 common shares with a par value of ₱100.00 per share.

As part of the Parent Company's capital build-up program, the Parent Company also completed the following right offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Basis of Subscription	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
September 1999	Stock Rights Offering	68,740,086 common shares	One (1) Right Share for every two common shares	₱100.00	₱137.80	250,000,000 common shares	206,220,257 common shares
September 2000	Pre-emptive Rights Offering	71,850,215 common shares with 170,850,215 warrants	Five (5) Right Shares for every Six (6) common shares	₱100.00	₱60.00	833,333,334 common shares	206,220,257 common shares

On August 18, 2000, the SEC approved the decrease of the capital stock of the Parent Company from ₱ 25.0 billion divided into 250,000,000 common shares with a par value of ₱100.00 per share to ₱15.0 billion divided into 250,000,000 common shares with a par value of ₱60.00 per share. Subsequently on November 7, 2000, the SEC approved the increase of the capital stock of the Parent Company from ₱15.0 Billion divided into 250,000,000 common shares with a par value of ₱60.00 per share to ₱50,000,000,040 divided into 833,333,334 shares with a par value of ₱60.00 per share.

On July 23, 2002, the SEC approved the decrease of the capital stock of the Parent Company from ₱ 50,000,000,040.00 divided into 833,333,334 shares with a par value of ₱60.00 per share to ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of ₱40.00 per share. On the same day, the SEC also approved the increase of the capital stock of the Parent Company from ₱33,333,333,360.00 divided into 833,333,334 shares with a par value of ₱40.00 per share to ₱50,000,000,040.00 divided into 1,054,824,557 common shares and 195,175,444 preferred shares both with a par value of ₱40.00 each.

In July 2007, the Parent Company made a primary and secondary offering of up to 160,811,091 common shares. The Offer consisted of: (i) primary offer by the Parent Company of up to 89,000,000 new shares from the Parent Company's authorized but unissued common share capital, and (ii) secondary offer of up to an aggregate of 71,811,091 existing shares, comprising (a) 17,453,340 shares offered by the NG, and (b) 54,357,751 shares which were owned by the PDIC in the form of convertible preferred shares. The Primary Offer Shares and Secondary Offer Shares were offered at the Offer Price of ₱59.00 per share.

On January 17, 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. The increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

Prior to conversion to common shares, the preferred shares had the following features:

(a) Non-voting, non-cumulative, fully participating on dividends with the common shares;
(b) Convertible, at any time at the option of the holder who is qualified to own and hold common shares

on a one (1) preferred share for one (1) common share basis;

(c) With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any other government agency or GOCC's; and

(d) With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Bank shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.8 billion as of December 31, 2013 and 2012 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

Accumulated Translation Adjustment

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital paid in excess of par value in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

Surplus Reserves

The surplus reserves consist of:

	March 31, 2014	**December 31, 2013**
Reserve for trust business (Note 31)	**₱444,003**	**₱444,003**
Reserve for contingencies and other accounts	–	–
Reserve for self-insurance	**80,000**	**80,000**
	₱524,003	**₱524,003**

Reserve for self-insurance, contingencies and other account represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties. In 2013, the Parent Company reversed ₱191.6 million worth of reserves for contingencies since the cases for which these reserves were set up for were already favorably resolved.

Capital Management

The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

As of March 31, 2014 and December 31, 2013, CAR reported to the BSP, which considered combined credit, market and operational risk weighted asset (BSP Circular No. 538) are shown in the table below (amounts in millions).

	3/31/2014		12/31/2013	
Consolidated	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱80,680.9**		**₱62,211.8**	
CET 1 Capital	**80,680.9**			
AT1 Capital	**-**			
Tier 2 capital	**12,916.6**		**12,856.9**	
Gross qualifying capital	**93,597.5**		**75,068.7**	
Less required deductions	**20,438.8**		**623.1**	
Total qualifying capital	**₱73,158.6**	**₱37,527.3**	**₱74,445.6**	₱37,819.6
Risk weighted assets	**₱375,273.1**		**₱378,195.7**	
Tier 1 capital ratio	**16.05%**		**16.37%**	
CET 1 Capital	**16.05%**			
AT1 Capital	**-**			
Total capital ratio	**19.50%**		**19.68%**	

