Senior Vice President and Controller

PNB

Direct Lines: 573-4074/573-4075 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4024, 4025

April 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-A report of the Philippine National Bank as of December 31, 2013.

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

P H I L I P P I N E N A T I O N A L B A N K

(Company's Full Name)

9 t h F l o o r P N B F i n a n c i a l C e n t e r

M a c a p a g a l B L v d . , P a s a y C i t y

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

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

1 2 / 3 1	17 - A	
Month *Day* Fiscal Year	FORM TYPE	*Month* *Day* 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)

Pres. Diosdado P. Macapagal Boulevard, Pasay City

(Company's Full Address)

891-6040 to 70

(Telephone Number)

(Calendar Year Ended)

SEC FORM 17-A REPORT

Form Type

(Amendment Designation (if applicable)

December 31, 2013

Period Ended Date

LISTED

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2013

2. SEC ID No. AS096-005555   3. BIR Tax Identification No. 000-188-209

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 _
Issuer's telephone number, including area code

9. N/A.
Former name, former address, and former fiscal year, if changed since last report

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

Title of Each Class	Number of Shares Issued
Common Stock, ₱40 par value	1,086,208,416 shares

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 Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 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 report)
Yes [√]   No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days
Yes [√]   No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: ₱91,523,921,132.16*

**1,086,208,416 common shares @ ₱84.26 trading price of PNB shares as of December 31, 2013*

Table of Contents

PART I - BUSINESS AND GENERAL INFORMATION

Item 1.Business

A. Business Development

The Philippine National Bank (PNB or the "Bank"), the country's first universal bank, is the fourth largest private local commercial bank in terms of assets based on PNB's published Statement of Condition as of December 31, 2013. The Bank was established as a government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, ATM banking, mobile money changing, domestic traveler's checks, and electronic filing and payment system for large taxpayers. PNB has the widest overseas office network and one of the largest domestic branch networks among local banks.

In affirmation of the Bank's well-managed operations, PNB received awards from the Institute of Corporate Directors (ICD) and the Bangko Sentral ng Pilipinas (BSP). In 2011 and 2012, PNB was given the Silver Award for Good Corporate Governance from the ICD in recognition of its professional practice of corporate directorship in line with global principles of good governance. In 2012 and 2013, the BSP awarded PNB as the Top Commercial Bank in Generating Remittances from Overseas Filipinos for two years in a row. PNB was also elevated by the BSP as Hall of Fame Awardee for Best Commercial Bank Respondent on Overseas Filipino Remittances for having won the award for four straight years (2005-2008).

On February 9, 2013, the Bank concluded its planned merger with Allied Banking Corporation (ABC) as approved and confirmed by the Board of Directors of the Bank and of ABC on January 22 and January 23, 2013, respectively. The respective shareholders of the Bank and ABC, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original Plan of Merger was approved by the affirmative vote of ABC and the Bank's respective shareholders on June 24, 2008, representing at least two-thirds of the outstanding capital stock of both banks.

The Bank undertook long-term fund generating initiatives to support its growth and expansion plans. PNB redeemed its high cost subordinated notes and replaced these funds through the issuance of lower cost, long-term term negotiable certificates of time deposits (LTNCDs). On March 6, 2013, PNB exercised its call option and redeemed P4.5 billion (7.13%) Subordinated Notes due in 2018 issued by ABC. Likewise on June 30, 2013, PNB exercised its call option on its P6.0 billion (8.5%) Unsecured Subordinated Notes due on June 2018. Subsequently, the Bank successfully undertook two tranches of LTNCD offerings, viz: (1) on August 5, 2013 for P5 billion worth of LTNCDs at 3% which will mature on February 5, 2019; and (2) on October 21, 2013 for P4 billion worth of LTNCDs at 3.25% which will mature on April 22, 2019.

Recognizing the importance of its branches as the Bank's primary platform for sales and service, PNB continued to expand its branch network and improve delivery of services. It opened three branches in 2013, relocated six branches to more strategic and accessible locations based on market potential and growth, and renovated 11 other branches using the new branch design. The Bank deployed additional 34 ATMs nationwide in strategic, mostly off-site, locations with high pedestrian traffic.

PNB fortified its bid to be a strong player in the consumer loans business particularly in its housing and motor vehicle market segments. It launched the PNB Home Flexi Loan in 2013 wherein a client can borrow against his residential real estate properties to get cash up to P10 million to make house improvements, purchase furniture and fixtures, travel abroad or even acquire another property. The Bank also offered low promo rates for PNB Home Loans received during the months of May to July. Furthermore, PNB offered a promo financing tie-up with Chevrolet that featured free Chattel mortgage fee and free 3-year LTO registration in the last quarter of 2013.

To boost its credit card business, PNB launched the Jewelmer Joaillerie Platinum MasterCard in May 2013. In line with the Bank's integration initiatives, PNB also rebranded the PNB and Allied Bank Core Credit Cards and launched these in October 2013.

PNB remained at the forefront of debt capital markets as the Bank led 7 corporate finance deals worth more than ₱75 billion in the power, infrastructure and real estate industries. PNB continued to originate and deliver structured solutions to large corporates as the Bank was involved in 13 big ticket deals in the total amount of ₱140 billion. As a testament to the Bank's commitment to nation-building, PNB was also actively involved in Public-Private Partnership Projects that were rolled out in 2013. The Bank led the ₱6.7 billion syndication for the Public School Infrastructure Projects in CALABARZON and the ₱7.5 billion syndication for the NAIA Expressway Project.

PNB further strengthened its distinct franchise over the Global Filipino market segment. It maintains the widest network of overseas branches and offices serving as primary contact point for overseas Filipinos. The Bank has expanded its reach even further into non-traditional contact channels in the form of partner agent agreements and distribution thru convenience stores and other similar retail outlets. PNB continued to innovate its remittance products and services with the launch of Phone Remit, a 24/7 toll free phone remittance platform servicing the Europe and US market. The Bank also launched the PNB Web Remit in the last quarter of 2013 that enables customers to conduct online remittance transactions anywhere and anytime. The Bank continued to make headway in deepening its relationship with its Global Filipino customers by offering other products and services such as personal, home and auto loans including credit cards. PNB has a strong affinity with the Global Filipino market and continues to enrich the lives of Filipinos worldwide.

B. Business Description

1. Products and Services

PNB, through its Head Office and 656 domestic branches/offices and 80 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

Its banking activities are undertaken through the following groups within the Bank, namely:

Institutional Banking Group

The Bank's Institutional Banking Group (IBG) is responsible for credit relationships with large corporate, middle-market and SMEs, as well as with the Government and government-related agencies and financial institutions.

Retail Banking Group

The Retail Banking Group (RBG) principally focuses on retail deposit products (i.e., current accounts, savings accounts and time deposit and other accounts) and services. While the focal point is the generation of lower cost of funding for the Bank's operations, the RBG also concentrates on the cross-selling of other bank products and services to its customers by transforming its domestic branch distribution channels into a sales-focused organization.

Consumer Finance Group

The Consumer Finance Group provides multi-purpose personal loans, home mortgage loans, motor vehicle financing and credit card services to the Bank's retail clients.

Global Filipino Banking Group

The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. PNB has the largest overseas network among Philippine banks with 80 branches, representative offices, remittance centers and subsidiaries in the United States of America (USA), Canada, Europe, the Middle East and Asia. PNB also maintains correspondent relationships with 1,120 other banks and financial institutions worldwide.

Treasury Group

The Treasury Group is principally responsible for managing the Bank's funding and liquidity requirements as well as its investment and trading portfolio. The Group engages in interbank borrowing and lending activities, fixed income securities trading, foreign exchange spot and swap dealing, overseeing the Bank's long-term funding requirements and enters into derivative transactions for hedging purposes.

Trust Banking Group

The Bank, through its Trust Banking Group (TBG), provides a wide range of personal and corporate trust and fiduciary banking services and products. Personal trust products and services for customers include living trust accounts, educational trust, estate planning, guardianship, insurance trust, and investment management. Corporate trust services and products include trusteeship, securitization, investment portfolio management, administration of employee benefits, pension and retirement plans, and trust indenture services for local corporations. Trust agency services include acting as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

Credit Management Group

The Credit Management Group is primarily responsible in providing credit management services in the form of credit rating and scoring, financial evaluation and credit risk assessment, credit policy formulation, credit investigation and appraisal and risk asset acceptance criteria development. It focuses on sound credit underwriting and monitoring guidelines and practices to ensure a healthy loan portfolio for the Bank.

Remedial Management Group

The Remedial Management Group is primarily responsible in managing problem accounts and reducing the nonperforming loans of the Bank. It determines and formulates the appropriate settlement plan for each work-out account for its immediate resolution.

Special Assets Management Group

The Special Assets Management Group (SAMG) is responsible for the overall supervision of the Bank's foreclosed assets (ROPA).

2. Competition

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry by the National Government in 1994 which allowed the entry of more foreign banks and the recent mergers and consolidations in the banking industry. As of December 31, 2013, there were 36 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 16 are branches or subsidiaries of foreign banks. In some instances, some competitor banks have greater financial resources, wider networks and greater market share. Said banks also offer a wider range of commercial banking services and products, have larger lending limits and stronger balance sheets than the Bank. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks.

As of December 31, 2013, the merged Bank has a combined distribution network of 656 branches and offices and 859 ATMs nationwide. The merged entity was the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries

3. Revenue Derived from Foreign Operations

The Bank and its subsidiaries (the Group) offer a wide range of financial services in the Philippines. In addition, the Group provides remittance services in the USA, Canada, Asia, the Middle East and Europe. The following shows the percentage distribution of the consolidated revenues for three (3) years:

	2013	2012	2011
Philippines	93%	93%	91%
Asia (excluding the Philippines)/ Middle East	4%	3%	4%
Canada and USA	2%	3%	4%
United Kingdom & Other European Union Countries	1%	1%	1%
Total	100%	100%	100%

Please refer to Note 6 of the Audited Financial Statements.

4. New Products and Services

The Bank has launched the following products and services in 2013:

- **Enhanced Internet Banking System**
  PNB's Internet Banking service offers a secure and convenient way for PNB clients to do routine banking transactions right in the comfort of their own homes. Users can monitor account balances, transfer funds to family and friends, pay bills, schedule payments and fund transfers in advance and program recurring transactions, order checkbooks, view statement of account online, and get email notification to monitor their transactions. The facility has also been enhanced to include online savings account opening for individual accounts, as well as SMS alerts for fund transfers or bills payments.

- **PNB Web Remit**
  PNB Web Remit offers fast and safe means for clients to remit to their loved ones using the Internet. Using the PNB Web Remit portal www.pnbwebremit.com, customers can enroll and automatically make a remittance transaction via cash pick-up, or credit to a PNB account or another bank account. The facility also features the PNB Remittance Tracker, where clients can know the status of their remittance by just clicking the track remittance button and encoding the reference number.

- **Healthy Ka Pinoy (HKP) Emergency Card**
  The Healthy Ka Pinoy (HKP) Health Emergency Card is an affordable insurance product by PNB Life (insurance provider) and Eastwest Healthcare (hospital network and emergency services provider). For an annual premium of only P750, clients can receive coverage of P20,000 in Emergency Hospital Care for Accident and Sickness; P100,000 in Accidental Death, Dismemberment and Disability benefits; and P20,000 in Accidental Burial Benefit per year.

- **PNB UITF Online**
  The PNB UITF Online is the bank's electronic banking platform that allows PNB account holders to perform investment transactions conveniently and securely using the Internet. Through PNB UITF Online, clients can make direct investments, subscribe to an Auto Investment Plan (AIP), make additional participations, make full and partial redemptions, enroll an existing UITF participation, view their consolidated UITF portfolio, and generate an electronic copy of their Confirmation of Participation and Participating Trust Agreement.

- **PNB Auto Invest Plan**
  The PNB Auto Invest Plan (AIP) is an investment facility which allows PNB account holders to regularly set aside a portion of their savings for automatic investment to a PNB Unit Investment Trust Fund (UITF) of their preference once it reaches the required threshold amount. PNB AIP provides potentially higher returns than traditional savings deposit, and customers can start investing for as little as P100 or USD10.

5. Related Party Transactions

In the ordinary course of business, the Bank has loans and other credit accommodations and guarantees granted to its subsidiaries, affiliates and Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other related party transactions are made substantially on the same terms as other individuals and businesses of comparable risk. The individual ceiling of the total outstanding loans, other credit accommodations and guarantees to each of the Bank's DOSRI shall be limited an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the Bank, provided however that unsecured loans, other credit accommodations and guarantees to each of the Bank's DOSRI individuals shall not exceed 30% of their respective total loans, other credit accommodations and guarantees. In the aggregate, DOSRI loans should not exceed 15% of the Bank's total loan portfolio or 100% of net worth, whichever is lower. As of December 31, 2013 and December 31, 2012, the Bank is in compliance with such regulations.

Information related to transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) is shown under Note 32 of the Audited Financial Statements of the Bank and Subsidiaries and Exhibit IV of the Supplementary Schedules Required by SRC Rule 68 Annex E.

The Board Oversight Related Party Transactions (RPT) Committee (BORC) was created to assist the Board in performing its oversight function in monitoring and ensuring transparency to eliminate potential conflicts of interest of management, board members and shareholders. The BORC is composed of at least six (6) regular members which include three (3) independent directors; the Chairman of the Risk Oversight Committee (ROC); and 2 non-voting members (the Chief Audit Executive and the Chief Compliance Officer), and Secretariat. The Chairman of the Committee is an Independent Director and appointed by the Board.

6. Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements

The Bank's operations are not dependent on any patents, trademarks, copyrights, franchises, concessions, and royalty agreements.

7. Government Approval of Principal Products or Services

Generally, electronic banking (e-banking) products and services require BSP approval. New deposit products require notification to the BSP. The Bank has complied with the aforementioned BSP requirements.

8. Estimate of Amount Spent for Research and Development Activities

The Bank provides adequate budget for the development of new products and services which includes hardware and system development, continuous education and market research. Estimated amount spent for 2013, 2012 and 2011 totaled ₱363.0 million, ₱219.2 million and ₱223.3 million, respectively.

9. Number of Employees

The total employees of the Bank as of 31 December 2013 is 8,634 wherein 3,541 were classified as Bank officers and 5,093 as rank and file employees broken down as follows:

	Total
Officers:	
Vice President and up	140
Senior Assistant Vice President to Assistant Manager	3,401
Rank and File	5,093
Total	8,634

The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank anticipates gradual reduction in the number of employees in the support group based on identified milestones.

With regard to the Collective Bargaining Agreement (CBA), the Bank's regular rank and file employees are represented by two (2) existing unions under the merged bank, namely: Allied Employee Union (ABEU) and Philnabank Employees Association (PEMA).

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial.

10. Risk Management

In February 9, 2013, Allied Banking Corporation and Philippine National Bank implemented the BSP and SEC approved merger. The process of harmonizing began in 2008 when the respective Board of Directors of PNB and Allied Banking Corporation (ABC) passed resolutions approving the plan to merge the two banks.

Under the Bank's Enterprise Risk Management (ERM) framework, all the risk taking business units of the Bank, including its subsidiaries and affiliate, shall perform comprehensive assessment of all material risks.

In line with the integration of the ICAAP and risk management processes, PNB currently monitors 14 Material Risks (three for Pillar 1 and eleven for Pillar 2). These material risks are as follows:

Pillar 1 Risks:
1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:
4. Compliance Risk (includes Regulatory risk)
5. Credit Concentration Risk
6. Human Resource Risk
7. Information Technology risk (includes Information Security risk)
8. Interest Rate Risk in Banking Book (IRRBB)
9. Liquidity risk
10. Legal risk
11. Customer Franchise/ Reputational risk
12. Strategic Business risk
13. Post-Merger Integration risk
14. Acquired Asset Disposal risk

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP circular 538 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks:

Credit Risk

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. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet *(BSP Circ. 510, dated 03 Feb 2006).*

Counterparty Risks: Counterparty risk is the potential exposure a party will bear if the other party to any financial contract will be unable to fulfill its obligations under the contract's specifications. Counterparty risk can be divided into two types: pre-settlement risk (PSR) and settlement risk (SR).

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.

1. Credit Policies and Procedures

All credit risk policies issued by the regulatory bodies (i.e. BSP, SEC, PDIC, BIR, etc.) automatically form part of the Bank's board-approved risk policies. These risk policies reflect the Bank's lending profile and focus on:

(a) the risk tolerance and/or risk appetite
(b) the required return on asset that the Bank expects to achieve
(c) the adequacy of capital for credit risk

2. Credit Risk Functional Organization

The credit risk functional organization of the Bank conforms to BSP regulations. This ensures that the risk management function is independent of the business line. In order to maintain a system of "checks and balances", the Bank observes three (3) primary functions involved in the credit risk management process, namely:

(a) risk-taking personnel
(b) risk management function
(c) the compliance function

The risk-taking personnel are governed by a code of conduct for account officers and related stakeholders set to ensure maintenance of the integrity of the Bank's credit risk management culture.

The approving authorities are clearly defined in the Board-approved Manual of Signing Authority (MSA).

3. Credit Limit Structure

The Bank adopts a credit limit structure (regulatory and internal limits) as a quantitative measure of the risk tolerance duly approved by the Board. Breaches in the limits are monitored via the monthly credit dashboard reported to the Risk Oversight Committee.

4. Stringent Credit Evaluation

Repayment capacity of prospective borrowers is evaluated using an effective internal risk rating model for corporate and commercial accounts with size over P15 million and appropriate credit scoring program for small accounts with asset size of P15 million and below and consumer loans. These models are validated to determine predictive ability.

5. Reporting System
An effective management information system (MIS) is in place and, at a minimum, has the capacity to capture accurate credit risk exposure/position of the Bank in real time. A monthly credit dashboard is used as the reporting tool for appropriate and timely risk management process.

6. Remedial Management System
A work-out system for managing problem credits is in place. Among others, these are renewals, extension of payment, restructuring, take-out of loans by other banks, and regular review of the sufficiency of valuation reserves.

7. Event-driven Stress Testing
Techniques are conducted to determine the payment capacity of affected borrowers' accounts. A Rapid Portfolio Review Program is in place to quickly identify possible problem credits on account of evolving events both domestic and global. Results of the stress testing show minimum impact and have no material effect on the Bank's NPL ratio and capital adequacy ratio (CAR).

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 *(BSP Circular 544 Series of 2006)*.

1. Price Risk in the Trading Portfolio
The Bank's trading positions are sensitive to changes in the market prices and rates. PNB is subject to trading market risk in its position-taking activities for fixed income, foreign exchange and equity markets. To calculate the risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology with 99% confidence level and a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR.

VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The VAR figures are back-tested against actual (interest rates) and hypothetical profit and loss figures (FX and equities) to validate the robustness of the VAR model.

The Bank also employs the stop-loss monitoring tools to monitor the exposure in the price risks. Stop-loss limits are set up to prevent actual losses resulting from mark-to-market. To complement the VAR measure, the Bank performs stress testing and scenario analysis wherein the trading portfolios are valued under several market scenarios.

2. Structural Market Risk
Structural interest rate risk arises from mismatches in the interest profile of the Bank's assets and liabilities. To monitor the structural interest rate risk, the Bank uses a repricing gap report wherein the repricing characteristics of its balance sheet positions are analyzed to come up with a repricing gap per tenor bucket. The total repricing gap covering the one-year period is multiplied by the assumed change in interest rates based on observed volatility at 99% confidence level to obtain an approximation of the change in net interest earnings. Limits have been set on the tolerable level of Earnings-at-Risk (EAR). Compliance with the limits is monitored regularly. The Bank has also monitored its long term exposure in interest rates which outlines the long term assets and long term liabilities according to next repricing date

3. Liquidity and Funding Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the parent company's inability to meet its obligations when they fall due. Liquidity obligations arise from withdrawal of deposits, extension of credit, working capital requirements and repayment of other obligations. The Bank seeks to manage its liquidity through active management of liabilities, regular analysis of the availability of liquid asset portfolios as well as regular testing of the availability of money market lines and repurchase facilities aimed to address any unexpected liquidity situations. The tools used for monitoring liquidity include gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of sufficiency of liquid assets over deposit liabilities and regular monitoring of concentration risks in deposits by tracking accounts with large balances. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the Bank.

Operational Risk

1. People Risk

In most reference books and articles, it is mentioned that the most dynamic of all sources of operational risk factors is the people risk factor. Internal controls are often blamed for operational breakdowns, whereas the true cause of many operational losses can be traced to people failures. Every Chief Executive Officer has argued that people are the most important resource, yet the difficulty in measuring and modeling people risk has often led management to shy away from the problem when it comes to evaluating this aspect of operational risk.

In PNB, operational losses may be attributed to human error which can be brought about by inadequate training and management. This issue is being addressed through formal means (continuously conducted trainings) or informal means (monthly meetings and discussing issues at hand). These trainings also address the issue of relying on key performers instead of cross-training each team member.

Further, there is the risk of "non-fit" personnel being "forced" to occupy positions they are not qualified for. Annual evaluation and the implementation of balanced scorecards are used to ensure that ill-fitted personnel are re-trained, re-tooled or re-skilled to equip them better.

2. Process Risk

In financial institutions, most processes are designed with audited fail-safe features and checking procedures. Since processes interact with other risky variables - the external environment, business strategy and people - it is difficult to sound the all-clear. However, processes can make the institution vulnerable in many ways. To address this risk, the Bank has documented policies and procedures duly approved by the Board. The Internal Audit Group, as well as the various officers tasked with the review function, regularly monitors the implementation of these documented policies and procedures.

3. Business Strategy Risk

Strategic Risk can arise when the direction/strategy of a bank can lead to non-achievement of business targets. This results from a new focus of a business sector without consolidating it with the bank's overall business plan and strategy. At PNB, strategy risk is managed through each business sector performing "actual vs. targets" sessions with and reporting to the Board of Directors through regular management profitability reporting sessions. In addition, coordination between business sectors is done through regular meetings by the Senior Management Team to ensure that overall business targets are continually revisited.

4. Business Environment Risk

Banks tend to have the least control over this source of operational risk yet it still needs to be managed. Business environment risk can arise from unanticipated legislative changes such as consumer affairs, physical threats such as bank robberies, terrorists' attacks, natural disasters and regulatory required financial report change, new or otherwise.

New competitive threats such as faster delivery channels, new products, new entrants and the ever-increasing rationalization of the banking industry are driving banks to become much more nimble-footed. The flexibility required to remain in the game leads some banks to take shortcuts that eventually expose them to some new source of operational risk.

At PNB, we have become fully involved and engaged in the Product Management Business Framework where old and new products alike are monitored by assigned product managers who coordinate with the various business sector heads in achieving the Bank's business plan. Further, a Product Committee composed of senior managers has been created and meets regularly to ensure that business environment is closely monitored as to competition and delivery channels and that overall service standards are kept at acceptable levels.

5. Business Continuity Risk

The bank recognizes that risks relating to natural and man-made disasters as well as the possibility of terrorist activities are possible. Business Continuity Risk is defined as any event that has a negative impact on the bank operations which could result in operational interruption, loss of or damage to critical infrastructure and the like.

The bank has formulated the Business Continuity Plan (BCP) both on a enterprise wide level as well as business unit level with the objective to define the critical procedures to be followed to recover critical functions on an acceptable limited basis in the event of abnormal or emergency conditions and other crisis. This means that the plan should provide provisions to:

- Ensure safety and security of all personnel, customers and vital Bank records.
- Ensure that there will be minimal disruption in operations.
- Minimize financial loss through lost business opportunities or assets deterioration; and
- Ensure a timely resumption to normal operation.

The bank's BCP is tested at least on an annual basis with the following activities involved:

- Business Impact Analysis
- Call Tree Test
- Table Top Test
- Alternate Site Test

Regulatory Capital Requirements under BASEL II – Pillar 1

The Bank's total regulatory requirements as of December 31, 2013 are as follows:

(Amounts in ₱0.000 million)	Weighted Exposures
Total Credit risk-weighted assets	327,919.714
Total Market risk-weighted assets	9,337.189
Total Operational risk-weighted assets	40,938.779
Total Risk-Weighted Assets	**378,195.682**
PNB's Risk-based Capital Adequacy Ratio	**19.684%**

Credit Risk –Weighted Assets

The Bank still adopts the standardized approach in quantifying the risk weighted assets. Credit risk exposures are risk weighted based on third party credit assessments of Fitch, Moody's, Standard & Poor's and Phil rating agencies. The ratings of these agencies are mapped in accordance with the BSP. Following are the consolidated credit exposures of the Bank and the corresponding risk weights:

	Exposure, Net of Specific Provision	**Exposures covered by Credit Risk Mitigants***	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	10,940		10,940	10,539	401				
Due from BSP	153,271		153,271	153,271					
Due from Other Banks	17,143		17,143		6,377	3,337		7,429	
Financial Asset at FVPL	2		2					2	
Available for Sale	79,775	18,908	60,867	30,025	3,182	11,172		16,488	
Unquoted Debt Securities	9,308		9,308					4,120	5,188
Loans & Receivables	257,139	28,843	228,296		6,868	13,418	20,657	184,057	3,296
Sales Contracts Receivable	3,519		3,519					2,564	955
Real & Other Properties Acquired	15,552		15,552						15,552
Other Assets	34,507		34,507					34,507	
Total On-Balance Sheet Asset	581,156	47,751	533,405	193,835	16,828	27,927	20,657	249,167	24,991
Risk Weighted Asset - On-Balance Sheet			319,475	0	3,366	13,964	15,493	249,167	37,485
Total Off-Balance Sheet Asset			10,648	171	172	4,662	693	4,950	0
Total Risk Weighted Off-Balance Sheet Asset			7,835	0	34	2,331	520	4,950	0
Counterparty Risk Weighted Asset in Banking Book			600		2	428		170	
Counterparty Risk Weighted Asset in Trading Book			10					10	

** Credit Risk Mitigants used are cash, guarantees and warrants***.**

Market Risk -Weighted Assets

- For market risk, the Bank's regulatory capital requirements uses the standardized approach ("TSA") under which a ***general market risk*** charge for trading portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30 days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years). Further, capital requirements for ***specific risk*** are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating.

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in ₱0.000Million)	Capital Charge	Adjusted Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	200.627	250.784	2,507.836
Foreign Exchange Exposures	506.741	633.426	495.090
Equity Exposures	39.607	49.509	6,334.263
Total	746.975	933.719	9,337.189

The following are the Bank's exposure with assigned risk weights held for trading (HFT) portfolio:

Interest Rate Exposures
Specific Risk

- Specific Risk from the held for trading (HFT) portfolio is ₱43.296M. ROPs compose 51% of the portfolio with risk weight ranging from 1.0% and 1.6%, 45% of the portfolio are peso government bonds with zero risk weight and 6% are unrated corporate bonds with attracts 8.00% risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in ₱0.000 million)	**Risk Weight**					
	0.00%	**0.25%**	**1.0%**	**1.60%**	**8.00%**	**Total**
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	1,441.747			-	-	1,441.747
FCY-denominated debt securities issued by the Philippine NG/BSP	-	9.997	210.155	1,445.776	-	1,665.928
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	-	-		35.707	-	35.707
Subtotal	1,441.747	9.997	210.155	1,481.483	218.320	3,361.702
Specific Risk Capital Charge for Credit Default Swaps	-			-	-	-
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES	-	0.025	2.102	23.704	17.466	43.296

General Market Risk –Peso

- The Bank's exposure to Peso General Market Risk is ₱60.182M, contributed mostly by debt securities with average remaining maturity ranging from 5 to 10 years with risk weight at 3.25% to 3.75%. The Bank’s portfolio under the Over 20 years’ time band attracts 6% risk weight or ₱ 18.643M representing 21% of the total Peso General Market Risk.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in ₱0.000 million)							
Zone	Times Bands		Individual Positions		Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Total				
			Long	Short		Long	short
1	1 month or less	1 month or less	1.538	-	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	.20%	-	-
	Over 3 months to 6 months	Over 3 months to 6 months	0.024	-	0.40%	-	-
	Over 6 months to 12 months	Over 6 months to 12 months	12.498	-	0.70%	0.087	-
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	25.631	-	1.25%	0.320	-
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	50.357	-	1.75%	0.881	-
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	22.778	-	2.25%	0.513	-
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	9.434	-	2.75%	0.259	-
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	407.539	-	3.25%	13.245	-
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	434.965	-	3.75%	16.311	-
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	90.942	-	4.50%	4.092	-
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	111.032	-	5.25%	5.829	-
	Over 20 years	Over 10.6 years to 12 years	310.717	-	6.00%	18.643	-
		Over 12 years to 20 years	-	-	8.00%	-	-
		Over 20 years	-	-	12.50%	-	-
Total			1,477.455	-		60.182	-
Overall Net Open Position						60.182	-
Vertical Disallowance						-	-
Horizontal Disallowance						-	-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE						60.182	-

General Market Risk - USD

The Bank's exposure on General Market Risk of the dollar denominated HFT portfolio is P96.801M caused by debt securities, forward contracts and dollar-denominated interest rate swaps. Approximately 82% of dollar denominated debt securities have an average remaining maturity ranging from 5 years to over 20 years thus attracting a risk weight of 3.25% to 6%. On the other hand, the IRS attracts risk weight of 3.25% under the over 5 to 7 years bucket while the Bank's forward contracts have less than one year remaining maturity, thus, attracting a risk weight of less than 1%.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)											
Currency: USD											
Maturity Method 1/											
Zone	Times Bands		Individual Positions						Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives		Interest Rate Derivatives		Total				
			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	9.997	-	11,080.514	1,473.098	11,090.511	1,473.098	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	2,426.187	-	2,426.187	-	0.20%	4.852	
	Over 3 months to 6 months	Over 3 months to 6 months	-	-	1,876.845	-	1,876.845		0.40%	7.507	
	Over 6 months to 12 months	Over 6 months to 12 months	-	-	221.975	-	221.975	-	0.70%	1.554	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	210.155	-	-	-	-	-	1.25%	2.627	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	94.013	-	-	-	-	-	1.75%	1.645	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	25.446	-	-	-	-	-	2.25%	0.573	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	-	-	-	-	-	-	2.75%	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	170.453	-	1,452.086	1,444.295	1,622.539	1,444.295	3.25%	52.733	46.940
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	417.258	-	-	-	417.258-	-	3.75%	15.647	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	224.347	-	-	-	224.347-	-	4.50%	10.096	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	285.461	-	-	-	285.461	-	5.25%	14.987	
	Over 20 years	Over 10.6 years to 12 years	447.118	-	-	-	447.118	-	6.00%	26.827	
		Over 12 years to 20 years	-	--	--	--	--	-	8.00%		
		Over 20 years	-	--	--	--	--	-	12.50%		
Total			1,884.248	-	17,057.607	2,917.393	18,941.855	2,917.393		139.047	46.940
Overall Net Open Position											92.107
Vertical Disallowance											4.694
Horizontal Disallowance											-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE											96.801

General Market Risk - AUD

The Bank's exposure on General Market Risk- AUD is at ₱0.261M representing forward contracts under the Over 1 month to 6 months category.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)											
Currency: AUD											
Maturity Method 1/											
Zone	Times Bands		Individual Positions						Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives		Interest Rate Derivatives		Total				
			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	-	-	886.850	11.000	886.850	11.000	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	43.359	-	43.539	-	0.20%	0.087	
	Over 3 months to 6 months	Over 3 months to 6 months	-	-	43.539	-	43.539	-	0.40%	0.174	
Total			-	-	973.928	11.000	973.928	11.000		0.261	
Overall Net Open Position										0.261	
Vertical Disallowance										-	
Horizontal Disallowance										-	
TOTAL GENERAL MARKET RISK CAPITAL CHARGE										0.261	

General Market Risk – HKD

The Bank's exposure on General Market Risk- HKD is minimally at P0.087M representing forward contracts under the 1 month to 3 months category.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)											
Currency: HKD											
Maturity Method 1/											
Zone	Times Bands		Individual Positions						Risk Weight	Weighted Positions	
	Coupon 3% or more	Coupon less than 3%	Debt Securities & Debt Derivatives		Interest Rate Derivatives		Total				
			Long	Short	Long	Short	Long	Short		Long	Short
1	1 month or less	1 month or less	-	-	-	870.853	-	870.853	0.00%	-	-
	Over 1 month to 3 months	Over 1 month to 3 months	-	-	-	43.544	-	43.544	0.20%	-	0.087
Total			-	-	-	914.397	-	914.397	-	-	0.087
Overall Net Open Position										-	0.087
Vertical Disallowance										-	-
Horizontal Disallowance										-	-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE										-	0.087

Equity Exposures

- The Bank’s exposure to Equity Risk attracts adjusted capital charge of ₱49.509M or Risk weighted equity exposures of ₱495.09M. The Bank’s holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk.

PART 14.2. EQUITY EXPOSURES (Amounts in ₱0.000 million)				
Item	Nature of Item	Positions	Stock Markets	Total
			Philippines	
A.1	Common Stocks	Long	247.545	247.545
		Short		
		Short		
A.10	TOTAL (SUM of A.1 to A.9)	Long	247.545	247.545
		Short		
B.	Gross (long plus short) positions (A.10)		247.545	247.545
C.	Risk Weights		8%	8%
D.	Specific risk capital (B. times C.)		19.804	19.804
E.	Net long or short positions		247.545	247.545
F.	Risk Weights		8%	8%
G.	General market risk capital charges (E. times F.)		19.804	19.804
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)			39.607
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)			49.509
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)			495.090

Foreign Exchange Exposures

- The Bank's exposure to Foreign Exchange (FX) Risk carries an adjusted capital charge of ₱633.426M or Risk Weighted FX Exposures of 6.334B based on 8% risk weight. The exposure arises mostly from FX assets and FX liabilities in USD/PHP. The Bank also holds third currencies in JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES							
					Closing Rate USD/PHP:		44.398
Item	Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
			Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
			Banks	Subsidiaries /Affiliates			
			1	2	3	4=1+2+3	5
A.10	Sum of net long positions						6,334.263
A.11	Sum of net short positions						(42.533)
B.	Overall net open positions						6,334.263
C.	Risk Weight						8%
D.	Total Capital Charge For Foreign Exchange Exposures (B. times C.)						506.741
E.	Adjusted Capital Charge For Foreign Exchange Exposures (D. times 125%)						633.426
F.	Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						6,334.263
G.	Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						--
H.	Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						6,334.263

Operational Risk – Weighted Assets

The Bank adopted the Basic Indicator Approach in quantifying the risk weighted asset for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(amounts in ₱0.000 Million)	Gross Income	Capital Requirement (15% x Gross Income)
2010	22,498.508	3,374.776
2011	19,969.805	2,995.471
2012 (last year)	23,033.734	3,455.060
Average for 3 years		3,275.102
Adjusted Capital Charge	Ave x 125%	4,093.878
Total Operational Risk weighted Asset		40,938.779

C. Business Development/Description of Significant Subsidiaries

The Bank, through its subsidiaries, engages in a number of diversified financial and related businesses such as remittance servicing, non-life insurance, investment banking, stock brokerage, leasing, and other related services.

The following are the Bank's significant Subsidiaries and Affiliate:

Domestic Subsidiaries:

PNB Capital and Investment Corporation (PNB Capital), a wholly-owned subsidiary of the Bank, is an investment house with a non-quasi-banking license. It was incorporated on 30 July 1997 and commenced operations on October 08 in the same year. Its principal business is to provide investment banking services which include debt and equity underwriting, private placements, loan arrangements, loan syndications, project financing, and general financial advisory services, among others. PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the Philippine Government. Based on its audited financial statements for the year 2013, fees from investment banking services accounted for approximately 93% of revenues, while the remaining 7% consisted primarily of interest income from interest-bearing securities, special deposit accounts (SDAs), and peso time deposit.

PNB Capital distributes its structured and packaged debt and equity securities by tapping banks, trust companies, insurance companies, retail investors, brokerage houses, funds, and other entities that invest in such securities. It is licensed to operate as an investment house by the SEC with the Certificate of Registration No. 01-2008-00234. It renewed its license on 29 November 2013.

Investment banking is a highly regulated industry. Regulatory agencies overseeing PNB Capital include the BSP, SEC, and BIR, as well as several affiliates, support units and regulatory commissions of these entities.

The primary risks in the business include underwriting risk, reputational risk, and liability risk. Underwriting risk pertains to the risk of unacceptance by the market of securities being offered and underwritten by PNB Capital. PNB Capital would have to purchase the securities it offers for its own account in this case. Reputational risk arises from the possibility that PNB Capital may not be able to close mandated deals as committed. Liability risk arises from being held liable for any losses incurred by the client due to non-performance of committed duties, or gross negligence.

These risks are addressed by:

- ensuring that the staff is well-trained and capable, at the functional and technical level, to provide the services offered by PNB Capital;
- understanding the clients' specific needs and goals;
- clarifying and documenting all goals, methodologies, deliverables, timetables, and fees before commencing on a project or engagement, and including several indemnity clauses to protect PNB Capital from being held liable for actions and situations beyond its control. These indemnity clauses are revised and improved upon after each engagement, as and when new protection clauses are identified; and
- all transactions are properly documented and approved by the Investment Committee and/or Board of Directors.

As of December 31, 2013, total assets of PNB Capital was ₱560.3 million while total capital was ₱584.1 million. For the year ended December 31, 2013, net income was ₱117.1 million

PNB Holdings Corporation ("PHC"), a wholly-owned subsidiary of the Bank, was established on May 20, 1920 as Philippine Exchange Co., Inc. The PSEC approved the extension of the corporate life of PNB Holdings for another fifty (50) years effective May 20, 1970. In 1991, it was converted into a holding company and was used as a vehicle for the Bank to go into the insurance business.

As of December 31, 2013, PHC had an authorized capital of ₱500.0 million or 5,000,000 shares at ₱100 par value per share. As of December 31, 2013, total paid-up capital of PHC was ₱255.1 million while additional paid-in capital was ₱3.6 million, while total assets and total capital were ₱331.9 million and ₱329.2 million, respectively, and net income was ₱2.5 million (determined on a parent only basis and based on unaudited financial statements) for the period ended December 31, 2013.

- **PNB General Insurers Co., Inc. (PNB Gen)** is a wholly-owned subsidiary of PNB Holdings Corporation and was established in 1991. It is a non-life insurance company that offers fire and allied perils, marine, motor car, aviation, surety, engineering, accident insurance and other specialized lines. PNB Gen is a dynamic company providing and continuously developing a complete range of highly innovative products that will provide total protection to its customers at competitive terms. It started operations with an initial paid-up capital of ₱13 million. To date, PNB Gen's paid-up capital is ₱312.6 million, one of the highest in the industry. As of 31 December 2013, total assets and total capital of PNB Gen was at ₱7.7 billion and ₱433.7 million, respectively.

  For the period ended December 31, 2013, PNB Gen incurred a net loss of ₱868.4 million compared to a net income of ₱68.4 million in the previous year. The net loss incurred in 2013 was due primarily to claims losses because of typhoons Maring , Santi and Yolanda as well as the earthquake in Bohol.

  PNB Gen's compliance risk involves the risk of legal and regulatory sanctions, financial loss, and damage to the reputation of the company as a result of failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice. PNB Gen developed its own compliance program in recognition of its duty to adhere to relevant regulations based on a culture of accountability and transparency. PNB Gen is committed to put in place the appropriate processes to ensure a common understanding of and compliance with insurance laws and existing rules and regulations, through a continuing training and education program, and enhanced monitoring and enforcement.

PNB Securities, Inc. (PNBSec), a wholly-owned subsidiary of the Philippines National Bank (PNB) was incorporated on January 18, 1991. PNBSec is engaged solely in the stock brokerage business.

It ranked 45th among the 134 active members of the Philippine Stock Exchange with a 0.19% market share in terms of value turn-over as of December 31, 2013. The areas of competition have been identified as commission rate and quality of service. PNBSec's main source of income is the commission earned from its stock brokerage business, which accounted for 42.6% of its total revenues in 2013 with a client base of close to 7,000 customer accounts. The gain on sale of Available for Sale Investments for the same year contributed 33.5% of total revenues, while total revenues from its Proprietary Trading and interest revenues on Fixed Income Investments and Deposit with Banks accounted for almost 11.4% and 6.6%, respectively.

As of December 31, 2013, Total Assets was ₱294.3 million; Total Equity was ₱172.8 million with Paid-Up Capital of P100.0 million. Net Income for the year ended December 31, 2013 was ₱23.5 million. Return on Average Equity is 12.2% and Return on Average Assets (excluding the unsettled receivables and payables from buy and sell transactions) is 11.0%.

PNB Securities' strength lies in the brand name of PNB and its branch network nationwide. The newly merged PNB (with Allied Bank) is a universal bank with consolidated resources of up to ₱618.1 billion as of December 31, 2013.

Inherent to all engaged in the stock brokerage business, PNB Securities is primarily exposed to the following risks: Settlement Risk, Operations Risk, Compliance and Regulatory Risks, Reputation Risk. To address, identify, assess and manage these risks, PNB Securities submits monthly to the Securities and Exchange Commission (SEC) the required Risk Based Capital Adequacy (RBCA) Report, which essentially measures the firm's Net Liquid Capital. Further, a Risk Manual is being followed and observed that conforms to the stringent internal control standards of its parent company, PNB.

PNB Forex, Inc. (PFI) (inactive), a wholly-owned subsidiary of the Bank which was incorporated on October 13, 1994 as a trading company, was engaged in the buying and selling of foreign currencies in the spot market for its own account and on behalf of others. The company temporarily ceased its operations in foreign currency trading as of January 1, 2006. It derived 100% of its revenues from interest income earned from the cash/funds held by the corporation. On December 16, 2013, the PFI's Board of Directors approved the dissolution of the company. Last March 17, 2014, the Office of the City Treasurer of Pasay City approved the company's application for retirement of business. The company is now applying for tax clearance with the Bureau of Internal Revenue.

Japan-PNB Leasing and Finance Corporation (JPNB Leasing), formerly PF Leasing and Finance Corporation, was incorporated on April 24, 1996 under the auspices of the Provident Fund of the Bank. PF Leasing was largely inactive until it was used as the vehicle for the joint venture between the Bank (60%), IBJ Leasing Co Ltd., Tokyo (35%), and Industrial Bank of Japan, now called Mizuho Corporate Bank (5%). The corporate name was changed to Japan-PNB Leasing and Finance Corporation and the joint venture company commenced operations as such in February 1998.

Effective January 31, 2011, PNB increased its equity interest in JPNB Leasing from 60% to 90%. The Bank's additional holdings were acquired from minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank, which divested their 25% and 5% equity interests, respectively. IBJL remains as an active joint venture partner with a 10% equity interest.

JPNB Leasing operates as a financing company under Republic Act No. 8556 (the amended Finance Company Act). Its major activities are Financial Lease (Direct Lease, Sale-Leaseback, Lease-sublease and Foreign Currency Leasing), Operating Lease (through wholly-owned subsidiary, JPNB Rent*Alls),* Term Loans (for productive Capital Expenditures secured by Chattel Mortgage), Receivable Discounting (purchase of short term trade receivables and installment papers with Chattel Mortgage security).

Majority of the principal products or services came from peso leases and loans. Leasing and lending activities of JPNB Leasing are in the domestic and foreign market.

As of 31 December 2013, JPNB Leasing had an authorized capital of ₱150.0 million, represented by 1,500,000 shares with a par value of ₱100 per share, which are fully subscribed and paid up. As of 31 December 2013, total assets and total equity of JPNB Leasing (parent only) stood at ₱3.3 billion and ₱578.2 million, respectively. Its net income for the year ended December 31, 2013 was ₱89.6 million.

- **Japan-PNB Equipment Rentals Corporation** (JPNB Rental) is a wholly-owned subsidiary of Japan-PNB Leasing and Finance Corporation, which in turn is 90% owned by PNB. It was incorporated in the Philippines on July 3, 2008 as a rental company and started commercial operations on the same date. It is engaged in the business of renting all kinds of real and personal properties.

  As of December 31, 2013, JPNB Rental had paid-up capital of ₱6.2 million and total capital of P19.2 million. Total assets as of the same period stood at P178.8 million. Net income for the period ended December 31, 2013 was ₱10.5 million compared to a ₱0.7 million net loss in the previous year.

Allied Savings Bank (ASB) became a wholly-owned subsidiary of PNB by virtue of the merger between Philippine National Bank (PNB) and the former Allied Banking Corporation (ABC) in February 2013. ASB - traces its roots to First Malayan Development Bank which Allied Banking Corporation (ABC) bought in 1986 to reinforce its presence in the countryside. In January 17, 1996, it was renamed First Allied Savings Bank following the grant of license to operate as a savings bank. It was in the same year that the Monetary Board of BSP granted a foreign currency deposit license to ASB. Another name change to Allied Savings Bank followed in 1998 to further establish its association with its Parent Bank – ABC.

ASB closed the year 2013 with total resources of ₱10.9 Billion, up 160% from the previous year largely owing to an increase in its deposit portfolio by 215% or ₱6.7 Billion. Total deposits closed the year with ₱9.9 Billion, bulk of which or 82% in low cost funds maintained in regular savings and checking accounts. Its flagship product, Angat Savings – a tier-based passbook savings account with pre-set monthly withdrawal transaction limits, continued to attract new customers and fresh funds given its competitive pricing versus other banks' equivalent product lines. Angat Savings had ₱1.7 billion in deposit portfolio. Before the year ended, ASB launched its own Cash Card positioned for those segments of the market demanding for a no maintaining balance account required for payroll, transfer of funds for allowances, and even remittances.

Total loan portfolio registered ₱2.3 Billion by end-2013 and was relatively flat year-on-year but certainly much improved by 58% when compared to the three-year ago level of ₱1.5 Billion. Over the years, lending to corporate and middle/SME markets accounted for 83% of ASB's loan portfolio given the present infrastructure and make-up of the branches and Loan Acquisition Units.

ASB posted an unaudited net income of ₱29.7 Million in 2013. Its net interest income of ₱239.8 Million was up year-on-year by 31% while pre-tax profits improved by 80% to close ₱36 Million. Return-on-equity stood at 1% which is expected to significantly improve with the planned transformation and initiatives moving into 2014. ASB's Capital Adequacy Ratio (CAR) of 26% is well above the minimum required by the Bangko Sentral ng Pilipinas (BSP). ASB ended the year with a network of 27 branches spread across Metro Manila, Southern & Northern Tagalog Regions, Bicol, Western Visayas and Northern Mindanao.

Before the year 2013 ended, the business plan to transform Allied Savings Bank into a strong Consumer Bank Arm of PNB was put in place. The recommendation for the infusion of additional capital/equity of ₱10 billion in Allied Savings Bank (ASB) was approved by both PNB and ASB Board of Directors last December 2013. This followed the earlier approval of the increase in authorized capital stock of ASB to ₱15 billion; the 3-year business plan; and the change of name to

PNB Savings Bank, all of which are again subject to regulatory clearances and approvals. The financial plan for the savings bank is for it to reach ₱40 billion in loans, ₱20 billion in deposits, and expand to 100 branches in the next 3 years.

Work on setting up the required consumer organization infrastructure and the creation/ alignment of consumer loan products namely Home Loan, Home-Flexi Loan, Motor Vehicle, CTS Financing, and Multi-Purpose Loans was set in motion. In the first two months of 2014, ASB would have fully implemented the purchase of ₱6 Billion worth of consumer loan receivables from PNB in line with the overall conversion/transformation plan. This purchase will increase ASB's earning assets and improve accrual income which is needed to temper the effect of the potential increase in operating expenses upon the transfer of the present consumer organization of PNB to the savings bank. Likewise, it will help support the planned expansion of its branches network.

PNB Life Insurance Inc. (PNB Life), became a majority-owned (80%) subsidiary of PNB by virtue of the merger between Philippine National Bank (PNB) and the former Allied Banking Corporation (ABC) in February 2013. PNB Life traces its roots to New York Life Insurance Philippines, Inc. (NYLIP), the Philippine subsidiary of US-based New York Life International, LLC. NYLIP commenced operations in the Philippines in August 2001.

In May 2008, NYLIP changed its corporate name to PNB Life Insurance Inc. to reflect the change in ownership and in anticipation of the merger of Allied Bank and Philippine National Bank. This change in branding demonstrates the new owners' commitment to the Philippine Life Insurance market and its dynamism and growth prospects.

The merger of ABC and PNB, with PNB as the surviving entity further strengthened the bancassurance partnership with PNB life which benefited from the resulting synergy and increased operational efficiency. This positive development set the stage for the introduction to the bank clients competitive investment-linked Insurance products designed to meet changing client needs for complete financial solutions.

To widen the reach of PNB Life to Filipino families in all regions of the country, PNB Life Insurance opened Regional Business Centers (RBCs) in San Fernando City, La Union to cover Northern Luzon; San Fernando City, Pampanga to serve Central Luzon; Naga City to serve Southern Luzon; Zamboanga City to serve Northern Mindanao and; Iloilo City to serve Western Visayas. These new RBCs improved market penetration in every region. Existing offices in Chinatown (Binondo), in Cebu City and in Davao City were refurbished and rebranded.

Ranked among the top 10 life insurance companies in the Philippines, PNB Life is a leading provider of Variable Life Products, complemented by our full line of individual and group life protection offerings. All our products and services are designed to meet the lifetime financial planning, wealth accumulation, and protection needs of every Filipino. PNB Life is truly "Providing New Beginnings in your Life" as we vigorously aim to be the dominant provider of Financial Security to Filipinos Worldwide.

Allied Leasing and Finance Corporation became a majority-owned (57%) subsidiary of PNB by virtue of the merger between Philippine National Bank (PNB) and the former Allied Banking Corporation (ABC) in February 2013. It was incorporated on December 29, 1978. The Company is authorized by the Securities and Exchange Commission to operate as a financing company in accordance the provisions of R.A 5980, as amended by R.A. 8556 otherwise known as the Financing company Act. It started operations on June 25, 1980. On October 16, 1996, the authorized capital was increased to ₱500 Million divided into 5 Million shares with ₱100.00 par value per share. As of December 31, 2005, ALFC's paid-up capital amounts to ₱68.125 Million.

Management is composed of a 9-member Board of Directors headed by Mr. Lucio C. Tan as Chairman.

Foreign Subsidiaries:

PNB International Investment Corporation (PNB IIC), formerly Century Bank Holding Corporation, a wholly-owned subsidiary of the Bank, is a U.S. non-bank holding company incorporated in California on December 21, 1979. It changed its name to PNB International Investment Corporation on December 1, 1999.

PNB IIC owns PNB Remittance Centers, Inc. (PNB RCI) which was incorporated in California on October 19, 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of December 31, 2013, PNB RCI has 20 branches in 9 states. PNB RCI owns PNB RCI Holding Company, Ltd. which was incorporated in California on August 18, 1999 and PNB Remittance Company, Nevada (PNB RCN) which was incorporated in Nevada on June 12, 2009. PNB RCN is engaged in the business of transmitting money to the Philippines. PNB RCI Holding Company, Ltd. is the holding company for PNB Remittance Company Canada (PNB RCC). PNB RCC is also a money transfer company incorporated in Canada on April 26, 2000. PNB RCC has 8 branches in Canada as of year-end 2013.

- **PNB RCI** is regulated by the U.S. Internal Revenue Service and the Department of Financial Institutions of the State of California and other state regulators of financial institutions while PNBRCN is regulated by the Nevada Department of Business and Industry – Division of Financial Institutions. PNB RCC is regulated by the Office of the Superintendent of Financial Institutions of Canada and Financial Transactions and Reports Analysis Centre of Canada.

  PNB IIC does not actively compete for business, being only a holding company. PNB RCI, PNB RCN and PNB RCC have numerous competitors, including local U.S. banks and Philippine bank affiliates doing business in North America, as well as other money transfer companies such as Western Union, Money Gram, Lucky Money and LBC.

PNB (Europe) Plc (PNBE) was originally set up as a PNB London Branch in 1976. In 1997, it was converted into PNB (Europe) Plc, as a wholly-owned subsidiary of the Bank, incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross-border services to 18 member states of the European Economic Area (EEA). In 2007, PNBE opened its branch in Paris, France, where it is engaged in remittance services. PNB Europe Plc is regulated by the Financial Conduct Authority and authorized and regulated by the Prudential Regulation Authority. PNBE Paris branch is governed by the Banque de France.

Allied Bank Philippines (UK) Plc. (ABUK), became a wholly-owned subsidiary of PNB by virtue of the merger between Philippine National Bank (PNB) and the former Allied Banking Corporation (ABC) in February 2013. ABUK formally commenced operations in 1992 after functioning as ABC's representative office in the 1970s and as a branch in the mid 1980s. ABUK was the first Philippine private commercial bank in London to be granted the status of licensed deposit taker by the Bank of England under the Financial Services and Markets Act 2000. It is being regulated by the Financial Conduct Authority (FCA) and is authorized and regulated by the Prudential Regulation Authority (PRA) (previously the Financial Services Authority). ABUK mainly operates to facilitate trade between the Philippines and the United Kingdom, service the banking requirements of the growing Filipino population in the United Kingdom and other European countries, and promote foreign investments to the Philippines. It has remittance partner banks in Germany, Ireland and Luxembourg. Its main business are remittances, deposit taking (GBP and USD savings accounts), passporting, advice and confirmation of letters of credit (LC) opened by ABC in favor of beneficiaries located in the UK, and, when nominated, ABUK acts as paying and reimbursing bank for LCs opened by ABC. ABUK was merged with PNB Europe effective April 2, 2014.

PNB Italy, SpA, a wholly-owned subsidiary of the Bank, was incorporated in 1994 as Financial Intermediary (FI). On July 17, 2012, PNB Italy's license was converted into a Payment Institution. It is authorized to do money transfer services. Its main office is located in Rome and it has a branch situated in Milan. It also has 19 individual agents and 2 remittance partners in Israel and Netherlands. PNB Italy is regulated by the Banca d'Italia (Bank of Italy).).

On December 20, 2013, the Board of Directors approved the closure of PNB Italy SpA (PISPA) and the shifting of the business to an agent-arrangement to continue remittance operations in Italy. PNB Italy SpA was closed on February 27, 2014.

PNB Global Remittance & Financial Company (HK) Limited (PNB Global), a wholly-owned subsidiary of the Bank, is registered with the Registrar of Companies in Hong Kong. On July 1, 2010, PNB Global took the remittance business of PNB Remittance Center, Ltd. with the former as the surviving entity. It now operates as a money lender and remittance company. As of December 31, 2013, PNB Global maintains six (6) offices in Hong Kong. It's remittance business is regulated by the Customs and Excise Department.

Effective August 2012, PNB Global launched its tie-up arrangement with Western Union, strengthening its cash pick-up services throughout the Philippines.

Allied Commercial Bank (ACB), became a majority-owned commercial bank subsidiary of PNB by virtue of the merger between Philippine National Bank (PNB) and the former Allied Banking Corporation (ABC) in February 2013.

ACB is the former Xiamen Commercial Bank, the name change having been effected in August 2001. It obtained its commercial banking license in July 1993 and opened for business in October 1993.

ACB maintains its head office in Xiamen, in Fujian province, a southeastern commercial city of China. Xiamen is one of the four original special economic zones to open up to the outside world in the early eighties in what is now considered in history as China's greatest modern day reform initiatives. Xiamen was also home to a good number of ascendants of Chinese-Filipinos.

In 2003, ACB opened a branch in Chongqing, a southwestern industrial city in the province of Sichuan. It is one of China's four chartered cities and is considered the gateway to western China. It is a hub for industry, commerce, transport and culture.

The commercial banking license granted to ACB allows it to offer full banking services in foreign currency to resident and non-resident foreign enterprises, non-resident natural persons including compatriots from Hong Kong, Macau and Taiwan. It also allows ACB to service foreign trade and loan requirements of enterprises owned by local residents.

Allied Banking Corporation (Hong Kong) Limited (ABCHKL), became a majority-owned (51%) commercial bank subsidiary of PNB by virtue of the merger between Philippine National Bank (PNB) and the former Allied Banking Corporation (ABC) in February 2013. ABCHKL is a private limited company incorporated in Hong Kong in 1978, and is licensed as a restricted license bank under the Hong Kong Banking Ordinance.

ABCHKL was ABC's first majority-owned overseas subsidiary. It provides a full range of commercial banking services predominantly in Hong Kong, which include lending and trade financing, documentary credits, participation in loans syndications and other risks, deposit taking, money market and foreign exchange operations, money exchange, investment and corporate services. ABCHKL's core revenue primarily comprises interest income from its lending activities complemented with fees and commissions from other fee-based services. ABCHKL has a wholly owned subsidiary, ACR Nominees Limited, a private limited company incorporated in Hong Kong which provides management and corporate services to its customers. It also holds and operates one branch office in Tsimshatsui, Kowloon. In addition to its normal banking services, ABCHKL acts and is licensed as an insurance agent. Its main business are property mortgage loans, trade finance, deposits (not less than HK$500,000), remittances, foreign exchange and secretarial and nominee services. Its main businesses are property mortgage loans, trade finance, deposits (not less than HK$500,000), remittances, foreign exchange and secretarial and nominee services.

Item 2. Properties

PNB’s corporate headquarters, the PNB Financial Center, is housed in a sprawling modern eleven (11)-storey building complete with all amenities, located at a well-developed reclaimed area of 99,999 square meters of land on the southwest side of Roxas Boulevard, Pasay City, Metro Manila, bounded on the west side by the Pres. Diosdado P. Macapagal Boulevard and on the north side by the World Trade Center building. The PNB Financial Center is located in a property where bustling cultural, financial and tourism activities converge. It also houses PNB’s domestic subsidiaries. Some office spaces are presently leased to various companies/private offices. The said property is in good condition and has no liens and encumbrances.

Disclosed in Exhibit I is the list of Bank-owned properties as of December 31, 2013.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from 1 to 25 years and are renewable upon mutual agreement of both parties under certain terms and conditions.

Disclosed in Exhibit II is the list of Bank’s branches that are under lease as of December 31, 2013.

The Bank does not have any current plans to acquire any property within the next twelve (12) months.

Information related to Property and Equipment is shown under Note 10 of the Audited Financial Statements of the Bank and Subsidiaries.

Item 3. Legal Proceedings

The Bank is a party to various legal proceedings which arise in the ordinary course of its operations. The Bank and its legal counsel believe that any losses arising from these contingencies, which are not specifically provided for, will not have a material adverse effect on its Financial Statements.

Item 4. Submission of Matters to a Vote of Security Holders

There was no matter submitted to a vote of the security holders during the fourth (4^{th}) quarter of the year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

A. Market Price of and Dividends on Registrant's Common Equity and Related Stockholders

1. Market Information

All PNB Common shares are listed and traded at the Philippine Stock Exchange, Inc. The high and low sales prices of PNB Shares for each quarter for the last two (2) fiscal years are:

	2012		2013		March 2014	
	High	Low	High	Low	High	Low
Jan – Mar	75.95	56.25	107.60	87.40	87.20	75.57
Apr – Jun	77.80	67.40	117.00	75.95		
July – Sep	76.55	68.75	91.00	65.00		
Oct – Dec	96.20	70.20	99.00	77.60		

The trading price of each PNB common share as of March 31, 2014 was ₱82.00.

2. Holders

There are 30,420 shareholders as of February 28, 2014. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

No.	Stockholders	Common Shares[1/]	Percentage To Total Outstanding Capital Stock
1	PCD Nominee Corporation (Filipino)	110,208,404	9.8450749566
2	PCD Nominee Corporation (Non-Filipino)	97,919,086	8.7472525358
3	Key Landmark Investments, Ltd.	94,883,360	8.4760667738
4	Caravan Holdings Corporation	58,389,760	5.2160410915
5	Solar Holdings Corporation	58,389,760	5.2160410915
6	True Success Profits Ltd.	58,389,760	5.2160410915
7	Prima Equities & Investments Corporation	51,091,040	4.5640359551
8	Leadway Holdings, Inc.	46,495,880	4.1535437150
9	Infinity Equities, Inc.	43,792,320	3.9120308187
10	Pioneer Holdings Equities, Inc.	24,386,295	2.1784627440
11	Multiple Star Holdings Corporation	21,925,853	1.9586679277
12	Donfar Management Ltd.	21,890,077	1.9554720062
13	Uttermost Success, Ltd.	21,523,715	1.9227443628
14	Mavelstone Int'l Ltd.	21,055,186	1.8808899945
15	Kenrock Holdings Corporation	18,522,961	1.6546826997
16	Fil-Care Holdings, Inc.	18,119,076	1.6186030728
17	Fairlink Holdings Corporation	17,945,960	1.6031383720
18	Purple Crystal Holdings, Inc.	17,374,238	1.5520656249
19	Kentron Holdings & Equities Corporation	17,343,270	1.5492992090
20	Fragile Touch Investment, Ltd.	16,157,859	1.4434047425

[1/] *This includes the 423,962,500 common shares (the "Shares") issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB and ABC as approved by the Securities and Exchange Commission (SEC) on January 17, 2013.*

3. Dividends

The Bank has not declared any cash dividends on its common equity for the fiscal years 2012 and 2013.

The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of restricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the Bangko Sentral ng Pilipinas as provided under the Manual of Regulations for Banks (MORB).