	3/31/2014		12/31/2013	
Parent Company	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱77,807.0**		**₱59,715.4**	
CET 1 Capital	**77,807.0**			
AT1 Capital	**-**			
Tier 2 capital	**12,771.0**		**12,746.1**	
Gross qualifying capital	**90,578.0**		**72,461.5**	
Less required deductions	**34,152.6**		**14,735.8**	
Total qualifying capital	**₱56,425.3**	**₱34,176.9**	**₱57,725.7**	₱34,049.6
Risk weighted assets	**₱341,769.5**		**₱340,496.0**	
Tier 1 capital ratio	**12.77%**		**15.37%**	
CET 1 Capital	**12.77%**			
AT1 Capital	**-**			
Total capital ratio	**16.51%**		**16.95%**	

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to P9.8 billion as of December 31, 2013 and 2012 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP. Also, unrealized foreign exchange gains except those attributable to cash and cash equivalents, unrealized actuarial gains, fair value adjustment or the gains arising from mark-to-market valuation, deferred tax asset recognized that reduced the income tax expense and increased the net income and retained earnings, adjustment due to deviation from PFRS/GAAP and other unrealized gains or adjustments are excluded from the Bank's surplus available for dividend declaration

Merger Incentives

In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives and the more relevant incentives are:

(a) Recognition of the fair value adjustments under GAAP and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of CAR.

The Parent Company and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the period.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, the Bank has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Bank's operations by ensuring that the Bank maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Bank shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Bank has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Bank complies with the required annual submission of updated ICAAP.

Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company (amounts in millions):

	3/31/2014	12/31/2013
Return on average equity (a/b)	**6.35%**	**8.53%**
a.) Net income	**₱1,343**	**₱5,222**
b.) Average total equity	**85,790**	**61,195**
Return on average assets (c/d)	**0.89%**	**1.10%**
c.) Net income	**₱1,343**	**₱5,222**
d.) Average total assets	**612,500**	**474,128**
Net interest margin on average earning assets (e/f)	**3.53%**	**3.41%**
e.) Net interest income	**₱4,447**	**₱13,749**
f.) Average interest earning assets	**510,568**	**403,390**

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2)

15. Miscellaneous Income and Expense

Miscellaneous income consists of:

	Three Months Ended	
	March 31, 2014 (Unaudited)	March 31, 2013 (Audited)
Net insurance premiums	**₱412,034**	₱173,085
Recoveries	–	–
Rental income	**172,759**	107,415
Penalty charges	–	10,943
Referral and trust fees	–	6,133
Share in net income of associate	–	4,975
Others	**173,917**	69,555
	₱ 758,710	₱372,106

Miscellaneous expenses consist of:

	Three Months Ended	
	March 31, 2014 (Unaudited)	March31, 2013 (Unaudited)
Increase in aggregate reserve for life policies	**₱220,336**	₱142,906
Policyholder benefits and claim benefits	**100,006**	−
Insurance	**238,662**	316,672
Security, clerical, messengerial	**136,758**	142,628
Promotional	**124,547**	102,013
Information technology	**105,787**	68,828
Management and professional fees	**86,649**	75,175
Transportation and travel	**72,060**	70,380
Stationery and supplies used	**61,359**	51,498
Litigation	**11,986**	211,477
Membership dues and fees	−	2,479
Amortization of software costs	**50,757**	42,946
Repairs and maintenance	**22,733**	22,830
Entertainment, amusement and recreation expense	−	36,378
Foreclosure and other ROPA related expenses	−	63,674
Postage, telephone and telegram	**31,681**	32,399
Others	**297,427**	171,958
	₱ 4,403,057	₱1,554,241

Miscellaneous - others include loss on property destroyed, periodicals and magazines, fines, penalties and other charges.

16. Retirement Plan

The latest actuarial valuation for these retirement plans were made on December 31, 2013 as disclosed in the 2013 Audited Financial Statements.

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit asset (liability) in the statements of financial position follow:

	Consolidated		
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Net plan assets (included in 'Other assets')	**₱5,532**	₱1,184	₱–
Retirement liabilities (included in 'Other liabilities')	**3,388,863**	1,854,458	2,095,205
	₱3,383,331	₱1,853,274	₱2,095,205

The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability. As of December 31, 2013, the Parent Company has two separate retirement plans for the employees of PNB and ABC. The retirement plan provides each eligible employers with a defined amount of retirement benefit dependent on one or more factors such as age, years of service and salary.

The latest actuarial valuation for these retirement plans were made on December 31, 2013. The following table shows the actuarial assumptions as of December 31, 2013 and 2012 and January 1, 2012 used in determining the retirement benefit obligation of the Parent Company:

	ABC Retirement Plan	**PNB Retirement Plan**		
	December 31			January 1,
	2013	**2013**	2012	2012
Discount rate	**4.53%**	**4.53%**	5.67%	6.39%
Salary rate increase	**5.00%**	**5.00%**	8.00%	8.00%
Estimated working lives	**11**	**12**	6	5

The amount of retirement liability recognized by the Parent Company in the Group and its separate statements of financial position (under 'Other liabilities') follows:

	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Present value of defined benefit obligation	**₱5,219,927**	₱3,141,154	₱2,828,807
Fair value of plan assets	**1,895,972**	1,317,810	797,883
Retirement liability	**₱3,323,955**	₱1,823,344	₱2,030,924

Changes in the present value of the defined benefit obligation of the Parent Company are as follows:

	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Balance at beginning of year	**₱3,141,154**	₱2,828,807	₱1,827,591
Effect of business combinations (Note 13)	**1,589,861**	–	–
Current service cost	**374,408**	265,458	160,225
Interest cost	**251,983**	175,165	143,754
Benefits paid	**(467,949)**	(140,457)	(191,951)
Remeasurement losses (gains):			
Experience adjustments	**1,005,443**	(216,253)	(66,200)
Actuarial losses (gains) arising from changes in financial assumptions	**(674,973)**	228,434	955,388
Balance at end of year	**₱5,219,927**	₱3,141,154	₱2,828,807

There are no actuarial gains and losses arising from changes in demographic assumptions.

Changes in the fair value of the plan assets of the Parent Company are as follows:

	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Balance at beginning of year	**₱1,317,810**	₱797,883	₱973,864
Effect of business combination (Note 13)	**839,976**	–	–
Contributions	**254,962**	363,390	50,000
Interest income	**109,766**	58,107	77,325
Benefits paid	**(467,949)**	(140,457)	(191,951)
Return on assets excluding amount in net interest cost	**(158,593)**	238,887	(111,355)
Balance at end of year	**₱1,895,972**	₱1,317,810	₱797,883

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

	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	**₱373,216**	₱306,412	₱16,004
Equity investments			
Financial institutions	**681,071**	712,875	441,826
Manufacturing	**17,338**	5,100	–
Others	**19,596**	–	–
Debt investment			
Government securities	**440,449**	92,486	156,280
Investment in mutual funds	**98,056**	97,077	78,150
	1,629,726	1,213,950	692,260
Loans and receivables			
Financial institutions	**134,129**	58,000	43,000
Real estate	**72,312**	10,000	10,000
Power	**35,742**	33,611	34,650
Others	**19,936**	–	15,000
Interest and other receivables	**4,127**	2,249	2,973
	266,246	103,860	105,623
Fair value of plan assets	**₱1,895,972**	₱1,317,810	₱797,883

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	**39%**	32%	5%
Parent Company's common shares	**36**	54	55
Government securities	**23**	7	20
Equity securities	**2**	–	–
Debt securities	**–**	7	20
	100%	100%	100%

The carrying values of the plan assets of the Parent Company amounted to ₱1.9 billion, ₱1.3 billion and ₱0.8 billion as of December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

All equity and debt investments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market, thus, their fair value is determined using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2013, December 31, 2012 and January 1, 2012 includes investments in the Parent Company shares of stock with fair value amounting to ₱672.9 million, ₱712.9 million and ₱441.8 million, respectively.

The plan assets have diverse investments and do not have any concentration risk.

The amount of retirement expense incurred by the Parent Company that is included in the Group and its statements of income (under 'Compensation and fringe benefit expense') are as follows:

	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Current service cost	**₱374,408**	₱265,458	₱160,225
Net interest cost	**142,217**	117,058	66,429
	₱516,625	₱382,516	₱226,654

The amounts of defined benefit cost of the Parent Company which is included in the Group and its statements of other comprehensive income follow:

	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January1, 2012 (As Restated - Note 2)
Actuarial loss on present value of retirement obligation	**(₱773,837)**	(₱1,000,543)	(₱889,188)
Return on plan assets	**(489,062)**	226,706	(111,355)
	(₱1,262,899)	(₱773,837)	(₱1,000,543)

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	December 31, 2013	
	Possible fluctuati ons	Increase (decrease)
Discount rates	-1.00%	₱578,273
Future Salary Increase Rate	+1.00%	569,095
Improvement in Employee Turnover	10.00%	24,241

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 1% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 1% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Parent Company employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Parent Company is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Parent Company's failure to contribute in accordance with its general funding strategy.