4. Recent Sales of Unregistered or Exempt Securities, including Recent Issuance of Securities Constituting an Exempt Transaction

The Bank has recently successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Right Shares) with a par value of ₱40.00 per share at a price of ₱71.00 each. The Right Shares were offered to all eligible shareholders of the Bank at the proportion of fifteen (15) Right Shares for every one hundred (100) common shares held 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 Right Shares 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 Securities and Exchange Commission (SEC). The Right Shares were sourced from the existing authorized but unissued capital stock.

The remaining 129,712,914 Right Shares will be sourced from an increase in authorized capital stock of the Bank, which the Bank will apply for with the SEC after receipt of the endorsement of the Bangko Sentral ng Pilipinas. 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.

5. Computation of Public Ownership

As of December 31, 2013, PNB's Public Ownership Level is 22.37%, which is above the minimum percentage of ten percent (10%) public ownership requirement for a listed company, in compliance with the requirement of the Philippine Stock Exchange (PSE).

B. Description of PNB's Securities

- As of February 28, 2014, PNB's authorized capital stock amounted to ₱50,000,000,040.00 divided into 1,250,000,001 common shares having a par value of ₱40.00 per share. This will be increased to ₱70,000,000,040.00 divided into 1,750,000,001 common shares with a par value of ₱40.00 per share, subject to the endorsement of the Bangko Sentral ng Pilipinas and eventual approval of the SEC.

- The total number of common shares outstanding as of February 28, 2014 is 1,119,426,764. This includes the 423,962,500 common shares issued relative to the merger of PNB and Allied Banking Corporation subject of the Registration Statement filed with the Securities and Exchange Commission and for listing with the Philippine Stock Exchange.

- As of February 28, 2014, a total of 1,021,250,089 common shares (or 91.2297%) are held by Filipino-Private Stockholders while the remaining 98,176,675 common shares (or 8.7703%) are held by Foreign-Private Stockholders. PNB has a total of ₱44,777,070,560.00 subscribed capital.

- The Bank's stockholders have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, whether the same are issued from the Bank's unissued capital stock or in support of an increase in capital. (Article Seven of PNB's Amended Articles of Incorporation)

- At each meeting of the stockholders, every stockholder entitled to vote on a particular question involved, shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Bank at the time of the closing of the transfer books for such meeting or on the record date fixed by the Board of Directors. (Section 4.9 of PNB's Amended By-Laws)

- Section 24 of the Corporation Code of the Philippines provides that "x x x *every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, at the time fixed by the by-laws, in his own name on the stock books of the corporation x x x and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal x x x.*"

Item 6. Management's Discussion and Analysis

Management's Discussion and Analysis

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

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 described below:

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

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

The amendments affect disclosures only and have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 34 to the financial statements.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) No. 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 requires management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements in PAS 27. Refer to Note 3 for the significant judgment made by management in identifiying entities for consolidation.

Deconsolidation of Investment in SPV - Opal Portfolio Investments (SPV-AMC), Inc. (OPII)
Before the effectivity of PFRS 10, OPII is consolidated by PNB based on the provisions of SIC 12. Under SIC 12, control over an SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE in order to obtain benefits from its activities. Beginning January 1, 2013, the Group adopted PFRS 10 which supersedes SIC 12. PFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements.

Based on management's assessment, the Parent Company should no longer consolidate OPII since it failed to demonstrate control over OPII following the control model under PFRS 10.

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group has no significant interests in joint arrangements, associates and structured entities that require disclosures. Refer to Basis of Consolidation and Notes 3 and 11 for disclosures related to subsidiaries and associate.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Refer to Note 5 for the additional disclosures required by this standard.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*

The Group applied amendments to PAS 1 and changed the grouping of items presented in OCI
as follows:

- items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement). These include 'Accumulated Translation Adjustment', 'Net Unrealized Gain (Loss) on AFS Investments' and 'Equity in Net Unrealized Gain on AFS Investment of an Associate'.
- items that will never be recycled to profit or loss. These include 'Remeasurement (Losses) Gains on Retirement Plan' and 'Revaluation Increment on Land and Building'.

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

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

The adoption of PAS 19 (Revised) which required restrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary. The Parent Company and certain subsidiaries had chosen to close under 'Surplus' the net effect of all transition adjustments as at January 1, 2011 (the transition date) upon retrospective application of PAS 19 (Revised). The Group will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

The effects of retrospective application of PAS 19 (Revised), PFRS 10 and reclassifications are discussed under Note 2 of the AFS.

Financial Condition

2013 vs. 2012

As of end of the first year of PNB-Allied Bank merger, the Group's consolidated assets expanded to ₱618.1 billion as of December 31, 2013, ₱287.9 billion or 87.2% higher compared to ₱330.2 billion of PNB as of December 31, 2012. The increase is inclusive of some ₱198.2 billion assets of the former Allied Bank (ABC) at fair values of February 9, 2013, the effective date of the merger.

Changes (more than 5%) in assets were registered in the following accounts:

- Cash, Due from BSP and Due from Banks of the merged Bank totaled ₱179.9 billion, 284.4% or ₱133.1 billion higher compared to the December 31, 2012 level of ₱46.8 billion. The increase came from Deposits with the BSP which grew by ₱116.0 billion while the increases in Cash and Other Cash Items and Due from Banks accounts of ₱6.2 billion and ₱10.8 billion respectively, pertain mainly to ABC accounts which were brought in to the merged Bank.
- Interbank Loans Receivable was at ₱8.4 billion as of December 31, 2013 or a decrease of 27.0% compared to the December 31, 2012 level of ₱11.5 billion due mainly to interbank lending transactions to various banks in December 2012.
- Securities Held Under Agreements to Resell as of December 31, 2012 of ₱18.3 billion represents lending transactions of the Bank with the BSP.
- Financial Assets at Fair Value Through Profit or Loss at ₱11.7 billion grew by ₱7.7 billion from ₱4.0 billion accounted for by the ₱7.1 billion Segregated Fund Assets designated as financial asset at FVPL. This account refers to the considerations from unit-linked insurance contracts received by PNB Life Insurance, Inc. (PNB LII) in designated funds. Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL and are evaluated at fair value basis in accordance with a documented risk management or investment strategy.
- Available for Sale Investments went up to ₱80.3 billion as of December 31, 2013, ₱13.3 billion or 19.9% higher than the ₱67.0 billion level as of December 31, 2012 considering net acquisition of various securities as well as AFS securities holdings from the former ABC.
- Loans and Receivables now stood at ₱274.3 billion, from ₱144.2 billion as of December 31, 2012 attributable mainly to the ₱92.3 billion total loans brought in by the former ABC to the merged Bank, of which more than 80% are corporate accounts. New loan releases to various corporate borrowers also contributed to the increase in Loans and Receivables.
- Investment Properties was ₱21.5 billion, up by ₱6.0 billion from the ₱15.5 billion reported as of December 31, 2012. This came from the ₱5.7 billion ROPA accounts of the former ABC.
- Property and Equipment (PPE) amounted to ₱22.6 billion as of December 31,2013, an increase of ₱6.1 billion from the December 31, 2012 level of ₱16.5 billion on account of the merged PPE accounts of former ABC.
- Investment in Associate had a zero balance as of December 31, 2013 compared to the P2.4 billion as of December 31, 2012 primarily due to the increase in ownership of PNB in Allied Commercial Bank (ACB) from 39% to 90% after the merger. Since ACB is now a subsidiary, the investment of PNB in ACB is now consolidated line-by-line in the financial statements. Moreover, the P5.0 million remaining investment in an associate as of December 31, 2013 was included under Other Assets.
- The ₱13.4 billion Goodwill as of December 31, 2013 represents the difference between the fair value of the identified ABC net assets and liabilities at the time of the merger and the market value of the 423.962 million PNB shares issued in line with the merger.
- Of the ₱2.4 billion Intangible Assets, ₱2.0 billion represents customer relationship and core deposits 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.
- Other Assets and Deferred Tax Assets amounted to ₱3.4 billion and ₱0.3 billion as of December 31, 2013 compared to ₱1.8 billion and ₱1.8 billion as of December 31, 2012, respectively with the increase mainly coming from the other asset accounts of the former ABC.

- The total consolidated liabilities of the merged bank increased by ₱242.5 billion from ₱291.7 billion as of December 31, 2012 to ₱534.2 billion of the merged Bank as of December 31, 2013. Major changes in liability accounts were as follows:

  - Deposit Liabilities, representing 87% of total liabilities of the merged Bank stood at P462.4 billion, higher by ₱221.5 billion compared to the December 2012 level of ₱240.9 billion, attributed to ABC deposit balances. Demand, Savings and Time deposits increased by ₱97.2 billion, ₱92.7 billion and ₱31.6 billion, respectively.
  - Financial Liabilities at FVPL increased by ₱1.6 billion to ₱8.1 billion as of December 31, 2013 from ₱6.5 billion as of December 31, 2012. The increase was primarily due to the P7.3 billion segregated fund liabilities from ABC subsidiary PNB Life partly offset by the redemption of the P6.0 billion subordinated notes issued on June 19, 2009. The subordinated note and segregated fund liabilities are part of a group of financial instruments that are managed on a fair value basis, in accordance with the Group's documented risk management and investment strategy.
  - Accrued Expenses Payable and Other Liabilities also increased from ₱3.9 billion and ₱17.3 billion respectively, to ₱5.5 billion and P35.0 billion, respectively as of December 31, 2013. Increase in Other Liabilities of ₱17.7 billion came mainly from the other liabilities of the former ABC.

- The consolidated equity now stood at ₱83.9 billion as of December 31, 2013, up by ₱45.4 billion from ₱38.5 billion as of December 31, 2012. The increase in capital accounts was accounted for by the following:

  - ₱41.4 billion market value of 423,962,500 PNB common shares issued in line with the PNB-ABC merger
  - ₱5.2 billion net income for the year ended December 31, 2013
  - ₱1.3 billion increase in the accumulated translation adjustment account.
  - ₱3.0 billion increase in non-controlling interest
  -

  partly offset by:

  - ₱4.6 billion mark-to-market loss on AFS
  - ₱0.5 billion additional actuarial losses taken up in compliance with PAS 19.
  - ₱0.3 billion revaluation loss on Land and Building

<u>2012 vs. 2011</u>

- The Group's consolidated assets expanded to ₱330.2 billion as of December 31, 2012, ₱18.6 billion or 6.0% higher compared to ₱311.6 billion as of December 31, 2011. Significant changes (more than 5%) in assets were registered in the following accounts:

  - Loans and Receivables grew by 14.8% or ₱18.1 billion, from ₱125.6 billion to ₱144.2 billion, attributable mainly to new loan releases during the period.
  - Available for Sale Investments increased by ₱14.7 billion, from ₱52.3 billion to ₱67.0 billion, attributed mainly to purchases of government securities.
  - Investment Properties decreased from ₱18.5 billion to ₱15.5 billion, primarily due to sale of foreclosed properties and provision for loss on a certain property which was destroyed by fire.
  - Due from Other Banks decreased by ₱2.4 billion, from ₱6.4 billion to ₱4.0 billion.
  - Financial Assets at Fair Value Through Profit or Loss was lower by ₱2.9 billion, from ₱6.9 billion to ₱4.0 billion, attributed mainly to the sale of various investment securities.

- Interbank Loans Receivable decreased by ₱5.6 billion, from ₱17.1 billion to ₱11.5 billion, in view of lower interbank lending.
- Other Assets declined by ₱0.5 billion, from ₱1.6 billion to ₱2.1 billion

- The consolidated liabilities increased by ₱14.0 billion from ₱277.7 billion as of December 31, 2011 to ₱291.7 billion as of December 31, 2012. Major changes in liability accounts were as follows:
    - Deposit Liabilities increased by ₱3.3 billion from ₱237.5 billion to ₱240.8 billion attributed mainly to the ₱8.1 billion increase in savings deposit partly offset by the ₱1.7 billion and ₱3.1 billion reductions in demand and time deposits.
    - Bills and Acceptances Payable increased by ₱4.6 billion, from ₱8.5 billion to ₱13.1 billion, mainly accounted for by BSP rediscounting and various borrowings from other banks.
    - Subordinated Debt increased by ₱3.5 billion, from ₱6.4 billion to ₱9.9 billion. On May 9, 2012, the Bank issued ₱3.5 billion of Unsecured Subordinated Notes to finance asset growth and strengthen the Bank's capital base.
    - Other liabilities increased by ₱2.6 billion from ₱14.7 billion to ₱17.3 billion, mainly due to the accrual of provision for loss on certain court cases, additional insurance liability of the Bank's subsidiary PNB Gen. Insurers, and increment in accounts payable on certain collection arrangements.

- The consolidated equity stood at ₱38.5 billion as of December 31, 2012, up by ₱4.7 billion from ₱33.8 billion as of December 31, 2011. The increase in capital accounts was mainly accounted for by the ₱4.7 billion net income for the year ended December 31, 2012. As mentioned in item 1 above, Surplus as of December 31, 2012 and December 31, 2011 are already net of SPV losses previously being deferred in accordance with the SPV Law.

2011 vs. 2010

- The group's consolidated assets amounted to ₱311.6 billion as of December 31, 2011, ₱14.4 billion or 5.0% higher compared to ₱297.1 billion as of December 31, 2010. The growth in resources was funded by the increase in deposits and proceeds from the issuance of ₱6.5 billion unsecured subordinated notes eligible as Tier 2 Capital in June 2011. Significant changes (more than 5%) in assets were registered in the following accounts:
    - Loans and Receivables grew by 13.9% or ₱15.3 billion, from ₱110.3 billion to ₱125.6 billion, attributable mainly to new loan releases during the period to different industry sectors, e.g power, telecommunications, government, manufacturing and transportation.
    - Due from BSP increased by ₱13.9 billion, from ₱24.3 billion to ₱38.2 billion, accounted for by the increase in the reserve deposit account with BSP.
    - Securities Held Under Agreements to Resell went up by ₱11.5 billion, from ₱6.8 billion to ₱18.3 billion. Securities Held under Agreement to Resell includes government securities purchased under reverse repurchase transactions with BSP
    - Interbank Loans Receivable grew by ₱4.4 billion, from ₱12.7 billion to ₱17.1 billion, due to increase in lending to BSP.
    - Financial Assets at Fair Value Through Profit or Loss was lower by ₱9.1 billion, from ₱16.0 billion to ₱6.9 billion, attributed mainly to the sale of government and other investment securities.
    - On October 12, 2011, the Bank had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to maturity. The Bank disposed of a more than insignificant amount of its HTM investments. The disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39.

- Available for Sale Securities was higher by ₱17.8 billion, from ₱34.5 billion to ₱52.3 billion, on account of purchases of government securities and the reclassification of the remaining HTM to AFS.
- Due from Other Banks was higher by ₱1.3 billion, from ₱5.1 billion to ₱6.4 billion.
- Investment Properties increased by ₱0.6 billion, from ₱17.9 billion to ₱18.5 billion, mainly due to sale of properties.
- Other Assets was lower by ₱2.9 billion, from ₱4.5 billion to ₱1.6 billion.

- The consolidated liabilities increased by ₱9.0 billion from ₱268.7 billion as of December 31, 2010 to ₱277.7 billion as of December 31, 2011. Major changes in liability accounts were as follows:

  - Deposit Liabilities grew by ₱11.1 billion, from ₱226.4 billion to ₱237.5 billion. The growth came from ₱13.4 billion and ₱1.9 billion increase in savings deposits and in demand deposits, respectively partly offset by the decline of ₱4.2 billion in time deposit.
  - Bills and Acceptances Payable and Accrued Taxes, Interest and Other Expenses decreased by ₱3.5 billion and ₱0.6 billion, from ₱12.0 billion to ₱8.5 billion and from ₱4.3 billion to ₱3.7 billion, respectively.
  - Subordinated Debt increased by ₱1.0 billion, from ₱5.5 billion to ₱6.5 billion. On June 15, 2011, the Bank issued ₱6.5 billion in Unsecured Subordinated Notes eligible as Tier 2 Capital to refinance the Banks ₱5.5 billion Lower Tier 2 Subordinated Notes which were redeemed in August 2011 and to raise additional Tier 2 Capital in order to finance asset growth and strengthen the Bank's capital base.

- The consolidated equity stood at ₱33.8 billion as of December 31, 2011, up by ₱5.4 billion from ₱28.4 billion as of December 31, 2010. The increase in capital accounts came primarily from the ₱4.6 billion annual net income and ₱1.9 billion recovery from net unrealized losses on mark to market valuation of available for sale.

Results of Operations

2013 vs. 2012

- For the year 2013, the net income of the merged bank reached ₱5.2 billion, ₱0.5 billion higher compared to ₱4.7 billion reported by PNB in 2012. The figure would have been much higher if not for the ₱865.5 million accrual on casualty losses (e.g. for typhoon Yolanda/Santi and for the Bohol earthquake) taken up in the later part of 2013.
- Net interest income amounted to ₱13.7 billion for the year ended December 31, 2013, almost double the ₱7.0 billion net interest income of PNB for the same period last year. Interest income was up by ₱7.1 billion from ₱11.4 billion to ₱18.5 billion. Interest expense however was also higher at ₱4.7 billion, or by ₱0.3 billion from ₱4.4 billion last year.
- Fee-based and other income was higher by ₱0.6 billion at ₱8.4 billion for the year ended December 31, 2013 from ₱7.8 billion for the same period last year. Increases were registered in Net Gain on Sale of exchange of Assets, Foreign Exchange Gains and Miscellaneous by P159 million, P62 million and P1.2 billion, respectively, while Trading and Investment Securities Gains declined by P746 million.

- Administrative and other operating expenses of the merged bank totaled ₱18.2 billion in 2013, ₱7.2 billion more than last year's ₱11.0 billion. Increases were registered in Compensation and Fringe Benefits by ₱2.3 billion, Taxes and Licenses by ₱0.6 billion, Occupancy and Equipment-related Costs by P0.5 billion, Depreciation and Amortization by P0.8 billion and Other Miscellaneous Expenses by P2.9 billion, respectively.
- Provision for Income Tax was at ₱1.2 billion and ₱0.9 billion for the years ended December 31, 2013 and 2012, respectively with the increase primarily due to higher taxable revenues during the current period.
- Total Comprehensive Income for the year ended December 31, 2013 amounted to ₱1.2 billion, ₱3.5 billion lower compared to the ₱4.7 billion total comprehensive income reported for the period ending December 31, 2012. Current year's comprehensive income came mainly from the net income totaling ₱5.2 billion and accumulated translation adjustments related to foreign operations which contributed ₱1.2 billion, reduced by the ₱4.42 billion decline in market value of available-for-sale securities and the ₱0.5 billion re-measurement losses on retirement plan taken up in the current year.

2012 vs. 2011

- The Group posted a ₱4.7 billion consolidated net income for the year ended December 31, 2012, higher than the ₱4.6 billion net income for the same period last year.
- Net interest income stood at ₱7.0 billion in 2012, slightly lower by ₱0.2 billion compared to the net interest income for the same period last year. Interest income declined by ₱1.1 billion, from ₱12.5 billion to ₱11.4 billion. Interest expense decreased by ₱0.9 billion from ₱5.3 billion to ₱4.4 billion.
- Net service fees and commission income was slightly lower at ₱1.9 billion in 2012 compared to ₱2.1 billion reported for the same period last year.
- Fee-based and other income increased by ₱0.5 billion for the year ended December 31, 2012 to ₱7.8 billion, from ₱7.3 billion for the same period last year. The increase came from gains on Trading and investment securities which expanded by ₱1.8 billion from ₱3.6 billion to ₱5.4 billion, mainly attributed to gain on sale/redemption of Available for Sale Securities.
- Administrative and other operating expenses were lower by ₱0.2 billion from ₱11.2 billion to ₱11.0 billion.
- Provision for income tax was at ₱0.9 billion and ₱0.8 billion for the years ended December 31, 2012 and 2011, respectively**.**

2011 vs. 2010

- The Group posted a ₱ 4.6 billion consolidated net income for the year ended December 31, 2011, ₱0.6 billion higher than the 2010 net income of ₱4.0 billion.
- Interest income from loans and receivables grew by 8.1% or up by ₱0.6 billion to ₱7.5 billion for the year ended December 31, 2011, from ₱7.0 billion in the same period last year, attributed mainly to higher ADB on loans and receivables. Interest income from investment securities and deposits with other banks was slightly lower at ₱4.3 billion and ₱0.7 billion, from ₱4.4 billion and ₱0.9 billion, respectively. Interest expense on deposits was slightly higher by ₱0.6 billion from ₱3.4 billion to ₱4.0 billion due to increase in average daily balance of deposit liabilities.
- Net service fees and commission income increased slightly with the reduction in service and commission expenses and an improvement in remittance and trust fees at ₱2.14 billion for the year ended December 31, 2011 compared to ₱2.12 billion reported for the same period last year.

- Fee-based and other income decreased by ₱0.4 billion to ₱7.3 billion from ₱7.7 billion in the previous year. Trading and investment net gains significantly increased by ₱0.5 billion, from ₱3.1 billion to ₱3.6 billion, as the bank took advantage of opportunities in the financial market and made a strategic call of unloading substantial holdings of security investments. Foreign exchange net gains also went up by ₱0.3 billion. Net gain on sale or exchange of assets is lower at ₱1.4 billion for the year ended December 31, 2011 compared to ₱2.1 billion for the same period last year and Miscellaneous dropped by P0.4 billion compared to last year.
- Administrative and other operating expenses decreased by ₱1.2 billion, from ₱12.4 billion to ₱11.2 billion, largely due to lower provision for impairment and credit losses and miscellaneous expense by ₱1.4 billion and ₱0.6 billion, respectively. On the other hand, Compensation and fringe benefits, taxes and licenses and occupancy and equipment-related costs slightly increased by ₱0.5 billion, ₱0.1 billion and ₱0.1 billion, respectively.
- Provision for income tax was the same at ₱0.9 billion for the years ended December 31, 2011 and 2010, respectively.

Key Performance Indicators

- Capital Adequacy

  Capital Management
  The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and to maintain 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.

  The Bank and its individual regulatory operations have complied with all externally imposed capital requirements throughout the period.

  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 Monetary Board (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.

The regulatory qualifying capital of the Bank consists of Tier 1 (Core) and Tier 2 (Supplementary) capital. Core Tier 1 capital consists of paid-up common stock, additional paid in capital, retained earnings (including current year's profit) and cumulative foreign currency translation adjustments less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. For Tier 2 capital, upper tier 2 include appraisal increment reserves on bank premises and general loan loss provision while lower tier 2 includes the unsecured subordinated debt to the extent of 50% of Tier 1 Capital.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. In August 2006, the BSP issued Circular No. 538 which contains the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations. Under the revised framework, capital requirements for operational risk, credit derivatives and securitization exposures are to be included in the calculation of the Parent Company's capital adequacy. The revised framework also prescribes a more granular mapping of external credit ratings to the capital requirements and recognizes more types of financial collateral and guarantees as credit risk mitigants. Changes in the credit risk weights of various assets, such as foreign currency denominated exposures to the Philippine National Government, non-performing exposures and ROPA, were also made. Exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions. Credit risk-weights range from 0.00% to 150.00% depending on the type of exposure and/or credit assessment of the obligor. The new guidelines took effect last July 1, 2007.

The Group's consolidated capital adequacy ratio for combined credit, market and operational risks computed based on BSP Circular No. 538 were 19.7%, 18.1% and 21.7% as of December 31, 2013, 2012 and 2011, respectively, improving and well above the minimum 10% required by BSP. The following table sets the regulatory capital as reported to BSP as at December 31, 2013, 2012 and 2011 (amounts in billions):

Capital Adequacy Ratio
As of Dates Indicated

	Consolidated			Solo		
	2013	2012	2011	2013	2012	2011
Tier 1 (core) Capital	**81,927.249**	**29,950.780**	**34,546.588**	**79,100.512**	**30,744.150**	**35,173.686**
Common stock	43,448.337	26,489.837	26,489.837	43,448.337	26,489.837	26,489.837
Additional Paid In Capital	26,499.909	2,037.272	2,037.272	26,499.909	2,037.272	2,037.272
Retained Earnings	9,568.295	2,278.793	6,313.204	9,002.417	2,278.793	6,313.204
Cumulative Foreign Currency Translation	(209.578)	(909.161)	(340.611)	149.849	(61.752)	333.373
Undivided profits	-	-	-	-	-	-
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)	2,620.286	54.039	46.886	-	-	-
Deductions from Tier 1 Capital	19,715.452	3,442.213	4,045.702	19,385.053	3,345.648	3,977.010
Unsecured DOSRI	54.051	87.181	717.882	54.051	87.181	717.882
Deferred income tax	3,896.944	3,355.032	3,327.820	3,566.545	3,258.467	3,259.128
Goodwill	15,764.457			15,764.457		
Gross Tier 1 Capital	62,211.797	26,508.567	30,500.886	59,715.459	27,398.502	31,196.676
Upper Tier 2 Capital	2,903.298	1,452.880	2,134.202	2,792.410	1,442.058	2,061.340
Appraisal Increment Reserve, Bank Premises auth. By MB	291.725	291.725	291.725	291.725	291.725	291.725
General loan loss provision (limited to 1.00% of credit risk-weighted assets computed per Part III, Item B.)	2,611.573	1,161.155	1,842.477	2,500.685	1,150.333	1,769.615
Lower Tier 2 Capital (limited to 50% of Tier 1 Capital)	9,953.651	13,254.284	12,931.643	9,953.651	13,699.251	12,931.643
Unsecured Subordinated Debt	9,953.651	16,134.886	12,931.643	9,953.651	16,134.886	12,931.643
Total Tier 2 Capital	12,856.949	14,707.164	15,065.845	12,746.061	15,141.309	14,992.983
Gross Tier 2 Capital (limited to 100% of Tier 1 Capital)	12,856.949	14,707.164	15,065.845	12,746.061	15,141.309	14,992.983
Deductions from Qualifying Capital	623.123	3,122.668	159.483	14,735.834	9,472.213	6,511.277
Total qualifying capital	**74,445.623**	**38,093.063**	**45,407.248**	**57,725.686**	**33,067.598**	**39,678.382**

The risk-weighted assets of the Group and Parent Company as of December 31, 2013, 2012 and 2011 are as follows:

Risk-weighted on:						
Balance sheet assets:	319,474.854	180,263.416	180,351.138	292,664.636	172,427.340	173,521.304
20%	3,365.582	3,346.152	2,752.834	2,438.801	3,316.012	2,573.701
50%	13,963.631	3,874.130	5,383.494	12,821.113	3,853.812	5,374.547
75%	15,492.672	3,509.684	2,504.075	15,028.768	3,509.684	2,504.075
100%	249,165.915	140,892.358	137,279.025	225,933.829	133,209.840	130,796.580
150%	37,487.054	28,641.092	32,431.710	36,442.125	28,537.992	32,272.401
Off-Balance sheet assets:	7,835.140	2,462.837	2,680.680	7,224.489	2,013.627	2,224.317
20%	34.381	74.208	-	34.381	74.208	-
50%	2,331.258	1,782.022	8.734	2,331.258	1,782.022	8.734
75%	519.572	-	-	519.572	-	-
100%	4,949.929	606.607	2,671.946	4,339.278	157.397	2,215.583
150%	-	-	-	-	-	-
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions)	599.806	673.881	1,019.170	599.806	673.881	1,019.170
Total Counterparty Risk-Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	9.914	198.574	196.664	-	198.574	196.664
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	-	-	-	-	-	-
Total Risk-Weighted Securitization Exposures	-	-	-	-	-	-
General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]	-	-	187.732	-	-	250.385
Total Credit Risk Weighted Assets	327,919.714	183,598.708	184,059.920	300,488.931	175,313.422	176,711.070
Market Risk Weighted Assets	9,337.189	3,255.293	3,992.760	3,828.952	3,241.655	3,863.760
Operational Risk-Weighted Assets	40,938.779	23,385.190	21,638.290	36,178.156	20,306.580	19,558.040
Total Risk Weighted Assets	378,195.681	210,239.191	209,690.970	340,496.038	198,861.657	200,132.870

Capital Adequacy Ratios						
Tier 1 capital ratio	**16.367%**	**11.866%**	**14.508%**	**15.374%**	**11.396%**	**13.961%**
Tier 2 capital ratio	**3.317%**	**6.253%**	**7.147%**	**1.580%**	**5.232%**	**5.865%**
CAR	**19.684%**	**18.119%**	**21.654%**	**16.953%**	**16.628%**	**19.826%**

- Asset Quality

The PNB Group's non-performing loans (gross of allowance) increased to ₱10.7 billion as of December 31, 2013 compared to ₱6.5 billion as of December 31, 2012, mainly attributed to ABC balances transferred in line with the merger. NPL ratio of the merged bank (based on new BSP guidelines) is 1.39% (net of valuation reserves) and 4.26% (at gross).

- Profitability

	2013	2012 (as restated)	2011 (as restated)
Return on Equity [1/]	8.5%	13.1%	14.9%
Return on Assets [2/]	1.1%	1.5%	1.5%
Net Interest Income [3/]	3.4%	2.6%	2.9%

[1] net income divided by average total equity for the period indicated
[2] net income divided by average total assets for the period indicated
[3] net interest income divided by average interest-earning assets for the years indicated. For 2013, average balances of interest earning assets pertains to the sum of beginning (pre-merger balance) & ending balances (Merged) as of the end of the respective periods divided by two),

ROE for the year ended December 31, 2013 is at 8.5% or 4.6% and 6.4% lower compared to the ratio registered for the year 2012 and 2011 at 13.1% and 14.9%, respectively. The reduction was traced to the higher average total equity of the merged bank at ₱61.2 billion compared to ₱36.1 billion last year or an increase of ₱25.1 billion. Without the goodwill, however, 2013 ROE will improve to 9.6%.

December 2013 ROA is at 1.1% or 0.4% lower compared to the December 2012 and 2011of 1.5%. This can be attributed to the increase in average assets of the merged bank at ₱474.1 billion, or an increase of 47.7% or ₱153.2 billion from the stand alone December 2012 average of ₱320.9 billion.

NIM ratio of the merged bank for December 2013 is at 3.4% based on net interest margin of ₱13.7 billion and total average interest-earning assets of ₱403.4 billion, 0.8 percentage point higher compared to the 2.6% NIM ratio of 2012 and 0.5% higher than the 2011 rate.

- Liquidity

The ratios of liquid assets to total assets were 45.3%, 44.7% and 46.4% as of December 31, 2013, 2012 and 2011, respectively.

The Bank is in compliance with the liquidity and legal reserve requirements of BSP for deposit liabilities.

- Cost Efficiency

The ratios of total operating expenses (excluding provision for impairment and credit losses) to total operating income were 70.6%, 61.0%, and 60.9% for 2013, 2012 and 2011, respectively.

Known trends, demands, commitments, events and uncertainties

The Bank presently has more than adequate liquid assets to meet known funding requirements and there are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity.

Events that will trigger direct or contingent financial obligation

In the normal course of business, the 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 any 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 Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Material off-balance sheet transactions, arrangement or obligation

The following is a summary of various commitments and contingent liabilities of the Group as of December 31, 2013 and 2012 at their equivalent peso contractual amounts:

	12/31/2013	12/31/2012
	(In Thousand Pesos)	
Trust department accounts	**₱ 56,334,549**	**₱ 55,976,479**
Deficiency claims receivable	**11,722,138**	**6,309,340**
Credit Card Lines	**11,239,863**	**-**
Inward bills for collection	**660,197**	**140,548**
Outstanding guarantees issued	**1,481,927**	**628,422**
Outward bills for collection	**477,220**	**105,030**
Unused commercial letters of credit	**66,664**	**36,096**
Other contingent accounts	**504,525**	**41,317**
Confirmed export letters of credit	**82,513**	**78,126**
Items held as collateral	**64**	**244**

Capital Expenditures

The Bank plans to purchase hardware and software requirements needed for the implementation of new ATM acquisitions and security gadgets, Windows Operating System upgrades, Cash Management System Enhancement, Mobile Commerce System and Trust System upgrades among others.

Significant Elements of Income or Loss

Significant elements of net income of the Bank came from its continuing operations.

Seasonal Aspects

There was no seasonal aspect that had material effect on the Bank's financial condition or results of operations.

Item 7. Financial Statements

The Audited Financial Statements (AFS) of the Bank and its Subsidiaries, which comprise the Statements of Financial Position as at December 31, 2013 and 2012 and January 1, 2012, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for each of the three (3) years in the period ended December 31, 2013 and a Summary of Significant Accounting Policies and other explanatory information, Notes to Financial Statements, Independent Auditors' Report and the Statement of Management's Responsibility are filed as part of this SEC 17-A report for the year ended December 31, 2013.

Item 8. Information on Independent Accountant and Changes in/disagreements with Accountants on Accounting/Financial Disclosure

A. Independent Public Accountants

SyCip Gorres Velayo & Co., CPAs (SGV) is the current external auditor of the Bank and its domestic subsidiaries for the calendar year 2013. Representatives of SGV are expected to be present at the stockholders meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. To comply with the amended SRC Rule 68 (3) (b) (ix), the signing partners are rotated every five years. Ms. Vicky Lee Salas is the engagement partner of the Bank for the year 2013 replacing Ms. Janeth T. Nunez who has been the engagement partner of the Bank for the years 2008 to 2012.

The Bank intends to retain SGV & Co. as its external auditor for the year 2014. This requires the endorsement of the Board Audit and Compliance Committee with the approval of the Board of Directors and ratification by the Stockholders during the Annual Stockholders' Meeting of the Bank.

B. Audit and other related fees

The following are the engagement fees billed and paid for each of the last two fiscal years for the professional services rendered by the Bank's external auditor, SyCip Gorres Velayo and Co. :

2013

Audit

- ₱5.992 million engagement fee for the audit of the Bank's Financial Statements as of December 31, 2013 (inclusive of out-of-pocket expenses (OPE) but excluding Value Added Tax (VAT).

Other related fees

- ₱13.305 million engagement fee for the review of Financial Statements as of March 31, 2013 and June 30, 2013 and issuance of comfort letter relative to the issuance of ₱5.0 billion Long Term Negotiable Certificates of Time Deposit (LTNCD) in July 2013 and ₱5.0 billion LTNCD in October 2013.
- ₱6.160 million engagement fee for the review of Financial Statements as of March 31, 2013 and 2012 relative to the Purchase Price Allocation.

- ₱10.500 million engagement fee for the review of the Financial Statements and issuance of comfort letter relative to the Stock Rights Offering of PNB.
- ₱1.232 million engagement fee for the review of Financial Statements of the Trust Banking Group for the year 2013.

2012
Audit

- ₱7.5 million engagement fee for the audit of the Bank's Financial Statements as of December 31, 2012 (inclusive of out-of-pocket expenses (OPE) but excluding value added tax {VAT}).

Other related fees

- ₱0.995 million for the professional services rendered relative to the issuance of ₱3.50 billion Subordinated Notes, as Tier 2 Capital in May 2012.

There are no fees billed for the last two (2) years for tax accounting performed by the Bank's external auditor.

The approval of audit engagement fees is based on the Bank's existing Manual of Signing Authority.

C. Changes in Accounting Policies

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

New and Revised Standards and Interpretations

- PFRS 11, *Joint Arrangements*
- 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*

New Standards and Interpretations

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

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

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

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

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendments have no significant impact on the Group's financial position or performance.

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

PFRS 2, *Share-based Payment – Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues.
This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The amendments have no impact on the Group's financial position or performance.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

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

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

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

The amendment is effective for annual periods beginning on or after July 1, 2014.
The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.
The amendments will not have any significant impact on the Group's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

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

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

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

The amendments are effective for annual periods beginning on or after July 1, 2014.

The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group’s financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

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

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

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

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

PFRS 9, ***Financial Instruments***
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed.

D. Disagreements with Accountants

The Bank and its subsidiaries had no disagreement with its auditors on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

A. Name, position, age, date of assumption and citizenship of Directors and Executive Officers as of February 28, 2014

Board of Directors[1/]

Name	Position	Age	Date last Elected	Date first Elected	Citizenship
Florencia G. Tarriela	Chairman of the Board of Directors and Independent Director [2/] Chairperson of the Corporate Governance Committee, and Board ICAAP Steering Committee Vice Chairman of the Board Credit and Policy Committee Member of the Risk Oversight Committee, Board Audit and Compliance Committee, Board Overseas Offices Oversight Committee, and Board Oversight RPT Committee	67	5/28/2013	5/29/2001	Filipino

[1/] *The directors are elected either by the stockholders (under Section 5.3 of the PNB's Amended By-Laws) or by the Board of Directors (under Section 5.7 of the said Amended By-Laws) and shall hold office for one (1) year and/or until their successors are elected and qualified. Directors who fill vacancies caused by death, resignation or any other reason, except by removal and expiration of term, hold office for the unexpired term by the majority vote of the remaining directors.*

2 *Independent Director – As used in Section 38 of the Securities Regulation Code, an Independent Director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company.*

Name	**Position**	**Age**	**Date last Elected**	**Date first Elected**	**Citizenship**
Felix Enrico R. Alfiler	Vice Chairman and Independent Director Chairman of the Board Credit and Policy Committee and Trust Committee Member of the Risk Oversight Committee, Board ICAAP Steering Committee, Corporate Governance Committee, Board Overseas Offices Oversight Committee, and Board Oversight RPT Committee	64	5/28/2013	1/1/2012	Filipino
Florido P. Casuela	Director Chairman of the Risk Oversight Committee Member of the Board Credit and Policy Committee, Board Credit Committee, Board Audit and Compliance Committee, Board ICAAP Steering Committee, Corporate Governance Committee, and Board Oversight RPT Committee	72	5/28/2013	5/30/2006	Filipino
Leonilo G. Coronel	Director Member of the Board Credit and Policy Committee, Risk Oversight Committee, Board Audit and Compliance Committee, Board ICAAP Steering Committee, and Board Overseas Offices Oversight Committee Alternate Member of the Board Credit Committee	67	5/28/2013	5/28/2013	Filipino
Reynaldo A. Maclang	Director Chairman of the Board Credit Committee Member of the Board Credit and Policy Committee, Board Audit and Compliance Committee, Risk Oversight Committee, Board ICAAP Steering Committee, Corporate Governance Committee, and Board Overseas Offices Oversight Committee	75	5/28/2013	2/9/2013	Filipino
Estelito P. Mendoza	Director Member of the Board Audit and Compliance Committee	84	5/28/2013	1/1/2009	Filipino
Omar Byron T. Mier	Director Member of the Board Credit and Policy Committee, Board Credit Committee, Board ICAAP Steering Committee, Trust Committee, Corporate Governance Committee, and Board Overseas Offices Oversight Committee	67	5/28/2013	5/24/2005	Filipino
Christopher J. Nelson	Director Member of the Board Credit and Policy Committee, Risk Oversight Committee, Corporate Governance Committee, Board Overseas Offices Oversight Committee Alternate Member of the Board Audit and Compliance Committee	54	5/28/2013	3/21/2013	British
Cecilio K. Pedro	Independent Director	61	2/28/2014	2/28/2014	Filipino
Washington Z. Sycip	Director	92	5/28/2013	12/8/1999	American

Name	Position	Age	Date last Elected	Date first Elected	Citizenship
Harry C. Tan	Director Member of the Board Credit and Policy Committee, Board Credit Committee, Trust Committee, and Corporate Governance Committee	67	5/28/2013	2/9/2013	Filipino
Lucio C. Tan	Director	80	5/28/2013	12/8/1999	Filipino
Lucio K. Tan, Jr.	Director Member of the Board Credit and Policy Committee, Corporate Governance Committee, and Board Overseas Offices Oversight Committee	47	5/28/2013	9/28/2007	Filipino
Michael G. Tan	Director Member of the Board Credit and Policy Committee, Board Credit Committee, Trust Committee, and Corporate Governance Committee Alternate Member of the Board ICAAP Steering Committee and Board Overseas Offices Oversight Committee	47	5/28/2013	2/9/2013	Filipino
Deogracias N. Vistan	Independent Director Chairman of the Board Audit and Compliance Committee, Board Overseas Offices Oversight Committee and Board Oversight RPT Committee Member of the Board Credit and Policy Committee, Risk Oversight Committee, Board ICAAP Steering Committee and Corporate Governance Committee	69	5/28/2013	7/15/2011	Filipino

Name	Position	Age	Date Appointed	Citizenship
Doris S. Te	Corporate Secretary	33	1/20/2012	Filipino
Manuel T. Gonzales	Board Advisor	77	10/01/13	Filipino
William T. Lim	Board Advisor	74	1/25/13	Filipino

Executive Officers

Name	Position	Age	Date of Assumption	Citizenship
Omar Byron T. Mier	President and Chief Executive Officer (CEO)	67	2/9/2013	Filipino
Cenon C. Audencial, Jr.	Head of the Institutional Banking Group Executive Vice President	55	8/5/2013	Filipino
Horacio E. Cebrero III	Head of the Treasury Group Executive Vice President	51	7/19/2010	Filipino
Christopher C. Dobles	Chief Security Officer and Head of the Corporate Security Group Executive Vice President	70	2/9/2013	Filipino
Jovencio B. Hernandez	Head of the Retail Banking Group Executive Vice President	61	2/8/2010	Filipino

Name	Position	Age	Date of Assumption	Citizenship
Ramon Eduardo E. Abasolo	Head of the Flexcube Operations Division First Senior Vice President	50	7/1/2013	Filipino
Yolanda M. Albano	Head of the Commercial Banking Group First Senior Vice President	63	2/9/2013	Filipino
Alice Z. Cordero	Chief Compliance Officer, Corporate Governance Executive and Head of the Global Compliance Group First Senior Vice President	57	6/16/2010	Filipino
Socorro D. Corpus	Head of the Human Resource Group First Senior Vice President	62	2/9/2013	Filipino
Zacarias E. Gallardo, Jr.	Chief Financial Officer and Head of the Financial Management and Controllership Group First Senior Vice President	64	10/01/2012	Filipino
Miguel Angel G. Gonzalez	Chief Credit Officer and Head of the Credit Management Group First Senior Vice President	54	3/3/2010	Filipino
Ramon L. Lim	President and CEO of PNB Securities, Inc. First Senior Vice President	61	7/16/2010	Filipino
John Howard D. Medina	Head of the Global Operations Group First Senior Vice President	44	2/11/2013	Filipino
Edgardo T. Nallas	President of Japan-PNB Leasing and Finance Corporation First Senior Vice President	56	5/1/2013	Filipino
Benjamin J. Oliva	Head of the Global Filipino Banking Group First Senior Vice President	61	9/10/2012	Filipino
Aida M. Padilla	Head of the Remedial Management Group First Senior Vice President	64	4/26/2009	Filipino
Carmela A. Pama	Chief Risk Officer and Head of the Risk Management Group First Senior Vice President	57	10/9/2006	Filipino
Emmanuel German V. Plan II	First Senior Vice President Head of the Special Asset Management Group	61	6/8/2009	Filipino
Efren Antonio S. Sarte	First Senior Vice President President of Allied Savings Bank	54	10/29/2013	Filipino
Rafael Z. Sison	First Senior Vice President Head of Branch Banking Group	58	2/9/2013	Filipino
Emeline C. Centeno	Senior Vice President Head of the Corporate Planning and Research Division	55	6/1/2003	Filipino
Dioscoro Teodorico L. Lim	Chief Audit Executive and Head of the Internal Audit Group Senior Vice President	59	2/9/2013	Filipino

Name	Position	Age	Date of Assumption	Citizenship
Maria Paz D. Lim	Corporate Treasurer Senior Vice President	53	6/23/2006	Filipino
Manuel C. Bahena, Jr.	Officer-in-Charge of the Legal Group First Vice President	52	2/11/2013	Filipino
Josephine E. Jolejole	Officer-in-Charge of Trust Banking Group First Vice President	52	7/15/2013	Filipino
Constantino Yap	Head of Information Technology Group Vice President	50	7/1/2013	Filipino
Janette Y. Abad Santos	Acting Head of Marketing Services Group Vice President	44	12/9/2013	Filipino
Modette Ines V. Cariño	Acting Head of Consumer Finance Group Vice President	42	10/29/2013	Filipino

B. Profile of Directors and Executive Officers together with their business experience covering at least the past five (5) years

The following are the Board of Directors of the Bank:

FLORENCIA G. TARRIELA, 67, Filipino, first elected as a Director on May 29, 2001, has been serving as Chairman of the Board of the Bank since May 24, 2005, and as Independent Director since May 30, 2006. She also serves as an Independent Director of PNB Capital and Investment Corporation, PNB Life Insurance, Inc., PNB (Europe) Plc and LT Group, Inc. She is also a member of the Board of Advisors of PNB Remittance Centers, Inc. She obtained her Bachelor of Science in Business Administration degree, Major in Economics, from the University of the Philippines and her Masters degree in Economics degree, from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. Ms. Tarriela is currently a columnist for "Business Options" of the Manila Bulletin. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL), and Trustee of Finex and TSPI Development Corporation. She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and Exchange Corporation and the Philippine Dealing System Holding Corporation. Ms. Tarriela was also former Undersecretary of Finance, and an alternate Member of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP), Land Bank of the Philippines (LBP) and the Philippine Deposit Insurance Corporation (PDIC). She was formerly Deputy Country Head, Managing Partner and the first Filipino lady Vice President of Citibank N. A., Philippine Branch. Ms. Tarriela is a co-author of several inspirational books - “Coincidence or Miracle? Books I, II, III (“Blessings in Disguise”), and IV (“Against All Odds”), and gardening books - “Oops-Don’t Throw Those Weeds Away!” and “The Secret is in the Soil”. She is an environmentalist and practices natural ways of gardening.

FELIX ENRICO R. ALFILER, 64, Filipino, was elected as Independent Director of the Bank effective on January 1, 2012. He completed his undergraduate and graduate studies in Statistics at the University of the Philippines in 1973 and 1976, respectively. He undertook various continuing education programs, including financial analysis and policy, at the IMF Institute of Washington, D.C. in 1981 and on the restructured electricity industry of the UK in London in 1996. He has published articles relating to, among others, the globalization of the Philippine financial market, policy responses to surges in capital inflows and the Philippine debt crisis of 1985. He is currently an Independent Director of Japan-PNB Leasing and Finance Corporation, Allied Savings Bank, PNB International Investments Corporation and PNB Global Remittance & Finance Company, (HK) Ltd. where he is also sits as Chairman. He is also a member of the Board of Advisors of PNB Remittance Company (Nevada) and PNB Remittance Centers, Inc. He previously held various distinguished positions, namely: Philippine Representative to the World Bank Group Executive Board in Washington, D.C., Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization, Director of the Bangko Sentral ng Pilipinas, Assistant to the Governor of the Central Bank of the Philippines, Advisor to the Executive Director at the International Monetary Fund, Associate Director at the Central Bank and Head of the Technical Group of the CB Open Market Committee. Mr. Alfiler was also the Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines’ medium- and long-term foreign debts. In the private sector, Mr. Alfiler served as Advisor at Lazaro Tiu and Associates, Inc., President of Pilgrims (Asia Pacific) Advisors, Ltd., President of the Cement Manufacturers Association of the Philippines (CeMAP), Board Member of the Federation of Philippine Industries (FPI), and Vice President of the Philippine Product Safety and Quality Foundation, Inc. and Convenor for Fair Trade Alliance.

FLORIDO P. CASUELA, 72, Filipino, has been serving as a Director of the Bank since May 30, 2006. A Certified Public Accountant, he obtained his degree in Bachelor of Science in Business Administration, Major in Accounting, and his Masters in Business Administration from the University of the Philippines. He took the Advanced Management Program for Overseas Bankers conducted by the Philadelphia National Bank in conjunction with the Wharton School of the University of Pennsylvania. Mr. Casuela was one of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration. He is currently the Chairman of PNB Securities, Inc. and an Independent Director of PNB Holdings Corporation. He is also a Director of Allied Savings Bank, PNB Global Remittance & Finance Co. (HK) Ltd., PNB RCI Holdings Co., Inc., PNB International Investments Corporation, PNB Remittance Company (Canada) and Surigao Micro Credit Corporation. He is a Senior Consultant of the Bank of Makati, Inc. and a Director of Sagittarius Mines, Inc. as well as its subsidiaries, namely, Tampakan Mineral Resources Corporation, PacificRim Land Realty Corporation and Hillcrest, Inc., where he is also the Chairman. He is a Trustee of the LBP Countryside Development Foundation, Inc. He was formerly the President of Maybank Philippines, Inc. from February 1992 to July 1993, Land Bank of the Philippines from July 1998 to August 2000, and Surigao Micro Credit Corporation from June 2001 to November 2004. He was formerly a BSP Consultant/Senior Adviser for the Philippine National Bank and the Chairman of the National Livelihood Support Fund, LBP Countryside

Development Foundation, Inc., LBP Insurance Brokerage, Inc., LBP Leasing Corporation, LBP Realty Development Corporation, Masaganang Sakahan, Inc., LBP Financial Services SpA, and Republic Planters Bank Venture Capital. He served as Vice Chairman of the Land Bank of the Philippines, People's Credit Finance Corporation and Westmont Forex. Mr. Casuela was also a Member of the Board of Directors of the Cotton Development Authority, National Food Authority, Philippine Crop Insurance Corporation, Asean Finance Corporation, Ltd. (Singapore), Manila Electric Company, All Asia Capital and Trust Corporation, Petrochemical Corporation of Asia Pacific, Pacific Cement Corporation, EBECOM Holdings, and Westmont Securities, Inc.

LEONILO G. CORONEL, 67, Filipino, was elected as a Director of the Bank on May 28, 2013. He obtained his Bachelor of Arts, Major in Economics degree from the Ateneo de Manila University in 1967 and finished the Advance Management Program of the University of Hawaii in 1977. He became a Fellow of the Australian Institute of Company Directors in 2002. Presently, he is an Independent Director of the following PNB subsidiaries: Japan-PNB Leasing and Finance Corporation, Japan-PNB Rentals Corporation, PNB General Insurers Co., Inc., and PNB Global Remittance (HK) Ltd. He is an Independent Director of Megawide Construction Corporation, DBP-Daiwa Capital Markets Phil., and Electronic Network Cash Tellers. He is also a Director of Software Ventures International, the Executive Director of RBB Foundation and a Managing Director of the BAP-Credit Bureau, Inc. Prior to his present positions, Mr. Coronel was Executive Director of the BAP. He also previously served as the Treasurer of Philippine Depository & Trust Corporation, a Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Philippine Depository & Trust Corporation, a Trustee/Treasurer and member of the Capital Market Development Council Institute, a member of the Executive Committee of the Philippine Business for Social Progress and the President of Cebu Bankers Association. He previously worked with Citibank, Manila for twenty (20) years, occupying various positions.

REYNALDO A. MACLANG, 75, Filipino, was elected as a Director of the Bank on February 9, 2013. He holds a Bachelor of Laws degree from the Ateneo de Manila University. He was previously a Director of Allied Banking Corporation (Allied Bank), PNB Life Insurance, Inc. and Eton Properties, Inc. He is currently a member of the Board of Directors of Allied Leasing and Finance Corporation, Allied Savings Bank, PNB Holdings Corporation, PNB Global Remittance and Finance Co., HK and an Independent Director of PNB Securities, Inc. He has been with Allied Bank since 1977 and was formerly the President of Allied Savings Bank from 1986 to 2001. He then became the President of Allied Bank from 2001 up to 2009. Previous to that, he was connected with other commercial banks and practiced law.

ESTELITO P. MENDOZA, 84, Filipino, was elected as a Director of the Bank effective January 1, 2009. He obtained his Bachelor of Laws degree from the University of the Philippines and Master of Laws degree from the Harvard Law School. A practicing lawyer for more than sixty years, he has been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Legal 500", "Chambers of Asia" and "Which Lawyer?" yearbooks. He was also a Professional Lecturer of law at the University of the Philippines, and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He currently serves as a member of the Board of Directors of Philippine Airlines, Inc., San Miguel Corporation, Meralco, and Petron Corporation. He is a recipient of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns on June 28, 2010 and he was also awarded by the University of the Philippines Alumni Association (UPAA) its 2013 "Lifetime Distinguished Achievement Award."

OMAR BYRON T. MIER, 67, Filipino, was first appointed as the Bank's President and Chief Executive Officer on May 25, 2005 up to May 24, 2010. He was reappointed on February 9, 2013 after serving as Acting President from July 17, 2012. He has previously served as Chairman of the Executive Committee and has been a Director of the Bank since May 25, 2005. Mr. Mier, a Certified Public Accountant, obtained his degrees in Bachelor of Science in Business Administration, Major in Accounting, and Bachelor of Arts in Economics from the University of the Philippines. He is currently Chairman of PNB Capital and Investment Corporation, Japan-PNB Leasing and Finance Corporation, Japan-PNB Equipment Rentals Corporation, PNB (Europe) Plc. and PNB International Investments Corporation. He is also a Director of PNB Forex, Inc., PNB General Insurers Co., Inc., PNB Securities, Inc., PNB Management and Development Corporation, Bulawan Mining Corporation, PNB Global Remittance and Financial Co., HK, Ltd., PNB RCI Holdings Co., Ltd., PNB Remittance Company (Canada) and LGU Guaranty Corporation. He was formerly the Chairman of Victorias Milling Company, Inc. and a Director of Citra Metro Manila Tollways Corporation and Credit Information Corporation. Prior to his election as a member of the Board of the Bank, he served as Executive Vice President and Chief Credit Officer from August 16, 2002 to April 10, 2005, then was appointed as Acting President on April 11, 2005. He worked with Citibank N.A. (Manila and Malaysia) for 24 years where he held the positions of Country Risk Manager/Senior Credit Officer and Head of the Risk Management Group and World Corporation Group. Before joining the Bank in 2002, he served as Deputy General Manager & Corporate Banking Department Head of Deutsche Bank, Manila from 1995 to 2001.

CHRISTOPHER J. NELSON, 54, British, was elected as a Director of the Bank on March 21, 2013. He holds Bachelor of Arts and Masters of Arts degrees in History from Emmanuel College, Cambridge University, U.K., and a Diploma in Marketing from the Institute of Marketing, Cranfield, U.K. He is currently a member of the Board of PNB Holdings Corporation and PNB Global Remittance and Financial Company (HK) Limited. Prior to joining the Bank, he was President of Philip Morris Fortune Tobacco Corporation, Inc. (PMFTC, Inc.) for 2 years and concurrently Managing Director of Philip Morris Philippines Manufacturing, Inc., a position he held for 10 years. He has an extensive 31 years of experience in the tobacco business, 25 years of which were with Philip Morris International holding various management positions including Area Director for Saudi Arabia, Kuwait, Gulf Cooperation Council, Yemen, and Horn of Africa. Mr. Nelson is actively involved in various business and non-profit organizations that work for the social and economic upliftment of communities. He is a member of the Board of Trustees of American Chamber Foundation Phils., Inc., Philippine Band of Mercy and Tan Yan Kee Foundation. He is also a Director of the American Chamber of Commerce of the Philippines, Inc. and serves as Adviser to the Board of the Federation of Philippine Industries.

CECILIO K. PEDRO, 61, Filipino, was elected as Director of the Bank on February 28, 2014. He obtained his Bachelor of Science degree in Business Management from the Ateneo de Manila University in 1975 and Honorary Doctorate of Philosophy in Technological Management from the Technological University of the Philippines in March 2006. He is the Chief Executive Officer (CEO)/President of Lamoiyan Corporation. He is also the Chairman and CEO of Pneumatic Equipment Corporation and Action Container, Inc. and a Director of CATS Motors. He was formerly the CEO/President of Aluminum Container, Inc. from 1977 to 1985. Mr. Pedro has received various distinguished awards, namely: Ten Outstanding Young Men in the field of Business Entrepreneurship (1991), Aurelio Periquet Award on Business Leadership (2003), Ateneo Sports Hall of Fame (2003), CEO Excel Award (2009), Ozanam Award for service (Ateno de Manila University - 2004), Entrepreneur of the Year for Social Responsibility (SGV Foundation - 2005), Ten Outstanding Manileños (Office of the Mayor, City of Manila - 2005), and PLDT SME Nation and Go Negosyo's Grand MVP Bossing Award (2011). He was also recognized by the

House of Representative for his Exemplary Accomplishment in the Promotion of the Welfare of the Deaf Community on October 16, 2012. Under his leadership as CEO and President of Lamoiyan Corporation, the company was acknowledged as the Most Outstanding Toothpaste Manufacturer by the Consumer's Union of the Philippines (1990, 1993, 1995, 1996, 1997, 2001 and 2002). The company was also the 1993 Apolinario Mabini Awardee for Employer of the Year, was recognized by the Personnel Management Association of the Philippines as having the Most Outstanding Program for Equal Employment in 1993 and given the 2012 Advocacy Marketing by Philippine Marketing Association, Agora Awards on October 16, 2012. He is currently involved in various socio-civic organizations. He is the Chairman of the Deaf Evangelistic Alliance Foundation, Inc., Asian Theological Seminary, and Legazpi Hope Christian School and the Vice Chairman of Ateneo Scholarship Foundation. He is also the Vice President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. and an Elder of the United Evangelical Churches of the Philippines. He is a board member of the Philippine Business for Social Progress, Philippine Secondary School Basketball Championship, Ten Outstanding Young Men Foundation, Manila Doctors Hospital, Asian Marketing Federation and Commanderie de Bordeaux (Philippine Chapter).

WASHINGTON Z. SYCIP, 92, American, has been serving as a Director of the Bank since December 8, 1999. He is the founder of SGV Group, the Philippines' largest professional services firm. He is also one of the founders and Chairman Emeritus of the Asian Institute of Management; a member of the Board of Overseers of the Graduate School of Business at Columbia University; Honorary Chairman of the Euro-Asia Centre of INSEAD in Fontainebleau, France; and Honorary Life Trustee of The Asia Society. He is presently an Independent Director of Belle Corporation, Lopez Holdings, Commonwealth Foods, Inc., First Philippine Holdings Corp., Highlands Prime, Inc., Philippine Equity Management, Inc., Philippine Hotelier, Inc., Philamlife, Realty Investment, Inc., the PHINMA Group, Stateland, Inc. and Century Properties, Inc. He is the Chairman of Cityland Development Corporation, Lufthansa Technik Philippines, Inc., MacroAsia Corporation, STEAG State Power, Inc. and State Properties Corporation. He is a member of the Board of Directors of a number of other major corporations in the Philippines and other parts of the world. Mr. SyCip has served as President of the International Federation of Accountants (1982-1985), a member of the International Advisory Board of the Council on Foreign Relations (1995-2010), Vice Chairman of the Board of Trustees of The Conference Board (2000-2004), and Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange (1997-2004). He also served on the International Boards of the American International Group, AT&T, Australia & New Zealand Bank, Caterpillar, Chase Manhattan Bank, Owens-Illinois, Pacific Dunlop and United Technologies Corporation, among others. He was a member of the Board of Trustees of Ramon Magsaysay Award Foundation (2005-2008) and Eisenhower Exchange Fellowship (1999-2010). Among his awards are the Order of Lakandula, Rank of Grand Cross, conferred by Philippine President Benigno S. Aquino, III on June 30, 2011; Lifetime Achievement Award given by Columbia Business School in 2010 and Asia Society in 2012; Ramon Magsaysay Award for International Understanding in 1992; the Management Man of the Year given by the Management Association of the Philippines in 1967; the Officer's Cross of the Order of Merit given by the Federal Republic of Germany in 2006; Star of the Order of Merit Conferred by the Republic of Australia in 1976; and the Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden in 1987.

HARRY C. TAN, 67, Filipino, was appointed as a Director of the Bank on February 9, 2013 after serving as a Director of Allied Banking Corporation since November 1999. He holds a Bachelor of Science degree in Chemical Engineering from Mapua Institute of Technology**.** Mr. Tan is currently the Chairman of Director of Bulawan Mining Corporation and a Director of PNB Management Development Corporation, Allied Savings Bank, Allied Commercial Bank and Allied Banking Corporation (HK) Ltd. He is also the President of Century Park Hotel and Landcom Realty

Corporation. He is the Vice Chair of Lucky Travel Corp., and Vice Chairman/Director of Eton Properties Philippines, Inc., Eton City Inc., and Belton Communities, Inc. He is also the Vice Chairman/Director/Treasurer of LT Group, Inc. (formerly Tanduay Holdings, Inc.). He is the Managing Director/Vice Chair of The Charter House Inc**.** and is a member of the Board of Directors of various private firms which include Asia Brewery, Inc., Dominium Realty and Construction Corporation, Progressive Farms, Inc**.,** Shareholdings Inc., Himmel Industries, Inc., Tobacco Recyclers Corporation**,** Basic Holdings Corporation, Pan Asia Securities Inc., Absolut Distillers, Inc., Allied Bankers Insurance Corporation, Asian Alcohol Corp., REM Development Corporation**,** Tanduay Brands International Inc., Foremost Farms, Inc., Grandspan Development Corp., Manufacturing Services and Trade Corporation, Philippine Airlines, Inc., PAL Holdings, Inc., Philip Morris Fortune Tobacco Corporation, Inc. (PMFTC), and Tangent Holdings Corporation where he is also the Treasurer. He is also a Director/Chairman for the Tobacco Board of Fortune Tobacco Corporation.