The movements in the retirement liability of the Parent Company recognized under 'Other liabilities' in the Group and its statements of financial position follow:

	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Balance at beginning of year	**₱1,823,344**	₱2,030,924	₱853,727
Retirement liability assumed from business combination (Note 13)	**749,885**	–	–
Retirement expense	**516,625**	382,516	226,654
Actual contributions	**(254,962)**	(363,390)	(50,000)
Remeasurement losses (gains):			
Experience adjustments	**1,005,443**	(216,253)	(66,200)
Actuarial gains and losses arising from changes in financial assumptions	**(674,973)**	228,434	955,388
Return on assets excluding amount in net interest cost	**158,593**	(238,887)	111,355
Balance at end of year	**₱3,323,955**	₱1,823,344	₱2,030,924

The Parent Company expects to contribute ₱1.6 billion to its defined benefit pension plan in 2014. The average duration of the defined benefit obligation at the end of the reporting period is 18 years for the Parent Company. The defined benefit plan of the Parent Company provides lump sum benefit based on the final salary.

17. **Income Taxes**

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.0% and interest allowed as a deductible expenses shall be reduced by 33.0% of interest income subjected to final tax.

MCIT of 2% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Parent Company and certain subsidiaries is allowed to deduct NOLCO from taxable income for the next three years from the period of incurrence.
FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294 provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	ThreeMonths Ended	
	March 31, 2014 (Unaudited)	March 31, 2013 (Unaudited)
Current		
Regular	**₱286,665**	₱576,420
Final	**164,058**	573,010
	450,723	1,149,430
Deferred	**(15,913)**	(487,538)
	₱434,810	**₱661,892**

18. Earnings Per Share

The earnings per share of the Group, attributable to equity holders of the Parent Company, are calculated as follows:

	ThreeMonths Ended	
	March 31, 2014 (Unaudited)	March 31, 2013 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	**₱ 1,339,675**	₱2,827,420
b) Weighted average number of common shares for basic earnings per share	**1,108,354**	944,687
c) Basic and diluted earnings per share (a/b)	**₱1.21**	₱2.99

There are no potential common shares that would dilute the earnings per share.

19. **Related Party Transactions**

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of March 31, 2014 and December 31, 2013, the Parent Company was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Total Outstanding DOSRI Accounts	**₱3,018,382**	₱3,557,857
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.16%**	1.40%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.16%**	1.40%
Percent of DOSRI accounts to total loans	**1.16%**	1.40%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**1.87%**	1.52%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Details on significant related party transactions of the Group follow(transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control of LTG.

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of March 31, 2014 (Unaudited)		
Subsidiaries			
Receivables from customers		**₱600,000**	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days; unsecured, unimpaired
Accounts receivable		**57,297**	Advances to finance deficit in pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		**2,686**	Interest in receivables from customers
Deposit liabilities		**2,674,231**	With annual rates ranging from 0.1% to 3.0% and maturity terms ranging from 30 days to one (1) year
Bills payable		**1,176,151**	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured
Accrued interest payable		**1,258**	Interest on deposit liabilities and bills payable
Due to other banks		**167,587**	Clearing accounts for funding and settlement of remittances
Due from other banks		**262,336**	With annual fixed rates ranging from 0.01% to 4.5% including time with maturities of up to 90 days

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	Three Months Ended March 31, 2014 (Unaudited)		
Interest income	**₱ 4,725**		Interest income on receivable from customers and bank deposits
Interest expense	**15,028**		Interest expense on deposit liabilities and bills payable
Rental income	**6,281**		Rental income with lease term of ranging from 2 to 5 years and annual escalation rates ranging from 5% to 10%
Other expense	**580**		Share in utilities expense
Securities transactions:			
Purchases	**123,747**		Outright purchase of securities
Sales	**25,629**		Outright sale of securities
Trading gains	**354**		Gain from sale of investment securities
Loan releases	**600,000**		Loan drawdowns
Loan collections	**600,000**		Settlement of loans and interest
Net withdrawals	**2,001,762**		Net withdrawals for the period

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of March 31, 2014 (Unaudited)		
Affiliates			
Receivable from customers		**₱ 3,095,175**	USD Term Loan with repricing interest rates ranging from 3.75% to 4.79% and maturity terms from three (3) to seven (7) years
Sales contract receivables		**105,750**	Arising from sale of investment property; title will be transferred upon full payment; non-interest bearing loan payable within one year, with no impairment
Accrued interest receivables		**5,986**	Accrued interest of receivables from customers
Bills payable		**40,000**	Bills payable, 90 days, unsecured
Deposit liabilities		**13,091,521**	With annual fixed interest rates ranging from 0.01 % to 4.50 % including time with maturities of up to 90 days
Accrued interest payable		**1,742**	Accrued interest payable from various deposits
Due from other banks		**355,657**	With annual fixed interest rates ranging from 0.01 % to 4.50 % including time with maturities of up to 90 days

	Three Months Ended March 31, 2013 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Interest income	**₱ 39,799**		Interest income on receivable from customers and due from other banks
Interest expense	**29,737**		Interest expense on deposit liabilities and bills payable
Rental income	**9,993**		Monthly rent income from related parties
Rental expense	**7,200**		Monthly rent payments to related parties with terms ranging from 24 to 240 months
Other income	**18,645**		Gain from sale of investment property and premiums collected
Other expense	**407**		Claims expense, service and referral fees
Loan releases	**1,785,772**		Loan drawdowns
Loan collections	**3,049,798**		Settlement of loans and interest
Net deposits	**8,165,099**		Net deposits for the period

	As of March 31, 2014 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key management personnel			
Loans to Officers		19,567	Housing loans to senior officers; secured and unimpaired
Loan releases	2,250		Loan drawdowns
Loan collections	1,235		Settlement of loans and interest

	As of December 31, 2013 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Receivables from customers		₱600,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity terms of less than 90 days Unsecured - ₱600.0 million with no impairment
Accounts receivable		56,236	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Deposit liabilities		4,675,993	With annual rates ranging from 0.1% to 3.0% and maturity terms ranging from 30 days to one (1) year
Bills payable		2,340,539	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity term of 180 days; unsecured No collateral
Accrued interest payable		11,421	Interest on deposit liabilities and bills payable
Due to banks		178,614	Clearing accounts for funding and settlement of remittances
Due from banks		435,055	With annual fixed rates ranging from 0.01% to 4.5% including time with maturities of up to 90 days
	Three Months Ended March 31, 2013		
Interest income	5,993		Interest income on receivable from customers
Interest expense	3,173		Interest expense on deposit liabilities and bills payable
Rental income	5,960		Rental income with lease terms ranging from 2 to 5 years and annual escalation rates ranging from 5.00% to 10.00%
Fees and commissions	32		Professional fees on service agreement
Other expense	501		Share in utilities expense
Securities transactions:			
Purchases	**688,645**		Outright purchase of securities
Sales	**361,458**		Outright sale of securities
Trading gains	**4,235**		Gain from sale of investment securities

	As of December 31, 2013 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Affiliates			
Receivable from customers*		₱4,627,954	USD Term Loan with repricing interest rates ranging from 3.75% to 4.79% and maturity from three (3) to seven (7) years; Secured – P3.7 billion and unsecured P1.3 billion with no impairment; Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales contract receivables		105,750	From sale of investment property Non-interest bearing loan payable within one year with Unimpaired
Accrued interest receivables		10,193	Interest on receivables from customers
Bills payable		40,034	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		4,926,422	With annual rates ranging from 0.38% to 1.73% and maturity terms ranging from 30 days to one (1) year
Accrued interest payable		1,417	Interest on deposit liabilities and bills payable
Due from other banks		148,864	With annual fixed interest rates ranging from 0.01% to 4.50% including time with maturities of up to 90 days and savings with interest rate of 13%

	Three Months Ended March 31, 2013		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	**₱ 59,286**		Interest income on receivable from customers and due from other banks
Interest expense	6,175		Interest expense on deposit liabilities and bills payable
Rental income	20,402		Rental income with lease terms ranging from 2 to 5 years and annual escalation rates ranging from 5.00% to 10.00%
Rental expense	3,251		Monthly rent payments to related parties with terms ranging from 24 to 240 months
Fees and commissions expense	2,164		Expense on professional fees on service agreement
Securities transactions:			
Purchases	11,539,297		Outright purchase of securities
Sales	1,425,198		Outright sale of securities
Trading gains	73,539		Gain from sale of investment securities
Deposits	76,539,438		Deposits for the period
Withdrawals	796,517		Withdrawals for the period
Loan releases	25,316		Loan drawdowns
Loan collections	2,524,276		Settlement of loans and interest

	As of December 31, 2013 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Loans to Officers		18,5554	Housing loans to senior officers; secured and unimpaired
Loan releases	4,880		Loan drawdowns
Loan collections	4.009		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses for the nine-month periods ended March 31, 2014 and 2013 in relation to amounts due from related parties.