LUCIO C. TAN, 80, Filipino, has been serving as a Director of the Bank since December 8, 1999. He studied at Far Eastern University where he earned his degree in Chemical Engineering. In 2003, he earned the degree of Doctor of Philosophy, Major in Commerce, from the University of Santo Tomas. From humble origins, Dr. Tan became the Chairman of Allied Banking Corporation from 1977 to 1999. He is presently the Chairman and CEO of LT Group, Inc. (formerly Tanduay Holdings, Inc.), Philippine Airlines, Inc., and PAL Holdings, Inc. He is the Chairman of Asia Brewery, Inc., Basic Holdings Corporation, Himmel Industries, Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corporation, Grandspan Development Corporation, Tanduay Distillers, Inc., PMFTC, Inc., PNB Life Insurance, Inc., Allied Leasing and Finance Corporation, Allied Commercial Bank and Allied Banking Corporation (Hong Kong) Ltd. Dr. Tan is also the Chairman/President of Tangent Holdings Corporation and Lucky Travel Corporation. Despite Dr. Tan's various business pursuits, he continues to share his time and resources with the community. In 1986, he founded the Tan Yan Kee Foundation, Inc., of which he is the Chairman and President. He is likewise Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII). He is also the founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. (FUSE). He is the Adviser/Benefactor of the medical scholarship program of Asia Brewery, Inc. and Benefactor/Honorary Adviser of other professional and socio-civic groups. For his outstanding achievements and leadership, Dr. Tan received the following honorary degrees: Doctor of Humane Letters, University of Guam (Guam, USA); Doctor of Applied Agriculture, Central Luzon State University (Muñoz, Nueva Ecija); Doctor of Technology Management, Western Visayas College of Science and Technology (La Paz, Iloilo), Doctor of Science in International Business and Entrepreneurship, Cavite State University (Cavite); Doctor of Humanities, Western Mindanao State University (Zamboanga); Doctor of Business Management, St. Paul University Philippines (Tuguegarao, Cagayan); Doctor of Institutional Development and Management, Isabela State University (Cauayan, Isabela); Doctor of Humanities, University of Mindanao (Davao City); Doctor of Business and Industrial Management Engineering, Central Philippine University (Iloilo City); Doctor of Humanities in Business and Entrepreneurship, Lyceum-Northwestern University (Dagupan City, Pangasinan); and Doctor of Humanities, San Beda College (Manila). He was chosen as a Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence, adopted to the Ancient Order of the Chamorri and designated Ambassador-at-Large of the U.S. Island-territory of Guam, and conferred the Diploma of Merit by the Socialist Republic of Vietnam, one of the highest honors conferred by the Vietnamese Government on foreign nationals. Dr. Tan was named Outstanding Manilan for the year 2000 by the City Government of Manila and conferred the UST Medal of Excellence in 1999, the highest award given by the Pontifical and Royal University of Santo Tomas. Aside from being named Most Distinguished Bicolano Business Icon in 2005, Dr. Tan was also conferred the following awards: "2003 Most Outstanding Member Award" by the Philippine Chamber of Commerce and Industry

(PCCI) in recognition of his altruism and philanthropy, business acumen, hard work and perseverance in his numerous business ventures; Award of Distinction by the Cebu Chamber of Commerce and Industry; Award for Exemplary Civilian Service of the Philippine Medical Association; Honorary Mayor and Adopted Son of Bacolod City; and Adopted Son of Cauayan City, Isabela. He was named Entrepreneurial Son of Zamboanga, awarded as distinguished fellow during the 25th Conference of the ASEAN Federation of Engineering Association, and conferred the 2008 achievement award for service to the chemistry profession during the 10th Eurasia Conference on Chemical Sciences. In recognition of his achievements, the City of San Francisco, U.S.A. declared May 11 of each year as Dr. Lucio Tan's Day in the Bay area. The island-territory of Guam also celebrates Lucio Tan Day on November 2 of each year.

LUCIO K. TAN, JR., 47, Filipino, has been serving as a Director of the Bank since September 28, 2007. He obtained his degree in Bachelor of Science in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) from the University of California Davis in 1991. He completed the academic requirements for his MBA at the J.L. Kellogg School of Management of Northwestern University and the School of Business and Management of the Hong Kong University of Science and Technology in 2006. He also attended courses in Basic and Intermediate Japanese Language. He works with MacroAsia Corporation, where he held the rank of President and Chief Executive Officer for 7 years. Mr. Tan is currently the President of Tanduay Distillers, Inc. He is a member of the Board of Directors of Bulawan Mining Corporation, PNB Capital and Investment Corporation, PNB Forex, Inc., PNB Management and Development Corporation, Allied Commercial Bank, Phillip Morris Fortune Tobacco Corporation (PMFTC), Inc., Philippine Airlines, Inc., PAL Holdings, Inc., Air Philippines Corporation, MacroAsia Corporation, LT Group, Inc. (Tanduay Holdings, Inc.), Allied Bankers Insurance Corporation, Foremost Farms, Inc. and Eton Properties Phils., Inc., where he is also the OIC. He is an Executive Director of Dynamic Holdings Limited, and Executive Vice President (EVP) and Director of Fortune Tobacco Corporation.

MICHAEL G. TAN, 47, Filipino, was elected as a Director of the Bank on February 9, 2013. He is the President/Director of LT Group, Inc., the holding firm of the Lucio Tan Group of Companies. He also served as a Director of Allied Banking Corporation (ABC) from January 30, 2008 until the ABC's merger with PNB on February 9, 2013. He is the Chairman of PNB Holdings Corporation and a Director of PNB Forex, Inc., Allied Savings Bank and Allied Banking Corporation (HK) Ltd. He is also the Director/Chief Operating Officer of Asia Brewery, Inc. and a member of the Board of Directors of the following companies: Bulawan Mining Corporation, PNB Management and Development Corporation, Allied Commercial Bank, Abacus Distribution Systems Phils., Inc., Allied Bankers Insurance Corporation, Absolut Distillers, Inc., Air Philippines Corporation, Philippine Airlines, Inc., Philippine Airlines (PAL) Foundation, Inc**.,** PAL Holdings, Inc., Lucky Travel Corporation, Eton Properties Philippines, Inc., Grandway Konstruct, Inc., Eton City, Inc., PMFTC Inc., Shareholdings, Inc., Tangent Holdings Corporation, and Victorias Milling Company, Inc. He holds a Bachelor of Applied Science in Civil Engineering degree from the University of British Columbia, Canada.

DEOGRACIAS N. VISTAN, 69, Filipino, was elected as Independent Director of the Bank on August 1, 2011. He obtained his AB and BSBA degrees from the De La Salle University and earned his MBA from Wharton Graduate School, University of Pennsylvania. A seasoned banker, Mr. Vistan's extensive banking experience includes being Chairman of United Coconut Planters Bank (2003-2004), Vice Chairman of Metropolitan Bank and Trust Company (2000-2001), and President of Equitable-PCI Bank (2001-2002), Solidbank Corporation (1992-2000) and Land Bank of the Philippines (1986-1992). He also served as President of FNCB Finance (1979-1980). Mr. Vistan likewise held various management positions in Citibank Manila, Cebu and New York (1968-

1986). He is a former Presidential Consultant on Housing (2002-2003) and President of the Bankers Association of the Philippines (1997-1999). He is currently an Independent Director of PNB Capital and Investment Corporation, PNB (Europe) Plc, PNB International Investments Corporation, SpA and Lorenzo Shipping Corporation. He is also a member of the Board of Directors of U-Bix Corporation and is a member of the Board of Advisors of PNB Remittance Centers, Inc. and PNB Remittance Company (Nevada). He is the Chairman of Creamline Daily Corporation, Landbank Countryside Development Foundation, Inc. and Pinoy Micro Enterprise Foundation, Inc. He is currently a member of the Board of Trustees of the Ramon Magsaysay Award Foundation.

DORIS S. TE, 33, Filipino, was appointed as Corporate Secretary of the Bank on January 20, 2012. She obtained her degree in Bachelor of Science in Business Management in 2001 and earned her Juris Doctor in 2005 from the Ateneo de Manila University. She began her law career as a Junior Associate in Zambrano & Gruba Law Offices and in Quiason Makalintal Barot Torres Ibarra & Sison Law Office. She joined the Bank in 2009. Prior to her appointment, she was Assistant Corporate Secretary and later Acting Corporate Secretary of the Bank. Presently, she also serves as a Director and Corporate Secretary of Valuehub, Inc., a family-owned distribution company.

BOARD OF ADVISORS:

MANUEL T. GONZALES, 77, Filipino was appointed as Board Advisor of the Bank on October 1, 2013. At present, Mr. Gonzales is a Director of Allied Leasing and Finance Corporation and Allied Bankers Insurance Corporation. Previous to this, he was a Director of Allied Banking Corporation from March 26, 1986 until the PNB-Allied Banking Corporation merger on February 9, 2013. He has been with Allied Banking Corporation since 1977 where he served as Senior Executive Vice President from 1997 to 2009 and as Executive Vice President from 1981 to 1997. Mr. Gonzales is a graduate of De La Salle University and holds a Bachelor of Science degree in Commerce. He continued his postgraduate studies on Master in Arts in Economics at the Ateneo De Manila University.

WILLIAM T. LIM, 74, Filipino, was appointed as Board Advisor of the Bank on January 25, 2013. Previous to that, he served as a Consultant of Allied Banking Corporation on credit matters since 1995. He obtained his Bachelor of Science in Chemistry from the Adamson University. From 1985 to 1994, he was a Director of Corporate Apparel, Inc., Concept Clothing, and Freeman Management and Development Corporation, President of Jas Lordan, Inc. and an importer/distributor of Chinese, Australian and New Zealand apples. He also worked with Equitable Banking Corporation for 28 years, rising from the ranks to becoming a Vice President of the Foreign Department.

C. Independent Directors

On May 29, 2012, the Bank disclosed to the Bangko Sentral ng Pilipinas (BSP) the election of Ms. Florencia G. Tarriela, Mr. Felix Enrico R. Alfiler and Mr. Deogracias N. Vistan as Independent Directors for the year 2012-2013. As defined in Section 38 of the Securities and Regulation Code, an independent director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company.

For the Independent Directors, the Bank will ensure compliance with SEC Memorandum Circular No. 9, Series of 2011 re: Term Limits of Independent Directors and SEC Notice to All Independent Directors re: Certificate of Qualification dated October 20, 2006 requiring Independent Directors to submit certification, under oath, that they possess all the qualifications and none of the disqualifications provided for in the SRC and its Implementing Rules and Regulations.

D. Identity of Significant Employees

There is no person who is not an executive officer who is expected to make a significant contribution to the business.

E. Family Relationship

Directors Harry C. Tan and Lucio C. Tan are brothers. Directors Lucio K. Tan, Jr. and Michael G. Tan are sons of Mr. Lucio C. Tan.

F. Involvement in Certain Proceedings

Neither the Directors nor any of the Executive Officers have, for a period covering the past five (5) years, reported:

i. any petition for bankruptcy filed by or against a business to which they are related as a general partner or executive officer;
ii. any criminal conviction by final judgment or being subject to a pending criminal proceeding, domestic or foreign, other than cases which arose in the ordinary course of business in which they may have been impleaded in their official capacity;
iii. being subject to any order, judgment, or decree, of a competent court, domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting their involvement in any type of business, securities, commodities or banking activities; and
iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

G. Brief Description of Any Material Pending Legal Proceedings to which the Registrant or any of its Subsidiaries is a Party

The Bank and some of its subsidiaries are parties to various legal proceedings which arose in the ordinary course of their operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Bank and its subsidiaries or their financial condition.

Item No. 10 – Executive Compensation

A. Executive Compensation

Annual compensation of executive officers consists of a 16-month guaranteed cash emolument. There are no other arrangements concerning compensation for services rendered by Directors or executive officers to the Bank and its subsidiaries.

B. Compensation of Directors

The Directors receive a reasonable per diem for each attendance at a Board meeting or any meeting of the Board Committees. Total per diem given to the Board of Directors of the Bank amounted to ₱4.275 million and ₱17.815 million for the years 2012 and 2013, respectively.

C. Summary of Compensation Table

Annual Compensation (In Pesos)					
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Others**	**Total**
		a	b	c	(a+b+c)
Omar Byron T. Mier President/Chief Executive Officer Four most highly compensated executive officers other than the CEO 1. Chua, Anthony Q.[1]/ Senior Executive Vice President 2. Cebrero, Horacio, III E. Executive Vice President 3. Dobles, Christopher C. Executive Vice President 4. Hernandez, Jovencio B. Executive Vice President					
CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2012	24,864,276	7,990,083	-	32,854,359
	Actual 2013	30,364,256	7,705,872	-	38,070,128
	Projected 2014	36,400,000	9,300,000	-	45,700,000
All other officers and directors (as a group unnamed)	Actual 2012	794,199,788	271,592,114	-	1,065,791,902
	Actual 2013[2]/	1,573,877,191	516,977,906	-	2,090,855,097
	Projected 2014	1,888,600,000	620,400,000	-	2,509,000,000

1/Resigned Effective September 1, 2013
2/ Including data of former Allied Banking Corporation

D. Employment Contracts and Termination of Employment and Change-in-Control Arrangements

All executive officers are covered by the Bank's standard employment contract which guarantees annual compensation on a 16-month schedule of payment. In accordance with the Bank's Amended By-Laws, Article VI, Sec. 6.1, all officers with the rank of Vice President and up hold office and serve at the pleasure of the Board of Directors.

E. Warrants and Options Outstanding: Repricing

No warrants or options on the Bank's shares of stock have been issued or given to the Directors or executive officers as a form of compensation for services rendered.

Item No. 10A – Remuneration Policy

PNB's remuneration policy manifests the Bank's belief that the quality of its human resource is a key competitive edge in the industry. As such, the Bank maintains remuneration and benefits program that attracts, motivates, and retains talents and develops their potentials. The Bank's remuneration and benefits program aims to 1) ensure compliance with requirements of labor and other regulatory laws; 2) establish competitiveness with peer groups in the industry; and c) strengthen alignment with and accomplishment of the Bank's business strategies.

The following are the features of the Bank's remuneration policy for Directors and Officers:

I. Emolument and Fringe Benefits of the Board of Directors
- Cash Emolument in the form of Per Diem for every Board and Board Committee meeting
- Non-Cash Benefit in the form of Healthcare Plan, Group Life Insurance, and Group Accident Insurance

II. Officers' Compensation and Benefits

1. Monetary Emoluments
   - Monthly compensation in the form of monthly basic pay which is reviewed annually and subject to the adjustment thru merit increase effective July 1 based on Officer's performance and achievements
   - Bonuses equivalent to four (4) months gross compensation per year
   - Allowances to cover business-related expenses, official travel, social and recreational activities (i.e., summer outing/Christmas party) and relocation expenses
   - Service Incentive in the form of cash award upon reaching milestones in length of service (e.g., 10th year, 25th year of service, etc)

2. Non-Cash Benefits
   - Healthcare Plan in the form of hospitalization, consultation and other medical benefits for the Officer and two (2) of his/her primary dependents
   - Group Life Insurance coverage in amounts based on the Officer's rank
   - Group Accident Insurance coverage in amounts based on the officer's rank
   - Leave Privileges in the form of leave with pay benefits for the following purposes: a) vacation; b) sick; c) maternity; d) paternity; e) birthday; f) bereavement; g) solo parent; h) emergency; i) special leave for female employees.
   - Car Plan in the form of car cost-sharing scheme based on the officer's rank

3. Fringe Benefits
   - Loan Facilities available for the following purposes: a) housing; b) car financing; c) general purpose

4. Retirement Benefits
   - Retirement benefits equivalent to applicable monthly pay per year of service for those who attained the required minimum length of service under the Plan.

Item 11 – Security Ownership

A. **Security Ownership of Certain Record and Beneficial Owners (*more than 5% of any class of voting securities as of February 28, 2014)***

Title of Class	Name & Address of Record Ownerand Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	All Seasons Realty Corporation - Makati City - 7,123,387 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino	649,849,512	58.0519899022
Common	Allmark Holdings Corporation - Quezon City – 14,754,256 shares Shareholder		Filipino		
Common	Caravan Holdings Corporation - Marikina City - 58,389,760 shares Shareholder		Filipino		
Common	Donfar Management Ltd. - Makati City – 21,890,077 shares Shareholder		Filipino		
Common	Dunmore Development Corporation (X-496) - Pasig City - 10,779,000 shares Shareholder		Filipino		
Common	Dynaworld Holdings, Inc. - Pasig City - 8,107,051 shares Shareholder		Filipino		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Fast Return Enterprises, Ltd. - Makati City - 12,926,481 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Common	Fil-Care Holdings, Inc. - Quezon City - 18,119,076 shares Shareholder		Filipino		
Common	Fragile Touch Investment Ltd. - Makati City - 16,157,859 shares Shareholder		Filipino		
Common	Ivory Holdings, Inc. - Makati City - 14,780,714 shares Shareholder		Filipino		
Common	Kenrock Holdings Corporation - Quezon City - 18,522,961 shares Shareholder		Filipino		
Common	Kentwood Development Corporation - Quezon City - 12,271,396 shares Shareholder		Filipino		
Common	Key Landmark Investments, Ltd. - British Virgin Islands- 94,883,360 shares Shareholder		Filipino		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	La Vida Development Corporation - Quezon City - 13,958,874 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Common	Leadway Holdings, Inc. - Quezon City - 46,495,880 shares Shareholder		Filipino		
Common	Mavelstone International Ltd. - Makati City - 21,055,186 shares Shareholder		Filipino		
Common	Merit Holdings and Equities Corporation - Quezon City - 12,377,119 shares Shareholder		Filipino		
Common	Multiple Star Holdings Corporation - Quezon City - 21,925,853 shares Shareholder		Filipino		
Common	Pioneer Holdings Equities, Inc. - Pasig City - 24,386,295 shares Shareholder		Filipino		
Common	Profound Holdings, Inc. - Marikina City - 12,987,043 shares Shareholder		Filipino		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Purple Crystal Holdings, Inc. - Manila City - 17,374,238 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Common	Safeway Holdings & Equities, Inc. - Quezon City - 8,577,826 shares Shareholder		Filipino		
Common	Society Holdings Corporation - Quezon City - 12,315,399 shares Shareholder		Filipino		
Common	Solar Holdings Corporation - Pasig City - 58,389,760 shares Shareholder		Filipino		
Common	Total Holdings Corporation - Quezon City - 11,387,186 shares Shareholder		Filipino		
Common	True Success Profits, Ltd. - British Virgin Islands- 58,389,760 shares Shareholder		Filipino		
Common	Uttermost Success, Ltd. - Makati City - 21,523,715 shares Shareholder		Filipino		

Title of Class	Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Ownership
Common	Domingo T. Chua - Quezon City - 210,220 shares Shareholder	The records in the possession of the Bank show that the beneficial ownership of these companies/ individuals belongs to the shareholders of record of said companies or to the individual himself, as the case may be.[1/] The Bank has not been advised otherwise.	Filipino	194,971,999	17.4171285939
Common	Dreyfuss Mutual Investments, Inc. - Pasay City - 7,833,794 shares Shareholder		Filipino		
Common	Fairlink Holdings Corporation - Makati City - 17,945,960 shares Shareholder		Filipino		
Common	Infinity Equities, Inc. - Quezon City - 43,792,320 shares Shareholder		Filipino		
Common	Integrion Investments, Inc. - Pasay City - 7,833,794 shares Shareholder		Filipino		
Common	Iris Holdings and Development Corporation - Makati City - 6,670,885 shares Shareholder		Filipino		
Common	Jewel Holdings, Inc. - Marikina City - 10,010,650 shares Shareholder		Filipino		

<table>
<tr><th>Title of Class</th><th>Name & Address of Record Owner and Relationship with Issuer</th><th>Name of Beneficial Owner and Relationship with Record Owner</th><th>Citizenship</th><th>No. of Shares Held</th><th>Percentage of Ownership</th></tr>
<tr><td>Common</td><td>Kentron Holdings and Equities Corporation
- Pasig City -
17,343,270 shares

Shareholder</td><td rowspan="6">The records in the possession of the Bank show that the beneficial ownership of these companies/ individuals belongs to the shareholders of record of said companies or to the individual himself, as the case may be.[1/]
The Bank has not been advised otherwise.</td><td>Filipino</td><td rowspan="6"></td><td rowspan="6"></td></tr>
<tr><td>Common</td><td>Local Trade and Development Corporation
- Makati City -
5,836,153 shares

Shareholder</td><td>Filipino</td></tr>
<tr><td>Common</td><td>Lucio K. Tan, Jr.
- Quezon City-
2,300 shares

Shareholder/Director</td><td>Filipino</td></tr>
<tr><td>Common</td><td>Luys Securities Co., Inc.
- Makati City -
17,898 shares

Shareholder</td><td>Filipino</td></tr>
<tr><td>Common</td><td>Mandarin Securities Corporation
- Makati City -
13,281 shares

Shareholder</td><td>Filipino</td></tr>
<tr><td>Common</td><td>Opulent Land-Owners, Inc.
- Quezon City -
4,105,313 shares

Shareholder</td><td>Filipino</td></tr>
</table>

<table>
<tr><th>Title of Class</th><th>Name & Address of Record Owner and Relationship with Issuer</th><th>Name of Beneficial Owner and Relationship with Record Owner</th><th>Citizenship</th><th>No. of Shares Held</th><th>Percentage of Ownership</th></tr>
<tr><td>Common</td><td>Power Realty & Development Corporation
- Quezon City -
589,268 shares

Shareholder</td><td rowspan="5">The records in the possession of the Bank show that the beneficial ownership of these companies/ individuals belongs to the shareholders of record of said companies or to the individual himself, as the case may be.[1/]
The Bank has not been advised otherwise.</td><td>Filipino</td><td rowspan="5"></td><td rowspan="5"></td></tr>
<tr><td>Common</td><td>Prima Equities and Investments Corporation
- Quezon City -
51,091,040 shares

Shareholder</td><td>Filipino</td></tr>
<tr><td>Common</td><td>Virgo Holdings and Development Corporation
- Makati City -
7,409,285 shares

Shareholder</td><td>Filipino</td></tr>
<tr><td>Common</td><td>Witter Webber & Schwab Investment, Inc.
- Pasay City -
7,833,795 shares

Shareholder</td><td>Filipino</td></tr>
<tr><td>Common</td><td>Zebra Holdings, Inc.
- Marikina City -
6,432,773 shares
shares

Shareholder</td><td>Filipino</td></tr>
</table>

[1/]The companies issue proxies/special powers of attorney (SPAs) to Mr. Lucio C. Tan as their authorized proxy/attorney-in-fact to vote their shares during stockholders' meetings. Other than the proxies/SPAs mentioned above, the Bank is not aware of any other relationship between Mr. Tan and the above-stated companies. Mr. Lucio K. Tan Jr. and Mr. Domingo T. Chua are the son and brother-in-law , respectively of Mr. Lucio C. Tan.

B. Security Ownership of Management (Individual Directors and Executive Officers) as of February 28, 2014

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Common Shares	Florencia G. Tarriela Chairperson Independent Director	2 shares ₱80.00 (R)	Filipino	0.0000001787
	Felix Enrico R. Alfiler Vice Chairman Independent Director	115 shares ₱4,600.00 (R)	Filipino	0.0000102731
	Florido P. Casuela Director	133 shares ₱5,320.00 (R)	Filipino	0.0000118811
	Leonilo G. Coronel Director	1 ₱40.00 (R)	Filipino	0.0000000893
	Reynaldo A. Maclang Director	155 ₱6,200.00 (R)	Filipino	0.0000138464
	Estelito P. Mendoza Director	1,150 shares ₱46,000.00 (R)	Filipino	0.0001027312
	Omar Byron T. Mier Director	138,215 shares ₱5,528,600.00 (R)	Filipino	0.0123469444
	Christopher J. Nelson Director	100 shares ₱4,000.00 (R)	British	0.0000089331
	Cecilio K. Pedro[1/] Independent Director	5,000 shares ₱200,000.00 (R)	Filipino	0.0004466572
	Washington Z. SyCip Director	39,111 shares ₱1,564,440.00 (R)	American	0.0034938418
	Harry C. Tan Director	230 ₱9,200.00 (R)	Filipino	0.0000205462

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
	Lucio C. Tan Director	12,907,060 ₱516,282,400.00 (R)	Filipino	1.1530062006
	Lucio K. Tan, Jr. Director	2,300 shares ₱92,000.00 (R)	Filipino	0.0002054623
	Michael G. Tan Director	250 shares ₱10,000.00 (R)	Filipino	0.0000223329
	Deogracias N. Vistan Independent Director	100 shares ₱4,000.00 (R)	Filipino	0.0000089331
	Subtotal	13,093,922 ₱523,756,880.00 (r)		1.1696988513
	All Executive Officers & Directors as a Group	13,153,737 ₱526,149,480.00 (R)		1.1750422112

[1/] *On February 28, 2014, Mr. Cecilio K. Pedro was elected as Independent Director of PNB, filing the vacancy left by Mr. Anthony Q. Chua who retired effective September 1, 2013.*

C. Voting Trust Holders of 5% or More

There are no voting trust holders of 5% or more PNB shares.

D. Changes in Control

On February 9, 2013, the Bank concluded its planned merger with Allied Banking Corporation (ABC) as approved and confirmed by the Board of Directors of the Bank and of ABC on January 22 and January 23, 2013, respectively. The original Plan of Merger was approved by the affirmative vote of shareholders representing at least two-thirds of the outstanding capital stock of ABC and the Bank, respectively, on June 24, 2008. The respective shareholders of the Bank and ABC, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the both banks on March 6, 2012.

On March 26, 2012, the Bank submitted to the Bangko Sentral ng Pilipinas (BSP) and Philippine Deposit Insurance Corporation (PDIC) applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the Securities and Exchange Commission (SEC). On July 25, 2012, the Bank received notice that the PDIC had given its consent to the merger. Likewise, on August 2, 2012, the Monetary Board of the BSP issued a resolution giving its consent to the merger. Finally, on January 17, 2013, the SEC granted its approval to the merger.

In addition, with respect to ABC's overseas subsidiaries, the Bank has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of January 17, 2013, had received all necessary approvals to effectuate the merger.

As of December 31, 2013, the merged Bank had a combined distribution network of 656 branches and offices and 854 ATMs nationwide. Based on the December 31, 2013 figures, the merged Bank was the fourth largest private domestic bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets (₱618.1 billion), net loans and receivables (₱274.3 billion) and deposits (₱462.4 billion). In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America.

With a combined 133 years of banking experience, the new Philippine National Bank now operates under the motto "Bigger, Stronger, and Better." The Bank reaffirms its commitment towards building fruitful and solid partnerships with its clientele to help them achieve their financial goals.

Item 12. Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has loans and other credit accommodations and guarantees granted to its subsidiaries, affiliates and Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other related party transactions are made substantially on the same terms as other individuals and businesses of comparable risk. The individual ceiling of the total outstanding loans, other credit accommodations and guarantees to each of the Bank's DOSRI shall be limited an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the Bank, provided however that unsecured loans, other credit accommodations and guarantees to each of the Bank's DOSRI individuals shall not exceed 30% of their respective total loans, other credit accommodations and guarantees. In the aggregate, DOSRI loans should not exceed 15% of the Bank's total loan portfolio or 100% of net worth, whichever is lower. As of December 31, 2013 and December 31, 2012, the Bank is in compliance with such regulations.

For proper monitoring of related party transactions (RPT) and to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of management, board members and shareholders, the Bank created the Board Oversight RPT Committee (BORC). The BORC is composed of at least six (6) regular members which include three (3) independent directors; the Chairman of the Risk Oversight Committee (ROC); and 2 non-voting members (the Chief Audit Executive and the Chief Compliance Officer), and Secretariat. The Chairman of the Committee is an Independent Director and appointed by the Board.

Information related to transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) is shown under Note 32 of the Audited Financial Statements of the Bank and Subsidiaries and Exhibit IV of the Supplementary Schedules Required by SRC Rule 68 Annex E.

PART IV – CORPORATE GOVERNANCE

Item 13 – Corporate Governance

The Bank adheres to the highest principles of good corporate governance as embodied in its Amended By-Laws and Articles of Incorporation, Code of Conduct and Corporate Governance Manual. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by the Bank's activities and its various publics. The Bank espouses professionalism among its Board of Directors, executives and employees of the Bank in managing the company, its subsidiaries and affiliates; and respect for laws and regulations. The Bank practices a philosophy of rational checks and balances and adopts a structured approach to its operating processes.

The Bank operations is managed through an established organizational structure with adequate policies and procedures embodied in manuals approved by management and board committees and the Board. These manuals are subjected to periodic review and update to be consistent with the new laws, regulations and generally conform to international best practices. The Bank has adopted the Revised Corporate Governance Manual aligned with recently issued regulatory guidelines and new reportorial disclosures for entities within the group structure and significant transactions among related parties with particular focus on the Related Party Transaction (RPT) Policy. This is in accordance with the Revised Code of Corporate Governance and Securities Regulation Code issued by SEC.

The Bank is a proud recipient for two consecutive years (2011-2012) of the Silver Award for good corporate governance from the Institute of Corporate Directors (ICD), in recognition of the institution's existing organization composed of dedicated corporate directors and senior management committed to the professional practice of corporate directorship in line with global principles of modern corporate governance.

Item 13A - Board of Directors

PNB is led by its Board of Directors consisting of fifteen directors. The Board is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk management strategy, corporate governance, and corporate values.

Compliance with the highest standards in corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness and profitability in accordance with its fiduciary responsibility. In the same manner, every employee of the entire organization is expected to embrace the same degree of commitment to the desired level of corporate standards.

The Board of Directors is elected annually by the stockholders. The Board of Directors comprise of fifteen members including five Independent Directors. The Board represents a combination of highly qualified business professionals, former bank presidents, individuals with distinct finance, audit and legal competencies, with each director adding value and exercising independent judgment.

The Board of Directors undergo continuing training in corporate governance and collectively hold a broad range of expertise and related banking experience that provide value to the strengthening and upholding of good corporate governance practices in the bank. In the Board, two directors were inducted "fellow" by the Philippine Institute of Corporate Directors and one director certified as an "fellow" by the Institute of Corporate Directors of Australia, in recognition of their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

Item 13B - Independent Directors

In carrying out their responsibilities, the directors must act prudently and exercise independent judgment while encouraging transparency and accountability. The Bank conforms to have five independent directors representing at least 30% of the Board, beyond the 20% requirement defined by law. Of the fifteen directors, Chairperson Florencia G. Tarriela, and Messrs. Felix Enrico R. Alfiler, Deogracias N. Vistan sit were confirmed independent directors while Messrs. Cecilio K. Pedro and Leonilo G. Coronel are awaiting approval as independent directors from the appropriate regulatory bodies.
.
Recognizing the importance of the role of independent directors, the Board has elected the independent directors to act as Chairman of the Board, Board Credit & Policy Committee (formerly Executive Committee), Corporate Governance/Nomination/Remuneration Committee, Board ICAAP Steering Committee, Board Overseas Offices Oversight Committee, Board Audit and Compliance Committee, Trust Committee and Board Oversight Related Party Transaction Committee. The independent directors are also members of the Risk Oversight Committee wherein the Chairman is a non-executive director and former president of a government bank with universal banking license. In these Board Committees, the five independent directors play an active role in the formulation of the business strategies and priorities of the Bank as stipulated in the Board approved Five Year Strategic Business Plan of the Bank, its subsidiaries and affiliates. The Board and the Committees continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework in the Bank, its subsidiaries and affiliates.

Item 13C - Chairperson of the Board

The Chairperson of the Board is Florencia G. Tarriela who assumed the position in 2001. As an Independent Director, Florencia G. Tarriela is the Chairperson of the Board Corporate Governance/Nomination/Remuneration Committee and the Board ICAAP Steering Committee; Vice-Chairperson of the Board Credit and Policy Committee and seats a member of the Risk Oversight Committee, Board Audit and Compliance Committee, Board Overseas Oversight Committee and the Board Oversight Related Party Transaction (RPT) Committee.

The Chairperson of the Board and the President & Chief Executive Officer are complimentary. This relationship provides appropriate balance of power, increased accountability, independent decision making by the Board and the management responsibility to execute strategic plans of the Bank.

Item 13D - Board Committees

The ten (10) Board Committees have been instrumental in setting the tone for the corporate governance practices of the bank. In 2013-2014, two new Board Committees were established to provide focus on two significant business priorities of the PNB Group.

• The Board Credit & Policy Committee (formerly Executive Committee) was created to perform the functions and duties as the Board may confer upon it in accordance with law and the By-Laws of the bank.

• The Board Credit Committee was created to review, discuss, endorse and/or approve management recommendations, updates and report on credit matters and to provide flexibility to respond to time-sensitive matters as well as to facilitate the approval of certain corporate actions within the authority limits determined by the Board.

• The Board Oversight RPT Committee, was created in August 2013 to assist the Board in performing its oversight functions in monitoring and ensuring transparency to eliminate potential conflicts of interest of management, board members and shareholders.

• The Board IT Governance Committee was created in March 2014 to oversee the development of the short-term and long-term Enterprise IT Strategic Plans of the Bank, its subsidiaries and affiliates.

• The Board Audit and Compliance Committee has oversight responsibility relating to the integrity of the Bank's financial statements, internal controls and compliance with legal and regulatory requirements.

• The Board Overseas Offices Oversight Committee was created in provides oversight on the international operations and to preserve the long-term viability of the overseas franchise licenses.

• The Risk Oversight Committee has the primary task to assist the Board in the management of the risks the bank is exposed to and development of risk management strategies to prevent losses and minimize financial impact of losses.

• The Corporate Governance/Nomination/Remuneration Committee ensures the board's effectiveness and adherence to corporate governance principles and guidelines and the selection of members of the Board and senior executives of the bank, as well as the appointment in the respective Board committees.

• The Board ICAAP Steering Committee provides active oversight on the consistent adoption of the Bank's ICAAP Program and performs periodic evaluation and approval of the capital planning, risk assessment policies and procedures.

• The Trust Committee provides direction for the trust business and management of trust assets, fiduciary accounts, investments and trust services.

The Board Committee meetings are held generally on monthly basis or special board committee meetings are called as often as necessary. The Board Committee Secretariats are responsible to ensure regular agenda of the meetings, attendance of members and resource persons are communicated prior to meetings and ensure that discussions are properly recorded and endorsed to the Board for approval.

Item 13E - Operations Management

The responsibility of managing the day-to-day operations of the Bank and implementing the major business plans rest on the President and Chief Executive Officer. Critical issues, policies and guidelines are deliberated in the pertinent management committees: Senior Management Committee, Asset and Liability Committee, Senior Management Credit Committee, IT Management

Committee, Non-Performing Assets Committee, Acquired Assets Disposal Committee, Promotions Committee, Operations Committee, Product Committee, Bids and Awards Committee, Information Technology Evaluation Committee, Senior Management ICAAP Steering Committee, AML Review Committee and the Integration Monitoring Committee. Committee meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues.

The business plans, significant issues and its resolutions are escalated to the level of the Board as part of a strong culture of accountability and transparency embedded in the entire organization.

Most of the management committees have the President as the Chairman with the members comprised of senior management of the Bank and key officers of the various business segments, the Risk Management Group, Office of the Chief Legal Counsel, Internal Audit Group and Global Compliance Group. The composition and appointment of senior officers in the different management committees are assessed periodically and reorganized as necessary in line with the business priorities.

Item 13F - Compliance System

The Bank actively promotes the safety and soundness of its operations through a compliance system that fully adheres to banking laws, rules and regulations and to maintain an environment that is governed by high standards and best practices of good corporate governance. This is achieved primarily through the formulation of policies and procedures, an organizational structure and an effective compliance program that will support the bank's compliance system.

The Global Compliance Group which reports directly to the Board Audit and Compliance Committee is primarily responsible for promoting compliance with the laws and regulations of the different jurisdictions, corporate policies and procedures and international best practices.

The Chief Compliance Officer has direct responsibility for the effective implementation and management of the enterprise compliance system covering the Parent Bank, its subsidiaries and affiliates. To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Board and the Corporate Governance/Nomination/Remuneration Committee in the discharge of their corporate governance oversight functions.

Global Compliance Group continues to evolve the bank's Compliance System with the complement of five major divisions, namely: Global AML Compliance Division, Regulatory Compliance Division, Business Vehicle Management Compliance Division, Global Compliance Testing Review Division and the newly upgraded Corporate Governance Division. The new division provides support to the Corporate Governance/Nomination/Remuneration Committee and the Board Related Party Transaction Committee thru the Chief Compliance Officer as the designated Corporate Governance Executive.

The Bank's existing Compliance Program defines the seven (7) key elements of an effective compliance framework. With a proactive Board and executive level oversight, effective compliance organizational structure, standardized policies and procedures across all businesses, periodic monitoring and assessment, robust MIS and compliance reporting, comprehensive compliance and AML awareness training and independent compliance testing reviews. The Compliance Program also incorporates the new policies, laws and regulations and enhancements to corporate standards of which Philippine National Bank, as the Parent Bank, its local and foreign subsidiaries and affiliates are required to be fully aware of the Compliance Program has been implemented consistently in the various bank units, branches and business vehicle entities.

The Bank's AML/CFT Policy Guidelines and Money Laundering and Terrorist Financing Prevention Manuals are two major manuals approved by the Board in December 2013. The revised AML/CFT Manuals has incorporated FATCA compliance in preparation for the US regulatory reportorial requirements effective 2015. The bank is fully committed to adhere to existing and new AML laws, rules, regulations, and implementing guidelines issued by both Philippine and foreign regulators.

The bank has updated policies and procedures embracing the compliance framework, the corporate governance guidelines and the AML Risk Rating System issued by Bangko Sentral ng Pilipinas and foreign regulators on AML/CFT as well as FATCA laws and regulations. With a comprehensive compliance system effectively implemented enterprise-wide, there has been no material deviation noted by the Chief Compliance Officer.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

A. Exhibits

Exhibit I	List of Bank Owned Properties as of December 31, 2013
Exhibit II	List of Branches under Lease as of December 31, 2013
Exhibit III	Statement of Management's Responsibility, Report of Independent Auditors and Audited Financial Statements of Philippine National Bank and its Subsidiaries as of December 31, 2013 and 2012 and January 1, 2012 and for each of the three years ended in the period December 31, 2013 and Notes to Financial Statements.
Exhibit IV	Supplementary Schedules Required by SRC Rule 68 Annex E - Schedule of Retained Earnings Available for Dividend Declaration - Map showing relationships between and among parent, subsidiaries, an associate, and joint venture - Schedule of all effective standards and interpretations under PFRS - Financial Ratios

B. Reports on SEC Form 17-C

DATE	SEC 17-C (CURRENT REPORT) FOR THE YEAR 2013
01-07-13	Promotion of five PNB senior officers effective January 07, 2013 with their beneficial ownership on PNB shares.
01-18-13	Receipt of advice from the Financial Services Authority (FSA) of the United Kingdom approving the change in control of Allied Bank Philippines (UK) Plc and PNB (Europe) Plc in relation to the upcoming merger between PNB and Allied Banking Corporation. Receipt of Securities and Exchange Commission (SEC) approval on the merger and the corresponding amendment of Articles VI and VII of PNB's Amended Articles of Incorporation (AOI) reclassifying PNB authorized preferred shares into common shares and increasing the number of directors from eleven (11) to fifteen (15).
01-22-13	Setting of the effective date of the merger of PNB and ABC on February 09, 2013.
02-11-13	Result of the Organizational and Special Meeting of the Board of Directors on February 9, 2013: (1) Resignation of Mr. Carlos A. Pedrosa as director and President & CEO; resignations of Mr. Domingo T. Chua and Mr. John G. Tan as directors; (2) Assumption of office of the three (3) directors for the merged bank; (3) Election of Mr. Reynaldo Maclang as a director; (4) Appointment of the directors and officers to various positions; (5) Board approval of the amendment of Article VII of the Bank's Amended AOI increasing the authorized capital stock by 500 million common shares; Announcement of various senior officers of the merged Bank

DATE	SEC 17-C (CURRENT REPORT) FOR THE YEAR 2013
02-14-13	Beneficial ownership of thirteen (13) senior officers over PNB shares.
02-22-13	Board approval of the date, place and time of holding of the Annual Stockholders' Meeting (ASM) on May 28, 2013; Record Date of April 29, 2013. Appointment of Mr. Alberto E. Bienvenida as President of PNB Capital and Investment Corporation.
03-18-13	Submission of Audited Financial Statements of PNB and Subsidiaries and ABC and Subsidiaries as of December 31, 2012 and 2011 and January 1, 2011, and Years Ended December 31, 2012, 2011, 2010.
04-05-13	Receipt of advice that the LT Group, Inc., had acquired indirect ownership of PNB shares by purchasing 7 companies which own an aggregate of 22.74% and 10 companies which own an aggregate of 25.87% of the equity in PNB.
04-26-13	Appointment of Sycip Gorres Velayo (SGV) & Co, as the Bank's external auditor for the year 2013; appointment of Ms. Alice Z. Cordero as the Chief Compliance Officer of Allied Savings Bank (ASB) and secondment of Mr. Edgardo T. Nallas as President & CEO of Japan-PNB Leasing and Finance Corporation, subject to the approval of the respective Boards of the said subsidiaries.
04-30-13	Nominees for the Board of Director of PNB for the Year 2013-2014.
05-07-13	Exercise of PNB's Call Option on its Php6.0 Billion 8.5% Unsecured Subordinated Notes due on June 19, 2018 amounting to Php5,818,300,000.00 (Series A) and Php181,700,000.00 (Series B). The Call Option date would be on June 20, 2013.
05-24-13	Nomination of Mr. Leonilo G. Coronel as a member of the Board of Directors of PNB for the Year 2013-2014. Board approval of the concurrent appointment of Mr. Christopher C. Dobles, EVP and Chief Security Officer, as the Bank Security Officer of ASB, subject to the approval of the ASB Board.
05-27-13	Affidavit of Publication re: nomination of Mr. Leonilo G. Coronel as a member of the Board of Directors of PNB for the Year 2013-2014.
05-28-13	Results of the Annual Stockholders Meeting of PNB: (1) Increase in Authorized Capitol Stock to Php70,000,000,040.00 divided into 1,750,000,001 Common Shares with a par value of Forty pesos (Php40.00) per share; (2) Amendment of Article VII of the Amended Articles of Incorporation to reflect the increase in the authorized capital stock; (3) Election of the 15 directors; (4) Appointment of SGV & Co. as the Bank's External Auditor; (5) Appointment of Chairman, Vice Chairman and key officers at the Organizational Meeting of the Board.
06-28-13	Resignation of Mr. Rafael G. Ayuste, Jr., First Senior Vice President (FSVP) and Group

Head of Trust Banking Group, effective July 15, 2013.

DATE	**SEC 17-C (CURRENT REPORT) FOR THE YEAR 2013**
07-16-13	Receipt of authority from the Bangko Sentral ng Pilipinas (BSP) to issue Long Term Negotiable Certificates of Time Deposit (LTNCDs) up to Php5 Billion.
07-22-13	Submission of the Consolidated Financial Statements of the PNB and Subsidiaries as of March 31, 2013, December 31, 2012 and January 1, 2012 and for the three (3) month period ended March 31, 2013 and 2012 and Independent Auditors' Report
07-25-13	Copies of the newspaper print ad and press release re: Issuance of LTNCD.
07-25-13	Press Release re: "PNB closes LTNCD offering in record time".
07-25-13	Pricing of PNB's Php5 billion 5.5 year LTNCD at 3.00%.
07-26-13	Retirement of Mr. Antonio Q. Chua, SEVP and COO; and Ms. Ma. Elena B. Piccio, EVP and Group Head of Institutional Banking Group (IBG); Appointment of Mr. Cenon C. Audencial, Jr. FSVP as Head of IBG; and Atty. Josephine Jolejole, FVP as Officer-in-Charge of Trust Banking Group.
08-13-13	Issuance of LTNCDs
08-15-13	Press Release re: PNB's 2013 1st Half Net Income Surges to Php5.3 Billion, Up 125% Y-O-Y.
09-30-13	Promotion of three senior officers; Board Committees for the year 2013-2014; Creation of the Board Oversight RPT Committee (BORC); 2013 Corporate Governance Manual; and Appointment of Mr. Manuel T. Gonzales as a Board Advisor.
10-09-13	Receipt of BSP authority to issue LTNCD and Press Release re: Issuance of Php denominated LTNCDs.
10-21-13	Press Release: PNB raises Php4 billion after successful LTNCD offer.
10-29-13	Secondment of Mr. Elfren Antonio S. Sarte, FSVP and Head Of Consumer Finance Group, as President of ASB.
11-07-13	Board approval of a Stock Rights Offering and Share Offering (Offer).
11-14-13	Shares to be offered in connection with the Stock Rights Offering to be issued partly from the Bank's authorized but unissued capital stock and partly in support of the increase in authorized capital stock previously approved by the Board and shareholders.
11-18-13	Filing of application for confirmation of exemptive relief of the Offer Shares from the registration requirements under the Securities Regulation Code (SRC) of the Securities and Exchange Commission (SEC); and application for listing of the Offer Shares with the Philippine Stock Exchange (PSE).
11-21-13	Filing of amended application for confirmation of exemptive relief from the registration requirements under the SRC.

DATE	**SEC 17-C (CURRENT REPORT) FOR THE YEAR 2013**
11-22-13	Appointment of Mr. Emmanuel A. Tuazon, Senior Vice President as Marketing Director of Allied Savings Bank on a secondment basis effective December 1, 2013, subject to the approval of the ASB Board; designation of Ms. Janette Y. Abad Santos, Vice President, as Acting Head of the Marketing Group to replace Mr. Tuazon; designation of Ms. Modette Ines V. Cariño, Vice President, as Acting Head of the Consumer Finance Group, to replace Mr. Elfren Antonio S. Sarte; and increase in equity investment in Allied Commercial Bank in the amount of US$14.13M.
11-25-13	Beneficial ownership of Ms. Abad Santos (VP) and Ms. Carino (VP) over PNB shares.
11-27-13	Engagement of Credit Suisse (Singapore) Limited and Deutsche Bank AG, Hongkong Branch as Joint International Lead Managers and International Lead Underwriters and PNB Capital and Investment Corporation as Sole Domestic Underwriter for the Stock Rights Offering.
12-05-13	SEC approval of PNB's application for confirmation of exempt transaction in respect of the 32,600,000 shares which shall be issued from the Bank's authorized but unissued capital pursuant to the Bank's proposed Stock Right's Offering.
12-13-13	Receipt of advice of commitment of subscription of the LT Group, Inc. to at least 97,800,000 shares to the Stock Rights Offering
12-20-23	Investment/infusion of additional equity in ASB amounting to Php10 Billion, subject to BSP approval.

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Philippine National Bank by the undersigned, thereunto duly authorized, in the City of Pasay on April __, 2014.

OMAR BYRON T. MIER
President & Chief Executive Officer

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

JOHN D. MEDINA
First Senior Vice President
Global Operations Group
(Principal Operating Officer)

MARLYN M. PABRUA
Senior Vice President & Controller
(Principal Accounting Officer)

DORIS S. TE
Corporate Secretary

APR 14 2014

SUBSCRIBED AND SWORN to before me this __ day of April 2013 affiants exhibiting to me their Passport Nos./SSS Nos. as follows:

Names	Passport No./ SSS No.	Date of Issue	Place of Issue
Omar Byron T. Mier	XX3773388	May 21, 2009	DFA Manila
Zacarias E. Gallardo, Jr.	EB1931075	February 16, 2011	DFA Manila
John D. Medina	EB6456110	October 1, 2012	DFA NCR East
Doris S. Te	EB0993396	September 20, 2010	DFA Manila
Marlyn M. Pabrua	03-4445825-3	N/A	N/A

Notary Public

RUTH PAMELA E. TANGHAL-MANUBAG
Commission No. 14-11/01-09-14; Roll No. 46369
Notary Public for Pasay City until 12/31/15
9th Floor PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 3673894/01-06-14
IBP No. 932334/12-05-13/PPLM

Doc. No. 106
Page No. 23
Book No. 10
Series of 2014

Exhibit I

PHILIPPINE NATIONAL BANK
LIST OF BANK OWNED PROPERTIES
AS OF DECEMBER 31, 2013

Branch Name	Address
Metro Manila	
Angono	Quezon Ave., E. dela Paz St., Angono, Rizal
Arranque	Soler Citiriser Building, 1427 Soler St., Sta. Cruz, Manila
Ayala Avenue	G/F Manila Bank Bldg., 6772 Ayala Avenue, Makati City
Bayanan - Muntinlupa	National Road, Bayanan, Muntinlupa City
Better Living	ABC Bldg., Doña soledad Ave., Better Living Subd., Parañaque City
Buendia	56 Gil Puyat Ave., (Buendia), Makati City
Caloocan	GEN. SAN MIGUEL ST. BRGY 4 ZONE 1 SANGANDAAN,DIST. II,CALOOCAN CITY
Caloocan	1716 Rizal Ave. Ext., cor. L. Bustamante St., Caloocan City
Cubao	cor Gen Araneta and Aurora Blvd Cubao Quezon City
Dapitan	Dapitan St. cor. M. dela Fuente St., Metro Manila
Divisoria (Sto. Cristo)	Sto. Cristo cor. M. delos Santos Sts., Divisoria, Metro Manila
Earnshaw	Earnshaw corner Jhocson Sts., Sampaloc, Manila
Felix Avenue	F. P. Felix Avenue, Brgy. San Isidro, Cainta, Rizal 1900
Head Office (Main Branch)	G/F Allied Bank Center, 6754 Ayala Ave. cor. Legazpi St., Makati City
J. Abad Santos	Unit B, Dynasty Towers, J. Abad Santos corner Bambang Sts., Manila
Kamuning	118 Kamuning Road, Quezon City
Las Piñas	#19 Alabang Zapote Road Pamplona II, Las Piñas City
Main	G/F PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City
Makat i- C. Palanca	GF Unit G1 & G2, BSA Suites, G103 C. Palanca cor. Dela Rosa St., Makati City
Makati Poblacion	1204 JP Rizal St., corner Angono & Cardona Streets, Makati City
Malabon	F. SEVILLA BLVD. TAÑONG, MALABON CITY
Malabon	701 Rizal Ave., cor. Magsaysay St., Malabon, Metro Manila
Mandaluyong	471 SHAW BLVD. MANDALUYONG CITY
Manila Downtown Office	Alliance Bldg., 410 Quintin Paredes St., Binondo, Manila
Marikina - Main	Mayor Gil Fernando Ave. (Angel Tuason Ave.), cor. Chestnut St. San Roque, Marikina City
Navotas	865 M. Naval St., Navotas, Metro Manila
New Manila	322 E. Rodriguez, Sr. Blvd., New Manila, Quezon City
NIA	EDSA corner Nia Road., Brgy Piñahan, Diliman Quezon City
Novaliches	Quirino Hi-way cor. Sarmiento St., Novaliches, Quezon City
Ortigas	GF JMT BLDG ADB AVENUE,ORTIGAS CENTER PASIG CITY
P. Tuazon	279 P. Tuazon Blvd., Cubao, Quezon City
Paco	Pedro Gil cor. Pasaje-Rosario Sts., Paco, Metro Manila
Pasay	2976 Mexico Avenue, Pasay City
Pasig - Shaw	Jade Center Condominium, 105 Shaw Blvd., Pasig City
Petron Mega Plaza	G/F Petron Mega Plaza Building 358 Sen. Gil Puyat Avenue, Makati City
Plaza del Conde	San Fernando Towers, Plaza del Conde. Binondo Manila
Project 3 - Aurora Blvd.	1003 Aurora Blvd., cor. Lauan St., Quirino Dist., Quezon City
Quadrangle	Unit I Paramount Condominium, EDSA corner West Ave., Quezon City
Quezon City Circle	Elliptical Road cor. Kalayaan Avenue, Diliman, Quezon City
Rizal Avenue	RIZAL AVENUE corner SATURNINO HERRERA ST., STA. CRUZ, MANILA
San Lorenzo	Ground Floor, Jackson Bldg., 926 A. Arnaiz Avenue, Makati City
Valenzuela	313 SAN VICENTE ST COR MC ARTHUR HIGHWAY, KARUHATAN, VALENZUELA CITY
Valenzuela	101 McArthur Hi-way, Bo. Marulas, Valenzuela City
Wack-wack	Summit One Tower, Shaw Blvd., Wack-Wack, Mandaluyong City
West Avenue	92 West Ave. Quezon City
West Triangle	1396 Quezon Ave., Quezon City

Branch Name	Address
Northern Luzon	
Agoo	VERCELES ST., CONSOLACION, AGOO, LA UNION
Alaminos	Quezon Avenue, Poblacion, Alaminos City, Pangasinan
Angeles	730 Sto. Rosario St., Angeles City, Pampanga 2009
Aparri	J.P.Rizal St., Aparri, Cagayan 3515
Baguio	51 SESSION ROAD cor MABINI STREET, BAGUIO CITY, 2600
Balanga	Zulueta St., Poblacion, Balanga, Bataan 2100
Baliuag	015 RIZAL ST., SAN JOSE, BALIUAG, BULACAN
Bangued	Cor. Taft & Magallanes Sts., Bangued, Abra
Bangued	MCKINLEY CORNER PEÑARRUBIA STREETS, ZONE 4, BANGUED, ABRA , 2800
Basco	NHA Bldg., Caspo Fiesta Road Kaychanarianan, Basco, Batanes
Batac	cor SAN MARCELINO AND CONCEPCION STS., BATAC, ILOCOS NORTE
Bayombong	JP RIZAL ST., DISTRICT 4, BAYOMBONG, NUEVA VIZCAYA
Cabanatuan	CORNER PACO ROMAN AND DEL PILAR STS., CABANATUAN CITY, NUEVA ECIJA
Candon	National Hi-way, Candon, Ilocos Sur
Candon	NATIONAL HIGHWAY COR. DARIO ST., SAN ANTONIO, CANDON CITY 2700
Cauayan	Maharlika Hi-way cor Cabatuan Rd., Cauayan, Isabela 3305
Concepcion	A. Dizon St., San Nicolas, Concepcion, Tarlac 2316
Dagupan	A. B. FERNANDEZ AVE., DAGUPAN CITY
Dau	MacArthur Highway, Dau, Mabalacat, Pampanga 2010
Gapan	Tinio Street, Poblacion, Gapan, Nueva Ecija
Gapan	TINIO STREET, SAN VICENTE, GAPAN CITY, NUEVA ECIJA
Guagua 1/	Sto. Cristo, Guagua, Pampanga
Iba	1032 R. MAGSAYSAY AVE., ZONE I, IBA, ZAMBALES 2201
Ilagan	Old Capitol Site Calamagui 2, Ilagan City, Isabela 3300
La Union	Quezon Ave., City of San Fernando, La Union
Laoag	BRGY. 10 TRECE MARTIRES ST. CORNER J P RIZAL ST., LAOAG CITY 2900
Lingayen	Avenida Rizal East cor. Maramba Blvd., Lingayen, Pangasinan
Mallig Plains	Cor. Don Mariano Marcos Ave. & Bernabe Sts., Roxas, Isabela 3320
Malolos	Sto. Niño, Malolos City, Bulacan
Meycauayan	Mc Arthur Highway, Saluysoy, Meycauayan City, Bulacan
Muñoz	D. Delos Santos St. Cor. Tobias St., Science City of Munoz, Nueva Ecija
Olongapo	2440 Rizal Ave., East Bajac-Bajac, Olongapo city, Zambales 2200
Paniqui	M.H. Del Pilar St., corner Mc Arthur Hi-way Paniqui Tarlac
Rosales	MC Arthur Highway, Carmen East, Rosales, Pangasinan
San Fernando	A Consunji St., Sto. Rosario, City of San Fernando, Pampanga
San Fernando - La Union	612 Quezon Ave., San Fernando, La Union
San Jose Nueva Ecija	Maharlika Hi-way Cor. Cardenas St. San Jose City Nueva Ecija 3121
Santiago	Marcos Highway cor. Camacam St., Centro East, Santiago City, Isabela 3311
Solano	Maharlika National Highway, Solano, Nueva Vizcaya
Tarlac	F. Tanedo St., San Nicolas, Tarlac City
Tayug	PNB Tayug Branch, Zaragoza Street, Poblacion, Tayug, Pangasinan 2445
Tuguegarao	Bonifacio St., Tuguegarao City, Cagayan 3500
Urdaneta	MC Arthur Highway, Nancayasan, Urdaneta City, Pangasinan 2428
Vigan	LEONA FLORENTINO ST., VIGAN CITY, ILOCOS SUR 2700

1/ For renovation

Branch Name	Address
Southern Luzon	
Bacoor	KM 17 AGUINALDO HIGHWAY BACOOR CAVITE
Balayan	147 Plaza Mabini, Balayan, Batangas
Batangas	P. Burgos St., Cor. C. Tirona St., Batangas City
Calamba	BURGOS ST., CALAMBA CITY
Calapan	J.P.Rizal St. Camilmil, Calapan City, Oriental Mindoro
Candelaria	National Road, Poblacion, Candelaria, Quezon
Cavite	P. BURGOS AVENUE, CARIDAD, CAVITE CITY
Daet	Carlos II St., Brgy, 3, Daet, Camarines Norte
Daraga	Baylon Compound, Market Site, Rizal St. Daraga, Albay
Iriga	Highway 1, San Roque, Iriga City
Kawit	Allied Bank Bldg., Gen. Tirona Highway, Binakayan, Kawit, Cavite
Legaspi	Corner Rizal and Gov. Forbes Sts., Brgy. Baybay, Legaspi City
Lipa	B. Morada Ave., Lipa City, Batangas
Lopez	San Francisco St. Talolong Lopez Quezon
Lucena	Quezon Ave. Brgy IX, Lucena City
Mamburao	National Road, Brgy. Payompon, Mamburao, Occidental Mindoro
Mangarin	Quirino corner M.H. del Pilar Sts. Brgry 6, San Jose, Occidental Mindoro 5100
Masbate	Quezon St., Brgy. Pating, Masbate City, Masbate
Naga	Gen. Luna St., Brgy. Abella, Naga City
Odiongan	#15 J.P. Laurel St., cor M. Formilliza St., Ligawa, Odiongan, Romblon
Puerto Princesa	Valencia St. Cor. Rizal Avenue. Brgy. Tagumpay, Pto Princesa City
Puerto Princesa, Palawan	Rizal Ave., Mangahan, Puerto Princesa, Palawan
San Pablo	M. Paulino St., San Pablo City, Laguna
San Pedro	KM 30 NATIONAL HI-WAY, SAN PEDRO, LAGUNA
Silang	166 J.P. RIZAL ST., SILANG, CAVITE
Sorsogon	Rizal St., Sorsogon City
Sta. Cruz	Pedro Guevarra Avenue Brgy. Uno Sta. Cruz, Laguna
Tabaco	Ziga Avenue, Cor. Bonifacio St., Tayhi, Tabaco City
Tagaytay	E. Aguinaldo Hi-way, Tagaytay City, Cavite

Branch Name	Address
Visayas	
Amelia Avenue	Cor. Amelia and Margarita Sts., Libertad, Bacolod City
Antique	T. Fornier St., Bantayan, San Jose, Antique 5700
Bacolod	10th Lacson St., Bacolod City
Bacolod – Locsin	Barcel's Bldg., Locsin St., Bacolod City, Negros Occ.
Bacolod - Main	Araneta Ave., near cor. Luzuriaga St., Bacolod City, Negros Occidental
Bayawan	National Highway cor Mabini St., Brgy. Suba, Bayawan City
Baybay	148 R. Magsaysay Ave., Baybay, Leyte
Binalbagan	Don Pedro R. Yulo St., Binalbagan, Negros Occidental 6107
Boracay	Branch - Bgy. Balabag, Boracay Island, Malay, Aklan
Borongan	Real St., Brgy Songco, Borongan City, Samar
Cadiz	Cor Luna and Cabahug Sts., Cadiz City, Negros Occidental 6121
Calbayog	Maharlika Highway, Brgy Obrero, Calbayog City, Leyte
Catarman	Cor. Jacinto & Carlos P Garcia St., Brgy Narra, Catarman, Nothern Samar
Catbalogan	Imelda Park Site, Catbalogan, Western Samar 6700
Catbalogan	Del Rosario St. cor. Allen Ave., Catbalogan, Samar
Cebu	Corner M.C. Briones and Jakosalem Streets, Cebu City
Cebu - Danao	Beatriz VIII & Juan Luna St., Cebu City
Cebu - Jakosalem	D. Jakosalem cor. Legaspi Sts., Cebu City
Dumaguete	Siliman Avenue cor Real St., Dumaguete City, Negros Occidental
Dumaguete	33 Dr. V. Locsin St., Dumaguete City, Negros Oriental
Iloilo	Cor. Gen Luna & Valeria Street, Iloilo City
Iloilo - Ledesma	Ledesma cor. Quezon Sts., Iloilo City
Iloilo - Pototan	Guanco St., Pototan, Iloilo
Kabankalan	NOAC National Highway cor Guanzon St., Kabankalan City
Kalibo	0508 G. PASTRANA ST., KALIBO, AKLAN
Lapu - lapu	Manuel L. Quezon National Highway, Pajo, Lapulapu City
Larena, Siquijor	Roxas St., Larena, Siquijor
Luzuriaga	Cor Luzuriaga and Araneta Sts., Bacolod City
Maasin	Cor. Allen & Juan Luna St., Brgy. Tunga-tunga, Maasin City, Leyte
Naval	Cor. Caneja & Ballesteros Sts., Naval, Biliran Province 6543 ,Leyte
Ormoc	Cor. Cata-ag & Bonifacio Sts., Ormoc City, Leyte
Plaza Libertad	JM Basa Street, Iloilo City 5000
Roxas	Cor. CM Recto & G. Del Pilar Streets, Brgy. III, Roxas City, Capiz 5800
Roxas City	Roxas Ave., Roxas City, Capiz
San Carlos	V. Gustilo St., San Carlos City
Silay	Rizal St., Silay City
Tacloban	Cor. Sto. Niño & Justice Romualdez Sts., Tacloban City, Leyte 6500
Tacloban	Zamora St, Tacloban City, Leyte
Tagbilaran	C. P. Garcia Ave. cor. J. A. Clarin St., Poblacion, Tagbilaran City, Bohol
Tanjay	Magallanes cor. E. Romero Sts (formerly Lopez Jaena), Tanjay City, Negros Or.
Toledo	RAFOLS ST., POBLACION, TOLEDO CITY, CEBU
Tubigon	Corner Cabangbang Avenue & Jesus Vaño Street, Centro, Tubigon, Bohol, Philippines
Victorias	Cor. Ascalon and Montinola Sts., Victorias City