The compensation of the key management personnel follows:

	Three Months Ended	
	March 31, 2014 (Unaudited)	March 31, 2013 (Unaudited)
Short-term employee benefits	**₱84,916**	₱69,755
Post-employment benefits	**11,845**	12,211
	₱96,761	₱81,966

The Parent Company and Eton Properties Philippines, Inc. (EPPI) signed two Joint Venture Agreements (JVA) for the development of two properties under 'Real estate under joint venture (JV) agreement' by the Parent Company with book values of ₱1.2 billion (presented under 'Other assets' in the statements of financial position). These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the JV as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVA. This JVA does not fall as joint venture arrangement under PFRS 11.

<u>Transactions with Retirement Plans</u>

Management of the retirement funds of the Group is handled by the Parent Company's Trust Banking Group (TBG). The fair values and carrying values of the funds amounted to ₱3.5 billion and ₱1.9 billion, respectively, as of March 31, 2014 and December 31, 2013.

Relevant information on Funds' assets/liabilities as of March 31, 2014 and December 31, 2013 and income/expense for the three-month period ended March 31, 2014 and 2013 are as follows:

	March 31, 2014 (Unaudited) (Three Months)	December 31, 2013
Investment securities:		
Held for trading	**₱781,130**	₱675,665
Available-for-sale	**784,420**	613,517
Held-to-maturity	-	-
Deposits with other banks	**1,892,380**	364,626
Deposits with PNB	**21,630**	23,126
Loans and other receivables	**17,230**	316,088
Total Fund Assets	**₱3,496,800**	₱1,993,022
Due to BIR	**₱80**	₱655
Trust fees payable	**1,310**	560
Accrued expense		–
Total Fund Liabilities	**₱1,390**	₱1,215

	March 31, 2014 (Unaudited) (Three Months)	March 31, 2013 (Unaudited) (Three Months)
Interest income	**₱16,640**	₱64,555
Trading gains	**–**	1,193
Dividend income	**70**	1,698
Unrealized loss on HFT	**(17,900)**	(37,211)
Gains on sale of investment securities	**210**	–
Other Income	**410**	–
Fund Income	**₱990**	₱30,235
Trust fees	**₱660**	₱3,217
Other expenses	**240**	4,909
Fund Expense	**₱910**	₱8,126

As of March 31, 24014 and December 31, 2013, the retirement fundof the Group include 9,008,8645 shares of PNB classified under HFT. Such shares has market value of ₱684.7 million and ₱712.9 million as of March 31, 2014 and December 31, 2013, respectively. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of the designated alternate officer of TBG.

As of March 31, 2014 and December 31, 2013, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to SDA placement with BSP. Loans and other receivables include accrued interest amounting to ₱7.8million and ₱0.3million as of March 31, 2014 and December 31, 2013, respectively.Income earned and expense incurred by the retirement funds of the Group and Parent Company on PNB related transaction include interest income earnedon deposits with PNB amounting to₱0.2 million and ₱1.6 million for the three-month periods ended March 31, 2014 and 2013unrealized gains (loss) on PNB shares of (₱20.37) million in March 2014 and ₱(37.2) million in 2013, and trust fee expense in 2013 of ₱3.2 million for the Group and ₱3.1 million for the Parent Company and ₱2.4 million in 2012 for the Group and Parent Company. Investments are approved by an authorized fund manager or officer of TBG.

20. Contingent Liabilities and Other Commitments

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Trust department accounts	**₱ 50,135,496**	₱56,334,549
Deficiency claims receivable	**11,723,604**	11,722,138
Standby letters of credit	**10,966,646**	13,165,263
Credit card lines	**11,945,588**	11,239,863
Shipping guarantees issued	**867,182**	1,481,927
Other credit commitments	**444,695**	974,377
Inward bills for collection	**734,698**	660,197
Other contingent accounts	**336,140**	504,525
Outward bills for collection	**394,581**	477,220
Confirmed export letters of credit	**87,192**	82,513
Unused commercial letters of credit	**94,835**	66,664
Items held as collateral	**3,961**	64

21. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

March 31, 2013 (Unaudited)

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of financial collateral**	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	**₱ 17,744,694**	**₱ 17,599,616**	**₱ 145,078**	**₱ 122**	**₱-**	**₱144,956**
Securities held under agreements to resell	**5,131,000**	–	**5,131,000**	–	**5,145,220**	–
Total	**₱ 22,875,694**	**₱ 17,599,616**	**₱ 5,276,078**	**₱ 122**	**₱ 5,145,220**	**₱144,956**

December 31, 2013 (Audited)

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱7,853,279	₱7,760,445	₱92,834	₱678	₱–	₱92,156
Securities held under agreements to resell	–	–	–	–	–	–
Total	₱7,853,279	₱7,760,445	₱92,834	₱678	₱–	₱92,156

Financial liabilities

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
March 31, 2014 (Unaudited)				**Financial instruments**	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities	**₱23,978,504**	**₱23,835,994**	**₱ 142,510**	**₱223**	**₱–**	**₱142,287**
Securities under Repurchase Agreement	**2,244,319**		**2,244,319**		**2,749,823**	
Bills payable	**–**	**–**	**-**	**–**	**–**	**–**
Total	**₱ 18,951,022**	**₱23,835,994**	**₱ 2,386,829**	**₱223**	**₱2,749,823**	**₱142,287**

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
December 31, 2012 (Audited)				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	**₱14,070,601**	**₱13,907,534**	**₱163,067**	**₱678**	**₱–**	**₱162,389**
Securities sold under agreements to repurchase*	**2,246,319**	**–**	**2,246,319**	**–**	**2,739,206**	**–**
Bills payable	**112,646**	**–**	**112,646**	**–**	**2,585,761**	**–**
Total	**₱16,429,566**	**₱13,907,534**	**₱2,522,032**	**₱678**	**₱5,324,967**	**₱162,389**

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

22. Events After Reporting Date

None to report.

23. Adoption of PFRS 9 (Financial Instruments Recognition and Measurement) PFRS 9, Financial Instruments

The Securities and Exchange Commission ("SEC") has approved its adoption as part of its rules and regulations on May 6, 2010. PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The covered entities have been given the option to adopt the standard earlier than the said dates. Hence, an entity may elect to apply for annual periods beginning before January 1, 2013. If an entity however, opts to early adopt PFRS 9, it shall apply the requirements of this standard in its entirety.

On May 24, 2012, the Securities and Exchange Commission adopted as part of its rules and regulations on financial reporting the Amendments to PFRS 9 and PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures, which involve the following revisions for the original PFRS 9:

a) Change of the original 01 January 2013 mandatory effective date of PFRS 9 to 01 January 2015;
b) Modification of the relief from restating prior periods; and
c) Additional required disclosures and Measurement to PFRS 9.

In view of the amendments in the mandatory adoption date for PFRS 9, the Bank is still assessing the financial impact of early adoption of the PFRS 9 for its financial reporting.

In compliance with SEC Memorandum Circular No. 3 Series 2012, the Bank discloses the following information:

1. The Bank is still evaluating the effect of the early adoption of PFRS 9 and the impact on its financials; hence the interim financial statements do not reflect the impact of the said standard.

2. In case of early adoption of PFRS 9, the following accounts may be affected:
a. Loans and Receivables
b. Investment Securities
c. Financial Liabilities Designated at FVPL
d. Retained Earnings
e. Undivided Profits

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24. **Other Matters**

- **Closure and liquidation of PNB Italy, Spa**

  Due to recurring losses incurred by PNB Italy, SpA (PISPA) and to prevent further impact to profitability, the closure of PISPA was approved by both parent and subsidiary Boards of Directors. Likewise approved was the realignment of the remittance business in Italy to an agent arrangement with Global Philippines Ltd. Srl (GPL), whose incorporators are mostly former PISPA employees and agents. Such arrangement was envisioned to ensure continued servicing and growth of PNB's remittance services to OFWs in Italy.

  PISPA officially closed as of the end of business hours of February 27, 2014 and is currently winding down and performing final liquidation activities required in Italy.

  Beginning February 28, 2014, PISPA's remittance business activity in Italy has been handled by GPL.

- **Asset Pool 1**

  On February 7, 2013, the BSP accepted the Parent Company's proposal to make an early payment to settle Maybank's₱3.0 billion obligation to the BSP in exchange of the assets under the escrow fund as disclosed in Note 32 of the annual consolidated financial statements as of December 31, 2012. The real estate collaterals pledged to BSP were also released as a result of settlement of the obligation to BSP.