Branch Name	Address
Mindanao	
Agusan del Sur	Roxas St., Brgy 4, San Francsico, Agusan del Sur
Basilan	Strong Blvd., Isabela, Basilan
Basilan	Roxas Ave., Sta. Cruz, Isabela, Basilan
Bislig	Cor. Abarca & Espiritu Sts., Mangagoy, Bislig, Surigao del Sur
Bug	National Highway, Poblacion, Buug, Zamboanga, Sibugay
Butuan	Montilla Blvd., Brgy. Dagohoy, Butuan City, Agusan del Norte
Cagayan de Oro	Corrales Ave., cor. T. Chavez St., Cagayan de Oro City, Misamis Oriental
Cagayan de Oro – Cogon	JP Borja cor. V. Rosa Sts., CDO City, Misamis Oriental
Cagayan de Oro – Divisoria	Tiano Brothers cor., Cruz Taal Sts., CDO City
Cagayan de Oro - Lapasan	Lim Ket Kai Development Center, CDO City, Misamis Oriental
Cotabato	39 Makakua St., Cotabato City, Maguindanao
Cotabato	Alejandro Dorotheo St. (formerly Jose Lim Sr.) cor. Corcuera St., Cotabato City, No. Cot.
Davao	San Pedro St., cor. C.M. Recto St., Davao City, Davao del Sur
Davao – C. M. Recto	G/F Imperial Hotel, CM Recto St., Davao City, Davao
Davao - San Pedro	San Pedro St., Davao City
Digos	Quezon Avenue, Digos, Davao del Sur
Dipolog	Gen. Luna St. cor. C.P. Garcia Sts., Dipolog City, Zamboanga del Norte
General Santos	City Hall Dr. Osmena St., General Santos City, South Cotabato
Gingoog	National Highway, Brgy. 23, Gingoog City, Misamis Oriental
Iligan	Cor. Gen. Aguinaldo & Labao Sts., Poblacion, Iligan City, Lanao del Norte
Ipil	National Hi-way, Poblacion, Ipil, Zamboanga Sibugay
Jolo	Serantes St., Jolo, Sulu
Jolo	Serrates St., Jolo, Sulu
Kidapawan	Quezon Blvd., Kidapawan City, North Cotabato
Koronadal	Morrow St., Koronadal, South Cotabato
Koronadal	Gen. Santos Drive Zone, Poblacion, Koronadal, South Cotabato
Limketkai	Limketkai Center, Lapasan, Cagayan de Oro City, Misamis Oriental
Mambajao	Cor. Gen. Aranas & Burgos Sts., Brgy. Poblacion, Mambajao, Camiguin
Maranding	Maranding, Lala, Lanao del Norte
Marawi	Perez St., Poblacion, Marawi City, Lanao del Sur
Mati	Rizal Ext., Brgy. Central, Mati, Davao Oriental
Midsayap	Quezon Avenue, Midsayap, North Cotabato
Oroquieta	Sen. Jose Ozamis St., Lower Lamac, Oroquieta City, Misamis Occidental
Ozamis	Rizal Ave., Aguada, Ozamis City, Misamis Occidental
Pagadian	Rizal, Ave., Balangasan District, Pagadian City, Zamboanga del Sur
Pagadian	F.S. Pajares St., cor Cabrera Sts., San Francisco District, Pagadian City, Zamboanga Del Sur
S. K. Pendatun	near corner S. K. Pendatun St. & Quezon Ave., Cotabato City
Surigao	45 Rizal St., Brgy. Washington, Surigao City, Surigao del Norte
Tacurong	Alunan Drive, Poblacion, Tacurong, Sultan Kudarat
Tagum	Rizal St., Magugpo, Poblacion, Tagum City, Davao del Norte
tandag	Napo, National Highway, Tandag, Surigao del Sur
Tawi - tawi	Bagay St., Poblacion, Bongao, Tawi-Tawi
Tawi-tawi	Datu-Halun St., Bongao, Tawi-Tawi
Zamboaga del Sur - Molave	Mabini St., Molave, Zamboanga del Sur
Zamboaga del Sur - Sucabon	Mayor MS Jaldon St., Zamboanga City, Zamboanga del Sur
Zamboanga	J.S. Alano St., Zamboanga City, Zamboanga del Sur

Exhibit II

PHILIPPINE NATIONAL BANK
LIST OF BRANCHES UNDER LEASE
AS OF DECEMBER 31, 2013

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Metro Manila			
A. Bonifacio	789 A. Bonifacio Ave., cor. Galino St., Balintawak, Quezon City	99,220.97	05/14/2014
Acropolis	90 E. Rodriguez Jr. Avenue, Barangay Bagumbayan, Quezon City, (formerly 251 E. Rodriguez Jr., Ave., Libis, Quezon City)	154,873.69	10/31/2015
Adriatico	G/F Pearl Garden Hotel, 1700 M. Adriatico cor. Malvar Sts., Malate, Manila	201,097.37	06/30/2014
Aguilar - Las Piñas	G/F Las Pinas Doctors' Hospital, Aguilar Ave., Citadella Subd., Las Pinas City	123,050.00	03/14/2016
Aguirre	G/F RICOGEN Bldg., 112 Aguirre St., Legaspi Village, Makati City	113,468.58	09/25/2014
Alabang	G/F Page 1 Building 1215 Acacia Avenue Madrigal Business Park, Ayala Alabang, Muntinlupa	191,290.64	05/15/2017
Alabang - Las Pinas	Don Mariano Lim Industrial Compound, Alabang Zapote Rd., cor. Concha Cruz Rd., Las Pinas City	90,000.00	12/31/2017
Ali Mall	ALIMALL II BLDG., GEN. ROMULO AVE., COR P. TUAZON BLVD., CUBAO, Q.C.	94,190.00	12/31/2014
Almanza	Hernz Arcade, Alabang-Zapote Road Almanza, Las Piñas City 1750	133,872.54	03/31/2013
Amorsolo	Don Pablo Building, 114 Amorsolo St., Legaspi Village, Makati City	168,140.07	07/31/2013
Annapolis	Annapolis Tower, 43 Annapolis St., Greenhills, San Juan, Metro Manila	for reloc	10/31/2012
Antipolo	89 P. Oliveros St., Kapitoloyo Arcade, San Roque, Antipolo City 1870 RIZAL	57,828.77	12/31/2014
Antipolo	Circumferential Road, Quezon Ave., Antipolo, Rizal	9,000.00	04/21/2016
Aurora Blvd.	Unit 3S-04, 3rd Floor 168 Shopping Mall, Sta. Elena, Soller Sts., Binondo, Manila	133,245.00	09/30/2016
Aurora Blvd. - Katipunan	Aurora Blvd., (near PSBA), Bgy. Loyola Heights, Quezon City	36,750.00	11/15/2014
Balic-balic	AGB Bldg., 1816 G. Tuason cor. Prudencio Sts., Balic-Balic, Sampaloc, Manila	-	03/31/2013
Bambang - Masangkay	G/F ST Condominium, 1480 G. Masangkay St., Sta. Cruz, Manila	115,500.00	02/29/2016
Banawe	Banawe Fortune Center, Banawe cor. Quezon. Avenue, Quezon City	45,943.55	12/31/2013
Banawe -N. Roxas	Prosperity Bldg. 395 Banawe cor. N. Roxas Street, Quezon City	188,992.32	12/31/2014
Bangkal	G/F E. P. Hernandez Bldg., 1646 Evangelista St., Bangkal, Makati City	103,439.82	11/01/2017
Batasang Pambansa	Main Entrance, Batasan Pambansa Complex, Constitutional Hills, Quezon City		1/
Bel-air Makati	52 Jupiter St., Bel-Air, Makati City	27,040.67	12/31/2020
Bellevue - Filinvest	North Bridgeway, Filinvest Corporate City, Alabang, Muntinlupa City(effective Aug 14, 2009)	174,606.32	07/31/2014
Benavidez	Unit G-1D, G/F BSA Mansion, 108 Benavidez St.Legaspi Village, Makati City	104,987.00	06/15/2016
BF Homes	43 President's Ave., BF Homes, Paranaque City	85,085.44	12/31/2013
BF Homes – Phase 3	CFB Building, 322 Aguirre Avenue, BF Homes, Paranaque		
BF Homes -Aguirre Avenue	47 Aguirre Ave. corner Tirona St., B.F. Homes, Parañaque City 1718	92,059.84	08/01/2017
Bicutan	VCD Building, 89 Doña Soledad Avenue Betterliving Subdivision, Bicutan Parañaque City	71,368.08	05/24/2016
Bicutan West Service Road	Km. 16, West Service Road, South Super Highway, Bicutan, Paranaque	52,500.00	12/31/2017
Binondo	452 San Fernando St. cor. Elcano St., Binondo, Manila	14,116.67	12/31/2016
Blumentritt	PNB KASSCO BLDG., cor. LICO and CAVITE STS. STA CRUZ MANILA		1/
blumentritt	2229-2231 Rizal Avenue (between Batangas & Laguna Sts.), Blumentritt, Sta. Cruz, Manila	80,000.00	12/31/2017
Boni Avenue	654 Boni Ave., Mandaluyong City	111,249.00	12/31/2016
Bonifacio global City	PNB Shop 2, The Luxe Residences 28th St., cor 4th Ave., Bonifacio Global City, Taguig	100,734.28	11/15/2014
BSP Sub Unit	Ground Floor Cafetorium Building, BSP Complex, A. Mabini cor. P. Ocampo Sts. Malate, Manila	107,354.24	06/30/2013
C. Palanca	C. Palanca cor Quezon Boulevard, Quiapo Manila	115,473.09	11/30/2013
Cainta	RRCG Transport Building, Km. 18 Ortigas Avenue Extension, Brgy. San Isidro, Cainta, Rizal	77,315.42	10/26/2016
Cainta	G/F Arellano Bldg., Felix Ave., cor. Village East Ave., Cainta, Rizal	46,444.30	02/15/2017
Caloocan-A.Mabini	451 A. MABINI corner J. RODRIGUEZ ST., CALOOCAN CITY	71,117.75	01/31/2013
Cartimar-Taft	SATA Corp. Bldg., 2217 Taft Avenue, Pasay City	97,852.33	10/16/2014
Century Park	G/F Century Park Hotel, P. Ocampo (Vito Cruz Ext.) cor. M. Adriatico Sts., Malate, Manila	162,592.10	02/28/2014
CM Recto	Unit 6 & 7 PSPCA 2026-2028 C.M Recto Ave., Quiapo, Manila	127,938.91	03/31/2015
COA	COA Building, Commonwealth Avenue, Quezon City	56,347.23	12/31/2013
Commonwealth	G/F LC Square Bldg., 529 Commonwealth Avenue., Quezon City	84,138.26	12/01/2014
Congressional	149 Congressional Ave., Project 8, Quezon City	103,078.87	04/19/2017
Cubao	SRMC Bldg. 901 Aurora Blvd. Cor Harvard & Stanford Sts., Cubao, Quezon City	100,000.00	09/30/2013
Dapitan-Gelinos	G/F NORTH FORBES PLACE 1221 GELINOS ST. SAMPALOC, MANILA	118,279.62	05/04/2014
Dasma-Makati	2284 Allegro Center, Chino Roces Avenue Extension, Makati City	122,484.83	10/31/2015
Del Monte	Relocated to 116 Del Monte Ave., QC (Old Site 131 Del Monte Ave., cor. D. Tuazon St., Quezon City)	114,450.00	07/31/2016
Delta	101-N dela Merced Bldg. West Avenue corner Quezon Avenue, QC	101,850.36	08/31/2013
Divisoria	869 Sto. Cristo St., Binondo, Manila	504,000.00	09/07/2015
Divisoria Market	Unit 14 & 15, New Divisoria Mall, Calle Commercio & Tabora Sts., Divisoria, Metro Manila	25,272.35	02/28/2015
Domestic Airport	G/F PAL Data Center, Domestic Road, Pasay City	21,272.70	12/31/2011
Don Antonio Heights	G/F Puno Foundation Bldg., Holy Spirit Drive, Don Antonio Heights, Quezon City	-	11/30/2011
E. Rodriguez	1706 E. Rodriguez Ave., Cubao, QC	88,777.70	05/31/2016
E. Rodriguez - G. Araneta	599 Araneta Ave. cor. E. Rodriguez Ave.,Quezon City	36,750.00	08/31/2014
E. Rodriguez Sr. Ave. - Banaue	97 ECCOI Building E Rodriguez Sr. Avenue, Brgy Tatalon, Quezon City 1102	57,933.50	08/31/2016

1/ Contract of Lease renewal is still in process

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Eastwood City	MDC 100 Building, Mezzanine Level, Unit M3, E. Rodriguez, Jr. Ave., corner Eastwood Ave., Brgy. Bagumbayan, Libis, Q.C 1110	267,474.54	11/11/2018
Edison-Buendia	Visard Bldg, #19 Sen. Gil Puyat Ave., Makati City	70,430.32	02/07/2016
EDSA - Caloocan	Insular Life Bldg., EDSA B. Serrano St., Caloocan City	71,483.34	07/31/2014
EDSA - Balintawak	337 - 339 EDSA Cor. Don Vicente Ang St., Caloocan City	87,846.00	06/10/2014
EDSA Eton Cyberpod Centris	One Cyberpod Centris, G/F Eton Centris, EDSA cor. Quezon Avenue, Quezon City, MM	97,890.98	02/28/2015
EDSA Extension	235 EDSA Extension corner Loring St., Pasay City	112,185.15	05/28/2014
EDSA Roosevelt	1024 Global trade center Bldg. EDSA Quezon City	148,693.64	01/31/2014
Elcano	706-708 Elcano St, Manila	104,186.00	11/30/2017
Ermita	1343 A. Mabini Street, Ermita, Manila	147,392.78	09/30/2016
Ermita	Physician's Tower, 533 U.N. Avenue, cor. San Carlos Sts., Ermita, Manila	131,000.00	01/31/2018
Escolta	# 324 G/F Regina Bldg., Escolta, Manila	184,063.40	09/30/2015
España	Unit 104 St. Thomas Square, 1150 España Blvd. cor Padre Campa St., Sampaloc East, Manila	4,757.87	06/15/2018
España	Dona Natividad Bldg., Espana-Quezon Blvd., Rotonda, Quezon city	59,082.66	02/28/2013
Eton-Corinthian	Unit 78 E-Life Eton Cyberpod Corinthian, EDSA cor. Ortigas Ave., Brgy Ugong Norte, Quezon City	117,384.55	03/14/2015
Ever Gotesco	Lower G/F Stall No. 20, Ever Gotesco Commonwealth, Quezon City	190,425.87	03/06/2015
Fairview	No. 41 Regalado Ave. West Fairview, Quezon City	103,364.77	05/30/2016
Fairview	70 Commonwealth Ave., Fairview Park Subd., Fairview, Quezon City	79,000.00	03/31/2018
Filinvest Avenue	BC Group Center, Filinvest Avenue & East Asia Drive, Filinvest Corporate City, Muntinlupa City	140,477.89	01/15/2017
Fort Bonifacio-Infinity	G/F 101, The Infinity Tower, 26th Street, Fort Bonifacio, Taguig City	254,036.38	05/15/2016
Fort Bonifacio-McKinley Hill	G/F Unit B, Mc Kinley Hill 810 Bldg. Upper McKinley Road, McKinley Town Center, Fort Bonifacio, Taguig City	403,080.42	04/07/2016
Frisco	Unit E/F. MCY Bldg. #136 Roosevelt Ave. SFDM, Quezon City	40,787.60	08/19/2014
Frisco	972 Del Monte Ave., corner San Pedro St., SFDM, Quezon City	75,000.00	01/23/2018
FTI	Lot 52 G/F New Admin Bldg., FTI Complex, Taguig City	97,722.00	10/31/2016
G.Aaraneta	1-B G. Araneta Ave., Quezon City	98,398.13	05/10/2014
Galas	20 A. Bayani St., corner Bustamante, Galas, Quezon City	98,913.94	05/31/2016
Gen. T. de Leon	4024 Gen. T. De Leon St., Barangay Gen. T. De Leon, Valenzuela City	56,000.00	07/31/2016
Gil Puyat	G/F Burgundy Corporate Tower, #252 Sen. Gil Puyat Ave., Makati	236,749.71	05/14/2016
Gilmore	Gilmore IT Center No. 08 Gilmore Ave., cor 1st st., New Manila, Quezon City	19,075.89	12/31/2014
Gov. Pascual	19 Gov. Pascual St., Acacia, Malabon City	38,783.21	06/15/2013
Grace Park	354 A-C 10TH AVE., GRACE PARK CALOOCAN CITY	84,962.00	09/30/2014
Grace Park	322 Rizal Ave. Ext. near cor. 7th Ave., Grace Park, Caloocan City	70,000.00	08/15/2017
Grace Park - 3rd Avenue	128 Rizal Avenue Ext.,Between 2nd and 3rd Avenue,Grace Park, Caloocan City	84,000.00	10/31/2016
Grace Village	G/F TSPS Condominium Bldg., Christian cor. Hope Sts., Grace Village, QC	93,168.56	12/31/2016
Granada	Xavier Hill Tower 1, Granada cor. N. Domingo Sts., Quezon City	121,869.85	02/28/2015
Greenbelt	G/F The Charter House 114 Legaspi Street, Makati City	92,386.74	09/30/2013
Greenhills	G/F One Kennedy Place, Club Filipino Drive Greenhills, San Juan City	204,331.60	03/15/2015
Greenhills	G/F Limketkai Bldg., Ortigas Ave., Greenhills, San Juan, MM	312,987.65	06/18/2013
GSIS	Level 1 GSIS Bldg., Financial Center, Roxas Blvd., Pasay City	79,138.05	05/31/2013
Guadalupe	Pacmac Bldg., 23 EDSA Guadalupe, Makati City	80,187.12	09/01/2017
Harrison Plaza	RMSC BLDG. A. ADRIATICO ST MALATE MANILA		1/
Intramuros	G/F Marine Teachnology Bldg. Cor.A Soriano Ave. & Arzobispo Sts., Intramuros,Manila	140,068.50	06/30/2014
Intramuros	707 Aduana cor Cabildo Shipping Center Condominium, Intramuros, Manila	91,947.18	11/30/2014
J. P. Laurel	G/F Gama Bldg., J. P. Laurel cor. Minerva Sts., San Miguel, Manila	107,100.00	02/28/2015
Jade – Ortigas	Unit G-04 Antel Global Corporate Center, Jade Drive, Ortigas Center, Pasig City	102,240.00	02/29/2016
Juan Luna	451 Juan Luna St., Binondo, Manila		1/
Juan Luna	CK Bldg., 750 Juan Luna St., Binondo Manila	130,277.25	03/31/2015
Kamias	Topaz Building, 99-101 Kamias Road, Kamias, Quezon City	90,235.34	05/31/2014
Kapasigan	EMILIANO A. SANTOS BLDG., A. MABINI COR. DR. SIXTO ANTONIO AVE., PASIG CITY	140,872.40	09/30/2015
Katipunan	335 Agcor Bldg., Katipunan Ave., Loyola Heights, Quezon City	176,223.18	12/31/2016
Katipunan	G/F Linear Building, Katipunan Road, Quezon City	126,000.00	03/05/2013
Lagro	BDI Center Inc., Lot 33, Blk. 114, Regalado Ave., Greater Lagro, Quezon City	130,000.00	05/31/2013
Largo	Quirino Ave., Lagro, Quezon City	91,461.51	06/30/2014
Las Piñas	Consolidated Asiatic Proj., Inc. Bldg., Alabang-Zapote Road, Bgy. Almanza, Las Pinas City	126,000.00	03/31/2017
Legaspi Village	First Life Center 174 Salcedo St., Legaspi Village, Makati City	126,000.53	10/14/2014
Leon Guinto	G/F Marlow Bldg. 2120 Leon Guinto St., Malate Manila	169,377.01	07/15/2015
Luneta	Nat'l. Historical Institute (NHI) Cmpd.,T.M. Kalaw St.,Ermita, Manila	40,000.00	04/26/2018
Malinta	G/f M@M Building, 407 Mac Arthur Highway, Malinta, Valenzuela City.	80,592.75	08/31/2015
Mandaluyong - Shaw	2 Acacia Lane corner Shaw Boulevard and Pinagtipunan Sts, Mandaluyong City (effective 07/24/2009)	109,974.38	06/15/2014
Marikina	SHOE AVE. CORNER W. PAZ ST., STA. ELENA, MARIKINA CITY 1800	199,843.00	11/13/2015
Marikina - Concepcion	Bayan-bayanan Ave. cor. Eustaquio St., Concepcion, Marikina, Metro Manila	140,000.00	06/30/2017
Marikina - Sta. Elena	314 J. P. Rizal St., Bgy. Sta. Elena, Marikina City	72,930.38	07/31/2013
Marulas	8 AGS BLDG, MC ARTHUR HIGHWAY MARULAS, VALENZUELA CITY	37,170.88	06/14/2016
Masangkay	916 Masangkay St. Binondo Manila	133,100.00	11/30/2013
Masinag	SILICON VALLEY BLDG., 169 SUMULONG HIGHWAY, MAYAMOT, ANTIPOLO CITY	65,228.00	12/31/2016
Masinag	241 Sumulong Highway, Mayamot, Masinag, Antipolo City	80,405.74	02/28/2015
Matalino	Tempus I Bldg., Matalino St., Diliman, Quezon City	82,640.81	06/30/2014
Montalban	San Jose Highway corner Midtown Subdivision, Rodriguez, Rizal	63,000.00	05/31/2016

1/ Contract of Lease renewal is still in process

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Monumento	419 D&I BLDG., EDSA, CALOOCAN CITY	9,333.33	06/30/2017
Morayta	Consuelo Building, 929 N. Reyes St., (Formerly Morayta), Sampaloc, Manila	122,000.00	07/31/2017
Muntinlupa	G/F Arbar Building, National Highway, Poblacion Muntinlupa City	90,994.30	06/19/2014
MWSS	MWSS Compound. Katipunan Road, Balara, Quezon City	102,790.33	12/31/2016
N. S. Amoranto	Unit 103, "R" Place Building, 255 N.S. Amoranto Sr. Avenue, Quezon City	for reloc	09/30/2012
Naga Road - Las Piñas	Lot 2A, Naga Road corner DBP Extension, Pulang Lupa Dos, Las Piñas City	42,460.50	04/12/2022
NAIA	Arrival Area Lobby, NAIA Complex, Pasay City	5,300.53	04/01/2013
NAIA 1 - Manila Int'l Airport	Departure Area, NAIA Terminal Bldg., Imelda Ave., Paranaque, Metro Manila	33,917.57	11/30/2011
NAIA 2 - Terminal 2	NAIA Centennial Terminal II Northwing Level Departure Intl.,Bldg., Pasay City	21,400.00	08/05/2012
NAIA 3	Arrival Area Lobby, NAIA Terminal 3 Complex, Pasay City 1300	4,311.33	01/00/1900
Navotas - Fish Port	Navotas Fish Port Complex, Navotas City	31,198.06	03/15/2013
NFA	SRA Building, Brgy. Vastra, North Avenue, Quezon City	37,265.92	06/01/2016
north Bay	511 Honorio Lopez Blvd., Balut, Tondo, Manila	33,178.70	10/31/2015
Novaliches	513 Quirino Highway Talipapa Novaliches, Quezon City	45,063.00	02/24/2015
NPC	Agham Road, Diliman, Quezon City		1/
Ongpin	917 Prestige Tower Condominium, Ongpin St., Sta Cruz, Manila	140,475.44	04/18/2014
Ortigas Center	Unit 104, Taipan Place, Emerald Avenue, Ortigas Center, Pasig City	110,000.00	10/15/2017
Oyster Plaza	Unit D1, Oyster Plaza Bldg., Ninoy Aquino Ave., Metro Manila	66,150.00	10/31/2015
Padre Faura	PAL Learning Center Bldg., 540 Padre Faura cor. Adriatico Sts., Ermita, Manila	86,908.70	06/30/2012
Padre Rada	RCS Bldg., Padre Rada St., Tondo, Manila	126,813.02	10/31/2014
Pamplona	Alabang Zapote Road, Pamplona, Las Pinas City	90,000.00	02/07/2018
Pandacan	Jesus Street, Cor. T. San Luis, Pandacan, Manila	59,521.57	10/31/2015
Parang Marikina	105 BG Molino St., Parang, Marikina	86,821.88	06/30/2014
Pasay	2480 Taft Avenue, Pasay City	160,000.00	01/31/2018
Pasay – EDSA	765 EDSA, Malibay, Pasay City	89,250.00	09/14/2013
Pasay - Libertad	P. Villanueva St., Libertad, Pasay City	84,892.50	12/31/2014
Pasay Road	G/F G&A Building, 2303 Chino Roces Ave Extension (Pasong Tamo Ext), Makati City (07/18/2011)	85,725.25	05/15/2016
Pasig	Ground Floor Westar Bldg., 611 Shaw Blvd., Pasig City 1600	146,687.57	09/30/2014
Pasig	Ortigas Ave., Rosario, Pasig City	99,220.97	08/31/2013
Pasig - Riverside	CTIP Compound, Ortigas Avenue Extension, Rosario, Pasig City	88,200.00	06/30/2015
Pasig-Santolan	Amang Rodriguez Ave., Brgy. Dela Paz, Santolan, Pasig City	83,775.15	12/07/2013
Paso de Blas	292 Paso de Blas, Valenzuela, Metro Manila	95,166.50	05/31/2014
Pasong Tamo	2233 Pasong Tamo Ave., Makati City	107,625.00	06/30/2014
Pasong Tamo - Kamagong	G/F NYS Building. 1156 Pasong Tamo St., Makati City	140,072.63	09/30/2015
PCSO	Philippine International Convention Center-CCP Complex, Roxas Blvd., Pasay City	71,668.80	10/21/2013
PGH	PGH Compound, Taft Avenue, Ermita Manila		1/
Pioneer	G/F Bldg. B, Guerro Complex, 123 Pioneer St., Mandaluyong City	100,066.58	04/14/2014
Plaza Sta. Cruz	740 Florentino Torres St., Sta. Cruz, Manila 1003	175,106.77	11/30/2022
Port Area	G/F Bureau of Customs Compound, , South Harbor, Port Area, Manila	76,266.94	11/01/2013
Pritil	MTSC BLDG. JUAN LUNA cor. CAPULONG EXT., TONDO, MANILA 1012	115,000.00	10/31/2015
Project 8	Mecca Trading Bldg., Congressional Avenue., Project 8, Quezon City	87,166.67	06/01/2016
Quiapo	516 Evangelista near Ronquillo St., Quiapo, Metro Manila	132,490.18	02/15/2014
Remedies	Unit G07 Ground Floor, Royal Plaza Twin Towers, 648 Remedios cor. Ma. Orosa Sts., Malate, Manila	88,200.00	08/31/2015
Retiro	422 N.S. Amoranto St. Edificio Enriqueta Bldg. Sta. Mesa Heights, Quezon City	141,102.52	04/15/2013
Roces Avenue	54 Alejandro Roces Ave., Quezon City	36,750.00	08/31/2014
Rockwell Center	Stall No. RS-03, G/F Manansala Tower, Estrella St., Rockwell Center, Makati City	106,431.36	05/30/2015
Roosevelt	256 Roosevelt Ave., San Francisco del Monte, Quezon City	127,338.75	04/30/2014
Rosario-Pasig	Unit 117-118 G/F Ever Gotesco Mall, Ortigas Extension, Pasig City		1/
Roxas Blvd.	Suite 101, CTC Building 2232 roxas Boulevard, Pasay City	136,088.40	02/28/2017
Salcedo Village	G/F LPL Mansions Condominium, 122 L.P. Leviste St., Salcedo Village, Makati City 1227	170,232.36	05/19/2016
Salcedo Village	Classica Towers, 114 HV dela Costa St., Salcedo Village, Makati City	58,983.75	09/30/2014
Samson Road	149 Samson Road corner P. Bonifacio St. Caloocan City	69,457.50	01/31/2014
San Andres	Linao Street, San Andres, Metro Manila	102,876.48	07/31/2014
San Juan	213 F. Blumentritt St. cor. Lope K Santos, San Juan City	66,304.06	03/31/2013
San Lorenzo Village	GF Power Realty Bldg., 1012 A. Arnaiz Avenue, Makati City	73,500.00	06/30/2014
San Mateo	19 Gen. Luna St., Banaba, San Mateo, Rizal	43,050.00	10/31/2016
San Nicolas	Gedisco Tower, 534 Asuncion St., San Nicolas, Manila City	157,493.60	03/31/2014
Shangri-la Plaza	Unit AX 116 P3 Carpark Bldg.Shangri-la Annex Plaza Mall, Edsa Corner Shaw Blvd. Mandaluyong City	137,974.05	09/30/2015
Shaw Blvd.	Starmall Shaw Blvd., EDSA, Mandaluyong City	84,381.07	07/31/2015
SSS Diliman	G/F SSS Building., East Avenue Diliman, Quezon City	95,482.91	02/28/2013
Starmall Alabang	Upper Ground Level, Starmall Alabang, South Superhighway, Alabang Muntinlupa City, 1770	69,615.84	01/01/2016
Sucat	G/F Kingsland Bldg., Dr. A. Santos Avenue Sucat, Parañaque	117,065.44	10/31/2014
Sucat	AC Raftel Center, 8193 Dr. A. Santos Ave., Sucat, P'que City	150,491.25	05/30/2014
T. Alonzo	T. Alonzo cor. Ongpin Sts., Sta. Cruz, Manila	162,750.00	03/31/2015
T. Mapua	1067 Felipe II St., Binondo, Manila (near 168 Mall) relocated 23 June 06	63,000.00	05/31/2016
Taft - Malate	Marc 1 Building 1973 Taft Avenue, Malate , Manila 1004	99,303.75	06/17/2016
Taft Avenue	G/F One Archers' Place, Taft Avenue, Malate, Manila (new site effective 01/10/2011)	94,234.35	01/31/2016
Tanay	Tanay New Public Market Road, Brgy Plaza Aldea, Tanay Rizal	44,000.00	10/30/2017
Tandang Sora	102 cor. San Miguel Village and Tandang Sora Ave., Brgy. Pasong Tamo, Quezon City	61,600.00	09/01/2016
Tandang Sora	Yrreverre Square Building, 888 Mindanao Ave., Brgy. Talipapa, Novaliches, QC ///	70,195.48	06/30/2016
Taytay	Ilog Pugad National Road, Brgy San Juan, Taytay, Rizal	87,000.00	03/04/2016

1/ Contract of Lease renewal is still in process

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
The Fort- Burgos Circle	Unit GF-4, The Fort Residences, 30th St. cor. 2nd Avenue, Padre Burgos Circle, Bonifacio Global City, Taguig	160,833.14	11/30/2017
Timog	Ground Floor NEWGRANGE BLDG., 32 TIMOG AVE., BRGY. LAGING HANDA, QUEZON CITY	96,768.00	11/14/2016
Tondo	1941-43 Juan Luna St., Tondo, Manila	103,318.03	10/31/2017
Tutuban	G/F & Podium Level, Prime Block Mall, Tutuban Center, Divisoria, Manila	94,737.12	06/14/2014
Tutuban-Abad Santos	1450-1452 Coyuco Bldg., Jose Abad Santos, Tondo, Manila	52,435.82	08/31/2016
U. E. Recto	G/F Dalupan Bldg., Unversity of the East Campus, Claro M. Recto Ave., Manila	under nego	03/31/2013
U.N. Avenue	G/F UMC BLDG., 900 U.N. AVENUE, ERMITA, MANILA	71,930.43	11/30/2017
United parañaque	Iba cor. Malugay Sts., East Service Road, Bgy. San Martin de Porres, United Pque., Pque. City	-	09/22/2012
UP Campus	NO. 3 APACIBLE STREET, UP CAMPUS, DILIMAN, QUEZON CITY 1101	463,400.00	12/31/2014
Uratex - East Service Road	Uratex Bldg., Km. 23, East Service Road, Barangay Cupang, Muntinlupa City	53,697.00	10/31/2018
Villamor Air Base	G/F Airmens Mall Bldg. cor Andrews & Sales sts. Villamor Air Base, Pasay City		1/
Visayas - Congressional	22 Congressional Avenue near corner Visayas Avenue, Quezon City	87,127.70	03/15/2016
Vito Cruz	550 Pablo Ocampo St.(formerly Vito Cruz Ext.), Malate, Manila	91,350.00	08/31/2014
Zabarte - Quirino Hiway	1131 Quirino Hi-way, Bgy. Kaligayahan, Novaliches, Quezon City	73,705.25	07/31/2016
Zapote	59 Alabang-Zapote Road, Las Piñas City	72,765.00	08/14/2015

[1/] Contract of Lease renewal is still in process

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Northern Luzon			
Abanao	90 NRC BUILDING, ABANAO ST., BAGUIO CITY	94,481.42	10/16/2013
Agoo	T. Asper St., San Nicolas Norte, Agoo, La Union	6,000.00	06/01/2015
Angeles	McArthur Hi-way, Bgy. Salapungan, Angeles City, Pampanga	77,175.00	07/31/2015
Apalit	Mc Arthur Highway, San Vicente, Apalit, Pampanga	11,051.26	07/31/2018
Baguio	G/F Baguio Center Mall, Magsaysay Ave., Baguio City	50,000.00	06/30/2013
Balagtas	G/F D&A Bldg., Mc Arthur Highway, San Juan, Balagtas, Bulacan	58,497.60	06/30/2013
BEPZ	Bataan Economic Zone, Luzon Ave., Marivels, Bataan 2106	27,164.30	03/07/2019
Bocaue	McArthur Hi-way, Lolomboy, Bocaue, Bulacan	-	10/07/2012
Bontoc	G/F Mt. Province Commercial Center, Pob. Bontoc, Bontoc, Mountain Province	27,030.00	09/11/2016
Cabanatuan	Paco Roman St., Cabanatuan City, Nueva Ecija	36,465.19	04/29/2014
Camiling	Poblacion G, Camiling Tarlac	77,437.50	05/18/2017
Camiling	Rizal St., Camiling, Tarlac (LOT LEASE)	19,073.49	03/15/2016
Capas	Capas Comm'l Complex, Concepcion Junction, Bo. Sto. Domingo, Capas, Tarlac	59,298.75	10/15/2016
cauayan	Disston Lumber and Electrical Supply, National Road, San Fermin, Cauayan City, Isabela (effective 04/01/2009)	69,457.50	03/31/2014
Centro Ilagan	J. Rizal St., Centro, Ilagan City, Isabela 3300	31,500.00	08/04/2013
Clark Field	Retail 4 & 5, Berthaphil III, Clark field Center 2, Jose Abad Santos Ave., Clark Field Freeport Zone, Clark Field, Pampanga 2023	100,776.56	05/31/2019
Dagupan	A. B. Fernandez Ave., cor. Noble St., Dagupan City	80,000.00	12/31/2014
Dagupan - Perez Blvd	Orient Pacific Center Building Perez Blvd. cor. Rizal St. Extension, Dagupan City (former Abrabar Building Perez Blvd Dagupan City.)	65,000.00	03/31/2017
Dinalupihan	BDA Bldg., San Ramon Highway, Dinalupihan, Bataan 2110	51,434.58	03/20/2017
Dolores	Units 4&5 G/F, Peninsula Plaza Bldg., Mc Arthur Highway, Dolores, City of San Fernando, Pampanga	83,956.98	06/01/2014
Dolores	Relocation: Tagle Building, McArthur Hiway, Brgy. San Agustin, San Fernando, Pampanga (Old SiteGopiao Bldg., McArthur Hi-way, Dolores, San Fernando, Pampanga)	95,220.00	08/15/2018
East Gate City walk	East Gate CW Commercial Center, Olongapo Gapan Rd., San Jose, City of San Fernando, Pampanga	58,730.50	05/15/2013
Guimba	CATMAN Bldg., Provincial Road corner Faigal St., Saranay District , Guimba, Nueva Ecija	45,885.75	09/30/2017
La Trinidad	AAG Building 2, Alexander St., Urdaneta City, Pangasinan	75,000.00	12/14/2017
La Trinidad	Benguet State University Compound, Brgy Balili, Kilometer 5, La Trinidad, Benguet 2601	32,191.83	10/05/2032
Lagawe	JDT BLDG., INGUILING DRIVE, POBLACION EAST, LAGAWE,IFUGAO	15,120.00	10/10/2013
Laoag	F.R. Castro Ave. (formerly A. Bonifacio St.), Laoag City, Ilocos Norte	90,000.00	03/31/2019
Lubao	Olongapo Rd., Sta. Cruz, Lubao, Pampanga	41,895.00	12/31/2015
Mabalacat	McArthur Highway, Bgy., Mabiga, Mabalacat, Pampanga	37,268.00	01/31/2015
Macabebe	Y N CEE Commercial Bldg. Poblacion, San Gabriel Macabebe, Pampanga	35,427.59	03/28/2016
Magsaysay Avenue	G/F Lyman Ogilby Centrum Bldg., 358 Magsaysay Ave., Baguio City 2600	91,121.75	06/30/2017
Malolos	McArthur Hiway, Sumapang Matanda, Malolos City, Bulacan	69,300.00	12/31/2016
Mangaldan	G/F Abad Biascan Bldg., 5 Rizal Ave., Poblacion, Mangaldan, Pang.	-	02/28/2012
Meycauayan	GF Stalls 8 & 9 Esperanza Mall, Mc Arthur Highway, Brgy. Calvario, Meycauayan, Bulacan (new site effective 11/14/2011)	70,449.75	10/31/2016
Naguilian Road -Bbaguio	G/F High Country Inn, Naguilian Road, Baguio City	70,000.00	10/31/2016
Narvacan	ANNEX BLDG., NARVACAN MUNICIPAL HALL, STA. LUCIA, NARVACAN, ILOCOS SUR	55,000.00	09/01/2017
North Zambales	BRGY. HALL POB. SOUTH STA. CRUZ, ZAMBALES	15,000.00	12/31/2017
Olongapo - Magsaysay	YBC Mall, 97 Magsaysay Drive, East Tapinac, Olongapo City	for reloc	01/31/2013
Orani	Agustina Bldg., McArthur HIghway, Parang-Parang, Orani, Bataan	27,940.00	02/01/2014
Pasuquin	FARMERS TRADING CENTER BLDG., Maharlika Hi-way, POB. 1, Pasuquin, Ilocos Norte	20,000.00	02/12/2022
Plaridel	Cagayan Valley Road, Bonga, Plaridel, Bulacan (LOT LEASE)	15,944.05	07/30/2017
Robinsons Pulilan	Robinsons Mall Pulilan, Maharlika Highway, Cutcut, Pulilan, Bulacan	40,834.92	12/21/2014
San Carlos	Plaza Jaycee St., San Carlos City, Pangasinan	60,046.01	08/14/2014
San Fernando, Pamp.	LNG Bldg., Mc Arthur Highway Dolores Junction, San Fernando, Pampanga	64,163.78	09/27/2013
San Jose Del monte	Dalisay Bldg., Quirino Hi-way, Tungkong Mangga, City of San Jose Del Monte, Bulacan	87,084.93	12/31/2012
Sanchez Mira	C-2 Maharlika Highway Sanchez Mira, Cagayan 3518	33,100.00	03/01/2023
Sangitan	R. Macapagal Bldg, Maharlika Highway, Brgy Dicarma, Cabanatuan City	47,432.00	08/31/2013
Santiago, Isabela	Municipal Integrated Bldg., Panganiban cor. Barrera St., Santiago, Is.	5,023.50	08/28/2015
Solano	National Highway. Poblacion South, Solano, Nueva Vizcaya	47,753.71	08/31/2017
Sta. Maria	Jose Corazon De Jesus St., Poblacion, Sta. Maria, Bulacan	77,358.84	09/30/2013
Sta. Rosa, NE	G/F, JNB Bldg., Bgy. Cojuangco, Cagayan Valley Road, Sta. Rosa, NE	37,800.00	09/30/2016
Subic	Lot 5 Retail 2, Times Square mall, Sta. Rita Road, Subic Bay Freeport Zone, Olongapo City, Zambales 2220	74,886.00	10/09/2014
Tabuk	Lua Bldg., Mayangao St., Tabuk, Kalinga 3800	28,300.26	05/31/2015
Tarlac	#6 Zamora St. Tarlac City	-	10/31/2012
Tuao	GF, Villacete Bldg., National Highway, Pata, Tuao, Cagayan		1/
Tuguegarao	G/F Brickstone Mall, Km. 482, Maharlika Highway, Pengue Ruyu, Tuguegarao City, Cagayan (new site effective Dec 20, 2010)	65,488.50	11/15/2015
Vigan	36 Quezon Ave., Vigan, Ilocos Sur (LOT LEASE)	54,697.78	04/30/2013

[1/] Contract of Lease renewal is still in process

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Southern Luzon			
Albay Capitol	ANST Bldg. II, Rizal St., Brgy. 14, Albay District., Legaspi City	65,135.27	07/30/2014
Atimonan	Our Lady of the Angels Parish Compund, Quezon Street, Atimonan,Quezon	19,892.36	07/16/2015
Bacoor	Casa San Miguel 215 E. Aguinaldo Highway, Barangay Panapaan, Bacoor, Cavite	65,000.00	05/13/2017
Batangas	Diego Silang St., Batangas City	85,000.00	07/15/2013
Batangas - Kumintang	JPA AMA Bldg., Kumintang Ilaya, Batangas City, Batangas	72,802.75	02/28/2015
Bauan	G/F ADD Building, J.P. Rizal St., Poblacion, Bauan, Batangas	36,004.21	07/11/2016
Biñan	Ammar Commercial Center, Nepa National Highway, Brgy. Sto. Domingo, Biñan, Laguna	98,951.35	03/31/2023
Boac	Gov. Damian Reyes St., Murallon, Boac,Marinduque	31,215.00	09/30/2014
Bulan	R. Magsaysay cor. MH del Pilar Sts., Bulan, Sorsogon	35,000.00	07/31/2017
Cabuyao	Asia Brewery Complex, National Hi-way, Bgy. Sala, Cabuyao, Laguna	36,931.93	03/31/2013
Calamba	G/F Sta. Cecilia Business Center, Nat'l Hi-way, Bgy. Parian, Calamba, Laguna	39,000.00	10/15/2016
Calamba - Bucal	GF PrimeUnit 103 Carolina Center Bldg. COR. Ipilipil St. Brgy.Bucal Calamba, Laguna	96,757.27	11/30/2013
Calamba Crossing	G/F Unit Building, J. Alcasid Business Center, Crossing Calamba City, Laguna	103,355.13	02/15/2016
Carmona	9767 Brgy. Maduya, Carmona, Cavite	71,662.50	08/31/2015
Cavite - Dasmariñas	G/F LCVM BLDG, Aguinaldo Hi-Way Zone IV, DASMARINAS CITY, CAVITE	142,864.70	12/31/2015
CEPZ	GEN. TRIAS DRIVE, ROSARIO, CAVITE	27,563.51	01/01/2016
Daet	Pimentel Ave., cor. Dasmarinas St., Daet, Camarines Norte	71,662.50	03/16/2015
Dasmariñas	G/F, Amada-Felix Bldg., Aguinaldo Hi-way, Burol Main, Dasmarinas, Cavite	75,000.00	10/31/2012
Gen. Trias	129 Governor's Drive, Manggahan, General Trias, Cavite	57,750.00	08/31/2016
Goa	Juan Go Bldg., cor. Rizal & Bautista Sts., Goa, Camarines sur	46,415.30	08/31/2017
Gumaca	Andres Bonifacio St., Poblacion, Gumaca, Quezon (LOT LEASE)	14,280.50	11/29/2015
Imus	GF, J. Antonio Bldg. 1167 Gen. Aguinaldo Highway, Bayan Luma 7, Imus, Cavite 4103	155,157.07	11/01/2016
Imus	Sayoc-Abella Blsg., E. Aguinaldo Hi-way, Imus, Cavite	86,821.88	08/31/2014
Legazpi	35 F. Imperial St., Legaspi, Albay (LOT LEASE)	under nego	05/31/2012
Lemery	Humarang Bldg. Corner Ilustre Ave. and P. De Joya St., Lemery Batangas	57,083.33	06/30/2016
Ligao	San Jose St., Dunao, Ligao City	59,473.40	09/30/2017
Lipa City	K-Pointe Plaza, Ayala Hi-way, Lipa City, Batangas	50,715.00	10/31/2015
Lucena	New Site: Enriquez cor Enverga St., Poblacion, Lucena City (Quezon Ave., cor. Leon Guinto St., Lucena City, Quezon)	70,000.00	09/15/2017
Maharlika	Kadiwa Center Building, Poblacion, Sta. Cruz, Marinduque	6,768.27	06/20/2015
Molino	I.K. Commercial Building, Molino III, Paliparan Highway, Bacoor, Cavite	62,842.50	05/31/2015
Naga Magsaysay	G-Square Building Magsaysay Avenue cor Catmon II St., Balatas, Naga City	74,088.00	04/14/2014
Naga Panganiban	DECA Corporate Center, Panganiban Drive, Brgy. Tinago, Naga City	121,000.00	08/31/2015
Naic	P. POBLETE STREET, IBAYO SILANGAN, NAIC, CAVITE	5,300.53	02/15/2017
Nasugbu	JP Rizal St. cor F. Alix St., Nasugbu Batanagas (effective 06/01/2009)	83,482.35	05/31/2014
Pacita Complex	Old National Hiway, Brgy Nueva, San Pedro, Laguna	52,000.00	05/31/2016
Paseo de Santa Rosa	Blk. 5 Lot 3B Sta. Rosa Estate 2-A, Balibago Tagaytay Road, Bo. Sto. Domingo, Sta. Rosa City, 4026 Laguna	155,538.18	06/30/2016
Pili	Cu Bldg, Old San Roque, Pili, Camarines Sur	64,409.69	08/31/2017
Pinamalayan	Mabini St. Zone IV, Pinamalayan, Oriental Mindoro	43,502.38	10/01/2020
Polangui	National Road, Ubaliw, Polangui, Albay	11,297.00	04/30/2013
Romblon	SAL Building, Republika St., Brgy. 1, Romblon, Romblon	16,000.00	10/12/2014
San Pablo	Mary Grace Building,Colago Ave. cor. Quezon Ave.,San Pablo City, Laguna	47,250.00	11/30/2016
San Pedro	Alex Bldg., National Hi-way, Bgy.Poblacion, San Pedro, Laguna	68,250.00	09/30/2018
San Rafael	Cagayan Valley Road, Bo. Cruz na Daan, San Rafael, Bulacan	-	12/31/2011
Siniloan	G. Redor St. Siniloan Laguna	64,263.61	01/17/2016
Sorsogon - Sorsogon	Doña Nening Building, R. Magsaysay St., Sorsogon City, Sorsogon	42,443.06	03/13/2013
Sta. Cruz	Regidor St., Poblacion, Sta. Cruz, Laguna	81,033.75	02/21/2014
Sta. Rosa	NATIONAL HIGHWAY BALIBAGO CITY OF STA ROSA LAGUNA	98,433.46	07/01/2016
Sta. Rosa, Laguna	G/F Don F. Tan Gana Bldg., National hi-way, Balibago, Sta. Rosa, Laguna	88,200.00	09/30/2015
Tagaytay	Vistamart Bldg., Gen. E. Aguilnado Highway, Mendez Crossing West, Tagaytay City	79,992.57	11/01/2019
Tanauan	G/F V. Luansing Bldg, J.P. Laurel Highway, Tanauan City, Batangas	44,000.00	08/22/2016
Tanza	G/F Annie's Plaza, A. Soriano Highway, Daang Amaya, Tanza Cavite	46,305.00	10/15/2015
UP los Baños	LANZONES ST. UPLB COLLEGE LOS BANOS, LAGUNA	-	03/15/2014
Virac	055 Quezon Ave., Brgy Salvacion, Virac, Catanduanes		1/

[1/] Contract of Lease renewal is still in process

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Visayas			
Bacolod - Hilado	Hilado corner L..N. Agustin Sts., Bacolod City	-	
Bacolod - Libertad	Libertad St., near Poinsetia St., Bacolod City, Negros Occidental	47,250.00	11/03/2016
Bais	Rosa Dy-Teves Bldg, Quezon St., Bais City	27,500.00	11/30/2016
Banilad	Gov. M. Cuenco Ave., cor. Paseo Saturnino St., Banilad, Cebu City	110,004.27	02/28/2015
Bayawan	G/F Trias Bldg., Magsaysay St., Bayawan, Negros Oriental	36,842.11	03/31/2017
Baybay	Baybay Multipurpose Gym, Magsaysay Ave., Baybay City, Leyte	1,000.00	12/24/2017
Bogo	Cor. R. Fernan & San Vicente Sts., Bogo City, Cebu	23,098.25	04/14/2016
Cebu - A. C. Cortes	AC Cortes Ave., Mandaue City, Cebu	96,032.77	02/29/2016
Cebu - Banilad	AS Fortuna St., Banilad, Mandaue City, Cebu (LOT LEASE)	37,000.18	03/23/2015
Cebu - Bantayan	Escario St., Bantayan Island, Cebu	61,233.51	10/23/2014
Cebu - Carbon	41-43 Plaridel St., Carbon district, Cebu City, Cebu	104,186.25	10/31/2014
Cebu - Carcar	Jose Rizal St., Poblacion 1, Rotonda, Carcar, Cebu	59,850.00	02/21/2016
Cebu - Colon	G/F J. Avila Bldg., Collonade Mall Oriente, Colon St., Cebu City	155,469.04	12/31/2014
Cebu - Consolacion	Cansaga (Poblacion), Consolacion, Cebu	40,000.00	11/15/2011
Cebu - Fuente Osmeña	C. A. O. Mercado Bldg., Osmeña Blvd., Cebu City	132,037.94	05/31/2013
Cebu - Gorordo	Machay Bldg., Gorordo Ave., Lahug, Cebu City	61,000.00	08/15/2012
Cebu - Lapu-lapu	Mangubat cor. Rizal Sts., Lapu-Lapu City, Cebu	under nego	05/19/2010
Cebu - Mambaling	G/F Super Metro Mambaling, F. Llamas St., corner Cebu South Road, Basak, San Nicolas, Cebu City	73,740.71	09/30/2014
Cebu - Mandaue	KRC Bldg., National Highway, Subangdaku, Mandaue City, Cebu	54,305.48	08/15/2016
Cebu - Minglanilla	Ward 4, Poblacion, Minglanilla, Cebu City	52,000.00	10/14/2017
Cebu - Pusok	Highway, Pusok, Lapu-Lapu City (LOT LEASE)	23,579.48	02/29/2016
Cebu - Tabunok	Viva Lumber Bldg., Talisay, Tabunok, Cebu	51,243.50	06/17/2014
Cebu - Talamban	DCR Bldg., National Highway, Talamban, Cebu City	63,425.75	08/14/2013
Cebu IT Park	G/F, TGU Tower, Cebu IT Park, Salinas Drive cor. J.M del Mar St., Apas, Cebu City	47,578.72	10/05/2012
Centro Mandaue	G/F M2, Gaisano Grand Mall, Mandaue Centro, A. Del Rosario St., Mandaue City 6014, Cebu	80,634.65	02/28/2017
De Leon	ATM Bldg., corner Jalandoni and Ledesma Sts., Iloilo City	84,672.00	06/30/2014
Downtown Tacloban	G/F, Washington Trading Bldg., Rizal Ave., Tacloban City, Leyte 6500	104,780.08	10/22/2016
Fuente Osmeña	BF Paray Bldg., Osmena Blvd., Cebu city	134,400.00	05/26/2013
Guihulngan	New Guihulngan Public Market, S. Villegas St., Guihulngan, Negros Oriental	2,423.52	02/09/2015
Guiuan	Cor. San Nicolas & Guimbaolibot Sts., Guiuan, Eastern Samar 6809	21,052.63	11/01/2012
Iloilo - Aldeguer	Lope Locsin Bldg., Aldeguer St., Iloilo City	84,000.00	11/30/2015
Iloilo - Gen. Luna	Sarabia Manor Bldg., 101 Gen. Luna St., Iloilo City	60,637.50	12/17/2014
Iloilo - Jaro	Simon Ledesma St., Jaro, Iloilo	57,750.00	02/28/2017
Iloilo - Sta. barbara	Bga. Dama, Brgy Bolong Oeste, Sta. Barbara, Iloilo City	52,032.55	10/31/2013
Island City Mall - Tagbilaran	Upper Ground Floor 33-34, Island City Mall, Dampas District, Tagbilaran City	62,105.72	07/31/2016
Jaro	#8 Lopez Jaena St., Jaro, Iloilo City	125,537.07	05/02/2016
Kalibo	Martelino St., Kalibo, Aklan (beside Jolibee - near corner Arch. Gabriel Reyes Street) (LOT LEASE)	35,890.70	12/29/1904
La Carlota	Cor La Paz and Rizal Sts., La Carlota City	37,235.94	05/31/2016
La Paz	Inayan Bldg., cor. Huevana & Rizal Sts.,La Paz, Iloilo City 5000	50,153.62	12/31/2013
Lahug	G/F Juanita Bldg., Escario St. Cor. Gorordo Ave., Brgy. Camputhaw, Lahug, Cebu City	43,419.50	02/07/2016
Mandaue	JD Building, Lopez Jaena Street, Tipolo, Mandaue City, Cebu 6014	95,551.17	04/15/2015
MEPZ	1st Ave., MEPZ 1, Mactan Island, Lapu-Lapu City, Cebu 6015		[1/]
Miag-ao	One TGN Building, Cor. Noble & Sto. Tomas Sts., Miagao., Iloilo	39,000.50	05/15/2013
North Road – Mandaue	Insular Square, 31 JP Rizal St., Tabok, Mandaue City		
One Pavilion Mall- Cebu City	One Pavilion Mall, R. Duterte St., Banawa, Cebu City, 6000	100,097.43	10/07/2017
Ormoc	Reat St., Ormoc City., Leyte	55,125.00	09/30/2016
Palompon	Ground Floor, Municipal Bldg., Rizal St., Palompon, Leyte	3,556.08	05/17/2018
Passi	5037 F. Palmares Street, Passi City, Iloilo	39,332.89	10/03/2013
San Jose, Antique	San Isidro St., San Jose de Buenavista, Antique	56,227.50	06/11/2015
Tabunok	Paul Sy Bldg., National Highway, Tabunok, Talisay City	15,568.00	01/17/2017
Tagbilaran	GIE Garden Hotel, cor. CP Garcia Ave. & MH del Pilar St., Tagbilaran, Bohol	70,000.00	07/31/2012
Ubay - Bohol	G/F LM Commercial Bldg.,National Hi-way Cor.Tan Pentong St.,Poblacion, Ubay, Bohol	59,901.58	06/14/2018
Uptown Cebu	Ground Floor, Jethouse Bldg., #36 Osmena Blvd., Cebu City	134,220.70	09/15/2015

[1/] Contract of Lease renewal is still in process

Branch Name	Address	Monthly Rent (in Pesos)	Expiration of Lease
Minadanao			
Agdao	LA Bldg., Doors 5 & 6, Lapu-Lapu St., Davao City, Davao del Sur	72,800.00	12/31/2013
Bajada	G/F Quibod Bldg., J. P. Laurel St. Cor. A. Loyola St., Davao City, Davao del Sur	71,400.00	06/30/2013
Bangoy	G/F Amigleo Bldg., cor. Bonifacio & C. Bangoy Sts., Davao City, Davao del Sur	60,000.00	03/31/2013
Bankerohan	Units 101-102, JLF Parkway Bldg., cor. Quirino & Magallanes Sts., Davao City, Davao del Sur	74,000.00	06/30/2015
Bayugan	358 Narra Ave., Bayugan, Agusan del Sur	23,100.00	05/31/2016
Butuan - J. C. Aquino	J.C. Aquino Avenue, Butuan City, Agusan del Norte		
Carmen	Premier Bldg., Elipe Park, R.M. Pelaez St. Cor. Agoho Drive, Brgy. Carmen, Cagayan de Oro City, Misamis Oriental	46,217.49	09/02/2014
Climaco	JNB Bldg., Buenavista St., Zamboanga City, Zamboanga del Sur	88,255.38	06/25/2017
Dadiangas	RD Realty Development Bldg., Santiago Blvd., General Santos City, South Cotabato	60,184.34	02/28/2013
Davao - Agdao	Lapu-Lapu St., Agdao, Davao City	78,718.50	11/30/2014
Davao - Digos	Gen. Luna St. (near Katipunan), Digos, Davao del Sur	40,262.75	09/30/2015
Davao - Lanang	ABI Compound, Km. 7, Lanang, Davao City, Davao	31,598.54	07/24/2016
Davao - Monteverde	Monteverde cor. Banguy Sts., Davao City	96,850.22	03/13/2015
Davao - Sta. Ana	R. Magsaysay Ave., cor. Lizada St., Davao City, Davao	99,750.00	05/24/2016
Davao - Tagum	GL 04-06 (G/F) Gaisano Grand Arcade, Apokon Road cor. Lapu-Lapu Ext., Brgy. Visayan Village, Tagum City, Davao del Norte	45,000.00	09/15/2017
Gaisano Capital - Surigao	Gaisano Capital, KM 4, National Highway, Barangay Luna, Surigao City	38,744.28	07/10/2017
General Santos	Pedro Acharon Blvd., General Santos City, South Cotabato (LOT LEASE)		1/
Iligan	Juan Luna St., Iligan City, Lanao del Norte	80,000.00	10/31/2016
Isulan	Aristoza Bldg., National Highway, Isulan, Sultan Kudarat	37,383.28	05/31/2017
KCC Mall- Gen. Santos City	Unit 018 Lower G/F KCC Mall of Gensan, Jose Catolico Sr. Ave. General Santos City, South Cotabato	110,197.72	04/10/2016
Kidapawan	Unit I, Yaoto Bldg., National Hi-way cor. Dayao St. Kidapawan, North Cotabato	62,500.00	04/26/2013
Liloy	Chan Bldg., Baybay, Liloy, Zamboanga del Norte	14,112.00	04/30/2015
Limketkai Mall - North Concours	G/F North Concourse, Limketkai Mall, Limketkai Center, Lapasan, Cagayan de Oro City, Misamis Oriental	156,990.97	09/30/2014
Malaybalay	Flores Bldg., cor. Rizal & Tabios Sts., Brgy. 5, Malaybalay City, Bukidnon	57,349.35	04/30/2017
Malaybalay	Fortich corner Kapitan Juan Melendez Sts., Malaybalay, Bukidnon	42,350.00	03/31/2018
Matina	HIJ Bldg., Mc Arthur Highway, Brgy. Matina, Davao City	64,276.97	06/30/2018
Matina Crossing	80 Gen. Mac Arthur Highway, Matina Crossing, Davao City (formerly Saavedra St., Toril, Davao City)	44,100.00	09/15/2015
Monteverde	Mintrade Bldg., Monteverde St. cor. Sales St., Davao City,Davao del Sur	96,630.60	03/31/2017
Ozamis	Gomez cor. Burgos Sts., Ozamis City, Misamis Occidental	50,000.00	09/30/2013
Pala-o	G/F Iligan Day Inn Bldg., Benito S. Ong St., Pala-O, Iligan City, Lanao del Norte	56,449.70	09/30/2017
Panabo City	G/F Gaisano Grand Mall of Panabo, Quezon St., Brgy. Sto. Niño, Panabo City, Davao Del Norte	80,586.22	11/21/2016
Sasa	Carmart Bldg., Km 8 Sasa Davao City	42,200.00	06/15/2015
Sindangan	Corner Rizal & Bonifacio Sts., Poblacion, Sindangan, Zamboanga del Norte	8,929.92	08/11/2022
Sta. Ana Davao	Bonifacio Tan Bldg., Rosemary cor. Bangoy Sts., Sta. Ana Dist., Davao City, Davao del Sur	64,260.00	04/30/2018
Surigao	San Nicolas St., Washington, Surigao City, Surigao del Norte	98,100.00	03/31/2016
Tetuan	G/F, AL Gonzalez & Sons Bldg., Veterans Ave., Zamboanga City 7000	82,632.13	05/15/2017
Toril	Anecita G. Uy Bldg., Saavedra St., Toril, Davao City, Davao del Sur	57,455.36	06/01/2017
Valencia	Tamay Lang Bldg., G. Lavina St., Poblacion, Valencia, Bukidnon	69,805.12	04/01/2017
Valencia	Lavina Bldg., Mabini Street, Valencia, Bukidnon	58,593.75	02/28/2021
Zamboanga - Canelar	G/F, Blue Shark Hotel, Mayor Jaldon St., Canelar, Zamboanga City	48,315.30	08/31/2022
Zamboanga - Guiwan	National Hi-way, Guiwan Zamboanga City	17,280.00	02/28/2017
Zamboanga - Nuñez Ext (Gov. A	Ciudad Medical Zamboanga, Nuñez Ext., Zamboanga City	53,589.72	05/31/2013
Zamboanga del Norte - Dipolog	Rizal Ave., cor. Osmena St., Dipolog City, Zamboanga del Norte	85,000.00	04/16/2017
Zamboanga del Sur - San Jose	San Jose Road, Zamboanga City, Zamboanga del Sur	30,000.00	04/22/2014
Zamboanga del Sur - Veterans Av	Zamboanga Doctors' Hospital, G/F Annex Bldg., Veterans Ave., Zamboanga City, Zamboanga del Sur	63,800.00	05/15/2017

1/ Contract of Lease renewal is still in process

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine National Bank is responsible for the preparation and fair presentation of the consolidated and parent company financial statements as of December 31, 2013 and 2012 and January 1, 2012 and for each of the years ended December 31, 2013, 2012 and 2011, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated and parent company financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated and parent company financial statements of the Philippine National Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

FLORENCIA G. TARRIELA
Chairman of the Board

OMAR BYRON T. MIER
President & Chief Executive Officer

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

APR 14 2014

SUBSCRIBED AND SWORN to before me this ____ day of April 2014 affiants exhibiting to me their Passport No., as follows:

Names	Passport No.	Date of Issue	Place of Issue
Florencia G. Tarriela	EB6620757	October 23, 2012	DFA Manila
Omar Byron T. Mier	XX3773388	May 21, 2009	DFA Manila
Zacarias E. Gallardo, Jr.	EB1931075	February 16, 2011	DFA Manila

Doc.No. 342
Page No. 70
Book No. I
Series of 2014.

Notary Public

ATTY. MA[illegible] RAMIREZ
Commission No. [illegible]-14
Roll No. 45158
Notary Public for Pasay City until 12/31[illegible]
9th Flr., PNB Financial Center
Pres. D. P. Macapagal Blvd., Pasay City
PTR No. [illegible]-03-14/Pasay City
IBP No. 943769/12-02-13/RSM

COVER SHEET

AS096-005555

SEC Registration Number

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

(Company's Full Name)

PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City

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

Mr. Omar Byron T. Mier	**891-6040 to 70**
(Contact Person)	(Company Telephone Number)

12 31	AAFS	05 27
Month *Day* (Fiscal Year)	(Form Type)	*Month* *Day* (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 ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 38 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115 -AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735,
BIR Accreditation No. 08-001998-53-2012
April 11, 2012, valid until April 10, 2015
PTR No. 4225181, January 2, 2014, Makati City

February 28, 2014

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	Consolidated			Parent Company		
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)	**December 31, 2013**	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
ASSETS						
Cash and Other Cash Items	**₱11,804,746**	₱5,599,088	₱5,404,110	**₱9,700,005**	₱5,548,325	₱5,303,112
Due from Bangko Sentral ng Pilipinas (Notes 17 and 35)	**153,169,330**	37,175,399	38,152,795	**146,079,249**	36,531,047	37,492,594
Due from Other Banks (Note 32)	**14,881,541**	4,042,769	6,423,981	**6,146,134**	3,293,782	4,906,698
Interbank Loans Receivable	**8,405,250**	11,498,756	17,097,648	**8,405,250**	11,498,756	17,097,648
Securities Held Under Agreements to Resell (Note 34)	–	18,300,000	18,300,000	–	18,300,000	18,300,000
Financial Assets at Fair Value Through Profit or Loss (Note 7)	**11,709,348**	4,023,065	6,875,665	**3,845,673**	3,965,098	6,873,208
Available-for-Sale Investments (Notes 8 and 16)	**80,304,149**	66,997,479	52,323,808	**72,719,422**	64,764,040	50,428,977
Loans and Receivables (Notes 9 and 32)	**274,276,083**	144,230,665	125,630,770	**255,435,530**	139,523,674	122,034,686
Property and Equipment (Note 10)						
At cost	**1,463,308**	937,075	866,012	**1,167,115**	757,364	676,405
At appraised value	**21,155,051**	15,566,650	15,698,514	**20,575,338**	15,566,650	15,698,514
Investments in Subsidiaries and an Associate (Note 11)	–	2,391,255	2,896,718	**13,479,418**	6,399,163	7,300,582
Investment Properties (Notes 12 and 33)	**21,452,962**	15,493,026	18,519,723	**21,224,934**	15,425,877	18,449,813
Deferred Tax Assets (Note 29)	**253,946**	1,780,682	1,775,789	–	1,673,718	1,696,698
Intangible Assets (Note 14)	**2,378,040**	377,022	410,357	**2,280,136**	371,505	403,055
Goodwill (Notes 13 and 14)	**13,375,407**	–	–	**13,515,765**	–	–
Other Assets (Note 15)	**3,436,355**	1,777,820	1,175,530	**2,810,178**	1,464,683	778,288
TOTAL ASSETS	**₱618,065,516**	₱330,190,751	₱311,551,420	**₱577,384,147**	₱325,083,682	₱307,440,278
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 17 and 32)						
Demand	**₱125,359,053**	₱28,152,296	₱29,896,120	**₱118,010,984**	₱28,417,452	₱30,042,425
Savings	**285,542,213**	192,793,260	184,676,119	**282,722,724**	192,824,803	184,692,779
Time	**51,464,182**	19,908,821	22,961,698	**47,698,807**	20,164,420	23,726,483
	462,365,448	240,854,377	237,533,937	**448,432,515**	241,406,675	238,461,687
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**8,074,895**	6,479,821	6,650,183	**163,084**	6,479,821	6,650,183
Bills and Acceptances Payable (Notes 19, 32 and 34)	**13,171,997**	13,076,901	8,458,425	**13,484,476**	12,718,811	7,318,358
Accrued Taxes, Interest and Other Expenses (Note 20)	**5,523,523**	3,914,290	3,739,049	**5,009,163**	3,720,769	3,562,131
Subordinated Debt (Note 21)	**9,953,651**	9,938,816	6,452,473	**9,953,651**	9,938,816	6,452,473
Income Tax Payable	**48,448**	149,050	242,169	**6,186**	147,911	220,803
Other Liabilities (Note 22)	**35,029,926**	17,285,251	14,668,239	**21,122,523**	13,398,883	12,144,595
TOTAL LIABILITIES	**534,167,888**	291,698,506	277,744,475	**498,171,598**	287,811,686	274,810,230
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
Capital Stock (Note 25)	**43,448,337**	26,489,837	26,489,837	**43,448,337**	26,489,837	26,489,837
Capital Paid in Excess of Par Value (Note 25)	**26,499,909**	2,037,272	2,037,272	**26,499,909**	2,037,272	2,037,272
Surplus Reserves (Notes 25 and 31)	**524,003**	569,887	560,216	**524,003**	569,887	560,216
Surplus (Note 25)	**12,432,838**	7,266,067	2,567,178	**10,688,812**	5,288,941	734,043
Revaluation Increment on Land and Buildings (Notes 10 and 25)	**2,489,722**	2,816,962	2,816,962	**2,489,722**	2,816,962	2,816,962
Remeasurement Losses on Retirement Plan (Note 27)	**(1,278,372)**	(781,900)	(1,004,057)	**(1,262,899)**	(773,837)	(1,000,543)
Accumulated Translation Adjustment (Note 25)	**291,371**	(992,620)	(451,708)	**225,594**	(61,752)	334,005
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	**(3,581,865)**	1,037,252	742,343	**(3,400,929)**	904,686	658,256
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate (Note 11)	–	–	6,795	–	–	–
Parent Company Shares Held by a Subsidiary (Note 25)	–	(4,740)	(4,740)	–	–	–
	80,825,943	38,438,017	33,760,098	**79,212,549**	37,271,996	32,630,048
NON-CONTROLLING INTERESTS (Note 2)	**3,071,685**	54,228	46,847	–	–	–
TOTAL EQUITY	**83,897,628**	38,492,245	33,806,945	**79,212,549**	37,271,996	32,630,048
TOTAL LIABILITIES AND EQUITY	**₱618,065,516**	₱330,190,751	₱311,551,420	**₱577,384,147**	₱325,083,682	₱307,440,278

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 32)	**₱13,118,464**	₱7,451,352	₱7,537,006	**₱12,558,709**	₱7,313,933	₱7,402,800
Trading and investment securities (Notes 7 and 8)	**3,756,195**	3,235,754	4,260,736	**3,409,591**	3,140,385	4,174,992
Deposits with banks and others (Note 32)	**1,585,522**	659,295	659,210	**1,361,825**	633,710	637,112
Interbank loans receivable	**19,852**	14,207	30,685	**18,101**	14,207	30,684
	18,480,033	11,360,608	12,487,637	**17,348,226**	11,102,235	12,245,588
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 32)	**3,655,381**	3,099,782	4,011,455	**3,569,034**	3,112,516	4,010,841
Bills payable and other borrowings (Notes 19, 21 and 32)	**1,076,113**	1,285,120	1,257,249	**1,027,124**	1,227,690	1,215,128
	4,731,494	4,384,902	5,268,704	**4,596,158**	4,340,206	5,225,969
NET INTEREST INCOME	**13,748,539**	6,975,706	7,218,933	**12,752,068**	6,762,029	7,019,619
Service fees and commission income (Notes 26 and 32)	**3,341,136**	2,130,663	2,343,990	**2,548,182**	1,596,950	1,682,802
Service fees and commission expense (Note 32)	**906,719**	254,447	207,387	**380,154**	146,341	127,188
NET SERVICE FEES AND COMMISSION INCOME	**2,434,417**	1,876,216	2,136,603	**2,168,028**	1,450,609	1,555,614
OTHER INCOME						
Trading and investment securities gains - net (Notes 7 and 8)	**4,618,233**	5,364,809	3,590,993	**4,421,504**	5,273,217	3,561,370
Foreign exchange gains - net (Note 23)	**1,236,189**	1,173,823	1,198,393	**1,007,721**	978,554	892,784
Net gain on sale or exchange of assets (Note 26)	**518,604**	359,915	1,350,403	**496,864**	359,915	1,350,403
Miscellaneous (Note 26)	**2,008,855**	852,809	1,148,105	**1,047,963**	405,445	791,960
TOTAL OPERATING INCOME	**24,564,837**	16,603,278	16,643,430	**21,894,148**	15,229,769	15,171,750
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 27 and 32)	**5,988,167**	3,710,029	3,858,157	**5,144,506**	3,214,496	3,264,868
Taxes and licenses (Note 29)	**1,784,886**	1,134,272	1,319,115	**1,681,885**	1,098,754	1,280,586
Depreciation and amortization (Note 10)	**1,741,986**	868,070	818,570	**1,610,260**	794,196	752,468
Occupancy and equipment-related costs (Note 28)	**1,508,237**	1,004,321	1,015,429	**1,298,564**	801,106	769,420
Provision for impairment, credit and other losses (Note 16)	**833,584**	823,701	1,025,175	**953,821**	795,106	980,452
Miscellaneous (Note 26)	**6,314,776**	3,419,436	3,125,841	**4,827,552**	3,090,318	2,653,450
TOTAL OPERATING EXPENSES	**18,171,636**	10,959,829	11,162,287	**15,516,588**	9,793,976	9,701,244
INCOME BEFORE INCOME TAX	**6,393,201**	5,643,449	5,481,143	**6,377,560**	5,435,793	5,470,506
PROVISION FOR INCOME TAX (Note 29)	**1,171,140**	925,058	849,457	**1,023,573**	871,224	808,388
NET INCOME	**₱5,222,061**	₱4,718,391	₱4,631,686	**₱5,353,987**	₱4,564,569	₱4,662,118
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 30)	**₱5,123,760**	₱4,708,560	₱4,623,230			
Non-controlling Interests	**98,301**	9,831	8,456			
	₱5,222,061	₱4,718,391	₱4,631,686			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱4.88**	₱7.11	₱6.98			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
NET INCOME	**₱5,222,061**	₱4,718,391	₱4,631,686	**₱5,353,987**	₱4,564,569	₱4,662,118
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Accumulated translation adjustment	**1,238,778**	(540,912)	20,267	**287,346**	(395,757)	33,329
Net unrealized gain (loss) on available-for-sale investments (AFS) (Note 8)	**(4,413,053)**	318,857	1,963,812	**(4,314,548)**	265,460	1,927,765
Share in equity adjustments of an associate (Note 11)	**–**	(6,795)	752	–	–	–
Income tax effect of net unrealized gain (loss) on AFS investment (Note 8)	**464**	(23,948)	(22,217)	**8,933**	(19,030)	(15,048)
	(3,173,811)	(252,798)	1,962,614	**(4,018,269)**	(149,327)	1,946,046
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gains (losses) on retirement plan (Note 27)	**(500,468)**	222,157	(1,004,057)	**(489,062)**	226,706	(1,000,543)
Revaluation increment on land and building	**(467,486)**	–	–	**(467,486)**	–	–
Income tax effect of remeasurement of land and building (Note 29)	**140,246**	–	–	**140,246**	–	–
	(827,708)	222,157	(1,004,057)	**(816,302)**	226,706	(1,000,543)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(4,001,519)**	(30,641)	958,557	**(4,834,571)**	77,379	945,503
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱1,220,542**	₱4,687,750	₱5,590,243	**₱519,416**	₱4,641,948	₱5,607,621
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱964,922**	₱4,677,919	₱5,581,787			
Non-controlling Interests	**255,620**	9,831	8,456			
	₱1,220,542	₱4,687,750	₱5,590,243			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated												
	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 25 and 31)	Surplus (Deficit) (Note 25)	Revaluation Increment on Land and Buildings (Notes 10 and 25)	Accumulated Translation Adjustment (Note 25)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	Equity in Net Unrealized Gain on AFS Investment of an Associate (Note 11)	Parent Company Shares Held by a Subsidiary (Note 25)	Remeasurement Losses on Retirement Plan	Total	Non-controlling Interest (Note 2)	Total Equity
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 year	–	–	–	**5,123,760**	**(327,240)**	**1,283,991**	**(4,619,117)**	–	–	**(496,472)**	**964,922**	**255,620**	**1,220,542**
Issuance of capital stock (Note 1)	**16,958,500**	**24,547,429**	–	–	–	–	–	–	–	–	**41,505,929**	–	**41,505,929**
Transaction costs on shares issuance	–	**(84,792)**	–	–	–	–	–	–	–	–	**(84,792)**	–	**(84,792)**
Declaration of dividends	–	–	–	**(2,873)**	–	–	–	–	–	–	**(2,873)**	–	**(2,873)**
Non-controlling interest arising on a business combination (Note 13)	–	–	–	–	–	–	–	–	–	–	–	**2,761,837**	**2,761,837**
Transfer to surplus reserves	–	–	**(45,884)**	**45,884**	–	–	–	–	–	–	–	–	–
Disposal of Parent Company shares held by a subsidiary	–	–	–	–	–	–	–	–	**4,740**	–	**4,740**	–	**4,740**
Balance at December 31, 2013	**₱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**
Balance at January 1, 2012, as previously reported	₱26,489,837	₱2,037,272	₱560,216	₱2,246,213	₱2,816,962	(₱451,708)	₱742,343	₱6,795	(₱4,740)	₱–	₱34,443,190	₱531,247	₱34,974,437
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	320,965	–	–	–	–	–	(1,004,057)	(683,092)	(39)	(683,131)
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(484,361)	(484,361)
Balance at January 1, 2012, as restated	26,489,837	2,037,272	560,216	2,567,178	2,816,962	(451,708)	742,343	6,795	(4,740)	(1,004,057)	33,760,098	46,847	33,806,945
Total comprehensive income (loss) for the year	–	–	–	4,708,560	–	(540,912)	294,909	(6,795)	–	222,157	4,677,919	9,831	4,687,750
Declaration of dividends	–	–	–	–	–	–	–	–	–	–	–	(2,450)	(2,450)
Transfer to surplus reserves	–	–	9,671	(9,671)	–	–	–	–	–	–	–	–	–
Balance at December 31, 2012	₱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

(Forward)

	Consolidated												
	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 25)	**Capital Paid in Excess of Par Value** (Note 25)	**Surplus Reserves** (Notes 25 and 31)	**Surplus (Deficit)** (Note 25)	**Revaluation Increment on Land and Buildings** (Notes 10 and 25)	**Accumulated Translation Adjustment** (Note 25)	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (Note 8)	**Equity in Net Unrealized Gain on AFS Investment of an Associate** (Note 11)	**Parent Company Shares Held by a Subsidiary** (Note 25)	**Remeasurement Losses on Retirement Plan**	**Total**	**Non-controlling Interest** (Note 2)	**Total Equity**
Balance at January 1, 2011, as previously reported	₱26,489,837	₱2,037,272	₱551,947	(₱2,414,870)	₱2,816,962	(₱471,975)	(₱1,199,252)	₱6,043	(₱4,740)	₱–	₱27,811,224	₱560,362	₱28,371,586
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	367,087	–	–	–	–	–	–	367,087	(42)	367,045
Effect of retroactive application of PFRS 10 (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(406,474)	(406,474)
Balance at January 1, 2011, as restated	26,489,837	2,037,272	551,947	(2,047,783)	2,816,962	(471,975)	(1,199,252)	6,043	(4,740)	–	28,178,311	153,846	28,332,157
Total comprehensive income (loss) for the year	–	–	–	4,623,230	–	20,267	1,941,595	752	–	(1,004,057)	5,581,787	8,456	5,590,243
Transfer to surplus reserves	–	–	8,269	(8,269)	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interest (Note 11)	–	–	–	–	–	–	–	–	–	–	–	(115,455)	(115,455)
Balance at December 31, 2011	₱26,489,837	₱2,037,272	₱560,216	₱2,567,178	₱2,816,962	(₱451,708)	₱742,343	₱6,795	(₱4,740)	(₱1,004,057)	₱33,760,098	₱46,847	₱33,806,945

	Parent Company								
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 25 and 31)	Surplus (Deficit) (Note 25)	Revaluation Increment on Land and Buildings (Notes 10 and 25)	Accumulated Translation Adjustment (Note 25)	Net Unrealized Gain (Loss) on AFS Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 27)	Total Equity
Balance at January 1, 2013, as previously reported	**₱26,489,837**	**₱2,037,272**	**₱569,887**	**₱4,951,651**	**₱2,816,962**	**(₱61,752)**	**₱904,686**	**₱–**	**₱37,708,543**
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	**337,290**	–	–	–	**(773,837)**	**(436,547)**
Balance at January 1, 2013, as restated	**26,489,837**	**2,037,272**	**569,887**	**5,288,941**	**2,816,962**	**(61,752)**	**904,686**	**(773,837)**	**37,271,996**
Total comprehensive income (loss) for the year	–	–	–	**5,353,987**	**(327,240)**	**287,346**	**(4,305,615)**	**(489,062)**	**519,416**
Issuance of capital stock (Note 1)	**16,958,500**	**24,547,429**	–	–	–	–	–	–	**41,505,929**
Transaction costs on shares issuance	–	**(84,792)**	–	–	–	–	–	–	**(84,792)**
Transfer to surplus reserves	–	–	**(45,884)**	**45,884**	–	–	–	–	–
Balance at December 31, 2013	**₱43,448,337**	**₱26,499,909**	**₱524,003**	**₱10,688,812**	**₱2,489,722**	**₱225,594**	**(₱3,400,929)**	**(₱1,262,899)**	**₱79,212,549**
Balance at January 1, 2012, as previously reported	₱26,489,837	₱2,037,272	₱560,216	₱406,474	₱2,816,962	₱334,005	₱658,256	₱–	₱33,303,022
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	327,569	–	–	–	(1,000,543)	(672,974)
Balance at January 1, 2012, as restated	26,489,837	2,037,272	560,216	734,043	2,816,962	334,005	658,256	(1,000,543)	32,630,048
Total comprehensive income (loss) for the year	–	–	–	4,564,569	–	(395,757)	246,430	226,706	4,641,948
Transfer to surplus reserves	–	–	9,671	(9,671)	–	–	–	–	–
Balance at December 31, 2012	₱26,489,837	₱2,037,272	₱569,887	₱5,288,941	₱2,816,962	(₱61,752)	₱904,686	(₱773,837)	₱37,271,996
Balance at January 1, 2011, as previously reported	₱26,489,837	₱2,037,272	₱551,947	(₱4,300,344)	₱2,816,962	₱300,676	(₱1,254,461)	₱–	₱26,641,889
Effect of retroactive application of PAS 19 (Revised) (Note 2)	–	–	–	380,538	–	–	–	–	380,538
Balance at January 1, 2011, as restated	26,489,837	2,037,272	551,947	(3,919,806)	2,816,962	300,676	(1,254,461)	–	27,022,427
Total comprehensive income (loss) for the year	–	–	–	4,662,118	–	33,329	1,912,717	(1,000,543)	5,607,621
Transfer to surplus reserves	–	–	8,269	(8,269)	–	–	–	–	–
Balance at December 31, 2011	₱26,489,837	₱2,037,272	₱560,216	₱734,043	₱2,816,962	₱334,005	₱658,256	(₱1,000,543)	₱32,630,048

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012 (As Restated - Note 2)	2011 (As Restated – Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱6,393,201**	₱5,643,449	₱5,481,143	**₱6,377,560**	₱5,435,793	₱5,470,506
Adjustments for:						
Realized trading gain on available-for-sale (AFS) investments (Note 8)	**(4,375,759)**	(4,287,934)	(3,596,089)	**(4,183,617)**	(4,205,426)	(3,566,589)
Provision for impairment, credit and other losses (Note 16)	**833,584**	823,701	1,025,175	**953,821**	795,106	980,452
Amortization of premium (discount)	**1,166,368**	(717,699)	47,419	**1,167,834**	(714,460)	59,323
Depreciation and amortization (Note 10)	**1,741,986**	868,070	818,570	**1,610,260**	794,196	752,468
Net gain on sale or exchange of assets (Note 26)	**(518,604)**	(359,915)	(1,350,403)	**(496,864)**	(359,915)	(1,350,403)
Loss (gain) on mark-to-market of financial assets and liabilities designated at fair value through profit or loss (FVPL) (Notes 8 and 18)	**184,465**	(314,340)	97,803	**179,878**	(314,340)	97,803
Loss (gain) on mark-to-market of derivatives (Notes 8 and 23)	**(28,829)**	(81,511)	34,338	**(28,829)**	(81,511)	34,338
Loss (gain) on mark-to-market of held for trading securities	**267,643**	(46,281)	(36,730)	**267,732**	(45,769)	(36,840)
Amortization of transaction costs (Notes 17 and 21)	**34,191**	21,733	32,561	**34,191**	21,733	32,561
Share in net income of an associate (Note 11 and 26)	**(4,975)**	(10,309)	(68,954)	**–**	–	–
Realized trading gain on sale of held-to-maturity (HTM) investments (Note 8)	**–**	–	(141,274)	**–**	–	(141,274)
Gain from step-up acquisition (Note 26)	**(63,605)**	–	–	**–**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Financial assets at FVPL	**(1,382,294)**	3,124,369	9,085,160	**2,682,098**	3,179,367	9,031,531
Loans and receivables	**(40,657,456)**	(20,406,367)	(18,483,800)	**(35,798,270)**	(19,544,204)	(17,734,026)
Other assets	**64,881**	1,215,745	780,578	**(1,055,896)**	1,722,961	446,246
Increase (decrease) in amounts of:						
Financial liabilities at FVPL	**(2,504,889)**	–	–	**(6,671,815)**	–	–
Deposit liabilities	**80,313,458**	3,310,937	11,083,477	**76,373,073**	2,935,486	11,559,377
Accrued taxes, interest and other expenses	**(14,876)**	602,203	(840,128)	**(156,016)**	11,389	(1,122,582)
Other liabilities	**8,261,602**	1,386,506	746,558	**3,192,096**	794,646	1,736,128
Net cash generated from (used in) operations	**49,710,092**	(9,227,643)	4,715,404	**44,447,236**	(9,574,948)	6,249,019
Income taxes paid	**(1,183,440)**	(974,179)	(856,916)	**(1,033,856)**	(900,935)	(743,275)
Net cash provided by (used in) operating activities	**48,526,652**	(10,201,822)	3,858,488	**43,413,380**	(10,475,883)	5,505,744
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
AFS investments	**145,269,935**	244,636,344	185,507,498	**143,591,731**	239,720,793	185,348,678
Investment properties	**3,021,651**	2,669,604	3,909,976	**2,678,954**	2,727,503	3,505,960
Property and equipment (Note 10)	**155,831**	300,107	121,959	**185,970**	285,389	95,542
Proceeds from maturity of HTM investments	**–**	–	2,611,603	**–**	–	2,611,603
Proceeds from sale of HTM investments	**–**	–	2,586,113	**–**	–	2,586,113
Collection of receivables from SPV	**258,348**	575,000	–	**258,348**	575,000	–

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)	2011 (As Restated – Note 2)
Proceeds from redemption of placements with the Bangko Sentral ng Pilipinas (BSP)	**₱–**	₱20,200,000	₱9,800,000	**₱–**	₱20,200,000	₱9,800,000
Placements with the BSP (Note 35)	**–**	–	(20,200,000)	**–**	–	(20,200,000)
Acquisition of:						
AFS investments	**(141,313,335)**	(254,009,801)	(164,299,207)	**(140,290,305)**	(248,911,324)	(164,006,652)
Net cash acquired from merger (Note 13)	**64,444,868**	–	–	**53,204,473**	–	–
Property and equipment (Note 10)	**(960,326)**	(704,327)	(512,048)	**(852,784)**	(636,651)	(413,451)
Software cost (Note 15)	**(118,236)**	(120,215)	(69,122)	**(82,808)**	(119,576)	(66,416)
Additional investments in subsidiaries/associate	**–**	–	–	**–**	–	(115,455)
Closure of subsidiaries	**–**	–	–	**(38,267)**	32,042	64,447
Net cash provided by investing activities	**70,758,736**	13,546,712	19,456,772	**58,655,312**	13,873,176	19,210,369
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**65,997,725**	48,061,417	40,190,569	**64,736,812**	47,023,325	36,695,559
Proceeds from issuance of subordinated debt	**–**	3,474,112	6,447,754	**–**	3,474,112	6,447,754
Settlement of bills and acceptances payable	**(69,053,466)**	(43,442,941)	(43,736,282)	**(67,061,984)**	(41,622,872)	(42,233,862)
Transaction cost of issuance of shares arising from business combination	**(84,792)**	–	–	**(84,792)**	–	–
Redemption of subordinated debt (Note 21)	**(4,500,000)**	–	(5,500,000)	**(4,500,000)**	–	(5,500,000)
Acquisition of non-controlling interest	**–**	–	(115,455)	**–**	–	–
Net cash provided by (used in) financing activities	**(7,640,533)**	8,092,588	(2,713,414)	**(6,909,964)**	8,874,565	(4,590,549)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**111,644,855**	11,437,478	20,601,846	**95,158,728**	12,271,858	20,125,564
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**5,599,088**	5,404,110	5,457,186	**5,548,325**	5,303,112	5,309,611
Due from BSP	**37,175,399**	17,952,795	14,485,986	**36,531,047**	17,292,594	14,473,986
Due from other banks	**4,042,769**	6,423,981	5,141,549	**3,293,782**	4,906,698	3,945,632
Interbank loans receivable	**11,498,756**	17,097,648	12,691,967	**11,498,756**	17,097,648	12,245,259
Securities held under agreements to resell	**18,300,000**	18,300,000	6,800,000	**18,300,000**	18,300,000	6,800,000
	76,616,012	65,178,534	44,576,688	**75,171,910**	62,900,052	42,774,488
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**11,804,746**	5,599,088	5,404,110	**9,700,005**	5,548,325	5,303,112
Due from BSP (Note 35)	**153,169,330**	37,175,399	17,952,795	**146,079,249**	36,531,047	17,292,594
Due from other banks (Note 35)	**14,881,541**	4,042,769	6,423,981	**6,146,134**	3,293,782	4,906,698
Interbank loans receivable	**8,405,250**	11,498,756	17,097,648	**8,405,250**	11,498,756	17,097,648
Securities held under agreements to resell	**–**	18,300,000	18,300,000	**–**	18,300,000	18,300,000
	₱188,260,867	₱76,616,012	₱65,178,534	**₱170,330,638**	₱75,171,910	₱62,900,052
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱4,451,487**	₱4,381,425	₱5,416,185	**₱4,345,141**	₱4,332,906	₱5,373,255
Interest received	**16,245,262**	12,232,534	12,938,408	**15,261,646**	11,978,131	12,712,686
Dividends received	**3,399**	2,418	1,680	**81,562**	25,219	231,576

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. As of December 31, 2013, the Lucio Tan Group Inc. (LTG) held indirect ownership of 56.48% of the Parent Company's shares through its various subsidiaries, while 20.22% of the Parent Company's shares are held by various companies associated with or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan and the latter owns directly 1.19% of the Parent Company's shares. The remaining 22.11% of the Parent Company's shares are held by other stockholders. As of December 31, 2012, the companies and persons affiliated/associated to or who issue proxies/special powers of attorney in favor of Director Lucio C. Tan held a total of about 68.85% of the Parent Company while the remaining 31.15% was held by the public.

The Parent Company 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 Parent Company'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 655 and 338 domestic branches as of December 31, 2013 and December 31, 2012, respectively. The Parent Company has the largest overseas network among Philippine banks with 81 and 78 branches, representative offices, remittance centers and subsidiaries as of December 31, 2013 and December 31, 2012, respectively, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are 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.

The Parent Company previously operated under a rehabilitation program pursuant to the memorandum of agreement signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP).

Merger with Allied Banking Corporation

The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger which was effected via a share-for-share exchange was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 Parent Company common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying financial statements and have the same meaning.

On March 26, 2012, the Parent Company submitted to the BSP and PDIC applications for consent to the merger. On April 12, 2012, the application for the merger was filed with the Philippine SEC. The PDIC, the Monetary Board (MB) of the BSP and the Philippine SEC gave consent and approved the merger on July 25, 2012, August 2, 2012 and January 17, 2013, respectively. In addition, with respect to ABC's overseas subsidiaries, the Parent Company has also filed notices in relation to the merger with various relevant foreign regulatory agencies; and as of February 9, 2013 had received all necessary approvals and complied with conditions to effectuate the merger.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio of 130 Parent Company common shares for one ABC share and 22.763 Parent Company common shares for one ABC preferred share. The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

The merger of the Parent Company and ABC will enable the two banks to advance their long-term strategic business interests as they capitalized on their individual strengths and markets.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>

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 financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, 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 described below:

PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and

e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 34 to the financial statements.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) No. 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 requires management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements in PAS 27. Refer to Note 3 for the significant judgment made by management in identifiying entities for consolidation.

Deconsolidation of Investment in SPV - Opal Portfolio Investments (SPV-AMC), Inc. (OPII)
Before the effectivity of PFRS 10, OPII is consolidated by PNB based on the provisions of SIC 12. Under SIC 12, control over an SPE may exist even in cases where an entity owns little or none of the SPE's equity, such as when an entity retains majority of the residual risks related to the SPE in order to obtain benefits from its activities. Beginning January 1, 2013, the Group adopted PFRS 10 which supersedes SIC 12. PFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements.

Based on management's assessment, the Parent Company should no longer consolidate OPII since it failed to demonstrate control over OPII following the control model under PFRS 10.

PFRS 12, *Disclosure of Interests with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group has no significant interests in joint arrangements, associates and structured entities that require disclosures. Refer to Basis of Consolidation and Notes 3 and 11 for disclosures related to subsidiaries and associate.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Refer to Note 5 for the additional disclosures required by this standard.

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

- items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement). These include 'Accumulated Translation Adjustment', 'Net Unrealized Gain (Loss) on AFS Investments' and 'Equity in Net Unrealized Gain on AFS Investment of an Associate'.
- items that will never be recycled to profit or loss. These include 'Remeasurement (Losses) Gains on Retirement Plan' and 'Revaluation Increment on Land and Building'.

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

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

The adoption of PAS 19 (Revised) which required restrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary. The Parent Company and certain subsidiaries had chosen to close under 'Surplus' the net effect of all transition adjustments as at January 1, 2011 (the transition date) upon retrospective application of PAS 19 (Revised). The Group will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

The effects of retrospective application of PAS 19 (Revised), PFRS 10 and reclassifications are detailed below:

	Consolidated				
	December 31, 2012				
	As previously Reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	Reclassifications	As Restated
Increase (Decrease)					
Statement of financial position					
Assets					
Loans and receivables - net	₱144,707,509	₱–	₱–	(₱476,844)	₱144,230,665
Investment in subsidiaries and an associate	2,905,294	–	–	(514,039)	2,391,255
Intangible assets	–	–	–	377,022	377,022
Investment properties	14,478,348	–	–	1,014,678	15,493,026
Other assets - net	2,994,425	429	(816,217)	(400,817)	1,777,820
Liabilities					
Other liabilities	16,846,393	450,807	(11,949)	–	17,285,251
Equity					
Remeasurement losses on retirement plan	–	(781,900)	–	–	(781,900)
Surplus	6,888,348	331,500	46,219	–	7,266,067
Non-controlling interests	904,693	22	(850,487)	–	54,228

	Consolidated				
	January 1, 2012				
	As previously Reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	Reclassifications	As Restated
Increase (Decrease)					
Statement of financial position					
Assets					
Loans and receivables - net	₱126,249,035	₱–	₱–	(₱618,265)	₱125,630,770
Investment in subsidiaries and an associate	2,901,780	–	–	(5,062)	2,896,718
Intangible assets	–	–	–	410,357	410,357
Investment properties	16,100,113	–	–	2,419,610	18,519,723
Other assets - net	3,897,388	(1,216)	(514,002)	(2,206,640)	1,175,530
Liabilities					
Other liabilities	14,015,965	681,915	(29,641)	–	14,668,239
Equity					
Remeasurement losses on retirement plan	–	(1,004,057)	–		(1,004,057)
Surplus	2,246,213	320,965	–	–	2,567,178
Non-controlling interests	531,247	(39)	(484,361)	–	46,847

	Consolidated				
	January 1, 2011				
	As previously Reported	Effect of retroactive application of PAS 19R	Effect of retroactive application of PFRS 10	Reclassifications	As Restated
Increase (Decrease)					
Statement of financial position					
Equity					
Surplus	(₱2,414,870)	₱367,087	₱–	₱–	(₱2,047,783)
Non-controlling interests	560,362	(42)	(406,474)	–	153,846

	Parent Company			
	December 31, 2012			
	As previously Reported	Effect of retroactive application of PAS 19R	Reclassifications	As Restated
Increase (Decrease)				
Statement of financial position				
Assets				
Loans and receivables - net	₱140,136,848	₱–	(₱613,174)	₱139,523,674
Investment in subsidiaries and an associate	6,776,872	–	(377,709)	6,399,163
Intangible assets	–	–	371,505	371,505
Investment properties	14,411,199	–	1,014,678	15,425,877
Other assets - net	1,859,983	–	(395,300)	1,464,683
Liabilities				
Other liabilities	12,962,336	436,547	–	13,398,883
Equity				
Remeasurement losses on retirement plan	–	(773,837)	–	(773,837)
Surplus	4,951,651	337,290	–	5,288,941

	Parent Company			
	January 1, 2012			
	As previously Reported	Effect of retroactive application of PAS 19R	Reclassifications	As Restated
Increase (Decrease)				
Statement of financial position				
Assets				
Loans and receivables - net	₱122,652,951	₱–	(₱618,265)	₱122,034,686
Investment in subsidiaries and an associate	7,305,644	–	(5,062)	7,300,582
Intangible assets	–	–	403,055	403,055
Investment properties	16,030,203	–	2,419,610	18,449,813
Other assets - net	2,977,626	–	(2,199,338)	778,288
Liabilities				
Other liabilities	11,471,621	672,974	–	12,144,595
Equity				
Remeasurement losses on retirement plan	–	(1,000,543)	–	(1,000,543)
Surplus	406,474	327,569	–	734,043

	Parent Company			
	January 1, 2011			
	As previously Reported	Effect of retroactive application of PAS 19R	Reclassifications	As Restated
Statement of financial position				
Surplus	(₱4,300,344)	₱380,538	₱–	(₱3,919,806)

As an effect of retrospective application of PFRS 10 to the Group, other income, other expenses, provision for income tax and income attributable to non-controlling interests decreased by ₱989.4 million, ₱623.3 million, ₱46.2 million, and ₱366.1 million in 2012 and ₱762.8 million, ₱651.9 million, ₱33.0 million and ₱77.9 million in 2011.

As an effect of retrospective application of PAS 19 (Revised) to the Group and Parent Company, operating expenses decreased by ₱10.9 million and ₱9.7 million, respectively, in 2012 and increased by ₱43.0 million and ₱53.0 million, respectively, in 2011. Provision for income tax of the Group increased by ₱0.3 million in 2012 and ₱3.1 million in 2011.

OCI of the Group and Parent Company increased by ₱222.2 million and ₱226.7 million, respectively, in 2012 and decreased by ₱1.0 billion in 2011.

As of and for the period ended December 31, 2013, the effect of the application of PAS 19 (Revised) resulted in increase in other liabilities and beginning surplus of the Group and the Parent Company by ₱1.7 billion and ₱331.5 million, respectively, and decrease in its OCI of ₱781.9 million.

Reclassification

In order to maintain comparability and consistency with the 2013 financial statements, the Group restated certain comparative balances as presented in the above table. The reclassifications were made to better present the nature of these transactions.

Also, starting 2013, market valuation gain or loss on currency forwards and spots is presented under 'Foreign exchange gain - net' to match the FX volatility arising from revaluation of foreign-currency denominated assets. Presentation of prior years financial statements were restated to conform and be comparable with the 2013 presentation. The market valuation loss on currency forwards and spots reclassified from 'Trading and investment and securities - gain' to 'Foreign exchange gains - net' in 2012 and 2011 amounted to ₱231.3 million and ₱17.9 million, respectively.

Basis of Consolidation

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

As of December 31, 2013

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*

As of December 31, 2012

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.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on 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 loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows 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.

<u>Expenses</u>
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.

<u>Cash and Cash Equivalents</u>
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.

<u>Investments in Subsidiaries and Associate</u>
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.

Policy Loans
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.

Reinsurance
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.

Deferred Acquisition Cost (DAC)
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 noncontrolling 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.

Life Insurance Contract Liabilities
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.

<u>Nonlife Insurance Contract Liabilities</u>
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, carryforward 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 carryforward 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.

<u>Parent Company Shares Held by a Subsidiary</u>
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.

<u>Earnings Per Share</u>
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)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

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

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014.

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

Effective 2015 onwards
PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be applied retrospectively. The Group does not expect that the Amendments to PAS 19 will have material financial impact on the financial statements.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 retains but simplifies the mixed measurement model and establishes two measurement categories for financial assets: amortized cost and fair value. The classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. PFRS 9 introduces a new requirement in respect of financial liabilities designated under the fair value option to present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. The guidance of PAS 39 on classification and measurement of financial liabilities, impairment of financial assets and hedge accounting continues to apply.

The mandatory effective date of PFRS 9 is not specified but will be determined when the outstanding phases are finalized. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology.

An evaluation was conducted to determine the impact of early adoption of PFRS and the accounts affected are 'Available-for-sale investments' and 'Loans and receivables'. As at December 31, 2013, the Group opted not to early adopt PFRS 9.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an

evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

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

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32.

Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

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

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

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Group does not expect that the Improvements to PAS 16 will have material financial impact on the financial statements.

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

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

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

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

The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

<u>Annual Improvements to PFRSs (2011-2013 cycle)</u>
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

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

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is applied prospectively.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

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

3. Significant Accounting Judgments and 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.

(c) *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.

(d) *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 stockhholders 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 methodogy, 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 the 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.

(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.

Refer to Note 2 for the estimated useful lives of property and equipment, investment properties, intangibles, and other properties acquired.
Refer to Notes 10, 12, 14 and 15 for the carrying values of property and equipment, investment properties, intangibles, and other properties acquired, respectively.

4. **Financial Risk Management Objectives and Policies**

<u>Introduction</u>
The Group's activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The Group monitors its processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Information Security and Technology Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Counterparty Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Legal Risk
- Reputational Risk
- Concentration Risk
- Country Risk
- Risks arising from the Group's shareholdings and equity interests

Managing the level of these risks as provided for by the Parent Company's ERM framework is critical to its continuing profitability. The Risk Oversight Committee (ROC) of the Parent Company's BOD determines the risk policy and approves the principles of risk management, establishment of limits for all relevant risks, and the risk control procedures. The ROC of the Parent Company is also responsible for the risk management of the Group.

The RMG provides the legwork for the ROC in its role of formulating the risk management strategy, the management of regulatory capital, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.

Credit Risk
Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector and remedial sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Parent Company in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;

- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio (cash releases and cash collection for the month)
  c. loss rate
  d. recovery rate
  e. trend of nonperforming loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc)

The Parent Company has moved one step further by collecting data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the Parent Company's model for internal Probability of Default (PD) and Loss Given Default (LGD).

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company.

To mitigate this risk the Parent Company requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value. Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

The table below shows the maximum exposure for loans and receivable to credit risk (amounts in millions):

	Consolidated			
	December 31, 2013 Maximum Exposure		December 31, 2012 Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Securities Held Under Agreements to Resell (Note 34)	**₱–**	**₱–**	₱18,300	₱–
Loans and receivables:				
Receivable from customers*:				
Business loans	**187,155**	**132,026**	83,053	41,146
Consumers	**25,917**	**7,068**	11,197	4,794
GOCCs and National Government Agencies (NGAs)	**25,709**	**17,508**	24,411	27,753
LGUs	**8,511**	**7,275**	7,157	2,337
Fringe benefits	**585**	**159**	644	168
Unquoted debt securities	**7,296**	**4,746**	3,859	1,662
Other receivable	**18,698**	**785**	13,581	7,492
	₱273,871	**₱169,567**	₱162,202	₱85,352

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan

*Receivables from customers exclude residual value of the leased asset.

	Parent Company			
	December 31, 2013 Maximum Exposure		December 31, 2012 Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Securities Held Under Agreements to Resell (Note 34)	**₱–**	**₱–**	₱18,300	₱–
Loans and receivables:				
Receivable from customers:				
Business loans	**177,551**	**127,762**	80,968	55,877
GOCCs and National Government Agencies (NGAs)	**25,709**	**17,508**	24,411	17,179
Consumers	**23,746**	**6,872**	11,102	4,751
LGUs	**8,511**	**7,275**	7,158	6,288
Fringe benefits	**571**	**149**	630	165
Unquoted debt securities	**6,913**	**4,746**	3,859	1,118
Other receivable	**12,435**	**785**	11,396	8,879
	₱255,436	**₱165,097**	₱157,824	₱94,257

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan

For the Group, fair values of collateral held for securities held under agreements to resell and loans and receivables amounted to nil and ₱267.8 billion, respectively, as of December 31, 2013 and ₱18.9 billion and ₱234.7 billion, respectively, as of December 31, 2012.

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 33 to the financial statements.

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   For loans and receivables, the Parent Company sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.

   For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
   The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location (in millions):

	Consolidated		**Parent Company**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Philippines	**₱523,518**	₱275,640	**₱502,718**	₱269,568
Asia (excluding the Philippines)	**32,197**	6,616	**7,464**	5,712
USA and Canada	**6,810**	4,276	**3,450**	3,013
Other European Union Countries	**5,920**	3,706	**5,783**	3,676
United Kingdom	**1,439**	5,355	**150**	5,113
Middle East	**308**	2	**308**	2
	₱570,192	₱295,595	**₱519,873**	₱287,084

c. Concentration by Industry

The tables below show the industry sector analysis of the Group's and Parent Company's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements (amounts in millions).

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Loans and Receivables				
Receivable from customers*:				
Primary target industry:				
Wholesale and retail	**₱42,597**	₱20,682	**₱40,593**	₱20,378
Electricity, gas and water	**38,427**	18,104	**38,380**	18,104
Manufacturing	**30,629**	11,637	**27,615**	10,984
Public administration and defense	**24,090**	22,623	**23,734**	22,595
Financial intermediaries	**21,327**	10,172	**21,208**	10,158
Transport, storage and communication	**17,554**	16,335	**16,540**	16,034
Agriculture, hunting and forestry	**1,860**	2,774	**1,768**	2,580
Secondary target industry:				
Real estate, renting and business activities	**34,098**	9,568	**30,149**	9,859
Construction	**6,917**	2,345	**6,391**	2,145
Others**	**30,378**	12,222	**29,710**	11,432
Unquoted debt securities:				
Government	**7,150**	3,699	**6,801**	3,699
Financial intermediaries	–	–	–	–
Manufacturing	**146**	160	**112**	160
	7,296	3,859	**6,913**	3,859
Other receivables	**18,698**	13,581	**12,435**	11,396
	273,871	143,902	**255,436**	139,524
Trading and Investment Securities				
Government	**60,859**	57,865	**58,332**	56,159
Financial intermediaries	**14,754**	7,096	**6,233**	6,807
Others	**9,088**	2,351	**6,132**	2,175
Real estate, renting and business activities	**5,185**	1,225	**4,697**	1,118
Electricity, gas and water	**1,542**	2,461	**1,030**	2,451
Manufacturing	**585**	22	**141**	19
	92,013	71,020	**76,565**	68,729
(Forward)				
Other Financial Assets* **				
Financial intermediaries	**₱176,456**	₱71,017	**₱160,630**	₱69,624
Others	**27,852**	9,656	**27,242**	9,207
	204,308	80,673	**187,872**	78,831
	₱570,192	₱295,595	**₱519,873**	₱287,084

*Receivables from customers exclude residual value of the leased asset.
**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.
***Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Receivable from SPV', 'Miscellaneous COCI' and 'Commitments'.

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry and 30.00% for power industry, versus total loan portfolio.

Credit quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-grade Credit Risk Rating (CRR) System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

The CRRs of the Parent Company's Receivables from customers (applied to loans with asset size of ₱15.0 million and above) are defined below:

CRR 1 - Excellent
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

CRR 2 - Super Prime
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

CRR 8 - Fair
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Marginal
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Parent Company.

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics.

CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The Parent Company is using the Credit Scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Group's and Parent Company's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2013 and 2012 (in millions) but net of residual values of leased assets.
As of December 31, 2013 and 2012, residual value of leased assets of the Group amounted to ₱404.8 million and ₱329.2 million, respectively, while it is nil for the Parent Company.

	Consolidated		
	December 31, 2013		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**
Rated Receivable from Customers			
1 - Excellent	**₱2,632**	**₱–**	**₱2,632**
2 - Super Prime	**57,314**	**–**	**57,314**
3 - Prime	**33,358**	**14**	**33,372**
4 - Very Good	**4,364**	**38**	**4,402**
5 - Good	**19,464**	**7**	**19,471**
6 - Satisfactory	**24,373**	**139**	**24,512**
7 - Average	**29,590**	**213**	**29,803**
8 - Fair	**8,791**	**23**	**8,814**
9 - Marginal	**3,831**	**8**	**3,839**
10 - Watchlist	**12,907**	**16**	**12,923**
11 - Special Mention	**2,662**	**330**	**2,992**
12 - Substandard	**1,468**	**1,314**	**2,782**
13 - Doubtful	**5**	**2,429**	**2,434**
14 - Loss	**–**	**2,253**	**2,253**
	200,759	**6,784**	**207,543**
Unrated Receivable from Customers			
Consumers	**18,202**	**1,972**	**20,174**
Business Loans	**11,897**	**506**	**12,403**
LGUs	**7,925**	**688**	**8,613**
GOCCs and NGAs	**2,196**	**1,786**	**3,982**
Fringe Benefits	**511**	**105**	**616**
	40,731	**5,057**	**45,788**
	₱241,490	**₱11,841**	**₱253,331**

	Consolidated		
	December 31, 2012		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 - Excellent	₱10,948	₱–	₱10,948
2 - Super Prime	33,489	–	33,489
3 - Prime	11,261	–	11,261
4 - Very Good	6,418	–	6,418
5 - Good	16,464	2	16,466
6 - Satisfactory	4,897	–	4,897
7 - Average	6,728	19	6,747
8 - Fair	2,646	1	2,647
9 - Marginal	1,820	5	1,825
10 - Watchlist	4,353	6	4,359
11 - Special Mention	2,321	9	2,330
12 - Substandard	271	764	1,035
13 - Doubtful	–	2,449	2,449
14 - Loss	–	2,665	2,665
	101,616	5,920	107,536

(Forward)

	Consolidated		
	December 31, 2012		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Unrated Receivable from Customers			
Consumers	₱10,687	₱770	₱11,457
Business Loans	2,562	237	2,799
LGUs	6,868	419	7,287
GOCCs and NGAs	1,391	1,651	3,042
Fringe Benefits	622	37	659
	22,130	3,114	25,244
	₱123,746	₱9,034	₱132,780

	Parent Company		
	December 31, 2013		
	Neither Past Due nor Individually Impaired	**Past Due or Individually Impaired**	**Total**
Rated Receivable from Customers			
1 - Excellent	**₱2,632**	**₱–**	**₱2,632**
2 - Super Prime	**57,314**	–	**57,314**
3 - Prime	**33,292**	–	**33,292**
4 - Very Good	**4,335**	–	**4,335**
5 - Good	**19,447**	**5**	**19,452**
6 - Satisfactory	**18,097**	**69**	**18,166**
7 - Average	**26,213**	**211**	**26,424**
8 - Fair	**8,776**	**23**	**8,799**
9 - Marginal	**3,827**	**6**	**3,833**
10 - Watchlist	**12,815**	**16**	**12,831**
11 - Special Mention	**2,662**	**330**	**2,992**
12 - Substandard	**1,468**	**1,182**	**2,650**
13 - Doubtful	**5**	**2,429**	**2,434**
14 - Loss	–	**2,170**	**2,170**
	190,883	**6,441**	**197,324**
Unrated Receivable from Customers			
Consumers	**18,108**	**1,953**	**20,061**
Business Loans	**9,944**	**506**	**10,450**
LGUs	**7,925**	**688**	**8,613**
GOCCs and NGAs	**2,196**	**1,786**	**3,982**
Fringe Benefits	**497**	**105**	**602**
	38,670	**5,038**	**43,708**
	₱229,553	**₱11,479**	**₱241,032**

	Parent Company		
	December 31, 2012		
	Neither Past Due nor Individually Impaired	Past Due or Individually Impaired	Total
Rated Receivable from Customers			
1 - Excellent	₱10,948	₱–	₱10,948
2 - Super Prime	33,489	–	33,489
3 - Prime	11,261	–	11,261
4 - Very Good	6,418	–	6,418
5 - Good	16,464	2	16,466
6 - Satisfactory	5,461	–	5,461
7 - Average	4,250	19	4,269
8 - Fair	2,646	1	2,647
9 - Marginal	1,820	5	1,825
10 - Watchlist	4,353	6	4,359
11 - Special Mention	2,321	9	2,330
12 - Substandard	271	578	849
13 - Doubtful	–	2,449	2,449
14 - Loss	–	2,658	2,658
	99,702	5,727	105,429
Unrated Receivable from Customers			
Consumers	10,595	752	11,347
Business Loans	2,230	237	2,467
LGUs	6,868	419	7,287
GOCCs and NGAs	1,391	1,651	3,042
Fringe Benefits	608	37	645
	21,692	3,096	24,788
	₱121,394	₱8,823	₱130,217

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The table below shows the aging analysis of past due but not impaired loans receivables per class (in millions).

	Consolidated				
	December 31, 2013				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱151**	**₱165**	**₱565**	**₱419**	**₱1,300**
Consumers	**148**	**142**	**105**	**125**	**520**
LGUs	**341**	**69**	**–**	**11**	**421**
GOCCs and NGAs	**–**	**–**	**44**	**–**	**44**
Fringe benefits	**1**	**1**	**1**	**6**	**9**
Total	**₱641**	**₱377**	**₱715**	**₱561**	**₱2,294**

	Consolidated				
	December 31, 2012				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱6	₱39	₱207	₱252	₱504
Consumers	53	57	21	191	322
LGUs	133	–	–	–	133
GOCCs and NGAs	–	–	–	–	–
Fringe benefits	1	1	–	11	13
Total	₱193	₱97	₱228	₱454	₱972

	Parent Company				
	December 31, 2013				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱151**	**₱165**	**₱404**	**₱419**	**₱1,139**
Consumers	**145**	**142**	**104**	**125**	**516**
LGUs	**341**	**69**	**–**	**11**	**421**
GOCCs and NGAs	**–**	**–**	**44**	**–**	**44**
Fringe benefits	**1**	**1**	**1**	**6**	**9**
Total	**₱638**	**₱377**	**₱553**	**₱561**	**₱2,129**

	Parent Company				
	December 31, 2012				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱6	₱39	₱14	₱252	₱311
Consumers	51	57	21	191	320
LGUs	133	–	–	–	133
GOCCs and NGAs	–	–	–	–	–
Fringe benefits	1	1	–	11	13
Total	₱191	₱97	₱35	₱454	₱777

Below are the financial assets of the Group and the Parent Company, excluding receivable from customers, which are monitored using external ratings (in millions).

	Consolidated					
	December 31, 2013					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱153,169**	**₱153,169**
Due from other banks	**1,580**	**4,131**	**4,836**	**10,547**	**4,335**	**14,882**
Interbank loans receivables	**399**	**4,490**	**3,285**	**8,174**	**231**	**8,405**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**2,835**	**2,835**	**236**	**3,071**
Derivative assets[3/]	**7**	**30**	**20**	**57**	**201**	**258**
Equity securities	**–**	**–**	**–**	**–**	**250**	**250**
Private debt securities	**–**	**–**	**8**	**8**	**261**	**269**
Designated at FVPL:						
Segregated fund assets	**–**	**7,861**	**–**	**7,861**	**–**	**7,861**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**50**	**50**	**7,246**	**7,296**
Others[5/]	**1**	**–**	**196**	**197**	**18,501**	**18,698**
AFS investments[7/]:						
Government securities	**1,510**	**227**	**57,320**	**59,057**	**191**	**59,248**
Other debt securities	**898**	**1,044**	**5,098**	**7,040**	**12,177**	**19,217**
Quoted equity securities			**172**	**172**	**1,506**	**1,678**
Unquoted equity securities	**–**	**–**	**–**	**–**	**162**	**162**

	Consolidated					
	December 31, 2012					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱37,175	₱37,175
Due from other banks	899	1,316	973	3,188	855	4,043
Interbank loans receivables	2,143	6,730	1,847	10,720	779	11,499
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	907	907	1,064	1,971
Derivative assets[3/]	2	274	114	390	65	455
Equity securities	–	–	–	–	250	250
Private debt securities	–	–	–	–	99	99
Designated at FVPL:						
Private debt securities	–	–	–	–	1,248	1,248
Loans and receivables:						
Unquoted debt securities[4/]	–	–	31	31	3,828	3,859
Others[5/]	–	–	–	–	13,581	13,581
AFS investments[7/]:						
Government securities	748	–	44,771	45,519	10,039	55,558
Other debt securities	1,434	–	3,255	4,689	6,231	10,920
Quoted equity securities	13	–	134	147	293	440
Unquoted equity securities	–	–	–	–	79	79

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Securities held under agreements to resell represent overnight lending to the BSP collateralized by securities. The interest rate applicable is fixed by the BSP through a memorandum.
3/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 23).
4/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances amounting to ₱3,958.7 million and ₱3,958.9 million in 2013 and 2012, respectively (see Note 9).
5/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables, net of allowances amounting to ₱3,865.5 million and ₱3,865.5 million in 2013 and 2012, respectively (see Note 9).
6/ As of December 31, 2013 and December 31, 2012, financial assets that are unrated are neither past due nor impaired.
7/ AFS investments is presented net of allowances (see Note 8).

	Parent Company					
	December 31, 2013					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[6/]**	**Total**
Due from BSP [1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱146,079**	**₱146,079**
Due from other banks	**827**	**2,657**	**1,094**	**4,578**	**1,568**	**6,146**
Interbank loans receivables	**400**	**4,489**	**3,285**	**8,174**	**231**	**8,405**
Securities held under agreements to resell[2/]	**–**	**–**	**–**	**–**	**–**	**–**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**2,835**	**2,835**	**236**	**3,071**
Derivative assets[3/]	**7**	**30**	**20**	**57**	**201**	**258**
Equity securities	**–**	**–**	**–**	**–**	**248**	**248**
Private debt securities	**–**	**–**	**8**	**8**	**261**	**269**
Designated at FVPL:						
Private debt securities	**–**	**–**	**–**	**–**	**–**	**–**
Loans and receivables:						
Unquoted debt securities[4/]	**–**	**–**	**50**	**50**	**6,863**	**6,913**
Others[5/]	**–**	**–**	**–**	**–**	**12,435**	**12,435**
AFS investments[7/]:						
Government securities	**1,079**	**5**	**53,900**	**54,984**	**191**	**55,175**
Other debt securities	**771**	**830**	**5,027**	**6,628**	**9,998**	**16,626**
Quoted equity securities	**–**	**–**	**–**	**–**	**756**	**756**
Unquoted equity securities	**–**	**–**	**–**	**–**	**162**	**162**

	Parent Company					
	December 31, 2012					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[6/]	Total
Due from BSP [1/]	₱–	₱–	₱–	₱–	₱36,531	₱36,531
Due from other banks	774	1,316	349	2,439	855	3,294
Interbank loans receivables	2,143	6,730	1,847	10,720	779	11,499
Securities held under agreements to resell[2/]	–	–	–	–	18,300	18,300
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	907	907	1,064	1,971
Derivative assets[3/]	2	274	114	390	65	455
Equity securities	–	–	–	–	192	192
Private debt securities	–	–	–	–	99	99
Designated at FVPL:						
Private debt securities	–	–	–	–	1,248	1,248
Loans and receivables:						
Unquoted debt securities[4/]	–	–	31	31	3,828	3,859
Others[5/]	–	–	–	–	11,396	11,396
AFS investments[7/]:						
Government securities	219	–	43,798	44,017	9,806	53,823
Other debt securities	1,087	–	3,245	4,332	6,220	10,552
Quoted equity securities	–	–	–	–	310	310
Unquoted equity securities	–	–	–	–	79	79

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Securities held under agreements to resell represent overnight lending to the BSP collateralized by securities. The interest rate applicable is fixed by the BSP through a memorandum.
3/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 23).
4/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances amounting to ₱3,958.7 million and ₱3,958.9 million in 2013 and 2012, respectively (see Note 9).
5/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables, net of allowances amounting to ₱3,594.4 million and ₱3,191.8 million in 2013 and 2012, respectively (see Note 9).
6/ As of December 31, 2013 and December 31, 2012, financial assets that are unrated are neither past due nor impaired.
7/ AFS investments is presented net of allowances (see Note 8).

Impairment assessment

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

The two methodologies applied by the Group in assessing and measuring impairment or credit losses include:

a. Specific (individual) assessment

   The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

   Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

   - the going concern of the borrower's business;
   - the ability of the borrower to repay its obligations during financial crises;
   - the projected receipts or expected cash flows;
   - the availability of other sources of financial support;

- the existing realizable value of collateral; and
- the timing of the expected cash flows.

The impairment or credit allowances, if any, are evaluated every quarter or as the need arises in view of favorable or unfavorable developments.

b. Collective assessment
Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio;
- losses which are likely to occur but has not yet occurred; and
- expected receipts and recoveries once impaired.

See Note 16 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized (in millions).