- **National Steel Corporation**

  In 2004, the Parent Company sold the outstanding loans receivable of ₱5.3 billion from National Steel Corporation (NSC) to SPV companies under the provisions of RA No. 9182. In consideration for such sale, the Parent Company received zero-coupon notes and cash totaling ₱4.2 billion. In accordance with the BSP Memorandum dated February 16, 2004, Accounting Guidelines on the Sale of Nonperforming Assets to Special Purpose Vehicles, the ₱1.6 billion allowance for impairment losses previously provided for the NSC loans receivable was released by the Parent Company to cover additional allowance for credit and impairment losses required for other existing NPAs and other risk assets of the Parent Company. With the release of such allowance, the loss on the sale of the NSC loans receivable to the SPV amounting to ₱1.1 billion representing the difference between the carrying value of the receivables and consideration received was deferred by the Parent Company, recognized as deferred charges under 'Other Assets', and amortized over 10 years as allowed under the regulations issued by the BSP for banks and financial institutions availing of the provisions of RA No. 9182.

  Unquoted debt instruments include the zero-coupon notes received by the Parent Company on October 15, 2004, as discussed above, at the principal amount of ₱803.5 million (Tranche A Note) payable in five (5) years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight (8) years in exchange for the outstanding loans receivable from NSC of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2011 and 2010, these notes had a carrying value of ₱186 million and ₱356 million, respectively.

  On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14, 2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

  On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

  Thereafter, upon application by the Parent Company for a variation of the injunction and an order of the Singapore High court, the SPV companies remitted ₱750 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, the Parent Company applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of ₱1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009 by the Singapore High Court. The denial of the second variation (the ₱1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

In April 2010, the Arbitral Panel was constituted. The Parent Company filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying the Parent Company's application for a discharge of the injunction issued by the Singapore High Court. On the application to vary the injunction order, no ruling was made by the Arbitration Panel.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. The last hearings were held from October 17 to 21, 2011.

As disclosed to the Philippine Stock Exchange, the Singapore International Arbitration Centre (SIAC) issued on May 09, 2012, a Partial Award regarding the arbitration proceedings between Global Steel Philippines (SPV-AMC), Inc and Global Ispat Holdings (SPV-AMC), Inc. [Claimants], and Danilo L.Concepcion and Others [Respondents]. Such award was rendered in favor of Claimants, including such reliefs as payment by Respondents of a certain sum of money that may be subject to set-off against receivables from Claimants. PNB, one of the Respondents who holds forty-one percent (41%) interest on the receivables from the NSC, has already set aside adequatereserve provision for the possible liability on the case as well as on the note.

Meanwhile, on July 09, 2012, the consortium of banks filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel, which Petition is pending to date.

Other Disclosures

The PNB Group has nothing to disclose on the following:

- Change in estimates reported in prior interim periods and in prior financial years
- Dividends paid
- Material subsequent events subsequent to the end of the interim period
- Changes in the composition of the enterprise during the interim period, including business combinations, acquisitions and disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF AGING OF LOANS RECEIVABLES*
(PSE Requirement per Circular No. 2164-99)
As of March 31, 2014
(In Thousand Pesos)

Current accounts (by maturity)	
Up to 12 months	**86,721,186**
over 1 year to 3 years	**38,532,898**
over 3 years to 5 years	**31,360,099**
over 5 years	**92,465,137**
Past due and items in litigations	**8,931,508**
Loans Receivables (gross)	**258,010,828**
Less:	
Unearned and Other deferred income	**(1,110,614)**
Allowance for credit losses	**(9,016,297)**
Loans Receivables (net)	**247,883,917**

* includes loans and discounts, bills purchased, customers' liability under acceptances, letters of credits and trust receipts, lease contract receivable and credit card accounts.

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 NATIONAL BANK
Issuer

OMAR BYRON T. MIER
President

ZACARIAS E. GALLARDO, JR.
First Senior Vice President & Chief Financial Officer

Date: May 14, 2014

Annex A

Selected Financial Ratios
For the Periods Indicated

	3/31/2014	12/31/2013
Liquidity Ratio	41.6%	44.0%
Debt to Equity	596.5%	636.7%
Asset to Equity	696.5%	736.7%
Book value per share	75.48 [2/]	74.41

	3/31/2014	3/31/2013
Interest Coverage	294.5%	337.1%
Profitability (annualized):		
Return on average equity	6.3% [1/]	18.4%
Return on average assets	0.9%	2.6%
Net interest margin	3.5%	2.8%
Cost efficiency ratio	72.9%	53.9%
Basic earnings per share	1.21	2.99

[1/] ROE without goodwill – 7.5%

2/Book Value per share without goodwill – ₱63.68