	Consolidated					
	December 31, 2013					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	**₱11,805**	**₱–**	**₱–**	**₱–**	**₱–**	**₱11,805**
Due from BSP and other banks	**165,656**	**1,853**	**5,478**	**208**	**215**	**173,410**
Interbank loans receivable	**8,378**	**150**	**–**	**–**	**–**	**8,528**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**36**	**16**	**36**	**78**	**4,418**	**4,584**
Equity securities	**250**	**–**	**–**	**–**	**–**	**250**
Private debt securities	**–**	**2**	**4**	**7**	**316**	**329**
Derivative assets						
Pay	**(4,250)**	**(850)**	**(1,141)**	**(216)**	**(31)**	**(6,488)**
Receive	**4,273**	**859**	**1,168**	**222**	**31**	**6,553**
	23	**9**	**27**	**6**	**–**	**65**
Financial assets designated at FVPL	**–**	**–**	**–**	**–**	**7,862**	**7,862**
Loans receivables - gross	**78,052**	**43,096**	**16,442**	**15,044**	**235,612**	**388,246**
Unquoted debt securities - gross	**90**	**2,823**	**11**	**94**	**8,921**	**11,939**
Other receivables - gross	**2,431**	**3,524**	**2,127**	**482**	**14,323**	**22,887**
AFS investments	**1,152**	**649**	**946**	**3,729**	**103,094**	**109,570**
Total financial assets	**₱267,873**	**₱52,122**	**₱25,071**	**₱19,648**	**₱374,761**	**₱739,475**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱127,461**	**₱–**	**₱–**	**₱–**	**₱–**	**₱127,461**
Savings	**235,918**	**24,423**	**8,593**	**4,839**	**13,142**	**286,915**
Time	**13,290**	**13,360**	**4,439**	**6,939**	**20,387**	**58,415**
Financial liability at FVPL	**50**	**–**	**–**	**–**	**7,862**	**7,912**
Derivative liabilities:						
Pay	**9,771**	**1,995**	**694**	**–**	**1,391**	**13,851**
Receive	**(9,655)**	**(1,979)**	**(676)**	**–**	**(1,391)**	**(13,701)**
	116	**16**	**18**	**–**	**–**	**150**
Bills and acceptances payable	**6,231**	**2,360**	**1,077**	**438**	**3,083**	**13,189**
Subordinated debt	**–**	**147**	**147**	**294**	**13,039**	**13,627**
Accrued interest payable and other liabilities	**12,890**	**4,557**	**–**	**134**	**2,183**	**19,764**
Total financial liabilities	**₱395,956**	**₱44,863**	**₱14,274**	**₱12,644**	**₱59,696**	**₱527,433**

	Consolidated					
	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,599	₱–	₱–	₱–	₱–	₱5,599
Due from BSP and other banks	39,692	435	–	1,101	–	41,228
Interbank loans receivable	11,129	251	119	–	–	11,499
Securities held under agreements to resell	18,304	–	–	–	–	18,304
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,978	14	19	36	677	2,724
Equity securities	251	–	–	–	–	251
Private debt securities	100	1	1	3	29	134
Derivative assets						
Pay	(6,056)	(716)	(22)	(67)	(52)	(6,913)
Receive	6,079	788	24	153	222	7,266
	23	72	2	86	170	353
Designated at FVPL:						
Private debt securities	4	8	1,255	–	–	1,267
Loans receivables – gross	24,188	13,517	5,862	2,125	125,258	170,950
Unquoted debt securities - gross	3,962	44	9	17	3,950	7,982
Other receivables – gross	18,934	–	–	–	–	18,934
AFS investments	557	2,643	2,773	1,487	100,702	108,162
Total financial assets	₱124,721	₱16,985	₱10,040	₱4,855	₱230,786	₱387,387
Financial Liabilities						
Deposit liabilities:						
Demand	₱28,164	₱–	₱–	₱–	₱–	₱28,164
Savings	151,002	17,838	7,979	4,892	12,636	194,347
Time	7,524	2,821	1,481	1,784	6,325	19,935
Financial liabilities at FVPL:						
Financial liability designated at FVPL	43	85	6,311	–	–	6,439
Derivative liabilities:						
Pay	9,798	1,162	476	608	213	12,257
Receive	(9,677)	(1,123)	(452)	(518)	(52)	(11,822)
	121	39	24	90	161	435
Bills and acceptances payable	7,753	4,182	806	40	309	13,090
Subordinated debt	–	147	147	294	13,635	14,223
Accrued interest payable and other liabilities	10,828	390	1	374	3,486	15,079
Total financial liabilities	₱205,435	₱25,502	₱16,749	₱7,474	₱36,552	₱291,712

	Parent Company					
	December 31, 2013					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
COCI	**₱9,700**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,700**
Due from BSP and other banks	**152,252**	**–**	**–**	**–**	**–**	**152,252**
Interbank loans receivable	**8,378**	**150**	**–**	**–**	**–**	**8,528**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**36**	**16**	**36**	**78**	**4,418**	**4,584**
Equity securities	**248**	**–**	**–**	**–**	**–**	**248**
Private debt securities	**–**	**2**	**4**	**7**	**316**	**329**
Derivative assets						
Pay	**(2,953)**	**(850)**	**(1,141)**	**(216)**	**(31)**	**(5,191)**
Receive	**2,976**	**859**	**1,168**	**222**	**31**	**5,256**
	23	**9**	**27**	**6**	**–**	**65**

(Forward)

	Parent Company					
	December 31, 2013					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Loans receivables - gross	**₱76,854**	**₱42,616**	**₱16,063**	**₱14,180**	**₱229,107**	**₱378,820**
Unquoted debt securities - gross	**3**	**2,823**	**11**	**94**	**8,626**	**11,557**
Other receivables - gross	**2,031**	**3,250**	**1,842**	**273**	**8,913**	**16,309**
AFS investments	**637**	**618**	**864**	**3,623**	**95,893**	**101,635**
Total financial assets	**₱250,162**	**₱49,484**	**₱18,847**	**₱18,261**	**₱347,273**	**₱684,027**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱119,572**	**₱–**	**₱–**	**₱–**	**₱–**	**₱119,572**
Savings	**232,850**	**24,423**	**8,593**	**4,839**	**13,142**	**283,847**
Time	**11,483**	**10,402**	**2,461**	**6,465**	**20,387**	**51,198**
Derivative liabilities:						
Pay	**9,770**	**1,995**	**694**	**–**	**1,391**	**13,850**
Receive	**(9,655)**	**(1,979)**	**(676)**	**–**	**(1,391)**	**(13,701)**
	115	**16**	**18**	**–**	**–**	**149**
Bills and acceptances payable	**8,825**	**2,089**	**835**	**–**	**1,751**	**13,500**
Subordinated debt	**–**	**147**	**147**	**294**	**13,039**	**13,627**
Accrued interest payable and other liabilities	**11,294**	**2,200**	**–**	**134**	**2,067**	**15,695**
Total financial liabilities	**₱384,139**	**₱39,277**	**₱12,054**	**₱11,732**	**₱50,386**	**₱497,588**

	Parent Company					
	December 31, 2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets						
COCI	₱5,548	₱–	₱–	₱–	₱–	₱5,548
Due from BSP and other banks	39,825	–	–	–	–	39,825
Interbank loans receivable	11,129	251	119	–	–	11,499
Securities held under agreements to resell	18,304	–	–	–	–	18,304
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,978	14	19	36	677	2,724
Equity securities	193	–	–	–	–	193
Private debt securities	100	1	1	3	29	134
Derivative assets						
Pay	(6,056)	(716)	(22)	(67)	(52)	(6,913)
Receive	6,079	788	24	153	222	7,266
	23	72	2	86	170	353
Designated at FVPL:						
Private debt securities	4	8	1,255	–	–	1,267
Loans receivables - gross	24,572	12,919	5,447	1,435	123,205	167,578
Unquoted debt securities - gross	3,962	44	9	17	3,950	7,982
Other receivables - gross	16,076	–	–	–	–	16,076
AFS investments	541	2,630	2,767	1,470	97,479	104,887
Total financial assets	₱122,255	₱15,939	₱9,619	₱3,047	₱225,510	₱376,370
Financial Liabilities						
Deposit liabilities:						
Demand	₱28,417	₱–	₱–	₱–	₱–	₱28,417
Savings	151,034	17,838	7,979	4,892	12,636	194,379
Time	7,779	2,821	1,481	1,784	6,325	20,190
Financial liability at FVPL	43	85	6,311	–	–	6,439
Derivative liabilities:						
Pay	9,798	1,162	476	608	213	12,257
Receive	(9,677)	(1,123)	(452)	(518)	(52)	(11,822)
	121	39	24	90	161	435
Bills and acceptances payable	7,725	4,176	805	24	2	12,732
Subordinated debt	–	147	147	294	13,635	14,223
Accrued interest payable and other liabilities	8,234	390	1	193	3,222	12,040
Total financial liabilities	₱203,353	₱25,496	₱16,748	₱7,277	₱35,981	₱288,855

Market Risk

Market Risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market Risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. The Parent Company adopts the Parametric Value-at-Risk (VaR) methodology (with 99% confidence level, and one day holding period for FX and equity price risks VaR and ten day holding period for interest rate risk VaR) to measure the Parent Company's trading market risk. Volatilities are updated monthly and are based on historical data for a rolling 260-day period. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and Risk Oversight Committee (ROC) on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are backtested to validate the robustness of the VaR model.

Objectives and limitations of the VaR methodology

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

VaR limits

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2013	**₱4.28**	**₱159.37**	**₱12.22**	**₱175.88**
Average Daily	**8.81**	**148.81**	**9.89**	**167.51**
Highest	**24.71**	**497.11**	**12.97**	**413.55**
Lowest	**0.65**	**30.24**	**6.69**	**70.60**

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 31, 2012	₱4.84	₱80.22	₱7.80	₱92.86
Average Daily	6.61	131.09	8.95	146.64
Highest	16.85	340.31	11.17	354.65
Lowest	0.40	60.87	6.00	77.86

* FX VaR is the bankwide foreign exchange risk
** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

The table below shows the interest rate VaR for AFS investments (in millions):

	2013	2012
End of year	**₱2,283.45**	₱2,317.22
Average Daily	**1,963.52**	2,176.61
Highest	**2,909.73**	2,743.57
Lowest	**1,008.20**	1,522.48

Structural Market Risk

Non-trading Market Risk

Interest rate risk

The Parent Company seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the Parent Company to interest rate risk. The Parent Company measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a “repricing gap” analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a “repricing gap” for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Parent Company an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company’s assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the repricing gap covering the one year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Parent Company’s BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the Parent Company. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company (in millions):

	Consolidated					
	December 31, 2013					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱110,636**	**₱–**	**₱–**	**₱–**	**₱–**	**₱110,636**
Interbank loans receivable	**6,188**	**149**	**–**	**–**	**–**	**6,337**
Receivable from customers and other receivables - gross**	**83,078**	**41,796**	**8,611**	**9,077**	**42,987**	**185,549**
Total financial assets	**₱199,902**	**₱41,945**	**₱8,611**	**₱9,077**	**₱42,987**	**₱302,522**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱91,078**	**₱17,726**	**₱10,075**	**₱5,979**	**₱4,182**	**₱129,040**
Time	**14,999**	**8,913**	**4,237**	**2,154**	**5,747**	**36,050**
Bills and acceptances payable	**9,220**	**902**	**242**	**438**	**1,279**	**12,081**
Total financial liabilities	**₱115,297**	**₱27,541**	**₱14,554**	**₱8,571**	**₱11,208**	**₱177,171**
Repricing gap	**₱84,605**	**₱14,404**	**(₱5,943)**	**₱506**	**₱31,779**	**₱125,351**
Cumulative gap	**84,605**	**99,009**	**93,066**	**93,572**	**125,351**	**–**

*Financial instruments that are not subject to repricing/rollforward were excluded.
**Receivable from customers excludes residual value of leased assets.

	Consolidated					
	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱12,737	₱–	₱–	₱–	₱–	₱12,737
Interbank loans receivable	10,265	–	–	–	–	10,265
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Receivable from customers and other receivables - gross**	52,554	21,205	7,058	6,174	16,504	103,495
Total financial assets	₱93,856	₱21,205	₱7,058	₱6,174	₱16,504	₱144,797
Financial Liabilities*						
Deposit liabilities:						
Savings	₱63,839	₱14,859	₱4,517	₱3,156	₱7,083	₱93,454
Time	8,289	3,807	851	866	26	13,839
Bills and acceptances payable	8,565	1,187	340	404	2,591	13,087
Total financial liabilities	₱80,693	₱19,853	₱5,708	₱4,426	₱9,700	₱120,380
Repricing gap	₱13,163	₱1,352	₱1,350	₱1,748	₱6,804	₱24,417
Cumulative gap	13,163	14,515	15,865	17,613	24,417	–

*Financial instruments that are not subject to repricing/rollforward were excluded.
**Receivable from customers excludes residual value of leased assets.

	Parent Company					
	December 31, 2013					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱89,542**	**₱–**	**₱–**	**₱–**	**₱–**	**₱89,542**
Interbank loans receivable	**6,188**	**149**	**–**	**–**	**–**	**6,337**
Receivable from customers and other receivables - gross**	**82,844**	**41,312**	**8,495**	**8,895**	**42,265**	**183,811**
Total financial assets	**₱178,574**	**₱41,461**	**₱8,495**	**₱8,895**	**₱42,265**	**₱279,690**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱91,078**	**₱17,726**	**₱10,075**	**₱5,979**	**₱4,182**	**₱129,040**
Time	**13,271**	**5,892**	**2,254**	**1,677**	**5,747**	**28,841**
Bills and acceptances payable	**8,732**	**571**	**–**	**–**	**7**	**9,310**
Total financial liabilities	**₱113,081**	**₱24,189**	**₱12,329**	**₱7,656**	**₱9,936**	**₱167,191**
Repricing gap	**₱65,493**	**₱17,272**	**(₱3,834)**	**₱1,239**	**₱32,329**	**₱112,499**
Cumulative gap	**65,493**	**82,765**	**78,931**	**80,170**	**112,499**	**–**

*Financial instruments that are not subject to repricing/rollforward were excluded.
**Receivable from customers excludes residual value of leased assets.

	Parent Company					
	December 31, 2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱9,821	₱–	₱–	₱–	₱–	₱9,821
Interbank loans receivable	10,265	–	–	–	–	10,265
Securities held under agreements to resell	18,300	–	–	–	–	18,300
Receivable from customers and other receivables - gross**	52,410	20,647	6,695	5,568	11,752	97,072
Total financial assets	₱90,796	₱20,647	₱6,695	₱5,568	₱11,752	₱135,458
Financial Liabilities*						
Deposit liabilities:						
Savings	₱63,839	₱14,859	₱4,517	₱3,156	₱7,083	₱93,454
Time	8,289	3,807	851	866	26	13,839
Bills and acceptances payable	8,481	1,038	109	23	1,649	11,300
Total financial liabilities	₱80,609	₱19,704	₱5,477	₱4,045	₱8,758	₱118,593
Repricing gap	₱10,187	₱943	₱1,218	₱1,523	₱2,994	₱16,865
Cumulative gap	10,187	11,130	12,348	13,871	16,865	–

*Financial instruments that are not subject to repricing/rollforward were excluded.
**Receivable from customers excludes residual value of leased assets.

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2013 and 2012 (in millions):

	Consolidated			
	December 31, 2013		December 31, 2012	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱442**	**₱442**	₱57	₱57
-50bps	**(442)**	**(442)**	(57)	(57)
+100bps	**885**	**885**	114	114
-100bps	**(885)**	**(885)**	(114)	(114)

	Parent Company			
	December 31, 2013		December 31, 2012	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱370**	**₱370**	₱74	₱74
-50bps	**(370)**	**(370)**	(74)	(74)
+100bps	**741**	**741**	147	147
-100bps	**(741)**	**(741)**	(147)	(147)

As one of the long-term goals in the risk management process, the Parent Company has set the adoption of the economic value approach in measuring the interest rate risk in the banking books to complement the earnings approach currently used.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company. Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in millions and in Philippine peso equivalent).

	Consolidated		
	December 31, 2013		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**₱1,017**	**₱485**	**₱1,502**
Due from other banks	**9,719**	**3,589**	**13,308**
Interbank loans receivable and securities held under agreements to resell	**1,005**	**1,000**	**2,005**
Loans and receivables	**10,268**	**5,269**	**15,537**
AFS investments	**4,255**	**2,078**	**6,333**
Total assets	**26,264**	**12,421**	**38,685**
Liabilities			
Deposit Liabilities	**7,621**	**5,159**	**12,780**
Bills and acceptances payable	**6,437**	**141**	**6,578**
Accrued interest payable	**1,599**	**201**	**1,800**
Other liabilities	**4,677**	**493**	**5,170**
Total liabilities	**20,334**	**5,994**	**26,328**
Net Exposure	**₱5,930**	**₱6,427**	**₱12,357**

	Consolidated		
	December 31, 2012		
	USD	Others	Total
Assets			
COCI and due from BSP	₱644	₱176	₱820
Due from other banks	2,216	622	2,838
Interbank loans receivable and securities held under agreements to resell	1,338	–	1,338
Loans and receivables	5,269	150	5,419
AFS investments	3,315	1,205	4,520
Total assets	12,782	2,153	14,935
Liabilities			
Deposit Liabilities	2,702	1,583	4,285
Bills and acceptances payable	5,454	89	5,543
Accrued interest payable	1,561	1	1,562
Other liabilities	1,614	69	1,683
Total liabilities	11,331	1,742	13,073
Net Exposure	₱1,451	₱411	₱1,862

	Parent Company		
	December 31, 2013		
	USD	**Others**	**Total**
Assets			
COCI and due from BSP	**₱868**	**₱242**	**₱1,110**
Due from other banks	**1,762**	**2,257**	**4,019**
Interbank loans receivable and securities held under agreements to resell	**1,005**	**1,000**	**2,005**
Loans and receivables	**7,434**	**229**	**7,663**
AFS investments	**1,980**	**2,078**	**4,058**
Total assets	**13,049**	**5,806**	**18,855**

(Forward)

	Parent Company		
	December 31, 2013		
	USD	**Others**	**Total**
Liabilities			
Deposit Liabilities	**₱2,133**	**₱2,952**	**₱5,085**
Bills and acceptances payable	**6,477**	**100**	**6,577**
Accrued interest payable	**1,564**	**–**	**1,564**
Other liabilities	**580**	**197**	**777**
Total liabilities	**10,754**	**3,249**	**14,003**
Net Exposure	**₱2,295**	**₱2,557**	**₱4,852**

	Parent Company		
	December 31, 2012		
	USD	Others	Total
Assets			
COCI and due from BSP	₱644	₱176	₱820
Due from other banks	2,177	616	2,793
Interbank loans receivable and securities held under agreements to resell	1,338	–	1,338
Loans and receivables	4,673	61	4,734
AFS investments	3,315	1,205	4,520
Total assets	12,147	2,058	14,205
Liabilities			
Deposit Liabilities	2,702	1,583	4,285
Bills and acceptances payable	5,241	3	5,244
Accrued interest payable	1,560	1	1,561
Other liabilities	1,613	69	1,682
Total liabilities	11,116	1,656	12,772
Net Exposure	₱1,031	₱402	₱1,433

Information relating to the Parent Company's currency derivatives is contained in Note 23.
The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱1.8 billion (sold) and ₱1.9 billion (bought) as of December 31, 2013 and ₱2.1billion (sold) and ₱1.4 billion (bought) as of December 31, 2012.

Capital management and management of insurance and financial risks

Governance framework
The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels. The Chief Financial Officer and Internal Audit Department perform procedures to identify various risks. The results of the procedures are reported to the BOD and necessary actions are taken to mitigate the risks identified.

The policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework
Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements).

Capital management
The Group maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Group's policy to assess its position against set minimum capital requirements.

Under the requirements of the IC and the Code, the Group should meet the minimum levels set for the following capital requirements: Margin of Solvency (MOS), Minimum Statutory Net Worth and Paid-up Capital, and the Risk-Based Capital (RBC).

Since PNB LII is now 100.00% Filipino-owned, the capital requirements have been reduced significantly and PNB LII's current capital now well exceeds the minimum requirements.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under the Section 203 of the Insurance Code, are free from liens and encumbrances.

The Group manages the capital of its subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as the IC, the SEC and PSE. The Group has fully complied with the relevant capital requirements for the year ended December 31, 2013 and December 31, 2012.

5. Fair Value Measurement

As of December 31, 2013 and 2012, except for the following financial instruments, the carrying value of the Group's and Parent Company's financial assets and liabilities as reflected in the consolidated statement of financial position and related notes approximate their respective fair values:

	Consolidated			
	December 31, 2013		December 31, 2012	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
Financial Assets				
Loans and Receivables:				
Receivables from customers:				
Business loans	**₱187,560,017**	**₱194,747,449**	₱83,382,445	₱84,566,445
GOCCs and NGAs	**25,709,132**	**25,746,571**	24,410,497	24,410,497
Consumers	**25,917,560**	**26,903,405**	11,196,835	11,483,394

(Forward)

	Consolidated			
	December 31, 2013		December 31, 2012	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
LGUs	**₱8,510,620**	**₱8,596,190**	₱7,157,470	₱7,215,785
Fringe benefits	**585,548**	**599,576**	643,608	648,299
Unquoted debt securities	**7,295,531**	**8,733,369**	3,859,268	5,131,586
Financial Liabilities				
Financial liabilities at amortized cost				
Deposit liabilities:				
Time	**51,464,182**	**51,350,907**	19,908,821	20,134,885
Subordinated debt	**9,953,651**	**10,584,755**	9,938,816	10,956,745

	Parent Company			
	December 31, 2013		December 31, 2012	
	Carrying Value	**Fair Market Value**	Carrying Value	Fair Market Value
Financial Assets				
Loans and Receivables				
Receivables from customers:				
Business loans	**₱177,550,499**	**₱184,608,235**	₱80,968,053	₱82,152,054
GOCCs and NGAs	**25,709,132**	**25,746,571**	24,410,497	24,410,497
Consumers	**23,746,276**	**24,732,121**	11,102,326	11,388,885
LGUs	**8,510,620**	**8,596,190**	7,157,470	7,215,785
Fringe benefits	**571,374**	**585,402**	629,871	634,560
Unquoted debt securities	**6,912,909**	**8,350,923**	3,859,268	5,131,586
Financial Liabilities				
Financial liabilities at amortized cost				
Deposit liabilities:				
Time	**47,698,807**	**47,585,532**	20,164,420	20,390,484
Bills and acceptances payable:				
Foreign banks	**1,992,874**	**1,997,099**	2,571,194	2,571,194
Subordinated debt	**9,953,651**	**10,584,755**	9,938,816	10,956,745

The methods and assumptions used by the Group in estimating the fair value of its financial instruments follow:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are obtained from independent parties offering pricing services, estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted market prices. While unquoted equity securities are carried at their original cost less impairment if any, since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodology. The discount rate used in estimating the fair value of loans and receivables is 3.0% in 2013 and 0.3% to 9.3% in 2012 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.0% and 3.3% in 2013 and 2012, respectively.

Liabilities - Except for time deposit liabilities and subordinated debt, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 1.1% to 4.2% and from 1.4% to 3.6% as of December 31, 2013 and 2012, respectively.

Fair value hierarchy
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			
	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**

(Forward)

	Consolidated			
	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
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	**–**	**–**	**6,197,300**	**6,197,300**
	₱–	**₱–**	**₱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.*

	Consolidated			
	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱1,880,673	₱90,081	₱–	₱1,970,754
Derivative assets	–	395,457	59,044	454,501
Private debt securities	99,502	–	–	99,502
Equity securities	250,552	–	–	250,552
Designated at FVPL:				
Private debt securities	–	1,247,756	–	1,247,756
	₱2,230,727	₱1,733,294	₱59,044	₱4,023,065

(Forward)

	Consolidated			
	December 31, 2012			
	Level 1	Level 2	Level 3	Total
AFS investments:				
Government securities	₱53,610,841	₱1,947,686	₱–	₱55,558,527
Other debt securities	8,979,888	1,940,245	–	10,920,133
Equity securities	440,230	–	–	440,230
	₱63,030,959	₱3,887,931	₱–	₱66,918,890
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,196,070	₱6,196,070
Derivative liabilities	–	283,751	–	283,751
	₱–	₱283,751	₱6,196,070	₱6,479,821

* *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.*

	Parent Company			
	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	**₱1,977,066**	**₱1,093,608**	**₱–**	**₱3,070,674**
Derivative assets	**–**	**92,750**	**165,863**	**258,613**
Private debt securities	**217,808**	**50,963**	**–**	**268,771**
Equity securities	**247,615**	**–**	**–**	**247,615**
	₱2,442,489	**₱1,237,321**	**₱165,863**	**₱3,845,673**
AFS investments:				
Government securities	**₱29,498,345**	**₱25,676,335**	**₱–**	**₱55,174,680**
Other debt securities	**16,560,227**	**65,762**	**–**	**16,625,989**
Equity securities*	**757,119**	**–**	**–**	**757,119**
	₱46,815,691	**₱25,742,097**	**₱–**	**₱72,557,788**
Non-financial Assets				
Property and equipment				
Land	**₱–**	**₱–**	**₱14,589,026**	**₱14,589,026**
Buildings	**–**	**–**	**5,986,312**	**5,986,312**
	₱–	**₱–**	**₱20,575,338**	**₱20,575,338**
Liabilities measured at fair value:				
Financial Liabilities				
Financial Liabilities at FVPL:				
Derivative liabilities	**–**	**163,084**	**–**	**163,084**
Assets for which fair values are disclosed:				
Financial Assets				
Loans and Receivables				
Receivables from customers	**₱–**	**₱–**	**₱244,268,519**	**₱244,268,519**
Unquoted debt securities	**–**	**–**	**8,350,923**	**8,350,923**
	₱–	**₱–**	**₱252,619,442**	**₱252,619,442**
Non-financial Assets				
Investment property***				
Land	**₱–**	**₱–**	**₱23,798,941**	**₱23,798,941**
Buildings and improvements	**–**	**–**	**3,163,809**	**3,163,809**
	₱–	**₱–**	**₱26,962,750**	**₱26,962,750**

(Forward)

	Parent Company			
	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities for which fair values are disclosed:				
Financial Liabilities				
Financial liabilities at amortized cost				
Time Deposits	**₱–**	**₱–**	**₱47,585,532**	**₱47,585,532**
Subordinated debt	**–**	**–**	**10,584,755**	**10,584,755**
	₱–	**₱–**	**₱58,170,287**	**₱58,170,287**

* *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.*

	Parent Company			
	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVPL:				
Held-for-trading:				
Government securities	₱1,880,673	₱90,081	₱–	₱1,970,754
Derivative assets	–	395,457	59,044	454,501
Private debt securities	99,502	–	–	99,502
Equity securities	192,585	–	–	192,585
Designated at FVPL:				
Private debt securities	–	1,247,756	–	1,247,756
	₱2,172,760	₱1,733,294	₱59,044	₱3,965,098
AFS investments:				
Government securities	₱51,875,243	₱1,947,686	₱–	₱53,822,929
Other debt securities	8,611,469	1,940,245	–	10,551,714
Equity securities	310,808	–	–	310,808
	₱60,797,520	₱3,887,931	₱–	₱64,685,451
Financial Liabilities				
Financial Liabilities at FVPL:				
Designated at FVPL	₱–	₱–	₱6,196,070	₱6,196,070
Derivative liabilities	–	283,751	–	283,751
	₱–	₱283,751	₱6,196,070	₱6,479,821

* *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 December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, 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.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Financial assets				
Balance at beginning of year	**₱59,044**	₱91,719	**₱59,044**	₱91,719
Add acquisition arising from business combination	**2,616,316**	–	**–**	–
Add acquisition arising from purchase of investments	**2,692,915**	–	**20,738**	–
Add total gain (loss) recorded in profit or loss	**177,641**	(32,675)	**86,081**	(32,675)
Balance at end of year	**₱5,545,916**	₱59,044	**₱165,863**	₱59,044
Financial liabilities				
Balance at beginning of year	**₱6,196,070**	₱6,479,170	**₱6,196,070**	₱6,479,170
Add acquisition arising from business combination	**2,616,316**	–	**–**	–
Add acquisition arising from purchase of investments	**2,672,177**	–	**–**	–
Less total gain recorded in profit and loss	**(104,510)**	(283,100)	**(196,070)**	(283,100)
Redemption of unsecured subordinated notes	**(6,000,000)**	–	**(6,000,000)**	–
Balance at end of year	**₱5,380,053**	₱6,196,070	**₱–**	₱6,196,070

The table below sets forth, the potential effect of reasonably possible change in interest rates (alternative valuation assumption) on the Group's valuation of Level 3 financial instruments (amounts in million pesos):

December 31, 2013					
Type of Financial Instrument	**Fair Values as of December 31, 2013**	**Valuation Technique**	**Significant Unobservable Input**	**Range of Estimates**	**Fair Value Measurement Sensitivity to Unobservable Input**
Equity and/or Credit-Linked Notes	₱5,380,053	Statistically-Based Simulation Technique	Credit Spread of the Counterparties	2% - 3%	Significant increase in credit spread would result in lower fair values. Significant reduction would result in higher fair values.
Subordinated Debt Instruments and Time Deposit	61,935,662	Discounted Cash Flow	Risk-adjusted Discount Rate	Spread of 1% above risk-free interest rate of 0.08% - 3.22%	A significant increase in the spread above the risk-free rate would result in lower fair values.

Equity and/or Credit-Linked Notes are shown as Segregated Fund Assets carried at FVPL.

	December 31, 2012	
	Statement of Income	Equity
Financial Liability		
Subordinated debt designated at FVPL		
+50bps	₱14	₱14
- 50bps	(14)	(14)
+100bps	90	90
-100bps	(90)	(90)

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

The fair values of the Group and the Parent Company's land, building and investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's land, building and investment properties are as follows:

<u>Valuation Techniques</u>

Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.

<u>Significant Unobservable Inputs</u>

Price per square meter	Ranges from ₱800 to ₱100,000
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Significant Unobservable Inputs

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. 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.

These segments are the bases on which the Group reports its primary segment information. Other operations of the Group comprise of the operations and financial control groups. 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 BOD, 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 for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. 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:

	2013					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱3,426,769	₱10,085,504	₱4,215,017	₱544,203	₱208,540	₱18,480,033
Interest expense	(2,778,438)	(425,713)	(1,779,579)	(14,533)	266,769	(4,731,494)
Net interest margin	648,331	9,659,791	2,435,438	529,670	475,309	13,748,539
Other income	621,494	2,197,096	7,078,608	2,477,892	(657,048)	11,718,042
Other expenses	(5,277,205)	(4,575,313)	(443,992)	(4,030,561)	(220,943)	(14,548,014)
Segment result	(4,007,380)	7,281,574	9,070,054	(1,022,999)	(402,682)	10,918,567
Inter-segment						
Imputed income	3,654,832	–	–	–	3,654,832	–
Imputed cost	–	(2,860,774)	(794,058)	–	(3,654,832)	–
Segment result to third party	(₱352,548)	₱4,420,800	₱8,275,996	(₱1,022,999)	(₱402,682)	₱10,918,567
Unallocated expenses						4,530,341
Net income before share in net income of an associate and income tax						6,388,226
Share in net income of an associate						4,975
Net income before income tax						6,393,201
Income tax						(1,171,140)
Net income						₱5,222,061
Non-controlling interest						(98,301)
Net income for the year attributable to equity holders of the Parent Company						₱5,123,760
Other Segment Information						
Capital expenditures	₱904,371	₱20,728	₱723	₱313,597	₱–	₱1,239,419
Depreciation and amortization	₱182,520	₱206,627	₱7,352	₱741,997	₱367,138	₱1,505,634
Unallocated depreciation and amortization						236,352
Total depreciation and amortization						₱1,741,986
Provision for impairment, credit and other losses	₱294,772	₱156,417	₱–	₱71,811	₱310,584	₱833,584

** 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*

	2012 (As Restated - Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,230,721	₱6,590,457	₱3,231,110	₱197,948	₱110,372	₱11,360,608
Interest expense	(2,128,538)	(596,735)	(1,714,888)	(2,789)	58,048	(4,384,902)
Net interest margin	(897,817)	5,993,722	1,516,222	195,159	168,420	6,975,706
Other income	905,734	1,562,453	5,733,577	2,022,222	(352,277)	9,871,709
Other expenses	(3,086,619)	(3,120,771)	(603,858)	(1,714,097)	233,082	(8,292,263)
Segment result	(3,078,702)	4,435,404	6,645,941	503,284	49,225	8,555,152
Inter-segment						
Imputed income	4,511,306	–	–	–	(4,511,306)	–
Imputed cost	–	(2,096,482)	(2,414,824)		4,511,306	–
Segment result to third party	₱1,432,604	₱2,338,922	₱4,231,117	₱503,284	₱49,225	₱8,555,152
Unallocated expenses						(2,922,012)
Net income before share in net income of an associate and income tax						5,633,140
Share in net income of an associate						10,309
Net income before income tax						5,643,449
Income tax						(925,058)
Net income						₱4,718,391
Non-controlling interest						(9,831)
Net income income for the year attributable to equity holders of the Parent Company						₱4,708,560
Other Segment Information						
Capital expenditures	₱506,515	₱6,119	₱3,131	₱170,204	(₱284,710)	₱401,259
Depreciation and amortization	₱160,741	₱170,691	₱6,470	₱77,616	₱216,199	₱631,717
Unallocated depreciation and amortization						236,353
Total depreciation and amortization						₱868,070
Provision for (reversal of) impairment, credit and other losses	₱37,130	₱674,855	₱249,369	(₱149,367)	₱11,714	₱823,701

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

	As of December 31, 2012 (As Restated - Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱50,745,189	₱95,365,478	₱147,433,116	₱ 38,395,849	(₱4,754,067)	₱327,185,565
Unallocated assets						3,005,186
Total assets						₱330,190,751
Segment liabilities	₱205,217,147	₱32,452,570	₱40,985,859	₱16,570,501	(₱6,489,036)	₱288,737,041
Unallocated liabilities						2,961,465
Total liabilities						₱291,698,506

	2011 (As Restated - Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Interest income	₱1,113,053	₱6,507,214	₱4,103,289	₱66,393	₱697,688	₱12,487,637
Interest expense	(1,179,459)	(1,984,296)	(2,155,485)	(4,251)	54,787	(5,268,704)
Net interest margin	(66,406)	4,522,918	1,947,804	62,142	752,475	7,218,933
Other income	1,017,801	1,550,080	4,501,903	2,378,784	114,362	9,562,930
Other expenses	(2,558,105)	(1,043,515)	(1,018,412)	(1,625,041)	268,761	(5,976,312)
Segment result	(1,606,710)	5,029,483	5,431,295	815,885	1,135,598	10,805,551
Inter-segment						
Imputed income	3,737,997	–	–	–	(3,737,997)	–
Imputed cost	–	(2,110,281)	(1,627,716)	–	3,737,997	–
Segment result to third party	₱2,131,287	₱2,919,202	₱3,803,579	₱815,885	₱1,135,598	₱10,805,551
Unallocated expenses						(5,393,362)
Net income before share in net income of an associate and income tax						5,412,189
Share in net income of an associate						68,954
Net income before income tax						5,481,143
Income tax						(849,457)
Net income						₱4,631,686
Non-controlling interest						(8,456)
Net income for the year attributable to equity holders of the Parent Company						₱4,623,230
Other Segment Information						
Capital expenditures	₱166,118	₱556	₱4,676	₱182,583	₱–	₱353,933
Depreciation and amortization	₱154,421	₱88,936	₱5,468	₱12,639	₱332,735	₱594,199
Unallocated depreciation and amortization						224,371
Total depreciation and amortization						₱818,570
Provision for (reversal of) impairment and credit losses	₱18,072	(₱248,993)	₱809,008	₱57,498	₱389,590	₱1,025,175

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

	As of January 1, 2012 (As Restated - Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱48,015,755	₱124,180,936	₱102,414,597	₱35,781,723	(₱2,356,960)	₱308,036,051
Unallocated assets						3,515,369
Total assets						₱311,551,420
Segment liabilities	₱187,646,586	₱32,584,614	₱44,265,932	₱10,478,857	(₱1,129,538)	₱273,846,451
Unallocated liabilities						3,898,024
Total liabilities						₱277,744,475

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, credit commitments items and revenues by geographic region of the Group follows:

	Assets			**Liabilities**			**Capital Expenditure**	
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)	**December 31, 2013**	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)	**December 31, 2013**	December 31, 2012
Philippines	**₱590,593,475**	₱319,698,926	₱300,293,908	**₱515,589,812**	₱284,122,475	₱269,832,296	**₱1,216,764**	₱399,026
Asia (excluding Philippines)	**21,978,224**	4,786,765	5,136,569	**16,266,046**	4,120,423	4,320,174	**16,056**	1,895
USA and Canada	**4,325,575**	5,156,870	5,279,980	**2,112,914**	3,150,382	3,069,855	**29**	338
United Kingdom	**1,109,611**	308,233	541,984	**10,160**	76,051	275,895	**6,570**	–
Other European Union Countries	**58,631**	239,957	298,979	**188,956**	229,175	246,255	**–**	–
	₱618,065,516	₱330,190,751	₱311,551,420	**₱534,167,888**	₱291,698,506	₱277,744,475	**₱1,239,419**	₱401,259

	Credit Commitments		Revenues		
	December 31, 2013	December 31, 2012	**2013**	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Philippines	**₱26,392,845**	₱8,541,332	**₱28,248,014**	₱19,737,194	₱20,404,920
Asia (excluding Philippines)	**1,754,756**	515,684	**1,245,354**	771,601	761,750
USA and Canada	**487**	37,606	**531,803**	605,993	632,123
United Kingdom	**–**	–	**148,592**	117,116	144,683
Other European Union Countries	**–**	–	**29,287**	10,723	176,045
	₱28,148,088	₱9,094,622	**₱30,203,050**	₱21,242,627	₱22,119,521

The Philippines is 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 primary business segments.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
HFT:				
Government securities	**₱3,070,674**	₱1,970,754	**₱3,070,674**	₱1,970,754
Private debt securities	**268,771**	99,502	**268,771**	99,502
Derivative assets (Notes 23 and 34)	**258,697**	454,501	**258,613**	454,501
Equity securities	**249,518**	250,552	**247,615**	192,585
	3,847,660	2,775,309	**3,845,673**	2,717,342
Designated at FVPL:				
Segregated fund assets (Note 18)	**7,861,688**	–	**–**	–
Private debt securities	**–**	1,247,756	**–**	1,247,756
	₱11,709,348	₱4,023,065	**₱3,845,673**	₱3,965,098

As of December 31, 2013, 2012 and 2011, unrealized gain (loss) on government and private debt securities recognized by the Group and Parent Company amounted to (₱237.1) million, ₱50.1 million and ₱31.9 million, respectively.

The carrying amount of equity securities includes unrealized gain (loss) of (₱30.7) million, (₱3.9) million and ₱4.8 million as of December 31, 2013, 2012 and 2011,respectively, for the Group and unrealized gain (loss) of (₱30.6) million, (₱4.4) million and ₱4.9 million as of December 31, 2013, 2012 and 2011, respectively, for the Parent Company.

As of December 31, 2013, 2012, and 2011, the effective interest rates of government securities range from 0.88% to 5.48%, from 0.67% to 6.72%, and from 1.94% to 6.88%, respectively.

As of December 31, 2013, 2012, and 2011, the effective interest rates of private debt securities range from 2.38% to 7.38%, from 3.95% to 7.20%, and from 1.94% to 6.88%, respectively.

Segregated fund assets designated as financial asset at FVPL refer to the considerations received from unit-linked insurance contracts invested by PNB LII in designated funds.

On March 15, 2005 and June 17, 2005, the IC approved PNB LII's license to sell single-pay and regular-pay unit-linked insurance products, respectively.

Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The equity of each policyholder in the segregated fund assets is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated funds.

As of December 31, 2013, the segregated fund assets consist of ₱6.0 billion peso funds and ₱1.9 billion dollar funds. The segregated fund assets include the following equity-linked notes:

Equity-linked notes	Description
Asian Summit	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of a basket of five Asian equity indices.
Summit Select	A single-pay variable life insurance product which invests the single premium, net of premium charges, into a five (5)-Year PHP-Linked USD Participation Note which is linked to the performance of ING Emerging Markets Consumption VT 10.00% Index.
Dollar Income Optimizer	A single-pay variable life insurance product which invests the single premium, net of premium charges, into UBS seven (7)-Year Structured Note which is linked to the performance of a basket of high quality global funds chosen to offer income and potential for capital appreciation.
Variable Unit-Linked Summit Peso and Dollar	A peso and dollar denominated single-pay five (5)-Year linked life insurance plan that provide the opportunity to participate in a risk-managed portfolio of six (6) equally-weighted exchange traded funds of ASEAN member countries via the ING ASEAN Equities VT 10% index

As of December 31, 2012, private debt securities designated at FVPL represent USD-denominated investments in CLN. The CLNs are part of a group of financial instruments that together are managed on a fair value basis in accordance with the documented risk management and investment strategy of the Parent Company. Unrealized loss from financial assets designated at FVPL amounted to ₱16.3 million as of December 31, 2012.

On March 22 and August 17, 2012, the Parent Company pre-terminated investments in CLN designated at financial assets at FVPL with a total face amount of USD47.5 million or ₱2.0 billion and USD15.0 million or ₱636.3 million, respectively, in which the Parent Company realized trading gain of USD0.2 million or equivalent to ₱8.3 million. The carrying amount of the preterminated securities as of pre-termination dates amounted to USD48.1 million or ₱2.1 billion and USD14.8 million or ₱628.2 million, respectively.

On May 23, 2013, the remaining investments in CLN designated at FVPL with face value of USD30.0 milllion (₱1.29 billion) matured.

8. Available-for-Sale Investments

This account consists of:

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
AFS investments:				
Government securities (Notes 19 and 31)	**₱59,247,765**	₱55,558,527	**₱55,174,681**	₱53,822,929
Other debt securities	**19,216,744**	10,920,133	**16,625,989**	10,551,713
Equity securities - net of allowance for impairment losses of ₱928.4 million (Note 16)	**1,839,640**	518,819	**918,752**	389,398
	₱80,304,149	₱66,997,479	**₱72,719,422**	₱64,764,040

As of December 31, 2013 and 2012, unquoted AFS equity securities of the Group and Parent Company amounted to ₱161.6 million and ₱78.6 million, respectively. No impairment loss has been recognized on these securities for the years ended December 31, 2013 and 2012.

Other debt securities consist of notes issued by private entities and in 2012 also included the host contracts on the CLN (see Note 23).

The movement in net unrealized gain (loss) on AFS investments, net of deferred tax, are as follows:

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Balance at the beginning of the year	**₱1,037,252**	₱742,343	**₱904,686**	₱658,256
Realized gains	**(4,375,759)**	(4,287,934)	**(4,183,617)**	(4,205,426)
Unrealized gains recognized in equity	**(242,894)**	4,558,895	**(113,065)**	4,432,826
	(4,618,653)	270,961	**(4,296,682)**	227,400
Income tax effect (Note 29)	**(464)**	23,948	**(8,933)**	19,030
Balance at end of year	**(₱3,581,865)**	₱1,037,252	**(₱3,400,929)**	₱904,686

As of December 31, 2013 and 2012, the fair value of the AFS investments in the form of Fixed Rate Treasury Notes pledged to fulfill the Parent Company's collateral requirements for the peso rediscounting facility of BSP amounted to ₱2.4 billion and ₱2.8 billion, respectively (see Note 34). BSP has an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the rediscounting facility. There are no other significant terms and conditions associated with the pledged investments.

As of December 31, 2013 and 2012, the fair value of the AFS investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱2.7 billion and ₱3.5 billion, respectively (see Note 34). BSP has an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, BSP has the right to hold the securities and sell them as settlement of the repurchase agreement. There are no other significant terms and conditions associated with the pledged investments.

Included in AFS investments are pledged securities for the Surety Bond amounting to ₱977.4 million issued by PNB Gen. As of December 31, 2013 and 2012, the carrying value of these pledged securities amounted to ₱928.3 million and ₱817.1 million, respectively.

Interest income on trading and investment securities
This account consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
AFS investments	**₱3,102,464**	₱2,627,530	₱1,776,577	**₱2,755,886**	₱2,532,161	₱1,691,357
Financial instruments designated at FVPL	**648,203**	608,224	728,014	**648,202**	608,224	728,014
Derivatives	**5,528**	–	–	**5,503**	–	–
HTM investments	**–**	–	1,756,145	**–**	–	1,755,621
	₱3,756,195	₱3,235,754	₱4,260,736	**₱3,409,591**	₱3,140,385	₱4,174,992

As of December 31, 2013, effective interest rates range from 1.62% to 8.15% and from 0.22% to 7.40% for peso-denominated and foreign currency-denominated AFS investments, respectively.

As of December 31, 2012, effective interest rates range from 2.35% to 8.15% and from 0.98% to 5.23% for peso-denominated and foreign currency-denominated AFS investments, respectively.

As of December 31, 2011, effective interest rates range from 2.49% to 8.15% and from 1.96% to 6.78% for peso-denominated and foreign currency-denominated AFS investments, respectively.

Trading and investment securities gains - net
This account consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Financial assets at FVPL:						
Designated at FVPL	**₱79,955**	₱31,240	(₱135,378)	**(₱16,192)**	₱31,240	(₱135,378)
Derivatives (Note 23)	**(35,663)**	425,529	96,760	**(35,663)**	425,529	96,760
Held-for-trading	**214,322**	449,744	(32,165)	**214,322**	440,660	(32,288)
AFS investments	**4,375,759**	4,287,934	3,596,089	**4,183,617**	4,205,426	3,566,589
HTM investments	**–**	–	141,274	**–**	–	141,274
Financial liabilities at FVPL:						
Derivatives (Note 23)	**(120,650)**	(112,738)	(113,162)	**(120,650)**	(112,738)	(113,162)
Designated at FVPL	**104,510**	283,100	37,575	**196,070**	283,100	37,575
	₱4,618,233	₱5,364,809	₱3,590,993	**₱4,421,504**	₱5,273,217	₱3,561,370

Reclassification of Financial Assets
On October 12, 2011, the Parent Company had identified a clear change of intent to exit or trade in the short term its HTM investments rather than to hold them until maturity, when it disposed of more than an insignificant amount of its HTM investments. This disposal necessitated the reclassification of the remaining HTM investments to AFS securities in accordance with PAS 39. As of the date of reclassification, the amortized cost of HTM investments reclassified to AFS investments amounted to ₱32.5 billion. Reclassified AFS investments are initially measured at its fair value amounting to ₱35.7 billion. Any difference between the amortized cost of HTM investments and its fair value at reclassification date is recognized in OCI.

As of December 31, 2013 and 2012, the carrying value of the securities reclassified out of HTM investments to AFS investments amounted to nil and ₱1.9 billion, respectively.

In 2013 and 2012, the net unrealized (loss) gain reclassified from equity to profit or loss due to sale of investments reclassified to AFS amounted to nil and ₱299.6 million, respectively.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Receivable from customers:				
Loans and discounts	**₱233,536,374**	₱124,072,963	**₱224,041,113**	₱123,118,335
Customers' liabilities on acceptances, letters of credit and trust receipts	**9,978,252**	4,150,208	**9,734,834**	4,150,208
Bills purchased (Note 22)	**3,781,305**	2,556,211	**3,387,627**	2,556,211
Credit card receivables	**3,763,087**	286,623	**3,763,087**	286,623
Lease contracts receivable (Note 28)	**2,677,235**	2,043,456	**105,209**	105,859
	253,736,253	133,109,461	**241,031,870**	130,217,236
Less unearned and other deferred income	**1,109,950**	910,617	**830,242**	676,591
	252,626,303	132,198,844	**240,201,628**	129,540,645
Unquoted debt securities	**11,254,187**	7,818,199	**10,871,565**	7,818,199
Other receivables:				
Accounts receivable	**10,186,605**	6,028,810	**3,924,203**	3,243,109
Accrued interest receivable	**7,229,913**	6,190,680	**7,040,322**	6,150,746
Sales contract receivables	**4,647,352**	4,633,079	**4,591,220**	4,633,079
Miscellaneous	**499,314**	593,434	**473,406**	561,034
	22,563,184	17,446,003	**16,029,151**	14,587,968
	286,443,674	157,463,046	**267,102,344**	151,946,812
Less allowance for credit losses (Note 16)	**12,167,591**	13,232,381	**11,666,814**	12,423,138
	₱274,276,083	₱144,230,665	**₱255,435,530**	₱139,523,674

The separate valuation allowance of acquired loans and receivables were not recognized by PNB on the effectivity date of the acquisition as these receivables were measured at fair value on acquisition date. Any uncertainties about future cash flows of these receivables were included in their fair value measurement (see Note 13).

Below is the reconciliation of loans and receivables as to classes:

	Consolidated December 31, 2013							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱176,301,212	₱25,346,986	₱8,612,537	₱22,677,538	₱598,101	₱–	₱–	₱233,536,374
Customers' liabilities on acceptances, letters of credit and trust receipts	9,977,264	988	–	–	–	–	–	9,978,252
Bills purchased	3,343,718	437,587	–	–	–	–	–	3,781,305
Lease contracts receivable (Note 28)	2,676,136	–	–	1,099	–	–	–	2,677,235
Credit card accounts	42,391	–	–	3,702,336	18,360	–	–	3,763,087
	192,340,721	25,785,561	8,612,537	26,380,973	616,461	–	–	253,736,253
Less unearned and other deferred income	1,084,841	–	16,909	7,910	290	–	–	1,109,950
	191,255,880	25,785,561	8,595,628	26,373,063	616,171	–	–	252,626,303
Unquoted debt securities	–	–	–	–	–	11,254,187	–	11,254,187
Other receivables:								
Accounts receivable	–	–	–	–	–	–	10,186,605	10,186,605
Accrued interest receivable	–	–	–	–	–	–	7,229,913	7,229,913
Sales contract receivables	–	–	–	–	–	–	4,647,352	4,647,352
Miscellaneous	–	–	–	–	–	–	499,314	499,314
	191,255,880	25,785,561	8,595,628	26,373,063	616,171	11,254,187	22,563,184	286,443,674
Less allowance for credit losses (Note 16)	3,695,863	76,429	85,008	455,503	30,623	3,958,656	3,865,509	12,167,591
	₱187,560,017	₱25,709,132	₱8,510,620	₱25,917,560	₱585,548	₱7,295,531	₱18,697,675	₱274,276,083

	Consolidated							
	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱83,058,722	₱21,598,814	₱7,287,123	₱11,469,948	₱658,356	₱–	₱–	₱124,072,963
Customers' liabilities on acceptances, letters of credit and trust receipts	2,658,590	1,491,618	–	–	–	–	–	4,150,208
Bills purchased	1,165,415	1,390,796	–	–	–	–	–	2,556,211
Lease contracts receivable (Note 28)	2,041,954	–	–	1,502	–	–	–	2,043,456
Credit card accounts	–	–	–	286,623	–	–	–	286,623
	88,924,681	24,481,228	7,287,123	11,758,073	658,356	–	–	133,109,461
Less unearned and other deferred income	910,511	–	–	106	–	–	–	910,617
	88,014,170	24,481,228	7,287,123	11,757,967	658,356	–	–	132,198,844
Unquoted debt securities	–	–	–	–	–	7,818,199	–	7,818,199
Other receivables:								
Accounts receivable	–	–	–	–	–	–	6,028,810	6,028,810
Accrued interest receivable	–	–	–	–	–	–	6,190,680	6,190,680
Sales contract receivables	–	–	–	–	–	–	4,633,079	4,633,079
Miscellaneous	–	–	–	–	–	–	593,434	593,434
	88,014,170	24,481,228	7,287,123	11,757,967	658,356	7,818,199	17,446,003	157,463,046
Less allowance for credit losses (Note 16)	4,631,725	70,731	129,653	561,132	14,748	3,958,931	3,865,461	13,232,381
	₱83,382,445	₱24,410,497	₱7,157,470	₱11,196,835	₱643,608	₱3,859,268	₱13,580,542	₱144,230,665

	Parent Company							
	December 31, 2013							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	**₱169,021,890**	**₱25,346,986**	**₱8,612,537**	**₱20,475,776**	**₱583,924**	**₱–**	**₱–**	**₱224,041,113**
Customers' liabilities on acceptances, letters of credit and trust receipts	**9,733,846**	**988**	**–**	**–**	**–**	**–**	**–**	**9,734,834**
Bills purchased	**2,950,040**	**437,587**	**–**	**–**	**–**	**–**	**–**	**3,387,627**
Lease contract receivable (Note 28)	**105,209**	**–**	**–**	**–**	**–**	**–**	**–**	**105,209**
Credit card accounts	**42,391**	**–**	**–**	**3,702,336**	**18,360**	**–**	**–**	**3,763,087**
	181,853,376	**25,785,561**	**8,612,537**	**24,178,112**	**602,284**	**–**	**–**	**241,031,870**
Less unearned and other deferred income	**807,149**	**–**	**16,909**	**5,894**	**290**	**–**	**–**	**830,242**
	181,046,227	**25,785,561**	**8,595,628**	**24,172,218**	**601,994**	**–**	**–**	**240,201,628**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**10,871,565**	**–**	**10,871,565**
Other receivables:								
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**3,924,203**	**3,924,203**
Accrued interest receivable	**–**	**–**	**–**	**–**	**–**	**–**	**7,040,322**	**7,040,322**
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**4,591,220**	**4,591,220**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**473,406**	**473,406**
	181,046,227	**25,785,561**	**8,595,628**	**24,172,218**	**601,994**	**10,871,565**	**16,029,151**	**267,102,344**
Less allowance for credit losses (Note 16)	**3,495,728**	**76,429**	**85,008**	**425,942**	**30,620**	**3,958,656**	**3,594,431**	**11,666,814**
	₱177,550,499	**₱25,709,132**	**₱8,510,620**	**₱23,746,276**	**₱571,374**	**₱6,912,909**	**₱12,434,720**	**₱255,435,530**

	Parent Company							
	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱82,226,939	₱21,598,813	₱7,287,123	₱11,360,846	₱644,614	₱–	₱–	₱123,118,335
Customers' liabilities on acceptances, letters of credit and trust receipts	2,658,589	1,491,619	–	–	–	–	–	4,150,208
Bills purchased	1,165,415	1,390,796	–	–	–	–	–	2,556,211
Lease contract receivable (Note 28)	105,859	–	–	–	–	–	–	105,859
Credit card accounts	–	–	–	286,623	–	–	–	286,623
	86,156,802	24,481,228	7,287,123	11,647,469	644,614	–	–	130,217,236
Less unearned and other deferred income	676,591	–	–	–	–	–	–	676,591
	85,480,211	24,481,228	7,287,123	11,647,469	644,614	–	–	129,540,645
Unquoted debt securities	–	–	–	–	–	7,818,199	–	7,818,199

(Forward)

	Parent Company							
	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Other receivables:								
Accounts receivable	₱–	₱–	₱–	₱–	₱–	₱–	₱3,243,109	₱3,243,109
Accrued interest receivable	–	–	–	–	–	–	6,150,746	6,150,746
Sales contract receivables	–	–	–	–	–	–	4,633,079	4,633,079
Miscellaneous	–	–	–	–	–	–	561,034	561,034
	85,480,211	24,481,228	7,287,123	11,647,469	644,614	7,818,199	14,587,968	151,946,812
Less allowance for credit losses (Note 16)	4,512,158	70,731	129,653	545,143	14,743	3,958,931	3,191,779	12,423,138
	₱80,968,053	₱24,410,497	₱7,157,470	₱11,102,326	₱629,871	₱3,859,268	₱11,396,189	₱139,523,674

Loans amounting to ₱219.1 million and ₱2.0 billion as of December 31, 2013 and 2012, respectively, have been pledged to the BSP to secure the Parent Company's availments under the BSP rediscounting privileges which are included in Bills payable (see Notes 19 and 34). The pledged loans will be released when the underlying transaction is terminated. In the event of the Parent Company's default, BSP is entitled to apply the collateral in order to settle the rediscounted bills.

Unquoted debt instruments
Unquoted debt instruments include the zero-coupon notes received by the Parent Company from Special Purpose Vehicle (SPV) Companies on October 15, 2004, 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 National Steel Corporation (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, 2013 and 2012, the notes are carried at their recoverable values. Management assessed that these loans are not fully recoverable as a result of the Partial Award granted by the Arbitration Panel to the SPV Companies. The consortium banks, including the Parent Company, has filed a Petition to set aside the Partial Award with the Singapore High Court on July 9, 2012. The Petition is pending as of the financial statement issuance date (see Note 33).

As of December 31, 2013 and 2012, unquoted debt instruments also include bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.7 billion with accrued interest included under 'Accrued interest receivable' amounting to ₱2.3 billion. The full repayment of principal and accumulated interest to maturity is guaranteed by a sinking fund managed by the Parent Company's Trust Banking Group (TBG). As of December 31, 2013 and 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively, earning an average rate of return of 8.82% per annum. The bonds matured on February 15, 2014 and was settled through liquidation of the sinking fund.

Accounts Receivable
On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets (included under 'Accounts receivable') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank. As of December 31, 2013 and 2012, the balance of these receivables amounted to ₱3.6 billion and ₱3.4 billion, respectively, and the transferred liabilities (included under 'Bills payable to BSP and local banks' - see Note 19 and 'Accrued interest payable') amounted to ₱3.3 billion and ₱3.1 billion, respectively. The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱262.5 million as of December 31, 2013 and 2012. The remaining 40% equity ownership of the Parent Company in Maybank was sold in June 2000 (see Note 33).

Finance lease receivable
An analysis of the Group's finance lease receivables is presented as follows (amounts in thousands):

	2013	2012
Gross investment in finance lease receivables		
Due within one year	**₱1,010,881**	₱778,749
Due beyond one year but not over five years	**1,185,732**	849,664
Due beyond five years	**75,850**	85,800
	2,272,463	1,714,213
Residual value of leased equipment		
Due within one year	**135,310**	110,562
Due beyond one year but not over five years	**229,254**	218,681
Due beyond five years	**40,208**	–
	404,772	329,243
Net investment in finance lease receivables	**₱2,677,235**	₱2,043,456

Interest Income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Receivable from customers and sales contract receivables	**₱12,902,015**	₱7,372,918	₱7,261,307	**₱12,358,412**	₱7,235,499	₱7,127,101
Unquoted debt securities	**216,449**	78,434	275,699	**200,297**	78,434	275,699
	₱13,118,464	₱7,451,352	₱7,537,006	**₱12,558,709**	₱7,313,933	₱7,402,800

As of December 31, 2013 and 2012, 83.3% and 90.9%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2013 and 2012, 83.1% and 90.6%, respectively, of the total receivable from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 4.8% to 9.0% as of December 31, 2013, from 2.3% to 13.0% as of December 31, 2012 and from 2.6% to 9.0% as of December 31, 2011 for foreign currency-denominated receivables, and from 0.3% to 24.4% as of December 31, 2013, from 0.9% to 18.5% as of December 31, 2012 and from 5.6% to 15.0% as of December 31, 2011 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 4.5% to 21.0% in 2013, from 1.8% to 15.0% and from 1.8% to 17.0% as of December 31, 2013, 2012 and 2011, respectively.

Interest income accrued on impaired loans and receivable of the Group and Parent Company amounted to ₱289.1 million in 2013, ₱302.8 million in 2012 and ₱373.3 million in 2011 (see Note 16).

An industry sector analysis of the Group's and Parent Company's receivable from customers before taking into account the allowance for credit losses (amounts in millions) is shown below.

	Consolidated				Parent Company			
	December 31, 2013		December 31, 2012		**December 31, 2013**		December 31, 2012	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Loans and Receivables								
Receivable from customers:								
Primary target industry:								
Wholesale and retail	**₱43,123**	**17.00**	₱21,496	16.15	**₱41,354**	**17.16**	₱21,192	16.27
Electricity, gas and water	**38,523**	**15.18**	18,180	13.66	**38,472**	**15.96**	18,180	13.96
Manufacturing	**31,992**	**12.61**	13,317	10.00	**28,865**	**11.97**	13,228	10.16
Public administration and defense	**23,867**	**9.41**	22,766	17.10	**23,868**	**9.90**	22,739	17.46
Financial intermediaries	**21,460**	**8.46**	10,207	7.67	**21,234**	**8.81**	10,193	7.83
Transport, storage and communication	**18,089**	**7.13**	17,051	12.81	**16,631**	**6.90**	16,186	12.43
Agriculture, hunting and forestry	**3,660**	**1.44**	2,899	2.18	**3,563**	**1.48**	2,705	2.08
Secondary target industry:								
Real estate, renting and business activities	**36,119**	**14.23**	11,434	8.59	**32,099**	**13.32**	11,395	8.75
Construction	**6,976**	**2.75**	2,349	1.77	**6,411**	**2.66**	2,148	1.65
Others	**29,927**	**11.79**	13,410	10.07	**28,535**	**11.84**	12,251	9.41
	₱253,736	**100.00**	₱133,109	100.00	**₱241,032**	**100.00**	₱130,217	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:

	Consolidated				Parent Company			
	December 31, 2013		December 31, 2012		**December 31, 2013**		December 31, 2012	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱59,124,844**	**23.30**	₱21,457,030	16.12	**₱52,102,346**	**21.62**	₱21,435,750	16.46
Chattel mortgage	**8,678,328**	**3.42**	4,336,447	3.26	**6,730,957**	**2.79**	3,200,301	2.46
Bank deposit hold-out	**3,572,618**	**1.41**	1,615,415	1.21	**3,486,259**	**1.45**	1,612,914	1.24
Shares of stocks	**–**	**–**	358,267	0.27	**–**	**–**	358,267	0.28
Others	**32,094,769**	**12.65**	21,660,562	16.27	**29,540,606**	**12.25**	19,445,870	14.93
	103,470,559	**40.78**	49,427,721	37.13	**91,860,168**	**38.11**	46,053,102	35.37
Unsecured	**150,265,694**	**59.22**	83,681,740	62.87	**149,171,702**	**61.89**	84,164,134	64.63
	₱253,736,253	**100.00**	₱133,109,461	100.00	**₱241,031,870**	**100.00**	₱130,217,236	100.00

BSP Reporting

The table below reflects the balances of loans and receivables as reported to the BSP.
For purposes of BSP reporting, the acquired loans and receivables were measured based on their original amortized cost as at acquisition date instead of their corresponding fair values.

Non-performing Loans (NPL) of the Parent Company as to secured and unsecured follows:

	December 31, 2013	December 31, 2012
Secured	**₱6,842,118**	₱3,801,846
Unsecured	**3,844,304**	2,662,759
	₱10,686,422	₱6,464,605

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Effective January 1, 2013, the exclusion of NPLs classified as loss but are fully covered by allowance was removed by the BSP through Circular No. 772. Previous banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As of December 31, 2012, under previous banking regulations, NPLs of the Parent Company net of those which are fully provided with allowance for credit losses of ₱2.7 billion, amounted to ₱3.8 billion.

As of December 31, 2013, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱10.7 billion which the Parent Company reported to the BSP are net of specific allowance amounting to ₱7.2 billion. Most of these loans are secured by real estate or chattel mortgages. As of December 31, 2013, gross and net NPL ratios of the Parent Company were 4.3% and 1.4%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2013 amounted to ₱2.0 billion and ₱1.9 billion, respectively. Restructured loans of the Group and the Parent Company as of December 31, 2012 amounted to ₱2.6 billion and ₱2.5 billion, respectively.

10. **Property and Equipment**

The composition of and movements in furniture, fixtures and equipment and leasehold improvements follow:

	Consolidated		
	December 31, 2013		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱3,121,098**	**₱458,529**	**₱3,579,627**
Additions	**366,573**	**286,232**	**652,805**
Acquired from business combination (Note 13)	**119,458**	**467,156**	**586,614**
Disposals/others	**(136,297)**	**(217,789)**	**(354,086)**
Balance at end of year	**3,470,832**	**994,128**	**4,464,960**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**2,410,507**	**232,045**	**2,642,552**
Depreciation and amortization	**351,937**	**236,364**	**588,301**
Disposals/others	**(116,516)**	**(112,685)**	**(229,201)**
Balance at end of year	**2,645,928**	**355,724**	**3,001,652**
Net Book Value at End of Year	**₱824,904**	**₱638,404**	**₱1,463,308**

	Consolidated		
	December 31, 2012		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱3,042,550	₱354,065	₱3,396,615
Additions	269,349	131,910	401,259
Disposals/others	(190,801)	(27,446)	(218,247)
Balance at end of year	3,121,098	458,529	3,579,627
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,330,703	199,900	2,530,603
Depreciation and amortization	237,322	60,853	298,175
Disposals/others	(157,518)	(28,708)	(186,226)
Balance at end of year	2,410,507	232,045	2,642,552
Net Book Value at End of Year	₱710,591	₱226,484	₱937,075

	Parent Company		
	December 31, 2013		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Cost			
Balance at beginning of year	**₱2,746,617**	**₱373,207**	**₱3,119,824**
Additions	**272,069**	**273,444**	**545,513**
Acquired from business combination (Note 13)	**83,675**	**401,590**	**485,265**
Disposals/others	**(123,195)**	**(203,981)**	**(327,176)**
Balance at end of year	**2,979,166**	**844,260**	**3,823,426**

(Forward)

	Parent Company		
	December 31, 2013		
	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**₱2,192,579**	**₱169,881**	**₱2,362,460**
Depreciation and amortization	**281,381**	**202,809**	**484,190**
Disposals/others	**(107,502)**	**(82,837)**	**(190,339)**
Balance at end of year	**2,366,458**	**289,853**	**2,656,311**
Net Book Value at End of Year	**₱612,708**	**₱554,407**	**₱1,167,115**

	Parent Company		
	December 31, 2012		
	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at beginning of year	₱2,638,258	₱251,243	₱2,889,501
Additions	207,446	126,137	333,583
Disposals/others	(99,087)	(4,173)	(103,260)
Balance at end of year	2,746,617	373,207	3,119,824
Accumulated Depreciation and Amortization			
Balance at beginning of year	2,089,542	123,554	2,213,096
Depreciation and amortization	186,206	49,209	235,415
Disposals/others	(83,169)	(2,882)	(86,051)
Balance at end of year	2,192,579	169,881	2,362,460
Net Book Value at End of Year	₱554,038	₱203,326	₱757,364

The composition of and movements in land and buildings of the Group carried at appraised value follow:

	Consolidated		
	December 31, 2013		
	Land	**Buildings**	**Total**
Appraised Value			
Balance at beginning of year	**₱11,296,469**	**₱6,892,115**	**₱18,188,584**
Acquired from business combination (Note 13)	**3,782,017**	**2,088,435**	**5,870,452**
Appraisal increase (reversal)	**63,124**	**(277,678)**	**(214,554)**
Additions	**18**	**307,503**	**307,521**
Disposals/others	**(1)**	**(22,985)**	**(22,986)**
Balance at end of year	**15,141,627**	**8,987,390**	**24,129,017**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,383,948**	**2,383,948**
Depreciation	**–**	**336,882**	**336,882**
Disposals/others	**–**	**7,960**	**7,960**
Balance at end of year	**–**	**2,728,790**	**2,728,790**
Allowance for Impairment Losses (Note 16)	**(183,876)**	**(61,300)**	**(245,176)**
Net Book Value at End of Year	**₱14,957,751**	**₱6,197,300**	**₱21,155,051**

	Parent Company		
	December 31, 2013		
	Land	**Buildings**	**Total**
Appraised Value			
Balance at beginning of year	**₱11,296,469**	**₱6,892,115**	**₱18,188,584**
Acquired from business combination (Note 13)	**3,413,309**	**1,879,277**	**5,292,586**
Appraisal increase (reversal)	**63,124**	**(277,678)**	**(214,554)**
Additions	**–**	**307,271**	**307,271**
Disposals/others	**–**	**(49,292)**	**(49,292)**
Balance at end of year	**14,772,902**	**8,751,693**	**23,524,595**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,383,948**	**2,383,948**
Depreciation	**–**	**320,293**	**320,293**
Disposals/others	**–**	**(160)**	**(160)**
Balance at end of year	**–**	**2,704,081**	**2,704,081**
Allowance for Impairment Losses (Note 16)	**(183,876)**	**(61,300)**	**(245,176)**
Net Book Value at End of Year	**₱14,589,026**	**₱5,986,312**	**₱20,575,338**

	Consolidated and Parent Company		
	December 31, 2012		
	Land	Buildings	Total
Appraised Value			
Balance at beginning of year	₱11,295,469	₱6,870,616	₱18,166,085
Additions	1,000	302,068	303,068
Disposals/others	–	(280,569)	(280,569)
Balance at end of year	11,296,469	6,892,115	18,188,584
Accumulated Depreciation			
Balance at beginning of year	–	2,230,309	2,230,309
Depreciation	–	175,642	175,642
Disposals/others	–	(22,003)	(22,003)
Balance at end of year	–	2,383,948	2,383,948
Allowance for Impairment Losses (Note 16)	(191,450)	(46,536)	(237,986)
Net Book Value at End of Year	₱11,105,019	₱4,461,631	₱15,566,650

The revalued amount of land and building was determined by independent appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Depreciation on the revaluation increment of the buildings amounted to ₱112.7 million in 2013, ₱69.5 million in 2012 and ₱74.8 million in 2011 for the Group and the Parent Company.

Had the land and buildings been carried at cost, the net book value of the land and buildings would have been ₱10.0 billion and ₱9.4 billion for the Group and Parent Company, respectively, as of December 31, 2013 and ₱4.7 billion for the Group and Parent Company as of December 31, 2012.

Depreciation and amortization consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Depreciation - Property and equipment	**₱925,183**	₱473,817	₱429,130	**₱804,483**	₱411,057	₱389,816
Depreciation - Investment properties (Note 12)	**286,923**	227,802	200,820	**279,147**	225,768	198,765
Depreciation - Other foreclosed properties	**62,721**	12,901	26,454	**62,721**	6,245	5,359
Amortization - Intangibles (Note 14)	**467,159**	153,550	162,166	**463,909**	151,126	158,528
	₱1,741,986	₱868,070	₱818,570	**₱1,610,260**	₱794,196	₱752,468

As of December 31, 2013 and 2012, property and equipment of the Parent Company with gross carrying amounts of ₱866.4 billion and ₱736.7 million, respectively, is fully depreciated but is still being used.

Included in the 'Amortization – intangibles' in 2013 are the amortization of intangible assets acquired from the business combination which amounted to ₱286.6 million for the Group and Parent Company.

11. Investments in Subsidiaries

The details of this account follow:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Acquisition cost of subsidiaries:				
ACB	**₱–**	₱–	**₱5,485,747**	₱–
PNB IIC	**–**	–	**2,028,202**	2,028,202
PNB LII	**–**	–	**1,303,770**	–
PNB Europe PLC	**–**	–	**1,006,537**	887,109
ABCHKL	**–**	–	**947,586**	–
ASB	**–**	–	**935,041**	–
PNB GRF	**–**	–	**753,061**	753,061
PNB Holdings	**–**	–	**377,876**	377,876
PNB Capital	**–**	–	**350,000**	350,000
ABUK	**–**	–	**320,858**	–
OHBVI	**–**	–	**291,840**	–
Japan - PNB Leasing	**–**	–	**218,331**	218,331
PNB Italy – SpA	**–**	–	**204,377**	176,520
ALFC	**–**	–	**148,400**	–
PNB Securities	**–**	–	**62,351**	62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000
PNB Corporation – Guam	**–**	–	**7,672**	7,672
Omicron Asset Portfolio (SPV-AMC), Inc.	**–**	–	**–**	32,223
Tanzanite Investments (SPV-AMC), Inc.	**–**	–	**–**	32,223
Tau Portfolio Investments (SPV-AMC), Inc.	**–**	–	**–**	32,224
	–	–	**14,491,649**	5,007,792
Acquisition cost of associate:				
Balance at beginning of year - ACB	**2,763,903**	2,763,903	**2,763,903**	2,763,903
Disposal of previously held interest in an associate due to step-up acquisition of control over investee	**(2,763,903)**	–	**(2,763,903)**	–
	–	2,763,903	**–**	2,763,903
Accumulated equity in net earnings:				
Balance at beginning of year	**136,330**	132,816	**–**	–
Equity in net earnings for the year (Note 26)	**4,975**	10,309	**–**	–
Equity in net unrealized loss on AFS investments of an associate	**–**	(6,795)	**–**	–
Disposal of previously held interest in an associate due to step-up acquisition of control over investee	**(141,305)**	–		
	–	136,330	**–**	–

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Less allowance for impairment losses (Note 16)				
Balance at beginning of year	**₱508,978**	₱–	**₱1,372,532**	₱503,154
Provisions (reversals) during the year	**–**	–	**12,347**	496,730
Reclassifications and others	**(508,978)**	508,978	**(372,648)**	372,648
	–	508,978	**1,012,231**	1,372,532
	₱–	₱2,391,255	**₱13,479,418**	₱6,399,163

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.

As of December 31, 2013 and 2012, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and is not available for dividend declaration.

In 2013, 2012 and 2011, the Parent Company's subsidiaries declared cash dividends amounting to ₱127.3 million, ₱231.6 million, and ₱216.8 million, respectively. These are included under 'Miscellaneous income - others' (see Note 26) in the Parent Company financial statements.

<u>Acquisitions</u>
Effective January 31, 2011, the Group acquired an additional 30.00% interest in the voting shares of Japan PNB Leasing, increasing its ownership interest to 90.00%. A cash consideration of ₱115.2 million was paid to the non-controlling interest shareholders. The carrying value of the net assets of Japan PNB Leasing at the acquisition date was ₱384.0 million, and the carrying value of the additional interest acquired was ₱115.5 million. The consideration approximates the carrying value of the interest acquired.

<u>Material non-controlling interests</u>
The financial information as of December 31, 2013 of subsidiaries which have a material NCI is provided below.

	PNB LII	ABHK	ACB
Proportion of ownership interests held by NCI	20%	49%	9.59%
Net income for the period attributed to NCI	₱38,749	₱44,152	₱4,882
Accumulated equity interest attributed to NCI	320,795	1,129,967	640,268
Statement of Financial Position			
Current assets	₱807,472	₱5,063,919	₱8,506,792
Non-current assets	13,842,678	4,477,620	840,814
Current liabilities	1,833,112	6,948,939	2,667,861
Non-current liabilities	11,539,108	159,380	3,333

	PNB LII	ABHK	ACB
Statement of Comprehensive Income			
Revenues	₱2,025,195	₱275,972	₱229,861
Expenses	1,785,212	179,787	162,016
Net income	209,540	90,105	50,906
Total comprehensive income	80,964	237,541	609,008
Statement of Cash Flows			
Net cash provided by (used in) operating activities	101,961	(73,518)	525,741
Net cash provided by (used in) investing activities	(8,030)	210,160	(61,458)
Net cash used in financing activities	–	(5,925)	–

The non-controlling interest in respect of ALFC, Japan PNB and OHBVI is not material to the Group.

Investment in SPVs
On November 12, 2009, the Articles of Incorporation of Omicron Asset Portfolio (SPV-AMC), Inc., Tanzanite Investments (SPV-AMC), Inc. and Tau Portfolio Investments (SPV-AMC), Inc. were amended to shorten the life of these SPVs until December 31, 2009. The application to shorten the life of these SPVs was approved by the SEC in 2013. Upon approval, these SPVs ceased to operate and the final financial statements were submitted to the SEC.

Investment in ACB
In August 2009, the Parent Company acquired 39.41% ownership in ACB in Xiamen China for a total consideration of Chinese Yuan (CNY) 394.1 million or USD 57.7 million (equivalent to ₱2.8 billion).

The following table illustrates the summarized financial information of ACB as of and for the year ended December 31, 2012 (in thousands):

	2012
Total assets	₱8,402,405
Total liabilities	2,290,586
Total revenues	346,727
Net income	25,614

With its business combination with ABC in 2013 (see 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 fair value of consideration received from the step-up acquisition is equal to the carrying value of the disposed investment in ACB.

On November 22, 2013, the BOD of the Parent Company approved and confirmed the increase in equity investment of the Parent Company in ACB by way of purchase of the remaining equity holdings of natural person investors. The increase in equity investment in ACB is in relation to ACB's application of CNY license with the Chinese Banking Regulatory Commission (CBRC). The CBRC requires foreign banks applying for CNY license to be wholly owned by financial institutions. The Parent Company has yet to request for BSP's approval on the proposed increase in equity investment in ACB.

On January 28, 2014, the BOD approved the use of book value of equity of ACB as of December 31, 2013 as the purchase price of the remaining equity holdings of natural person investors in ACB.

<u>PNB Forex</u>
On August 23, 2013, the Parent Company approved the dissolution of PNB Forex by shortening its corporate life to until December 31, 2013. PNB Forex has ceased its business operations in January 1, 2006.

<u>Other Matters</u>
The BOD of the Parent Company approved and confirmed the following:

December 20, 2013
(1) Infusion of additional equity to ASB amounting to ₱10.0 billion which will be used to build and refocus the Group's consumer lending business. The infusion of additional equity to ASB was approved by the BSP on February 28, 2014.
(2) Sale of consumer loans of the Parent Company with carrying value amounting to ₱6.0 billion to ASB on a without recourse basis.
(3) Closure of PISpA and shifting to an agent-arrangement to continue remittance business in Italy.

February 28, 2014
(1) Extension of operations of PISpA up to February 28, 2014 in order to completely turnover its remittance business.
(2) Subscription to the authorized capital stock of PNB Gen amounting to ₱600.0 million subject to the approval of BSP.

<u>Significant restrictions</u>
The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

The BSP and IC regulations require banks and insurance companies to maintain certain level of regulatory capitals; among others. The total assets of banking subsidiaries amounted to ₱29.9 billion in 2013 (nil in 2012) and for insurance subsidiaries, total assets amounted to ₱23.1 billion in 2013 (₱4.8 billion in 2012).

12. **Investment Properties**

The composition of and movements in this account follow:

	Consolidated		
	December 31, 2013		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱17,032,456**	**₱4,025,748**	**₱21,058,204**
Additions	**1,238,051**	**1,133,569**	**2,371,620**
Acquired from business combination (Note 13)	**6,031,443**	**675,651**	**6,707,094**
Disposals/others	**(2,048,265)**	**(1,307,592)**	**(3,355,857)**
Balance at end of year	**22,253,685**	**4,527,376**	**26,781,061**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,112,673**	**2,112,673**
Depreciation (Note 10)	**–**	**286,923**	**286,923**
Disposals/others	**–**	**(290,488)**	**(290,488)**
Balance at end of year	**–**	**2,109,108**	**2,109,108**
Accumulated Impairment Losses (Note 16)			
Balance at beginning of year	**2,842,164**	**610,341**	**3,452,505**
Provision for impairment losses	**53,604**	**55,960**	**109,564**
Disposals/others	**(266,357)**	**(76,721)**	**(343,078)**
Balance at end of year	**2,629,411**	**589,580**	**3,218,991**
Net Book Value at End of Year	**₱19,624,274**	**₱1,828,688**	**₱21,452,962**

	Consolidated		
	December 31, 2012		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱19,739,485	₱5,429,337	₱25,168,822
Additions	608,996	197,270	806,266
Disposals/others	(3,316,025)	(1,600,859)	(4,916,884)
Balance at end of year	17,032,456	4,025,748	21,058,204
Accumulated Depreciation			
Balance at beginning of year	–	2,645,744	2,645,744
Depreciation (Note 10)	–	227,802	227,802
Disposals/others	–	(760,873)	(760,873)
Balance at end of year	–	2,112,673	2,112,673
Accumulated Impairment Losses (Note 16)			
Balance at beginning of year	2,798,435	1,204,920	4,003,355
Provision for (recovery from) impairment losses	(161,725)	11,742	(149,983)
Disposals/others	205,454	(606,321)	(400,867)
Balance at end of year	2,842,164	610,341	3,452,505
Net Book Value at End of Year	₱14,190,292	₱1,302,734	₱15,493,026

	Parent Company		
	December 31, 2013		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱17,032,457**	**₱3,924,681**	**₱20,957,138**
Additions	**1,103,536**	**1,051,036**	**2,154,572**
Acquired from business combination (Note 13)	**5,766,042**	**649,032**	**6,415,074**
Disposals/others	**(1,925,254)**	**(1,289,046)**	**(3,214,300)**
Balance at end of year	**21,976,781**	**4,335,703**	**26,312,484**
Accumulated Depreciation			
Balance at beginning of year	**–**	**2,078,756**	**2,078,756**
Depreciation (Note 10)	**–**	**279,147**	**279,147**
Disposals/others	**–**	**(282,962)**	**(282,962)**
Balance at end of year	**–**	**2,074,941**	**2,074,941**
Accumulated Impairment Losses (Note 16)			
Balance at beginning of year	**2,842,164**	**610,341**	**3,452,505**
Provision for impairment losses	**53,604**	**55,109**	**108,713**
Disposals/others	**(424,293)**	**(124,316)**	**(548,609)**
Balance at end of year	**2,471,475**	**541,134**	**3,012,609**
Net Book Value at End of Year	**₱19,505,306**	**₱1,719,628**	**₱21,224,934**

	Parent Company		
	December 31, 2012		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱19,739,485	₱5,327,412	₱25,066,897
Additions	608,996	197,270	806,266
Disposals/others	(3,316,024)	(1,600,001)	(4,916,025)
Balance at end of year	17,032,457	3,924,681	20,957,138
Accumulated Depreciation			
Balance at beginning of year	–	2,613,729	2,613,729
Depreciation (Note 10)	–	225,768	225,768
Disposals/others	–	(760,741)	(760,741)
Balance at end of year	–	2,078,756	2,078,756
Accumulated Impairment Losses (Note 16)			
Balance at beginning of year	2,798,435	1,204,920	4,003,355
Provision for (recovery from) impairment losses	(161,725)	11,742	(149,983)
Disposals/others	205,454	(606,321)	(400,867)
Balance at end of year	2,842,164	610,341	3,452,505
Net Book Value at End of Year	₱14,190,293	₱1,235,584	₱15,425,877

Investment properties include real properties foreclosed or acquired in settlement of loans. Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱449.5 million and ₱437.2 million, as of December 31, 2013 and 2012, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties. As discussed in Note 33, as of December 31, 2012 investment properties with an aggregate fair value of ₱300.0 million were mortgaged in favor of BSP.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Others', amounted to ₱8.0 million, ₱44.5 million and ₱27.7 million in 2013, 2012, and 2011, respectively. While direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱180.8 million, ₱242.5 million and ₱292.0 million in 2013, 2012, and 2011, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Others', amounted to ₱7.0 million, ₱39.2 million and ₱27.7 million in 2013, 2012, and 2011, respectively. While direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱179.1 million, ₱242.5 million and ₱292.0 million in 2013, 2012, and 2011, respectively.

13. 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 acquistion follow:

	Fair value of the net assets recognized on acquistion date	
	Consolidated	Parent Company
Assets		
Cash and other cash items	₱3,138,220	₱2,855,899
Due from Bangko Sentral ng Pilipinas	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

(Forward)

	Fair value of the net assets recognized on acquistion date	
	Consolidated	Parent Company
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 excercised 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.

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 in flow 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.

14. **Goodwill and Intangible Assets**

As of December 31, 2013 and December 31, 2012, goodwill and intangible assets consist of:

	Consolidated					
	December 31, 2013					December 31, 2012
	Intangible Assets					
	Core Deposits	**Customer Relationship**	**Others**	**Total**	**Goodwill**	Others
Cost						
Balance at beginning of year	**₱–**	**₱–**	**₱692,739**	**₱692,739**	**₱–**	₱572,524
Acquired from business combination (Note 13)	**1,897,789**	**391,943**	**60,209**	**2,349,941**	**13,375,407**	–
Additions	**–**	**–**	**118,236**	**118,236**	**–**	120,215
Balance at end of year	**1,897,789**	**391,943**	**871,184**	**3,160,916**	**13,375,407**	692,739
Accumulated Amortization						
Balance at beginning of year	**–**	**–**	**315,717**	**315,717**	**–**	162,167
Amortization/(Reversals)	**169,747**	**116,857**	**180,555**	**467,159**	**–**	153,550
Balance at end of year	**169,747**	**116,857**	**496,272**	**782,876**	**–**	315,717
Net Book Value at End of Year	**₱1,728,042**	**₱275,086**	**₱374,912**	**₱2,378,040**	**₱13,375,407**	₱377,022

	Parent Company					
	December 31, 2013					December 31, 2012
	Intangible Assets					
	Core Deposits	**Customer Relationship**	**Others**	**Total**	**Goodwill**	Others
Cost						
Balance at beginning of year	**₱–**	**₱–**	**₱681,159**	**₱681,159**	**₱–**	₱561,583
Acquired from business combination (Note 13)	**1,897,789**	**391,943**	**–**	**2,289,732**	**13,515,765**	–
Additions	**–**	**–**	**82,808**	**82,808**	**–**	119,576
Balance at end of year	**1,897,789**	**391,943**	**763,967**	**3,053,699**	**13,515,765**	681,159
Accumulated Amortization						
Balance at beginning of year	**–**	**–**	**309,654**	**309,654**	**–**	158,528
Amortization/(Reversals)	**169,747**	**116,857**	**177,305**	**463,909**	**–**	151,126
Balance at end of year	**169,747**	**116,857**	**486,959**	**773,563**	**–**	309,654
Net Book Value at End of Year	**₱1,728,042**	**₱275,086**	**₱277,008**	**₱2,280,136**	**₱13,515,765**	₱371,505

Impairment testing of goodwill and intangible asset
Goodwill acquired through business combinations has been allocated to three CGUs which are also reportable segments namely: retail banking, corporate banking and treasury. Goodwill allocated to the CGUs amounted to ₱6.1 billion, ₱4.2 billion and ₱3.1 billion, respectively. CDI is allocated to retail banking while CRI is allocated to corporate banking.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. CDI and CRI, on the other hand, are assessed for impairment where indicator(s) of objective evidence of impairment has been identified. Impairment testing is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount allocated to the CGU. The recoverable amount is the higher of a CGUs' fair value less costs to sell and its value in use. The goodwill impairment test in 2013 did not result in an impairment loss of goodwill of the Group's primary CGUs as the recoverable amount for these CGUs was higher than their respective carrying amount.

Key assumptions used in value in use calculations
The recoverable amount of the CGUs have been determined on the basis of value in use calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment. The following rates are used by the Group:

	2013		
	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	14.98%	17.53%	11.69%
Projected growth rate	3.24%	3.24%	3.24%

The calculation of value in use for retail banking, corporate banking and treasury cash generating units is most sensitive to interest margin, discount rates, market share during the budget period, projected growth rates used to extrapolate cash flows beyond the budget period, and current local gross domestic product.

Discount rate
The discount rate applied have been determined based on cost of equity for retail and corporate banking segments and weighted average cost of capital for treasury segment. The cost of equity was derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor. The values for the risk-free interest rate, the market risk premium and the beta factors were obtained from external sources of information.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the units to exceed their recoverable amount.

15. Other Assets

This account consists of:

	Consolidated			**Parent Company**		
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated- Note 2)	**December 31, 2013**	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Creditable withholding taxes	**₱1,960,480**	₱1,488,286	₱1,318,490	**₱1,899,613**	₱1,488,286	₱1,318,490
Prepaid expenses	**273,126**	85,629	116,981	**242,886**	85,629	69,339
Deferred reinsurance premiums	**245,157**	211,151	230,685	–	–	–
Documentary stamps on hand	**151,522**	28,284	78,908	**145,744**	28,284	78,908
Deferred charges	**121,156**	81,400	82,039	**121,156**	81,400	82,039
Chattel properties - net	**120,615**	116,159	69,339	**119,907**	116,159	116,981
Returned checks and other cash items	**180,550**	158,002	106,706	**180,336**	158,002	106,706
Stationeries and supplies	**104,120**	34,547	35,479	**98,174**	34,547	35,479
Security deposits	**85,961**	–	–	**59,260**	–	–

(Forward)

	Consolidated			Parent Company		
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated- Note 2)	**December 31, 2013**	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Other investments	**₱25,167**	₱17,382	₱15,086	**₱17,128**	₱17,382	₱15,086
Retirement benefit asset (Note 27)	**5,532**	1,184	–	–	–	–
Revolving fund and petty cash fund	**978**	845	771	**902**	845	771
Miscellaneous COCI	**842**	808	5,220	**842**	808	5,220
Shortages	**815**	45	423	**815**	45	423
Receivable from SPV	**500**	258,848	833,848	**500**	258,848	833,848
Postage stamps on hand	**303**	110	128	**231**	110	128
Miscellaneous	**963,908**	154,728	361,727	**726,712**	48,482	167,508
	4,240,732	2,637,408	3,255,830	**3,614,206**	2,318,827	2,830,926
Less allowance for impairment losses (Note 16)	**804,377**	859,588	2,080,300	**804,028**	854,144	2,052,638
	₱3,436,355	₱1,777,820	₱1,175,530	**₱2,810,178**	₱1,464,683	₱778,288

Chattel Mortgage
As of December 31, 2013 and December 31, 2012, accumulated depreciation on chattel mortgage properties acquired by the Group and the Parent Company in settlement of loans amounted to ₱77.8 million and ₱56.6 million, respectively.

Receivable from SPV
The Group has receivable from SPV, OPII, which was deconsolidated upon adoption of PFRS 10 (see Note 2).

As of December 31, 2013 and 2012, receivable from SPV represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between the Parent Company, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. No income was recognized from OPII in 2013.

The more significant terms of the sale are as follows:

a. Certain NPAs of the Parent Company were sold to the SPV and divided into two pools. The sale of the first pool of NPAs with an outstanding balance of ₱11.7 billion was made on December 29, 2006 for a total consideration of ₱11.7 billion.

b. The agreed purchase price of the first pool of NPAs shall be paid as follows:

   i. An initial amount of ₱1.1 billion, which was received in full and acknowledged by the Parent Company on February 14, 2007; and
   ii. The balance of ₱10.6 billion, through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date.

Under the ASPA, the sale of the second pool of NPAs amounting to ₱7.6 billion with allowance for credit losses of ₱5.5 billion became effective in March 2007. The agreed purchase price of this pool of NPAs were paid as follows:

a. An initial amount of ₱751.1 million, which was received in full and acknowledged by the Parent Company on April 26, 2007; and
b. The balance of ₱6.8 billion through issuance of SPV Notes, shall be paid over five (5) years based on a cash flow waterfall arrangement and at an interest equivalent to the 3-month MART prevailing as of the end of the quarter prior to the payment date. In case of insufficiency of funds for payment of the SPV Notes, the buyer of the NPAs, with the consent of the Parent Company, which consent shall not be unreasonably withheld, may write-off the SPV Notes, including all interest, fees and charges outstanding and payable.

As of December 31, 2013 and 2012, receivable from SPV and allowance amounted to ₱0.5 million and ₱258.8 million, respectively.

Miscellaneous
Miscellaneous assets of the Group include postages and refundable deposits.

As of December 31, 2013, miscellaneous assets of the Group include a security fund amounting to ₱0.15 million which is maintained by PNB LII in compliance with Sections 365 and 367 of the Insurance Code. The amount of such fund is determined by and deposited with the IC for the payment of benefit claims against insolvent companies.

16. Allowance for Impairment and Credit Losses

Movements in the allowance for impairment losses on non-financial assets follow:

	Consolidated			Parent Company		
	December 31, 2013	December31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)	**December 31, 2013**	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Balance at beginning of year:						
Property and equipment (Note 10)	**₱237,986**	₱237,624	₱209,142	**₱237,986**	₱237,624	₱209,142
Investments in subsidiaries and associates (Note 11)	**508,978**	–	–	**1,372,532**	503,154	432,644
Investment properties (Note 12)	**3,452,505**	4,003,355	5,334,805	**3,452,505**	4,003,355	5,334,805
Other assets (Note 15)	**859,588**	2,080,300	1,837,969	**854,144**	2,052,638	1,833,943
	5,059,057	6,321,279	7,381,916	**5,917,167**	6,796,771	7,810,534
Provisions (reversals) during the year	**106,431**	(561,791)	(167,685)	**304,732**	(566,471)	(268,376)
Disposals, transfers and others	**(896,944)**	(700,431)	(892,952)	**(1,147,855)**	(313,133)	(745,387)
Balance at end of year:						
Property and equipment (Note 10)	**245,176**	237,986	237,624	**245,176**	237,986	237,624
Investments in subsidiaries and an associates (Note 11)	–	508,978	–	**1,012,231**	1,372,532	503,154
Investment properties (Note 12)	**3,218,991**	3,452,505	4,003,355	**3,012,609**	3,452,505	4,003,355
Other assets (Note 15)	**804,377**	859,588	2,080,300	**804,028**	854,144	2,052,638
	₱4,268,544	₱5,059,057	₱6,321,279	**₱5,074,044**	₱5,917,167	₱6,796,771

Movements in the allowance for impairment and credit losses on financial assets follow:

	Consolidated			Parent Company		
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)	**December 31, 2013**	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Balance at beginning of year:						
Loans and receivables	**₱13,232,381**	₱12,841,116	₱12,536,390	**₱12,423,138**	₱12,374,367	₱12,201,048
AFS investments	**928,408**	927,488	697,052	**928,408**	927,488	677,619
	14,160,789	13,768,604	13,233,442	**13,351,546**	13,301,855	12,878,667
Provisions during the year	**727,153**	551,233	1,028,082	**649,089**	527,318	1,084,050
Accretion, accounts charged off, transfers and others	**(1,791,943)**	(159,048)	(492,920)	**(1,405,413)**	(477,627)	(660,862)
Balance at end of year:						
Loans and receivables (Note 9)	**12,167,591**	13,232,381	12,841,116	**11,666,814**	12,423,138	12,374,367
AFS investments (Note 8)	**928,408**	928,408	927,488	**928,408**	928,408	927,488
	₱13,095,999	₱14,160,789	₱13,768,604	**₱12,595,222**	₱13,351,546	₱13,301,855

Provision for impairment, credit and other losses consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Provision for impairment	**₱106,431**	(₱561,791)	(₱167,685)	**₱304,732**	(₱566,471)	(₱268,376)
Provision for credit losses*	**727,153**	551,233	1,028,082	**649,089**	527,318	1,084,050
Provision for other losses (Note 33)	**–**	834,259	164,778	**–**	834,259	164,778
	₱833,584	₱823,701	₱1,025,175	**₱953,821**	₱795,106	₱980,452

**This includes provision for impairment on AFS amounting to nil, ₱0.9 million and ₱249.9 million in 2013, 2012 and 2011, respectively.*

Below is the breakdown of provision for (reversal of) credit losses by type of loans and receivable.

	Consolidated					
	December 31, 2013			December 31, 2012		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Receivable from customers	**₱461,088**	**₱217,486**	**₱678,574**	₱277,248	₱240,000	₱517,248
Unquoted debt securities	**–**	**–**	**–**	186,299	–	186,299
Other receivables	**46,186**	**2,393**	**48,579**	(153,234)	–	(153,234)
	₱507,274	**₱219,879**	**₱727,153**	₱310,313	₱240,000	₱550,313

	Parent Company					
	December 31, 2013			December 31, 2012		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Receivable from customers	**₱453,028**	**₱160,375**	**₱613,403**	₱256,472	₱240,000	₱496,472
Unquoted debt securities	**–**	**–**	**–**	186,299	–	186,299
Other receivables	**35,543**	**143**	**35,686**	(156,373)	–	(156,373)
	₱488,571	**₱160,518**	**₱649,089**	₱286,398	₱240,000	₱526,398

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated							
	December 31, 2013							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱4,631,725**	**₱70,731**	**₱129,653**	**₱561,132**	**₱14,748**	**₱3,958,931**	**₱3,865,461**	**₱13,232,381**
Provisions (reversals) during the year	**469,486**	**–**	**14,400**	**194,689**	**(1)**	**–**	**48,579**	**727,153**
Accretion on impaired loans (Note 9)	**(196,748)**	**(171)**	**(16,261)**	**(74,900)**	**(1,016)**	**–**	**–**	**(289,096)**
Accounts charged off, transfers and others	**(1,208,600)**	**5,869**	**(42,784)**	**(225,418)**	**16,892**	**(275)**	**(48,531)**	**(1,502,847)**
Balance at end of year	**₱3,695,863**	**₱76,429**	**₱85,008**	**₱455,503**	**₱30,623**	**₱3,958,656**	**₱3,865,509**	**₱12,167,591**

	Consolidated							
	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱4,653,994	₱89,648	₱74,998	₱586,329	₱14,858	₱3,772,632	₱3,648,657	₱12,841,116
Provisions (reversals) during the year	424,835	(18,748)	78,800	31,413	948	186,299	(153,234)	550,313
Accretion on impaired loans (Note 9)	(261,780)	(169)	(24,145)	(15,731)	(953)	–	–	(302,778)
Accounts charged off, transfers and others	(185,324)	–	–	(40,879)	(105)	–	370,038	143,730
Balance at end of year	₱4,631,725	₱70,731	₱129,653	₱561,132	₱14,748	₱3,958,931	₱3,865,461	₱13,232,381

	Parent Company							
	December 31, 2013							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱4,512,158**	**₱70,731**	**₱129,653**	**₱545,143**	**₱14,743**	**₱3,958,931**	**₱3,191,779**	**₱12,423,138**
Provisions (reversals) during the year	**404,436**	**–**	**14,400**	**194,567**	**–**	**–**	**35,686**	**649,089**
Accretion on impaired loans (Note 9)	**(196,748)**	**(171)**	**(16,261)**	**(74,900)**	**(1,016)**	**–**	**–**	**(289,096)**
Accounts charged off, transfers and others	**(1,224,118)**	**5,869**	**(42,784)**	**(238,868)**	**16,893**	**(275)**	**366,966**	**(1,116,317)**
Balance at end of year	**₱3,495,728**	**₱76,429**	**₱85,008**	**₱425,942**	**₱30,620**	**₱3,958,656**	**₱3,594,431**	**₱11,666,814**

	Parent Company							
	December 31, 2012							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Balance at beginning of year	₱4,371,740	₱89,648	₱74,998	₱527,603	₱14,745	₱3,772,632	₱3,523,001	₱12,374,367
Provisions (reversals) during the year	402,197	(18,748)	78,800	33,271	952	186,299	(156,373)	526,398
Accretion on impaired loans (Note 9)	(261,779)	(169)	(24,145)	(15,731)	(954)	–	–	(302,778)
Accounts charged off, transfers and others	–	–	–	–	–	–	(174,849)	(174,849)
Balance at end of year	₱4,512,158	₱70,731	₱129,653	₱545,143	₱14,743	₱3,958,931	₱3,191,779	₱12,423,138

The movements in allowance for credit and impairment losses on AFS investments and receivable from SPV (included under 'Other Assets') for the Group and the Parent Company follow:

	Consolidated					
	December 31, 2013		December 31, 2012 (As Restated – Note 2)		January 1, 2012 (As Restated – Note 2)	
	AFS Investments-Equity Securities	**Receivable from SPV**	AFS Investments-Equity Securities	Receivable from SPV	AFS Investments-Equity Securities	Receivable from SPV
Balance at beginning of year	**₱928,408**	**₱258,848**	₱927,488	₱833,848	₱697,052	₱736,624
Provisions during the year	**–**	**–**	920	(575,000)	249,869	97,224
Disposals, transfers and others	**–**	**(258,348)**	–	–	(19,433)	–
Balance at end of year	**₱928,408**	**₱500**	₱928,408	₱258,848	₱927,488	₱833,848

	Parent Company					
	December 31, 2013		December 31, 2012 (As Restated – Note 2)		January 1, 2012 (As Restated – Note 2)	
	AFS Investments-Equity Securities	**Receivable from SPV**	AFS Investments-Equity Securities	Receivable from SPV	AFS Investments-Equity Securities	Receivable from SPV
Balance at beginning of year	**₱928,408**	**₱258,848**	₱927,488	₱833,848	₱677,619	₱736,624
Provisions during the year	**–**	**–**	920	(575,000)	249,869	97,224
Disposals, transfers and others	**–**	**(258,348)**	–	–	–	–
Balance at end of year	**₱928,408**	**₱500**	₱928,408	₱258,848	₱927,488	₱833,848

17. **Deposit Liabilities**

Of the total deposit liabilities of the Parent Company, ₱26.1 billion and ₱12.9 billion are noninterest-bearing as of December 31, 2013 and 2012, respectively. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.02% to 2.53% in 2013, from 0.09% to 2.55% in 2012 and from 0.20% to 7.00% in 2011 for foreign currency-denominated deposit liabilities, and from 0.11% to 5.59% in 2013, from 0.25% to 4.32% in 2012 and from 0.50% to 10.00% in 2011 for peso-denominated deposit liabilities.

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of cash in vault and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and ASB are subject to reserves equivalent to 18.00% and 6.00%, respectively. Available reserves follow:

	2013	2012
Due from BSP	**₱63,556,710**	₱36,531,047
AFS investments	–	6,965,950
Unquoted debt securities	**2,741,000**	3,092,529
	₱66,297,710	₱46,589,526

As of December 31, 2013 and 2012, the Parent Company and ASB were in compliance with such regulations.

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
November 18, 2011	February 17, 2017	₱3,100,000	₱3,086,513	5.18%	Quarterly
October 22, 2009	October 23, 2014	₱3,500,000*	₱3,582,808	7.00%	Quarterly
March 25, 2009	March 31, 2014	₱3,250,000	₱3,248,369	6.50%	Quarterly

**Acquired from business combination*

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.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Savings	**₱2,596,914**	₱2,556,648	₱3,255,308	**₱2,563,616**	₱2,556,682	₱3,255,308
LTNCDs	**592,205**	380,515	236,251	**592,205**	380,515	236,251
Time	**337,243**	90,991	369,254	**296,579**	102,662	368,640
Demand	**129,019**	71,628	150,642	**116,634**	72,657	150,642
	₱3,655,381	₱3,099,782	₱4,011,455	**₱3,569,034**	₱3,112,516	₱4,010,841

In 2013, 2012 and 2011, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱19.4 million, ₱9.5 million and ₱14.6 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱81.8 million and ₱25.2 million as of December 31, 2013 and 2012, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of :

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Designated at FVPL				
Segregated fund liabilities	**₱7,911,794**	₱–	**₱–**	₱–
Subordinated notes	–	6,196,070	–	6,196,070
Derivative liabilities (Notes 23 and 34)	**163,101**	283,751	**163,084**	283,751
	₱8,074,895	₱6,479,821	**₱163,084**	₱6,479,821

As of December 31, 2013, the balance of segregated fund liabilities consists of:

Segregated funds (Note 7)	₱7,861,688
Additional subscriptions	50,106
Segregated fund liabilities	₱7,911,794

As of December 31, 2012, financial liability designated at FVPL represents the ₱6.0 billion subordinated note due in 2018 which was issued by the Parent Company on June 19, 2008. The subordinated note is part of a group of financial instruments that together are managed on a fair value basis, in accordance with the Parent Company's documented risk management and investment strategy.

Among the significant terms and conditions of the issuance of such 2008 Notes are:

(1) Issue price at 100.00% of the principal amount;

(2) The 2008 Notes bear interest at the rate of 8.50% per annum from and including June 19, 2008 to but excluding June 19, 2013. Interest will be payable quarterly in arrears on the 19th of March, June, September and December of each year, commencing on September 19, 2008. Unless the 2008 Notes are previously redeemed, interest from and including June 19, 2013 to but excluding June 19, 2018 will be reset at the equivalent of the higher of (i) five-year PDST-F Fixed Rate Treasury Notes (FXTN) as of reset date multiplied by 80.00%, plus a step-up spread of 2.0123% per annum or (ii) difference of interest rate and five-year PDST-F FXTN as of issue date multiplied by 150% plus five-year PDST-F FXTN as of reset date, and such step-up interest rate shall be payable quarterly in arrears on 19th of March, June, September and December of each year, commencing on September 19, 2013. The 2008 Notes will mature on June 19, 2018, if not redeemed earlier;

(3) The 2008 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(4) The Parent Company may redeem the 2008 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the twentieth (20th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Parent Company with the prevailing requirements for the granting by the BSP of its consent thereof. The 2008 Notes may not be redeemed at the option of the noteholders; and

(5) Each noteholder, by accepting the 2008 Notes, irrevocably agrees and acknowledges that: (i) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2008 Notes; and (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

On June 18, 2013, the Parent Company exercised its option to redeem the 2008 Notes at its face value.

19. **Bills and Acceptances Payable**

This account consists of:

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Bills payable to:				
BSP and local banks (Note 32)	**₱8,696,511**	₱6,998,633	**₱7,954,485**	₱6,940,295
Foreign banks	**1,598,370**	2,870,946	**1,992,874**	2,571,194
Others	**2,512,823**	3,173,463	**3,172,824**	3,173,463
	12,807,704	13,043,042	**13,120,183**	12,684,952
Acceptances outstanding	**364,293**	33,859	**364,293**	33,859
	₱13,171,997	₱13,076,901	**₱13,484,476**	₱12,718,811

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 and of the Parent Company.

As of December 31, 2012, the annual interest rates range from 0.06% to 1.77% for foreign currency-denominated borrowings, and from 0.03% to 12.00% for peso-denominated borrowings of the Group and of the Parent Company.

As of December 31, 2011, the annual interest rates range from 0.06% to 1.75% for foreign currency-denominated borrowings, and from 1.87% to 12.00% for peso-denominated borrowings of the Group and of the Parent Company.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.7 billion and ₱1.6 billion as of December 31, 2013 and 2012, respectively (see Note 9).

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 December 31, 2013 and 2012, bills payable with a carrying value of ₱2.2 billion and ₱3.0 billion is secured by a pledge of certain AFS investments with fair value of ₱2.5 billion and ₱2.8 billion, respectively. Refer to Note 8 for further details.

As of December 31, 2013, bills payable under the BSP rediscounting facility with a carrying value of ₱112.6 million is secured by a pledge of loans and certain AFS investments with fair values of ₱219.3 million and ₱2.4 billion, respectively. As of December 31, 2012, bills payable under the BSP rediscounting facility with a carrying value of ₱1.9 billion and ₱1.0 billion is secured by a pledge of loans amounting to ₱2.0 billion and certain AFS investments with face value of ₱2.6 billion, respectively. Refer to Notes 8 and 9 for further details.

Following are the significant terms and conditions of the repurchase agreements entered into by the Parent Company:
(1) Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(2) The term or life of this borrowing is up to one year;
(3) Some borrowings bear a fixed interest rate while others have floating interest rate;

(4) The Parent Company has pledged its AFS investments, in the form of US Treasury Notes and ROP Global bonds, in order to fulfill its collateral requirement;
(5) Haircut from market value ranges from 20.00% to 30.00% depending on the tenor of the bond;
(6) Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Subordinated debt* (Note 21)	**₱923,229**	₱1,091,512	₱1,102,495	**₱923,229**	₱1,091,512	₱1,102,495
Bills payable	**135,167**	188,603	149,104	**91,805**	132,306	107,999
Others	**17,717**	5,005	5,650	**12,090**	3,872	4,634
	₱1,076,113	₱1,285,120	₱1,257,249	**₱1,027,124**	₱1,227,690	₱1,215,128

* Consist of interest on subordinated debt at amortized cost and designated at FVPL

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Interest	**₱2,046,846**	₱1,987,231	**₱2,019,248**	₱1,988,623
Other benefits - monetary value of leave credits	**975,814**	508,719	**948,605**	496,807
Management, directors and other professional fees (Note 32)	**472,968**	52,583	**424,383**	48,794
PDIC insurance premiums	**446,717**	264,294	**437,717**	264,294
Employee benefits	**319,520**	373,638	**268,196**	333,277
Information technology-related expenses	**239,308**	175,901	**235,238**	174,670
Other taxes and licenses	**205,506**	170,797	**118,008**	99,756
Promotional expense	**185,457**	33,167	**166,934**	33,167
Rent and utilities expenses	**162,889**	38,206	**154,871**	38,206
Reinstatement premium	**152,734**	–	**–**	–
Other expenses	**315,764**	309,754	**235,963**	243,175
	₱5,523,523	₱3,914,290	**₱5,009,163**	₱3,720,769

‘Other expenses’ include janitorial, security, repairs and maintenance, representation and entertainment, communication and other operating expenses.

21. Subordinated Debt

5.88% ₱3.5 Billion Subordinated Notes
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%.

Among the significant terms and conditions of the issuance of such 2012 Notes are:

(1) Issue price at 100.00% of the principal amount;

(2) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 09, 2012 to but excluding May 09, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and June of each year, commencing on May 09, 2012, unless the 2012 Notes are previously redeemed at their principal amount on Maturity date or May 09, 2022. The stepped-up interest will be payable quarterly in arrears on 9th of August, November, February and May of each year, commencing on May 09, 2012;

(3) The 2012 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(4) The Parent Company may redeem the 2012 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fifteenth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2012 Notes may not be redeemed at the option of the noteholders; and

(5) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

<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%.

Among the significant terms and conditions of the issuance of such 2011 Notes are:

(1) Issue price at 100.00% of the principal amount;

(2) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are previously redeemed at their principal amount on Maturity date or June 15, 2021. Interest will be payable quarterly in arrears on 15th of September, December, March and June of each year, commencing on June 15, 2011;

(3) The 2011 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;

(4) The Parent Company may redeem the 2011 Notes in whole but not in part at a redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the day following the last day of the fifteenth (15th) interest period from issue date, subject to the prior consent of the BSP and the compliance by the Bank with the prevailing requirements for the granting by the BSP of its consent thereof. The 2011 Notes may not be redeemed at the option of the noteholders; and

(5) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

7.13% ₱4.5 Billion Subordinated Notes
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 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.

Relative to this, on March 6, 2008, the Parent Company issued ₱4.5 billion, 7.13% Subordinated Notes due on 2018, callable with step-up in 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

(1) Issue price is at 100.00% of the Principal amount.

    The Subordinated Notes bear interest at 7.13% per annum, payable to the noteholder for the period from and including the issue date up to the maturity date if the call option is not exercised on the call option date. Interest shall be payable quarterly in arrears on March 6, June 6, September 6 and December 6 of each year, commencing June 6, 2008. The Subordinated Notes will mature on March 6, 2018, if not redeemed earlier.

(2) The Subordinated Notes will constitute direct, unconditional, unsecured and subordinated obligations of the Parent Company. The Subordinated Notes will, at all times, rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Parent Company, including holders of preferences shares.

(3) The Parent Company may redeem the notes in whole, but not in part, at a redemption price equal to 100.00% of the principal amount of the Notes together with accrued and unpaid interest at first banking day after the 20th interest period from issue date subject to at least 30-day prior written notice to noteholders and prior approval of the BSP, subject to the following conditions: (i) the capital adequacy ratio of the Parent Company is at least equal to the required minimum ratio; and (ii) the Subordinated Note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the Subordinated Notes.

(4) The Subordinated Note shall not be redeemable or terminable at the instance of any noteholder before maturity date.

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

As of December 31, 2013 and 2012, the unamortized transaction cost of subordinated debt amounted to ₱46.3 million and ₱61.2 million, respectively.

In 2013, 2012 and 2011, amortization of transaction costs amounting to ₱14.8 million, ₱12.2 million and ₱18.0 million, respectively, were charged to 'Interest expense - bills payable and other borrowings' in the statements of income.

22. Other Liabilities

This account consists of:

	Consolidated			Parent Company		
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)	**December 31, 2013**	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Insurance contract liabilities	**₱11,546,043**	₱2,623,901	₱1,612,946	**₱–**	₱–	₱–
Accounts payable	**8,665,432**	4,693,074	3,659,636	**8,127,279**	4,513,263	4,044,557
Bills purchased - contra (Note 9)	**3,417,082**	2,553,891	2,296,039	**3,403,791**	2,553,891	2,296,039
Retirement benefit liability (Note 27)	**3,388,863**	1,854,458	2,095,205	**3,323,955**	1,823,344	2,030,924
Provisions (Note 33)	**1,582,081**	1,575,433	874,950	**1,582,081**	1,575,433	874,950
Manager's checks and demand drafts outstanding	**1,028,301**	623,621	475,041	**1,021,982**	623,621	475,041
Reserve for unearned premiums	**576,889**	509,488	458,178	**–**	–	–
Deposits on lease contracts	**536,088**	487,770	429,487	**33,795**	–	–
Accounts payable - electronic money	**450,585**	379,981	396,162	**450,585**	–	–
Other dormant credits	**437,715**	252,218	275,030	**436,555**	252,218	275,030
Margin deposits and cash letters of credit	**393,006**	31,358	212,390	**347,253**	31,358	212,390
Deferred tax liabilities (Note 29)	**349,472**	3,873	20,873	**224,678**	–	–
Due to TOP	**311,387**	290,649	220,053	**311,363**	290,649	220,053
Withholding tax payable	**211,529**	127,123	137,215	**198,928**	119,687	137,215
Payment order payable	**194,628**	174,406	152,810	**194,628**	174,406	152,810
Commission payable	**128,984**	–	–	**–**	–	–
Due to BSP	**117,821**	102,616	102,965	**117,821**	102,616	102,965
Transmission liability	**90,005**	–	–	**–**	–	–
Sundry credits	**66,457**	26,535	180	**30,949**	–	180
Due to other banks	**58,288**	142,212	98,671	**157,825**	351,061	346,159
Advanced rentals on building, bank premises and equipment	**41,187**	1,652	1,503	**41,187**	–	–
Unapplied advances	**37,419**	–	–	**37,419**	–	–
Unearned income	**33,451**	–	–	**–**	–	–
SSS, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable	**30,014**	15,742	15,129	**24,647**	–	–
Deposit for keys on safety deposit boxes	**13,764**	4,941	4,917	**13,764**	–	–
Deferred credits	**12,238**	181,473	207,484	**12,238**	181,473	207,484
Overages	**3,549**	458	769	**3,490**	–	–
Miscellaneous	**1,307,648**	628,378	920,606	**1,026,310**	805,863	768,798
	₱35,029,926	₱17,285,251	₱14,668,239	**₱21,122,523**	₱13,398,883	12,144,595

Miscellaneous liabilities of the Group and the Parent Company include interoffice floats, contribution and payments for compensation premiums and remittance - related payable.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2013 and 2012 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	December 31, 2013			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
USD	**₱61,867**	**₱1,198**	**₱43.36**	**126,462**
JPY	**98**	**113**	**0.01**	**15,000**
EUR	**76**	**673**	**1.36**	**989**
SGD	**23**	**-**	**35.02**	**1,200**
GBP	**-**	**26**	**1.64**	**102**
CAD	**-**	**4**	**1.07**	**1,065**
SELL:				
USD	**1,293**	**136,372**	**43.74**	**264,471**
JPY	**329**	**321**	**0.43**	**477,776**
GBP	**97**	**1,257**	**1.64**	**5,100**
EUR	**79**	**1,240**	**1.36**	**5,447**
CAD	**67**	**–**	**1.00**	**2,365**
AUD	**54**	**–**	**0.89**	**250**
HKD	**25**	**–**	**7.75**	**158,946**
CHF	**23**	**–**	**1.12**	**400**
SGD	**–**	**885**	**0.79**	**6,200**
Interest rate swaps (Php)	**28,803**	**21,012**		**62,680**
Warrants	**165,863**	**–**	**–**	**13,603**
	₱258,697	**₱163,101**		

	Parent Company			
	December 31, 2013			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
USD	**₱61,867**	**₱1,198**	**₱43.36**	**126,462**
JPY	**73**	**113**	**0.01**	**15,000**
EUR	**76**	**673**	**1.36**	**989**
SGD	**23**	**-**	**35.02**	**1,200**
GBP	**-**	**26**	**1.64**	**102**
CAD	**-**	**4**	**1.07**	**1,065**
SELL:				
USD	**1,259**	**136,372**	**43.74**	**264,468**
JPY	**329**	**321**	**0.43**	**477,776**
GBP	**97**	**1,257**	**1.64**	**5,100**
EUR	**79**	**1,223**	**1.36**	**5,447**
CAD	**67**	**–**	**1.00**	**2,365**
AUD	**54**	**–**	**0.89**	**250**
CHF	**23**	**–**	**1.12**	**400**
SGD	**–**	**885**	**0.79**	**1,200**
Interest rate swaps (Php)	**28,803**	**21,012**		**62,680**
Warrants	**165,863**	**–**	**–**	**13,603**
	₱258,613	**₱163,084**		

	Consolidated and Parent Company			
	December 31, 2012			
	Assets	Liabilities	Average Forward Rate	Notional Amount*
Freestanding derivatives:				
Currency forwards				
BUY:				
JPY	₱–	₱3,706	₱0.49	300,000
USD	20	185,391	42.01	165,043
EUR	–	2	54.48	63
SGD	74	–	33.65	1,958
SELL				
USD	25,214	10,400	41.11	285,064
EUR	–	43	54.18	800
SGD	–	73	33.65	1,958
AUD	430	–	43.15	700
JPY	983	573	0.48	540,000
CHF	10	24	45.05	1,050
GBP	133	23	66.11	1,790
CAD	208	–	41.39	510
HKD	–	2	5.30	200
SEK	–	4	6.32	300
Cross currency swaps (CCS)	201,970	–		86,000
Interest rate swaps (Php)	162,556	83,510		6,109,000
Warrants	59,044	–		262
Embedded derivatives:				
Credit default swaps (USD)	3,859	–		47,500
	₱454,501	₱283,751		

* The notional amounts pertain to the original currency except for the Embedded derivatives, which represent the equivalent USD amounts.

In May and June of 2008, the Parent Company entered into CCS agreements with various counterparty banks in which the proceeds from the 2008 Notes were swapped for USD. The aggregate notional amount of the CCS is USD185.0 million or ₱8.1 billion while its net positive fair value amounted to ₱37.4 million as of December 31, 2010. The Parent Company renewed some of these agreements with various counterparty banks in May and June of 2011 with terms to maturities of two years. The aggregate notional amount of these CCS is USD79.0 million or ₱3.4 billion while its positive fair value amounted to ₱190.3 million as of December 31, 2012.

On June 21, 2011, the Parent Company entered into a CCS agreement with a notional amount of USD7.0 million or ₱299.0 million and will mature on June 17, 2013. Proceeds of the 2011 Notes were swapped for USD. As of December 31, 2012, its positive fair value amounted to ₱11.7 million. In order to fulfill collateral requirements, the Parent Company has pledged its cash amounting to USD2.0 million or ₱85.4 million as of December 31, 2012.

As of December 31, 2013 and 2012, the Parent Company holds 306,405 shares of ROP Warrants Series B1 at their fair value of USD3.0 million and USD2.1 million, respectively.

Embedded derivatives that have been bifurcated are credit derivatives in structured notes presented under other debt securities under AFS investments with a notional reference of USD47.5 million and with positive fair value of ₱3.9 million as of December 31, 2012. The structured notes and the related credit default swap matured on May 1, 2013.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2013 and 2012 (in millions):

	2013	2012
Balance at beginning of year	**₱171**	₱283
Changes in fair value	**29**	82
Settlements	**(104)**	(194)
	₱96	₱171

The changes in fair value of currency forwards amounted to a gain of ₱185.1 million in 2013 and loss of ₱231.3 million and ₱17.9 million in 2012 and 2011, respectively, are included in 'Foreign exchange gains - net' in the statements of income.

The changes in fair value of swaps and warrants amounted to a loss of ₱156.3 million in 2013, gain of ₱312.8 million in 2012 and a loss of ₱16.4 million are included in 'Trading and investment and securities - gain' in the statements of income.

24. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated		
	December 31, 2013		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Financial Assets			
COCI	**₱11,804,746**	**₱–**	**₱11,804,746**
Due from BSP	**153,169,330**	**–**	**153,169,330**
Due from other banks	**14,682,762**	**198,779**	**14,881,541**
Interbank loans receivable	**8,405,250**	**–**	**8,405,250**
Financial assets at FVPL	**11,709,348**	**–**	**11,709,348**
AFS investments - gross (Note 8)	**4,905,109**	**76,327,448**	**81,232,557**
Receivable from customers - gross (Note 9)	**96,740,733**	**156,590,749**	**253,331,482**
Unquoted debt securities classified as loans (Note 9)	**4,672,968**	**6,581,219**	**11,254,187**
Other receivables - gross (Note 9)	**22,068,922**	**494,262**	**22,563,184**
	328,159,168	**240,192,457**	**₱568,351,625**
Nonfinancial Assets			
Property and equipment - net			
At cost	**–**	**1,463,308**	**1,463,308**
At revalued amount	**–**	**21,155,051**	**21,155,051**
Investment properties - net	**–**	**21,452,962**	**21,452,962**
Deferred tax assets	**–**	**253,946**	**253,946**
Goodwill (Note 14)	**–**	**13,375,407**	**13,375,407**
Intangible assets (Note 14)	**–**	**2,378,040**	**2,378,040**
Residual value of leased assets	**–**	**404,771**	**404,771**
Other assets - gross (Note 15)	**–**	**4,240,732**	**4,240,732**
	–	**64,724,217**	**64,724,217**
Less: Allowance for impairment and credit losses (Note 16)			**13,900,376**
Unearned and other deferred income (Note 9)			**1,109,950**
			15,010,326
	₱328,159,168	**₱304,916,674**	**₱618,065,516**

(Forward)

	Consolidated		
	December 31, 2013		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Financial Liabilities			
Deposit liabilities	**₱451,006,590**	**₱11,358,858**	**₱462,365,448**
Financial liabilities at FVPL	**142,089**	**7,932,806**	**8,074,895**
Bills and acceptances payable	**11,423,153**	**1,748,844**	**13,171,997**
Subordinated debt	**–**	**9,953,651**	**9,953,651**
Accrued interest payable (Note 20)	**2,041,942**	**4,904**	**2,046,846**
Other liabilities (Note 22):			
Insurance contract liabilities	**6,587,131**	**4,958,912**	**11,546,043**
Accounts payable	**8,615,432**	**50,000**	**8,665,432**
Bills purchased - contra	**3,417,082**	**–**	**3,417,082**
Managers' checks and demand drafts outstanding	**1,028,301**	**–**	**1,028,301**
Deposit on lease contracts	**58,010**	**478,078**	**536,088**
Payment order payable	**194,628**	**–**	**194,628**
Margin deposits and cash letters of credit	**393,006**	**–**	**393,006**
Due to TOP	**–**	**311,387**	**311,387**
Due to other banks	**58,288**	**–**	**58,288**
Due to BSP	**117,821**	**–**	**117,821**
Other liabilities	**644,733**	**4,216,426**	**4,861,159**
	485,728,206	**41,013,866**	**526,742,072**
Nonfinancial Liabilities			
Accrued taxes and other expenses (Note 20)	**3,473,309**	**3,368**	**3,476,677**
Income tax payable	**48,448**	**–**	**48,448**
Other liabilities	**325,092**	**3,575,599**	**3,900,691**
	3,846,849	**3,578,967**	**7,425,816**
	₱489,575,055	**₱44,592,833**	**₱534,167,888**

	Consolidated		
	December 31, 2012		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,599,088	₱–	₱5,599,088
Due from BSP	37,175,399	–	37,175,399
Due from other banks	4,042,769	–	4,042,769
Interbank loans receivable	11,498,756	–	11,498,756
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	4,023,065	–	4,023,065
AFS investments - gross (Note 8)	4,449,652	63,476,235	67,925,887
Receivable from customers - gross (Note 9)	45,314,788	87,465,430	132,780,218
Unquoted debt securities classified as loans (Note 9)	3,997,264	3,820,935	7,818,199
Other receivables - gross (Note 9)	17,446,003	–	17,446,003
	151,846,784	154,762,600	306,609,384
Nonfinancial Assets			
Property and equipment - net			
At cost	–	937,075	937,075
At revalued amount	–	15,566,650	15,566,650
Investments in a subsidiary and an associate - net	–	2,391,255	2,391,255
Investment properties - net	–	15,493,026	15,493,026
Deferred tax assets	–	1,780,682	1,780,682
Intangible assets (Note 14)	–	377,022	377,022
Residual value of leased asset	–	329,243	329,243
Other assets - gross (Note 15)	2,434,060	203,348	2,637,408
	2,434,060	37,078,301	39,512,361
Less: Allowance for impairment and credit losses (Note 16)			15,020,377
Unearned and other deferred income (Note 9)			910,617
			15,930,994
	₱154,280,844	₱191,840,901	₱330,190,751

(Forward)

	Consolidated		
	December 31, 2012		
	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities			
Deposit liabilities	₱223,150,780	₱17,703,597	₱240,854,377
Financial liabilities at FVPL	6,479,821	–	6,479,821
Bills and acceptances payable	12,768,365	308,536	13,076,901
Subordinated debt	–	9,938,816	9,938,816
Accrued interest payable (Note 20)	1,987,231	–	1,987,231
Other liabilities (Note 22):			
Accounts payable	4,693,074	–	4,693,074
Insurance contract liabilities	2,623,901	–	2,623,901
Bills purchased - contra	2,553,891	–	2,553,891
Managers' checks and demand drafts outstanding	623,621	–	623,621
Deposit on lease contracts	180,700	307,070	487,770
Due to TOP	–	290,649	290,649
Payment order payable	174,406	–	174,406
Due to other banks	142,212	–	142,212
Margin deposits and cash letters of credit	31,358	–	31,358
Due to BSP	102,616	–	102,616
Other liabilities	384,924	983,498	1,368,422
	255,896,900	29,532,166	285,429,066
Nonfinancial Liabilities			
Accrued taxes and other expenses (Note 20)	557,914	1,369,145	1,927,059
Income tax payable	149,050	–	149,050
Other liabilities	1,389,294	2,804,037	4,193,331
	2,096,258	4,173,182	6,269,440
	₱257,993,158	₱33,705,348	₱291,698,506

	Parent Company		
	December 31, 2013		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Financial Assets			
COCI	**₱9,700,005**	**₱–**	**₱9,700,005**
Due from BSP	**146,079,249**	**–**	**146,079,249**
Due from other banks	**6,146,134**	**–**	**6,146,134**
Interbank loans receivable	**8,405,250**	**–**	**8,405,250**
Securities held under agreements to resell	**–**	**–**	**–**
Financial assets at FVPL	**3,845,673**	**–**	**3,845,673**
AFS investments - gross (Note 8)	**3,517,647**	**70,130,183**	**73,647,830**
Receivable from customers - gross (Note 9)	**90,374,926**	**150,656,944**	**241,031,870**
Unquoted debt securities classified as loans (Note 9)	**4,585,126**	**6,286,439**	**10,871,565**
Other receivables - gross (Note 9)	**15,718,823**	**310,328**	**16,029,151**
	288,372,833	**227,383,894**	**515,756,727**
Nonfinancial Assets			
Property and equipment - net			
At cost	**–**	**1,167,115**	**1,167,115**
At appraised value	**–**	**20,575,338**	**20,575,338**
Investments in subsidiaries and an associate - net	**–**	**13,479,418**	**13,479,418**
Investment properties - net	**–**	**21,224,934**	**21,224,934**
Deferred tax assets	**–**	**–**	**–**
Intangible assets (Note 14)	**–**	**2,280,136**	**2,280,136**
Goodwill (Note 14)	**–**	**13,515,765**	**13,515,765**
Other assets - gross (Note 15)	**–**	**3,614,206**	**3,614,206**
	–	**75,856,912**	**75,856,912**
Less: Allowance for impairment and credit losses (Note 16)			**13,399,250**
Unearned and other deferred income (Note 9)			**830,242**
			14,229,492
	₱288,372,833	**₱303,240,806**	**₱577,384,147**

(Forward)

	Parent Company		
	December 31, 2013		
	Less than Twelve Months	**Over Twelve Months**	**Total**
Financial Liabilities			
Deposit liabilities	**₱436,727,134**	**₱11,705,381**	**₱448,432,515**
Financial liabilities at FVPL	**142,072**	**21,012**	**163,084**
Bills and acceptances payable	**11,735,632**	**1,748,844**	**13,484,476**
Subordinated debt	**–**	**9,953,651**	**9,953,651**
Accrued interest payable (Note 20)	**384,448**	**1,634,800**	**2,019,248**
Other liabilities (Note 22):			
Accounts payable	**8,127,279**	**–**	**8,127,279**
Bills purchased - contra	**3,403,791**	**–**	**3,403,791**
Due to other banks	**157,825**	**–**	**157,825**
Managers' checks and demand drafts outstanding	**1,021,982**	**–**	**1,021,982**
Payment order payable	**194,628**	**–**	**194,628**
Due to TOP	**311,363**	**–**	**311,363**
Margin deposits and cash letters of credit	**347,253**	**–**	**347,253**
Due to BSP	**117,821**	**–**	**117,821**
Other liabilities	**646,687**	**3,150,818**	**3,797,505**
	463,317,915	**28,214,506**	**491,532,421**
Nonfinancial Liabilities			
Accrued taxes and other expenses (Note 20)	**2,986,549**	**3,366**	**2,989,915**
Income tax payable	**6,186**	**–**	**6,186**
Other liabilities	**94,443**	**3,548,633**	**3,643,076**
	3,087,178	**3,551,999**	**6,639,177**
	₱466,405,093	**₱31,766,505**	**₱498,171,598**

	Parent Company		
	December 31, 2012		
	Less than Twelve Months	Over Twelve Months	Total
Financial Assets			
COCI	₱5,548,325	₱–	₱5,548,325
Due from BSP	36,531,047	–	36,531,047
Due from other banks	3,293,782	–	3,293,782
Interbank loans receivable	11,498,756	–	11,498,756
Securities held under agreements to resell	18,300,000	–	18,300,000
Financial assets at FVPL	3,965,098	–	3,965,098
AFS investments - gross (Note 8)	4,423,628	61,268,820	65,692,448
Receivable from customers - gross (Note 9)	44,116,062	86,101,174	130,217,236
Unquoted debt securities classified as loans (Note 9)	3,997,264	3,820,935	7,818,199
Other receivables - gross (Note 9)	14,587,968	–	14,587,968
	146,261,930	151,190,929	297,452,859
Nonfinancial Assets			
Property and equipment - net			
At cost	–	757,364	757,364
At appraised value	–	15,566,650	15,566,650
Investments in subsidiaries and an associate - net	–	6,399,163	6,399,163
Investment properties - net	–	15,425,877	15,425,877
Intangible assets (Note 14)	–	371,505	371,505
Deferred tax assets	–	1,673,718	1,673,718
Other assets - gross (Note 15)	–	2,318,827	2,318,827
	–	42,513,104	42,513,104
Less: Allowance for impairment and credit losses (Note 16)			14,205,690
Unearned and other deferred income (Note 9)			676,591
			14,882,281
	₱146,261,930	₱193,704,033	₱325,083,682
Financial Liabilities			
Deposit liabilities	₱223,703,078	₱17,703,597	₱241,406,675
Financial liabilities at FVPL	283,751	6,196,070	6,479,821
Bills and acceptances payable	12,717,585	1,226	12,718,811
Subordinated debt	–	9,938,816	9,938,816
Accrued interest payable (Note 20)	1,988,623	–	1,988,623
Other liabilities (Note 22):			
Accounts payable	4,513,263	–	4,513,263
Bills purchased - contra	2,553,891	–	2,553,891

(Forward)

	Parent Company		
	December 31, 2012		
	Less than Twelve Months	Over Twelve Months	Total
Due to other banks	₱351,061	₱–	₱351,061
Managers' checks and demand drafts outstanding	623,621	–	623,621
Payment order payable	174,406	–	174,406
Due to TOP	–	290,649	290,649
Margin deposits and cash letters of credit	31,358	–	31,358
Due to BSP	102,616	–	102,616
Other liabilities	427,540	983,498	1,411,038
	247,470,793	35,113,856	282,584,649
Nonfinancial Liabilities			
Accrued taxes and other expenses (Note 20)	590,100	1,142,046	1,732,146
Income tax liability	147,911	–	147,911
Other liabilities	858,908	2,488,072	3,346,980
	1,596,919	3,630,118	5,227,037
	₱249,067,712	₱38,743,974	₱287,811,686

25. Equity

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

	Shares		Amount	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Preferred - ₱40 par value				
Authorized	–	195,175,444		
Common - ₱40 par value				
Authorized	**1,250,000,001**	1,054,824,557		
Issued and Outstanding				
Balance at the beginning of the year	**662,245,916**	662,245,916	**₱26,489,837**	₱26,489,837
Issued during the year	**423,962,500**	–	**16,958,500**	–
	1,086,208,416	662,245,916	**43,448,337**	26,489,837
Parent Company Shares Held by a Subsidiary	–	(200,112)	–	(4,740)
	1,086,208,416	662,045,804	**₱43,448,337**	₱26,485,097

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. As of December 31, 2013 and 2012, the Group has nil and 200,112 treasury shares, 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:

	December 31, 2013	December 31, 2012
Reserve for trust business (Note 31)	**₱444,003**	₱298,253
Reserve for contingencies and other accounts	–	191,634
Reserve for self-insurance	**80,000**	80,000
	₱524,003	₱569,887

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 December 31, 2013 and 2012, 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).

	2013		2012	
Consolidated	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱62,211.8**		₱26,508.6	
Tier 2 capital	**12,856.9**		14,707.2	
Gross qualifying capital	**75,068.7**		41,215.8	
Less required deductions	**623.1**		3,122.7	
Total qualifying capital	**₱74,445.6**	**₱37,819.6**	₱38,093.1	₱21,023.9
Risk weighted assets	**₱378,195.7**		₱210,239.2	
Tier 1 capital ratio	**16.37%**		11.87%	
Total capital ratio	**19.68%**		18.12%	

	2013		2012	
Parent Company	**Actual**	**Required**	Actual	Required
Tier 1 capital	**₱59,715.4**		₱27,398.5	
Tier 2 capital	**12,746.1**		15,141.3	
Gross qualifying capital	**72,461.5**		42,539.8	
Less required deductions	**14,735.8**		9,472.2	
Total qualifying capital	**₱57,725.7**	**₱34,049.6**	₱33,067.6	₱19,886.2
Risk weighted assets	**₱340,496.0**		₱198,861.7	
Tier 1 capital ratio	**15.37%**		11.40%	
Total capital ratio	**16.95%**		16.63%	

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

<u>Merger Incentives</u>
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):

	Consolidated			Parent Company		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Return on average equity (a/b)	**8.53%**	13.05%	14.90%	**9.19%**	13.06%	15.73%
a.) Net income	**₱5,222**	₱4,718	₱4,632	**₱5,354**	₱4,565	₱4,662
b.) Average total equity	**61,195**	36,150	31,089	**58,242**	34,951	29,636
Return on average assets (c/d)	**1.10%**	1.47%	1.52%	**1.19%**	1.44%	1.55%
c.) Net income	**₱5,222**	₱4,718	₱4,632	**₱5,354**	₱4,565	₱4,662
d.) Average total assets	**474,128**	320,871	304,336	**451,234**	316,262	300,261
Net interest margin on average earning assets (e/f)	**3.41%**	2.61%	2.91%	**3.37%**	2.59%	2.89%
e.) Net interest income	**₱13,749**	₱6,976	₱7,219	**₱12,752**	₱6,762	₱7,020
f.) Average interest earning assets	**403,390**	267,345	248,133	**378,216**	261,304	242,722

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)

26. Income and Expenses

Service fees and commission income

This account consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Deposit-related	**₱993,632**	₱860,606	₱920,967	**₱968,126**	₱860,606	₱920,967
Remittance	**764,343**	743,291	806,552	**489,218**	420,901	442,721
Credit-related	**562,622**	89,436	144,803	**551,734**	89,435	144,803
Underwriting fees	**290,343**	94,872	132,289	–	–	–
Trust fees (Note 31)	**189,874**	134,690	136,848	**189,874**	134,690	136,848
Commissions	**92,992**	24,053	12,932	–	–	–
Miscellaneous	**447,330**	183,715	189,599	**349,230**	91,318	37,463
	₱3,341,136	₱2,130,663	₱2,343,990	**₱2,548,182**	₱1,596,950	₱1,682,802

In 2013, credit-related fees include interchange fees and awards revenue amounting to ₱278.6 million which the Parent Company earned from the credit card business it acquired through merger with ABC (see Note 13).

Net gains on sale or exchange of assets

This account includes net gains from sale of investment properties in 2013, 2012, and 2011 amounting to ₱299.4 million, ₱332.6 million and ₱886.4 million, respectively, for the Group, and ₱296.2 million, ₱332.6 million, and ₱886.4 million, respectively, for the Parent Company.

Miscellaneous income

This account consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Premiums - net of reinsurance	**₱536,013**	₱–	₱–	**₱–**	₱–	₱–
Recoveries (Note 33)	**421,696**	112,084	254,200	**392,213**	112,084	254,200
Rental income	**284,853**	174,069	174,117	**274,804**	181,684	181,345
Gain from step up acquisition	**63,605**	–	–	**–**	–	–
Referral fees	**55,124**	–	–	**–**	–	–
Sale of BW resources shares	**28,373**	–	–	**28,373**	–	–
Sales deposit forfeiture	**12,254**	18,025	1,464	**12,254**	18,025	1,464
Penalty charges	**12,200**	9,286	16,846	**12,200**	9,286	16,846
Processing fees	**11,914**	14,286	15,149	**11,914**	14,286	15,149
Share in net income of an associate	**4,975**	10,309	68,954	**–**	–	–
Others	**577,848**	514,750	617,375	**316,205**	70,080	322,956
	₱2,008,855	₱852,809	₱1,148,105	**₱1,047,963**	₱405,445	₱791,960

The gain on step-up acquisition of ₱63.6 million arose from the step-up acquisition of investment in PNB LII which were accounted for as disposal of the Group's equity investment in PNB LII, previously recognized as AFS investment, in exchange for the equity interest in PNB LII's assets and liabilities.

Miscellaneous expenses

This account consist of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Secretarial, janitorial and messengerial	**₱931,281**	₱516,836	₱526,648	**₱898,765**	₱504,642	₱512,754
Insurance	**897,130**	592,239	512,069	**869,000**	579,664	496,522
Marketing expenses	**752,459**	397,119	324,323	**701,248**	361,744	304,354
Increase in aggregate reserve for life policies	**665,705**	–	–	**–**	–	–
Policyholder benefits and claim benefits	**367,247**	–	–	**–**	–	–
Information technology	**355,751**	191,982	197,477	**331,400**	147,398	124,050
Management and other professional fees	**330,036**	217,111	204,142	**264,109**	159,090	150,740
Litigation expenses	**267,614**	309,760	247,597	**264,768**	309,589	247,597
Travelling	**237,472**	191,799	173,423	**218,589**	171,110	160,680
Stationery and supplies	**233,938**	136,602	147,691	**208,822**	117,455	126,517
Entertainment and Representation	**214,900**	142,481	134,323	**174,091**	118,058	116,917
Postage, telephone and cable	**195,113**	116,611	131,869	**141,187**	78,214	87,650
Fuel and lubricants	**117,637**	21,140	20,780	**109,600**	20,431	19,769
Repairs and maintenance	**94,710**	110,954	79,521	**71,902**	77,271	50,815
Freight	**63,660**	31,206	58,272	**53,015**	31,206	37,477
Real property disposition	**28,438**	30,005	67,013	**28,436**	30,005	67,013
Trading fees	**14,800**	17,337	13,714	**14,800**	17,337	13,714
Miscellaneous	**546,885**	396,254	286,979	**477,820**	367,104	136,881
	₱6,314,776	₱3,419,436	₱3,125,841	**₱4,827,552**	₱3,090,318	₱2,653,450

Miscellaneous - others include membership dues and utilities expenses.

27. Retirement Plan

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			Parent Company		
	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)	**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	**3,323,955**	1,823,344	2,030,924
	₱3,383,331	₱1,853,274	₱2,095,205	**₱3,323,955**	₱1,823,344	₱2,030,924

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

(Forward)

	December 31, 2013	December 31, 2012	January 1, 2012
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)	January 1, 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 fluctuations	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.

28. **Leases**

The Parent Company leases the premises occupied by majority of its branches (about 41.59% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱820.3 million in 2013, ₱387.2 million in 2012 and ₱388.7 million in 2011 for the Group, of which ₱672.3 million in 2013, ₱268.6 million in 2012 and ₱253.3 million in 2011 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		**Parent Company**	
	2013	2012	**2013**	2012
Within one year	**₱562,255**	₱457,904	**₱428,693**	₱193,544
Beyond one year but not more than five years	**936,730**	819,177	**755,109**	383,661
More than five years	**34,368**	28,698	**30,860**	16,432
	₱1,533,353	₱1,305,779	**₱1,214,662**	₱593,637

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2013, 2012 and 2011, total rent income (included under ‘Miscellaneous income’) amounted to ₱269.5 million, ₱172.5 million and ₱172.5 million, respectively, for the Group and ₱273.1 million, ₱180.1 million and ₱179.7 million, respectively, for the Parent Company (see Note 26).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		**Parent Company**	
	2013	2012		2012
Within one year	**₱164,704**	₱56,233	**₱69,003**	₱4,153
Beyond one year but not more than five years	**121,707**	94,074	**56,979**	10,898
More than five years	**13,557**	15,406	**13,557**	15,406
	₱299,968	₱165,713	**₱139,539**	₱30,457

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group’s net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the bank's net investment outstanding in respect of the finance lease (EIR method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Future minimum lease receivables under finance leases are as follows:

	Consolidated		**Parent Company**	
	2013	2012	**2013**	2012
Within one year	**₱1,146,191**	₱889,311	**₱2,809**	₱1,959
Beyond one year but not more than five years	**1,414,986**	1,068,345	**26,550**	18,100
More than five years	**116,058**	85,800	**75,850**	85,800
Total	**2,677,235**	2,043,456	**105,209**	105,859
Less amounts representing finance charges	**311,421**	253,544	**67,000**	60,655
Present value of minimum lease payments	**₱2,365,814**	₱1,789,912	**₱38,209**	₱45,204

29. Income and Other 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:

	Consolidated			**Parent Company**		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Current						
Regular	**₱699,534**	₱269,354	₱173,695	**₱593,342**	₱205,490	₱124,591
Final	**958,582**	637,167	697,035	**898,973**	621,892	656,960
	1,658,116	906,521	870,730	**1,492,315**	827,382	781,551
Deferred	**(486,976)**	18,537	(21,273)	**(468,742)**	43,842	26,837
	₱1,171,140	₱925,058	₱849,457	**₱1,023,573**	₱871,224	₱808,388

Net deferred tax asset/liability of the Group is included in the following accounts in the statements of financial position:

	December 31, 2013	December 31, 2012 (As Restated - Note 2)	January 1, 2012 (As Restated - Note 2)
Deferred tax assets	**₱253,946**	₱1,780,682	₱1,775,789
Deferred tax liabilities (Note 22)	**349,472**	3,873	20,873
	(₱95,526)	₱1,776,809	₱1,754,916

The components of net deferred tax assets follow:

	Consolidated		**Parent Company**	
	2013	2012	**2013**	2012
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱4,992,542**	₱4,325,272	**₱4,836,632**	₱4,279,273
Others	**670,118**	539,032	**440,629**	370,596
	5,662,660	4,864,304	**5,277,261**	4,649,869
Deferred tax liability on:				
Fair value adjustment on investment properties	**1,731,832**	1,363,914	**1,726,231**	1,364,592
Revaluation increment on land and buildings*	**2,125,761**	1,249,079	**2,125,761**	1,249,079
Unrealized trading gains on derivatives	**77,584**	141,835	**77,584**	141,835
Unrealized gain on AFS investments**	**11,514**	10,689	**11,127**	1,833
Fair value adjustments due to business combination	**1,473,904**	–	**1,351,766**	–
Others	**337,591**	321,978	**209,470**	218,812
	5,758,186	3,087,495	**5,501,939**	2,976,151
	(₱95,526)	1,776,809	**(₱224,678)**	₱1,673,718

**Balance includes DTL amounting to ₱736.4 million acquired from business combination*
***Balance includes DTL amounting to ₱0.4 million acquired from business combination*

Provision for deferred tax charged directly to OCI during the year follows:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Unrealized gain (loss) on AFS investments	**₱464**	(₱23,948)	**₱8,933**	(₱19,029)

Based on the three-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's net deferred tax assets of ₱5.3 billion and ₱4.6 billion as of December 31, 2013 and 2012, respectively is expected to be realized from its taxable profits within the next three years.

Unrecognized Deferred Tax Assets
The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Allowance for impairment and credit losses	**₱847,463**	₱773,803	**₱794,874**	₱773,803
Retirement liability	**997,186**	421,186	**997,187**	421,186
Accrued expenses	**277,271**	149,042	**276,835**	149,042
MCIT	**7,110**	361,071	–	348,561
Derivative liabilities	**48,925**	85,125	**48,925**	85,125
NOLCO	**206,860**	1,172	–	–
Others	**173,114**	70,737	**38,690**	68,411
	₱2,557,929	₱1,862,136	**₱2,156,511**	₱1,846,128

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2010	₱118,553	₱118,553	₱–	2013
2011	85,165	–	85,165	2014
2012	117,362	1,842	115,520	2015
2013	942,021	–	942,021	2016
	₱1,263,101*	₱120,395	₱1,142,706	

**Balance includes NOLCO amounting to ₱277,952 acquired from business combination*

Unrecognized Deferred Tax Liabilities
As of December 31, 2013, there was a deferred tax liability of ₱363.5 million (₱349.8 million in 2012) for temporary differences of ₱1.2 billion (₱1.2 billion in 2012) related to investment in certain subsidiaries. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Details of the Group's MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2010	₱113,474	₱113,474	₱–	2013
2011	165,575	164,385	1,190	2014
2012	194,426	190,729	3,697	2015
2013	3,605	–	3,605	2016
	₱477,080	₱468,588	₱8,492	

**Balance includes MCIT amounting to ₱138,137 acquired from business combination*

Details of the Parent Company's applied MCIT follow:

Year Incurred	Amount	Used	Balance	Expiry Year
2010	₱75,036	₱75,036	₱–	2013
2011	124,591	124,591	–	2014
2012	134,175	134,175	–	2015
	₱333,802	₱333,802	₱–	

In 2013, the Parent Company applied all of the excess MCIT over RCIT above including those acquired through the merger with ABC amounting to ₱134.29 million to defray its 2013 income tax liability.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(5.19)**	(14.33)	(17.07)	**(5.20)**	(14.88)	(17.10)
Net non-deductible expenses	**7.48**	6.69	7.43	**7.19**	5.44	7.44
Optional standard deduction	**(0.27)**	(0.09)		**–**	–	–
Tax-exempt income	**(19.25)**	(7.64)	(4.83)	**(18.94)**	(6.40)	(4.83)
Tax-paid income	**(0.14)**	(0.24)	(3.88)	**0.24**	(0.59)	(3.53)
Net unrecognized deferred tax assets	**5.69**	2.00	3.85	**2.76**	2.45	2.79
Effective income tax rate	**18.32%**	16.39%	15.50%	**16.05%**	16.02%	14.77%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation expenses (EARE) and set a limit for the amount that is deductible for tax purposes. EARE are limited to 1.00% of net revenues for sellers of services. EARE charged against current operations (included in 'Miscellaneous expense' in the statements of income) amounted to ₱214.9 in 2013, ₱142.5 million in 2012 and ₱134.3 million in 2011 for the Group, and ₱174.1 million in 2013, ₱118.1 million in 2012 and ₱116.9 million in 2011 for the Parent Company.

30. Earnings Per Share

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

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
a) Net income attributable to equity holders of the Parent Company	**₱5,123,760**	₱4,708,560	₱4,623,230
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,050,778**	662,046	662,046
c) Basic and diluted earnings per share (a/b)	**₱4.88**	₱7.11	₱6.98

31. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱56.3 billion and ₱56.0 billion as of December 31, 2013 and 2012, respectively (see Note 33). In connection with the trust functions of the Parent Company, government securities amounting to ₱1.3 billion and ₱607.2 million (included under 'AFS investments') as of December 31, 2013 and 2012, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱9.5 million, ₱9.7 million and ₱8.3 million in 2013, 2012 and 2011, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital. An additional ₱136.3 million was transferred by the Parent Company from surplus to surplus reserve which corresponds to reserves allotted to the trust business acquired from ABC.

32. Related Party Transactions

Regulatory Reporting

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% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2013 and 2012, the Group and Parent Company were in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	December 31 2013	December 31 2012	**December 31 2013**	December 31 2012
Total Outstanding DOSRI Accounts*	**₱3,557,857**	₱2,650,526	**₱3,557,857**	₱2,650,526
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.40%**	2.03%	**1.45%**	2.04%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.40%**	2.03%	**1.45%**	2.04%
Percent of DOSRI accounts to total loans	**1.40%**	2.03%	**1.45%**	2.04%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**1.52%**	3.29%	**1.52%**	3.29%

(Forward)

	Consolidated		Parent Company	
	December 31 2013	December 31 2012	**December 31 2013**	December 31 2012
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%

**Includes outstanding unused credit accommodations of ₱178.6 million as of December 31, 2013 and ₱182.7 million as of December 31, 2012.*

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% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- significant investors
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

Details on significant related party transactions of the Group and the Parent Company 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.

	December 31, 2013		
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 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 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

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2013
Subsidiaries			
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 other banks		**435,055**	With annual fixed rates ranging from 0.01% to 4.5% including time with maturities of up to 90 days
Interest income	**₱21,695**		Interest income on receivable from customers
Interest expense	**32,715**		Interest expense on deposit liabilities and bills payable
Other income	**19,485**		Rental income from three-year lease agreement, with annual escalation rate of 10%
Other expense	**2,188**		Share in utilities expense
Securities transactions:			
Purchases	**2,676,109**		Outright purchase of securities
Sales	**2,664,615**		Outright sale of securities
Trading gains	**169,021**		Gain from sale of investment securities
Loan releases	**4,038,000**		Loan drawdowns
Loan collections	**4,002,000**		Settlement of loans and interest
Net deposits	**4,123,696**		Net deposits for the period
Affiliates			
Receivables 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 - ₱3.7 billion and unsecured - ₱1.3 billion with no impairment; Collaterals include bank deposits hold-out, government securities, real estates and chattel mortgages
Sales contract receivables		**105,750**	From sale of investment property Non-interest bearing loan payable within one year 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 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%
Interest income	**₱186,041**		Interest income on receivable from customers
Interest expense	**27,153**		Interest expense on deposit liabilities
(Forward)			
Rental income	**₱25,380**		Rental income from 10-year agreement, with annual escalation rate of 5% starting on sixth year of the lease term
Rental expense	**7,111**		Monthly rent payments to related parties with term ranging from 24 to 240 months
Other income	**33,104**		Gain from sale of investment property
Other expense	**2,784**		Expense on professional fees on service agreement
Securities transactions:			
Purchases	**11,959,458**		Outright purchase of securities
Sales	**1,748,599**		Outright sale of securities
Trading gains	**77,800**		Gain from sale of investment securities
Loan releases	**3,425,380**		Loan drawdowns
Loan collections	**7,273,098**		Settlement of loans and interest
Net deposits	**3,653,446**		Net deposits for the period
Key Management Personnel			
Loans to officers		**₱18,554**	Housing loans to senior officers; Secured and unimpaired
Loan releases	**₱4,880**		Loan drawdowns
Loan collections	**4,009**		Settlement of loans and interest

(Forward)

Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
			December 31, 2013
Other Related Parties			
Receivable from customers		**₱372,437**	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages
Net loan collections	**₱34,153**		Net loan collections for the period

**Amount includes ₱2.51 billion receivable from customers booked in PNB-Makati (formerly, ABC). Loan amount before any loan releases and collections during the year amounts to ₱5.78 billion.*

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2012
Subsidiaries			
Receivables from customers		₱564,000	Revolving credit lines with fixed annual interest rate of 4.25% and maturity of less than 31 days Unsecured - ₱564.0 million with no impairment
Accounts receivable		106,458	Advances to finance deficit in pension liability, remittance cover and additional working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,026	Interest on receivables from customers
Deposit liabilities		552,297	Deposit with annual rates ranging from 0.1% to 3.0% and maturity ranging from 30 days to one (1) year
Bills payable		863,579	Foreign currency-denominated bills payable with fixed annual interest rate of 1.03% and maturity of 180 days; unsecured
Accrued interest payable		3,473	Interest on deposit liabilities and bills payable
Due to banks		205,480	Clearing accounts for funding and settlement of remittances
Interest income	₱28,271		Interest income on receivable from customers
Interest expense	12,772		Interest expense on deposit liabilities and bills payable
Other income	7,615		Rental income on three-year lease and annual escalation rate of 10%
Other expense	2,004		Share in utilities expense
Loan releases	6,932,000		Loan drawdowns
Loan collections	6,968,000		Settlement of loans and interest
Net withdrawals	394,082		Net withdrawals for the period
Affiliates			
Receivable from customers		₱2,695,221	Loans with interest rates ranging from 0.5% to 16.5% and maturity ranging from one (1) month to 25 years. Secured - ₱2.6 billion and unsecured - ₱0.07 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Sales contract receivables		105,750	Arising from sale of investment property Non-interest bearing loan payable within one year Unimpaired
Accrued interest receivables		1,647	Interest on receivables from customers
Bills payable		554,175	Foreign currency-denominated bills payable with fixed annual interest rate of 1.77% and maturity term of 181 days, no collateral
Deposit liabilities		1,272,976	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year
Due from other banks		196,977	Includes savings deposits with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS investments with allowance for impairment loss of ₱270.0 million.
Interest income	₱154,464		Interest income on receivable from customers
Profit from asset sold	39,095		Gain from sale of investment property
Interest expense	10,626		Interest expense on deposit liabilities
Other income	16,830		Rental income from 10-year lease, with annual escalation rate of 5% starting on the sixth year of the lease

(Forward)

Category	Amount/ Volume	Outstanding Balance	December 31, 2012 Nature, Terms and Conditions
Securities transactions:			
Purchases	₱16,431,445		Outright purchase of securities
Sales	11,884,060		Outright sale of securities
Trading gains	19,017		Gain from sale of investment securities
Loan releases	3,201,345		Loan drawdowns
Loan collections	5,184,248		Settlement of loans and interest
Net deposits	619,016		Net deposits for the period
Key Management Personnel			
Loans to officers		₱17,683	Housing loans to senior officers; Secured and unimpaired
Loan releases	₱4,116		Loan drawdowns
Loan collections	3,606		Settlement of loans and interest
Other Related Parties			
Receivable from customers		₱406,590	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages
Net loan collections	₱1,895		Net loan collections for the period

Category	Amount/ Volume	Outstanding Balance	December 31, 2011 Nature, Terms and Conditions
Subsidiaries			
Due from banks		₱223,548	Clearing accounts for funding and settlement of remittances
Receivables from customers		600,000	Revolving credit lines with fixed annual interest rates ranging from 4.90% to 5.15% and maturity of less than 31 days Unsecured - ₱600.0 million with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages
Accounts receivable		28,364	Advances for working capital Non-interest bearing, unsecured, payable on demand
Accrued interest receivable		1,255	Interest on receivables from customers
Deposit liabilities		946,379	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one (1) year
Accounts payable		235	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		537	Interest on deposit liabilities
Due to Banks		250,360	Clearing accounts for funding and settlement of remittances
Interest income	₱17,860		Interest income on receivable from customers
Interest expense	18,576		Interest expense on deposit liabilities and bills payable
Other income	7,228		Rental income from three-year lease, annual escalation rate of 10%
Other expense	2,004		Share in utilities expense
Affiliates			
Receivable from customers		₱4,678,124	Loans with interest rates ranging from 1.0% to 15.0% and maturity ranging from six (6) months to 25 years Secured - ₱4.1 billion and unsecured - ₱0.6 billion; with no impairment Collateral includes bank deposit hold-out, real estate and chattel mortgages and collateral participation certificates
Accrued interest receivables		28,958	Interest on receivables from customers
Deposit liabilities		653,960	With annual rates ranging from 0.5% to 1.44% and maturity ranging from 30 days to one (1) year
Due from other banks		163,594	Includes savings deposit with interest rate of 0.13%
Investment securities		270,212	52,443,860 shares of stock classified as AFS Investments with allowance for impairment loss of ₱270.0 million.

(Forward)

Category	Amount/ Volume	Outstanding Balance	December 31, 2011 Nature, Terms and Conditions
Interest income	₱118,917		Interest income on receivable from customers
Interest expense	5,356		Interest expense on deposits and bills payable
Other expense	4,774		Marketing expense
Other income	16,830		Rental income from ten-year lease, with annual escalation rates of 5% starting on sixth year of the lease
Securities transactions:			
Purchases	12,718,836		Outright purchase of securities
Sales	11,049,302		Outright sale of securities
Trading losses	(125,414)		Loss from sale of investment securities
Loan releases	3,222,193		Loan drawdowns
Loan collections	545,419		Settlement of loans and interest
Key Management Personnel			
Loans to officers		₱17,173	Housing loans to senior officers; Secured and unimpaired
Other Related Parties			
Receivable from customers		₱408,485	Loans with interest rates ranging from 0.5% to 16.5% and maturity terms ranging from one (1) month to 25 years; Collateral includes bank deposit hold-out, real estate and chattel mortgages

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2013, 2012 and 2011 in relation to amounts due from related parties.

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 under a voting trust agreement. There are no other transactions with OHBVI during the year.

The compensation of the key management personnel follows:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Short-term employee benefits (Note 20)	**₱366,873**	₱135,347	₱152,623	**₱316,922**	₱118,187	₱88,996
Post-employment benefits	**47,381**	19,642	14,683	**47,381**	19,138	12,109
	₱414,254	₱154,989	₱167,306	**₱364,303**	₱137,325	₱101,105

Members of the BOD are entitled to a per diem of ₱0.05 million and ₱0.01 million for attendance at each meeting of the Board and of any committees, respectively and other non-cash benefit in the form of healthcare plans and insurance. In 2013 and 2012, total per diem given to the BOD amounted to ₱17.8 million and ₱4.3 million, respectively. Directors' remuneration covers all PNB Board activities and membership of committees and subsidiary companies.

The Parent Company and EPPI signed two Joint Venture Agreement (JVA) for the development of two real estate properties of the Parent Company included under 'Investment properties' and with carrying values of ₱1.2 billion. EPPI and the Group are under common control. These two projects are among the Bank's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the Joint Venture (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 JVAs. These JVAs do not fall as joint venture arrangement under PFRS 11.

Transactions with Retirement Plans
Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱1.9 billion and ₱1.3 billion as of December 31, 2013 and 2012, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets as of and for the year ended December 31, 2013 and 2012 follows:

	Consolidated		**Parent Company**	
	2013	2012	**2013**	2012
Investment securities:				
HFT	**₱675,665**	₱712,875	**₱675,665**	₱712,875
AFS	**613,517**	212,437	**589,009**	194,663
HTM	**–**	68,000	**–**	68,000
Deposits with other banks	**364,626**	263,830	**350,105**	255,621
Deposits with PNB	**23,126**	50,792	**23,110**	50,791
Loans and other receivables	**316,088**	37,807	**302,304**	36,614
Total Fund Assets	**₱1,993,022**	₱1,345,741	**₱1,940,193**	₱1,318,564
Accrued expense	**₱655**	₱–	**₱650**	₱–
Due to BIR	**560**	–	**76**	–
Trust fees payable	**–**	754	**–**	771
Total Fund Liabilities	**₱1,215**	₱754	**₱726**	₱771

	Consolidated		**Parent Company**	
	2013	2012	**2013**	2012
Interest income	**₱64,555**	₱20,738	**₱63,712**	₱20,213
Unrealized loss on HFT (PNB)	**(37,211)**	271,049	**(37,211)**	271,049
Dividend income	**1,698**	–	**1,671**	–
Trading gains	**1,193**	–	**1,193**	–
Gains on sale of investment securities	**–**	72	**–**	72
Fund Income	**₱30,235**	₱291,859	**₱29,365**	₱291,334
Trust fees	**₱3,217**	₱2,442	**₱3,141**	₱2,409
Taxes	**1,418**	–	**1,418**	–
Other expenses	**3,491**	270	**3,485**	227
Fund Expense	**₱8,126**	₱2,712	**₱8,044**	₱2,636

As of December 31, 2013 and 2012, the retirement fund of the Group and the Parent Company include 7,833,795 PNB shares classified under HFT. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2013 and 2012, AFS and HTM investments include government debt securities and various funds. Deposits with other banks pertain to Special Deposit Account (SDA) placements with BSP. Loans and other receivables include accrued interest amounting to ₱0.03 million and ₱0.04 million as of December 31, 2013 and 2012, respectively. Income earned and expense incurred by the retirement funds of the Group and Parent Company on PNB related transaction include interest income earned on deposits with PNB amounting to ₱1.6 million in

2013 and ₱1.0 million in 2012, unrealized gains (loss) on PNB shares of (₱37.2) million in 2013 and ₱271.0 million in 2012, 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.

Other fund managed by TBG
The TBG manages the sinking fund established by PSC to secure its borrowings with the Parent Company. As of December 31, 2013 and 2012, the sinking fund amounted to ₱5.3 billion and ₱5.2 billion, respectively (see Note 9). Trust fee income earned by TBG amounted to ₱0.6 million in 2013 and ₱3.0 million in 2012.

33. Provisions, Contingent Liabilities and Other Commitments

In the normal course of business, the 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 any such specific 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 Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Asset Pool 1
In November 1994, the BSP, Maybank and the Parent Company executed a Memorandum of Agreement (MA) providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MA, the Parent Company is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MA are to be deposited.

Relative to the sale of the Parent Company's 60% interest in Maybank, the Parent Company has requested the BSP to consider the revision of the terms of the MA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MA. On May 7, 1997, the BSP approved the Parent Company's request to amend the terms of the MA, subject to the following conditions among others:

a) The Parent Company shall remit ₱150.0 million to the escrow account out of the proceeds from sale;
b) The Parent Company shall remit to the escrow account an amount equivalent to 50% of any profit that may be realized by the Parent Company on account of the sale; and
c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, the Parent Company remitted ₱150.0 million in compliance with item (a).

The Parent Company's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

On August 17, 2007, the Parent Company and the BSP amended certain provisions of the MA as follows:

1. The Parent Company will no longer act as the collecting agent for the BSP on the conveyed assets (Asset Pool 1);
2. The Parent Company will no longer remit the amount collected from the Asset Pool 1 to the escrow account;
3. BSP will revert to the Parent Company all the Asset Pool 1 accounts categorized as sugar and sugar-related accounts; and
4. The Parent Company will submit to BSP acceptable collaterals with an appraised value of at least ₱300.0 million as substitute for the sugar-related loans under Asset Pool 1.

On the same date, the Parent Company executed a real estate mortgage over certain investment properties with an aggregate fair value of ₱300.0 million in favor of the BSP (see Note 12). As of December 31, 2012, the total trust assets of the escrow account maintained with the BSP amounted to ₱2.7 billion with an average yield of 5.49%.

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. The real estate collaterals pledged to BSP were also released as a result of settlement of the obligation to BSP. Further, recoveries collected from Asset Pool 1 amounting to ₱306.1 million were recognized by the Parent Company as income in 2013 under 'Miscellaneous income' in the statements of income.

NSC Loan

As discussed in Note 9, 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. 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 under 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 taxs, 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 ₱750.0 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, while no ruling was made on the application to vary the injunction order.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 9, 2012, the bank consortium 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.

Movements of provisions for legal claims both for the Group and the Parent Company are as follows:

	December 31, 2013	December 31, 2012	December 31, 2011
Balance at beginning of the year	**₱1,575,433**	₱874,950	₱710,172
Acquired from business combination	**195,971**	–	–
Provisions	–	834,259	164,778
Reclassification and settlements	**(189,323)**	(133,776)	–
	₱1,582,081	₱1,575,433	₱874,950

BSP Reporting

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

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Trust department accounts (Note 31)	**₱56,334,549**	₱55,976,479	**₱56,334,549**	₱55,976,479
Standby letters of credit	**13,165,263**	7,131,779	**13,097,044**	7,131,779
Deficiency claims receivable	**11,722,138**	6,309,340	**11,712,687**	6,309,340
Credit card lines	**11,239,863**	–	**11,239,863**	–
Shipping guarantees issued	**1,481,927**	628,422	**939,494**	179,212
Other credit commitments	**974,377**	974,377	**974,377**	974,377
Inward bills for collection	**660,197**	140,548	**657,007**	140,548
Other contingent accounts	**504,525**	41,317	**416,802**	41,311
Outward bills for collection	**477,220**	105,030	**195,893**	105,030
Confirmed export letters of credit	**82,513**	78,126	**82,513**	78,126
Unused commercial letters of credit	**66,664**	36,096	**66,664**	36,096
Items held as collateral	**64**	244	**50**	236

34. 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

December 31, 2013

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 (Notes 7 and 23)	**₱7,853,279**	**₱7,760,445**	**₱92,834**	**₱678**	**₱–**	**₱92,156**

December 31, 2012

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 (Note 7 and 23)	₱13,918,337	₱13,526,872	₱391,465	₱295,260	₱–	₱96,205
Securities held under agreements to resell (Note 4)	18,300,000	–	18,300,000	–	18,874,894	–
Total	₱32,218,337	₱13,526,872	₱18,691,465	₱295,260	₱18,874,894	₱96,205

Financial liabilities

December 31, 2013						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities 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]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities (Note 18)	**₱14,070,601**	**₱13,907,534**	**₱163,067**	**₱678**	**₱–**	**₱162,389**
Securities sold under agreements to repurchase (Notes 8 and 19)*	**2,246,319**	**–**	**2,246,319**	**–**	**2,739,206**	**–**
Bills payable (Notes 8 and 19)	**112,646**	**–**	**112,646**	**–**	**2,585,761**	**–**
Total	**₱16,429,566**	**₱13,907,534**	**₱2,522,032**	**₱678**	**₱5,324,967**	**₱162,389**

December 31, 2012						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities 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]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 18)	₱12,162,897	₱11,879,146	₱283,751	₱–	₱–	₱283,751
Securities sold under agreements to repurchase (Notes 8 and 19)*	2,971,471	–	2,971,471	21,141	3,509,709	–
Bills payable (Notes 8 and 19)	2,948,934	–	2,948,934	–	4,756,800	–
Total	₱18,083,302	₱11,879,146	₱6,204,156	₱21,141	₱8,266,509	₱283,751

** 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.

35. Notes to Statements of Cash Flows

As of December 31, 2011, amounts of due from BSP which have original maturities of more than three months amounted to ₱20.2 billion. As of December 31, 2013 and 2012, due from BSP did not include amounts with original maturities of more than three months.

36. Events After Reporting Date

Stock Rights Offering

The Parent Company has successfully completed its stock rights offering of common shares following the closure of the offer period on February 3, 2014. LTG fully subscribed to its entitlement of the Rights Offer. A total of 162,931,262 Rights Shares were issued to Eligible Shareholders at a proportion of fifteen Rights Share for every one hundred existing Common Shares held as of the Record Date at the Offer price of ₱17.00 per Right Share. Out of 162,931,262 Rights Shares, 33,218,348 common shares were listed on February 11, 2014 while the remaining shares would be reported for listing upon receipt of the BSP and SEC approval on the application for increase in authorized capital stock of the Parent Company.

The Offer raised gross proceeds of ₱11.6 billion, out of this, LTG provided ₱9.2 billion. Part of the proceeds will be used as capital injection into ASB to build and refocus ASB's consumer lending business. The Offer also strengthens ASB's capital position under BASEL III standards, effective January 1, 2014.

The Parent Company believes that the Offer better positions it to fulfill its medium-term growth objectives and further capitalize on the benefits of its merger with ABC.

37. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on February 28, 2014.

38. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company remitted the following types of taxes for the tax period January to December 2013 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱777,430,792
Documentary stamp taxes	511,775,609
Real estate tax	1,499,157
Local taxes	44,909,521
Others	216,488,043
	₱1,552,103,122

2. Withholdings taxes

	Amount
Expanded withholding taxes	₱648,194,365
Final income taxes withheld on interest on deposits and yield on deposit substitutes	459,915,467
Withholding taxes on compensation and benefits	134,495,535
VAT withholding taxes	3,123,268
Other final taxes	23,945,425
	₱1,269,674,060

Tax Cases and Assessments

As of December 31, 2013, the Parent Company has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

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

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

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

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL SCHEDULES

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank (the Bank) and its subsidiaries as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A and have issued our report thereon dated February 28, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115 -AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735,
BIR Accreditation No. 08-001998-53-2012
April 11, 2012, valid until April 10, 2015
PTR No. 4225181, January 2, 2014, Makati City

February 28, 2014

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2013

PART I

PHILIPPINE NATIONAL BANK (PARENT COMPANY)
SCHEDULE I
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2013
(In thousands)

Retained Earnings, January 1, 2012 as unadjusted		**₱4,951,651**
Adjustments (*see adjustments in previous year's reconciliation*):		
Appraisal increment closed to capital on quasi-reorganization	(7,691,808)	
Fair value adjustment on foreclosed properties - net gain	(7,314,315)	
Translation adjustment applied to deficit on quasi-reorganization	(1,315,685)	
Fair value adjustment (MTM gains)	(743,273)	
Deferred tax assets	(1,717,560)	
Accretion on impaired loans	(824,515)	
Accumulated depreciation on revaluation increment (after tax)	523,629	
	(19,083,527)	
		(19,083,527)
Retained Earnings, as adjusted, beginning		**(14,131,876)**
Add: Net income per audited financial statements	**5,353,987**	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	(4,975)	
Unrealized foreign exchange gain- net (except those attributable to cash and cash equivalents)	(1,612,437)	
Accretion on impaired loans	(289,095)	
Fair value adjustments of investment property resulting to gain	(271,296)	
Accretion on off-market transactions - sales contract receivables	(148,958)	
Sub-total	**(2,326,761)**	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	46,087	
Unrealized loss on marked-to-market on trading and investment securities	164,451	
Sub-total	**210,538**	
Net income actually earned/ realized during the period		**3,237,764**
Add: Reversal of appropriations		**45,884**
Effects of prior period adjustments - PAS 19R		**337,290**
Deficit, December 31, 2013		**(₱10,510,938)**

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE II
EFFECTIVE STANDARDS AND INTERPRETATIONS
UNDER PFRS IN COMPLIANCE WITH SRC RULE 68, AS AMENDED
DECEMBER 31, 2013

List of Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Philippine Interpretations effective as of December 31, 2013:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		**Adopted**	**Not Adopted**	**Not Applicable**	**Not Early Adopted**
Framework for the Preparation and Presentation of Financial Statements					
Conceptual Framework Phase A: Objectives and qualitative Characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓			
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓			
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
PFRS 2	Share Based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
PFRS 3 (Revised)	Business Combinations	✓			
PFRS 4	Insurance Contracts	✓			
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			

	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓			
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓			
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9				✓
PFRS 8	Operating Segments	✓			
PFRS 9	Financial Instruments				✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Reissue to incorporate a hedge accounting chapter and permit early application of the requirements for presenting in other comprehensive income the “own credit” gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9				✓
PFRS 10	Consolidated Financial Statements	✓			
	Amendments to PFRS 10: Investment Entities				✓
PFRS 11	Joint Arrangements	✓			
PFRS 12	Disclosure of Interest in Other Entities	✓			
	Amendments to PFRS 12: Investment Entities				✓
PFRS 13	Fair Value Measurements	✓			

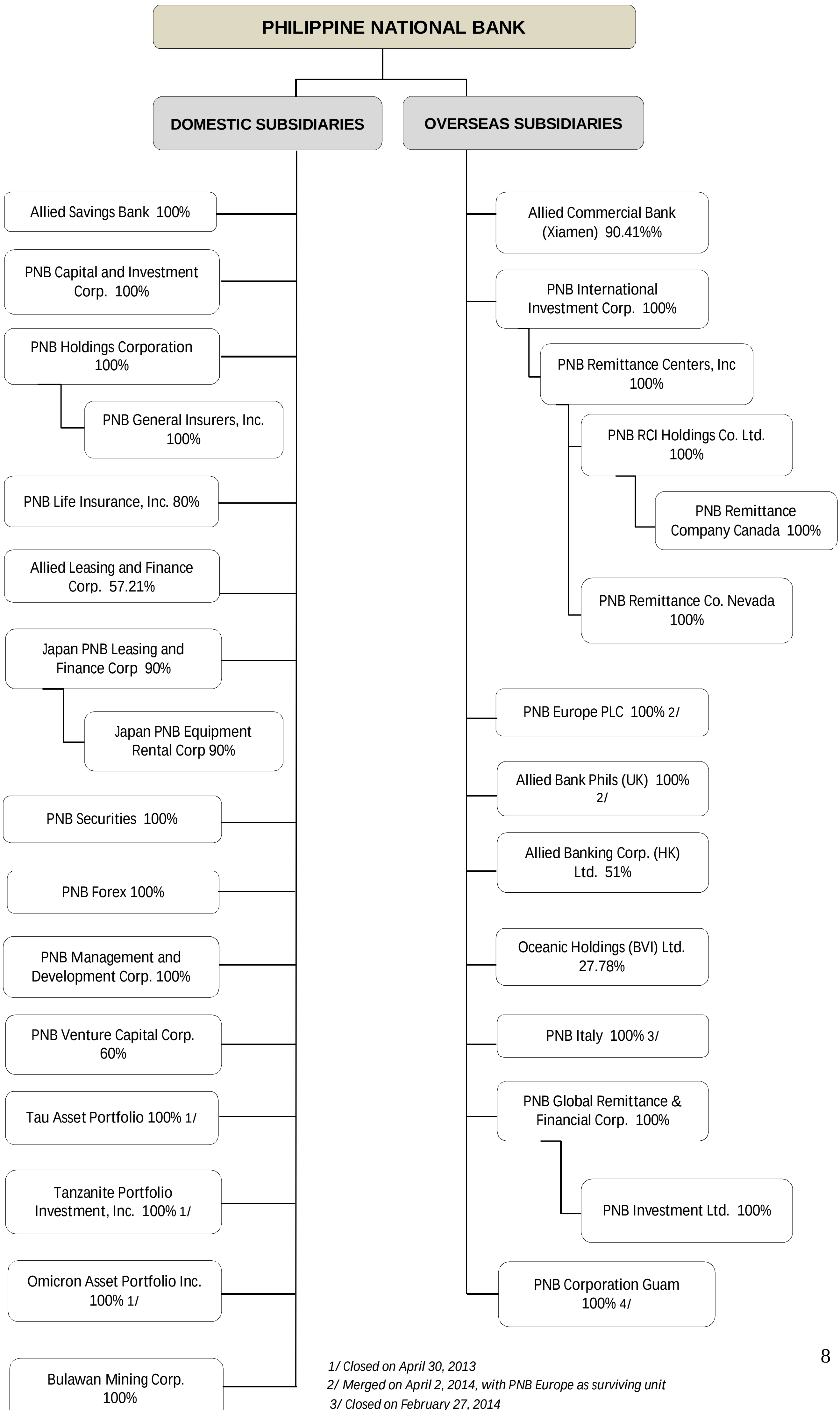
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosure	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓			
PAS 2	Inventories			✓	
PAS 7	Statement of Cash Flows	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Reporting Period	✓			
PAS 11	Construction Contracts			✓	
PAS 12	Income Taxes	✓			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓			
PAS 16	Property, Plant and Equipment	✓			
PAS 17	Leases	✓			
PAS 18	Revenue	✓			
PAS 19 (Amended)	Employee Benefits	✓			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation	✓			
PAS 23 (Revised)	Borrowing Costs			✓	
PAS 24 (Revised)	Related Party Disclosures	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓	
PAS 27 (Amended)	Separate Financial Statements	✓			
PAS 28 (Amended)	Investments in Associates	✓			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 31	Interests in Joint Ventures			✓	
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	

	Amendment to PAS 32: Classification of Rights Issues			✓	
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities				✓
PAS 33	Earnings per Share	✓			
PAS 34	Interim Financial Reporting			✓	
PAS 36	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
	Amendments to PAS 38 : Proportionate Restatement of Accumulated Depreciation on Revaluation				✓
PAS 39	Financial Instruments: Recognition and Measurement	✓			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transaction			✓	
	Amendments to PAS 39: The Fair Value Option	✓			
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓			
	Amendment to PAS 39: Eligible Hedged Items			✓	
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting				✓
PAS 40	Investment Property	✓			
PAS 41	Agriculture			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓			
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 8	Scope of PFRS 2			✓	
IFRIC 9	Reassessment of Embedded Derivatives	✓			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓			
IFRIC 10	Interim Financial Reporting and Impairment	✓			
IFRIC 11	PFRS 2- Group and Treasury Share Transactions (Replaced by amendments to PFRS 2)			✓	
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes	✓			
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓	
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓	
IFRIC 17	Distributions of Non-cash Assets to Owners			✓	
IFRIC 18	Transfers of Assets from Customers			✓	
IFRIC 19	Extinguishing Financial Liabilities with Equity Investment			✓	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies				✓
SIC - 7	Introduction of the Euro			✓	
SIC - 10	Government Assistance - No Specific Relation to Operating			✓	

	Activities				
SIC - 12	Consolidation - Special Purpose Entities	✓			
	Amendment to SIC - 12: Scope of SIC 12	✓			
SIC - 13	Jointly Controlled Entities - Non Monetary Contributions by Venturers			✓	
SIC - 15	Operating Leases - Incentives	✓			
SIC - 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓	
SIC - 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓			
SIC - 29	Service Concession Arrangements: Disclosures			✓	
SIC - 31	Revenue - Barter Transactions Involving Advertising Services			✓	
SIC - 32	Intangible Assets - Web Site Costs			✓	

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
AS OF DECEMBER 31, 2013



1/ Closed on April 30, 2013
2/ Merged on April 2, 2014, with PNB Europe as surviving unit
3/ Closed on February 27, 2014
4/ Ceased operations on June 30, 2012

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
DECEMBER 31, 2013

Available-for-Sale (AFS) Securities
(In thousands, except number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Government securities				
Republic of the Philippines (ROP) Bonds	–	₱18,785,534	₱25,388,805	₱10,676,738
Fixed Rate Treasury Notes	–	13,990,356	16,938,482	2,241,204
Retail Treasury Bonds	–	8,139,721	8,535,141	326,219
Power Sector Assets and Liabilities Management Corporation	–	2,464,510	3,076,096	81,474
Development Bank of the Philippines	–	1,676,635	1,822,122	54,260
Special Purpose Treasury Bills	–	1,250,000	1,340,677	60,603
Singapore Government Treasury Notes	–	642,084	641,528	–
National Development Corporation	–	267,090	476,328	7,242
Republic of Indonesia	–	388,800	340,776	10,068
US Treasury Bills	–	274,605	273,565	–
US Treasury Warrants	–	116,537	116,508	–
Peso Treasury Bills	–	111,160	111,075	–
Republic of Korea	–	43,200	54,128	1000
Bangko Sentral Ng Pilipinas Tier 2017	–	39,957	42,089	2,402
Federal National Mortgage Association	–	31,077	31,400	–
Federal Home Loan Mortgage Corp.	–	22,198	22,874	–
US Treasury Notes	–	19,978	20,000	–
Federal Home Loan Banks FHLB	–	15,538	16,171	–
Total Government securities		**₱48,278,980**	**₱59,247,765**	**₱13,461,210**
Private Debt Securities				
International Container Terminal Services Inc.	–	₱3,104,272	₱3,547,759	₱ 145,250
Banco De Oro (BDO)	–	2,469,904	2,605,149	90,369
SM Investments Corp.	–	2,243,238	2,310,486	94,191
Filinvest Development Cayman Islands	–	2,143,144	2,018,278	63,403
Rizal Commercial Banking Corp	–	1,228,915	1,315,691	46,617
Energy Development Corporation Bonds	–	1,018,644	1,074,564	22,988
First Pacific Company Ltd.	–	945,448	1,044,810	63,150
Philippine Long Distance Telephone Company (PLDT)	–	739,174	851,259	34,569
HSBC Finance Corporation	–	394,420	491,180	3,106
Standard Chartered Bank London	–	394,420	447,867	1,846
BNP Paribas Paris	–	338,075	381,694	1,844
First Pacific Company Treasury Ltd.	–	430,877	375,261	2,087

(Forward)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Korea Development Bank – SEOUL	–	₱345,600	₱334,380	₱9,564
JG Summit Holdings Inc.	–	345,600	323,995	13,322
Export-Import Bank of Korea	–	259,200	285,692	6,116
First Pacific Finance Ltd.	–	168,480	178,574	3,820
ABS-CBN	–	145,500	153,437	8,219
SM Development Corporation	–	150,000	150,919	7,716
Beacon Securities	–	127,400	145,430	9,260
Petron Corporation	–	98,000	109,573	6,844
HSBC Holdings PLC	–	112,692	129,345	659
San Miguel Brewery	–	127,910	119,891	16,905
Tanduay Distillers Inc.	–	110,247	112,491	4,073
Smart Communications Philippines	–	99,000	109,862	5,147
SM Prime Holdings	–	99,000	108,820	6,143
GT Capital Holdings	–	100,000	102,435	4,448
Citigroup Inc.	–	88,780	88,667	617
Asian Summit PH	–	59,095	59,095	–
Manila Electric Company	–	50,000	49,304	2,048
First Gen Corporation	–	18,204	43,516	3,449
Ayala Land Inc.	–	31,000	28,472	1,819
Filinvest Development Corporation	–	24,519	24,493	1,319
European Investment Bank	–	21,980	22,070	46
Metropolitan Bank and Trust Company	–	13,022	14,234	1,621
Summit Select	–	11,208	11,208	–
Union Bank Tier II	–	10,000	10,626	126
VIP Summit PHP	–	9,543	9,543	–
Development Bank of the Philippines	–	8,437	9,439	593
San Miguel Corporation	–	8,252	7,339	479
PNB Life Equity – PHP	–	2,525	2,525	–
PNB Life Balanced Growth Fund – PHP	–	2,379	2,379	–
PNB Life Fixed Income Fund – PHP	–	2,246	2,246	–
PNB Life Fixed Income Fund – USD	–	1,634	1,634	–
VIP Summit USD	–	1,112	1,112	–
Credit Linked Notes	–	–	–	32,382
Total Private Debt Securities	–	**₱18,103,096**	**₱19,216,744**	**₱716,155**
Equity Securities				
Philippine Racing Club	30,331,103	₱	₱287,842	₱–
Fairways & Bluewater Resort	294	–	228,213	–
San Miguel Corporation – Preferred – 2C	2,400,000	–	186,240	14,760
San Miguel Corporation – Preferred – 2A	2,000,000	–	152,000	11,531
(Forward)				

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
First General Corporation	1,573,000	₱–	₱151,253	₱17,167
Philippine Long Distance Telephone Company (PLDT)	161,425	–	135,752	6,506
Manila Golf & Country Club, Inc.	1	–	60,000	–
Globe Telecoms - GLO (Common)	35,830	–	58,224	2,010
Small Business Guarantee	400,000	–	40,000	–
Wack Wack Golf & Country Club	4	–	48,000	–
Victorias Milling Corporation	161,978,996	–	37,735	–
Manila Electric Company	140,068	–	35,157	–
Mount Malarayat Golf &Company “A”	15	–	34,465	–
Evergotesco Resources & Holdings	146,000,000	–	30,660	–
Manila Golf Country Club-Corporate	100	–	30,000	–
Metropolitan Bank and Trust Company	394,730	–	29,822	75
Bank of the Philippine Islands	348,700	–	29,640	204
Banco De Oro	363,910	–	24,950	316
Manila Polo Club	2	–	22,900	–
Allied Banker Insurance	200,000	–	20,000	–
Ayala Corporation	32,280	–	16,712	58
SM Investments Corporation	21,170	–	15,052	209
Universal Robina Corporation	132,300	–	14,963	174
Philippine Dealing House	115,000	–	11,500	–
Ayala Land Inc.	442,700	–	10,957	125
Philippine National Bank - PNB (Common)	120,000	–	10,308	–
LGU Guarantee Corp.	100,000	–	10,000	–
Santa Elena Golf & Country Club	3	–	9,000	–
Aboitiz Equity Venture	150,200	–	8,193	307
SM Prime Holdings	520,600	–	7,642	119
Puregold Price Club, Inc. - PGOLD (Common)	200,000	–	7,570	–
International Container Terminal Services Inc.	65,500	–	6,681	44
Alliance Global Group	256,800	–	6,625	103
Philippine Depository & Trust Corporation	78,087	–	5,894	–
Bancet, Inc.	49,999	–	5,000	–
Jollibee Food Corporation	25,400	–	4,397	55
Asean Finance	–	–	3,604	–
Subic Bay Yacht Club	58	–	3,480	–
GT Capital Holdings	4,350	–	3,358	–
Energy Development Corporation	563,000	–	3,001	45
Aboitiz Power	88,000	–	2,992	–
DMCI Holdings	51,000	–	2,856	–
Eagle Ridge Golf & Country Club	30	–	2,700	–
Lucio Tan Group of Companies	168,000	–	2,594	–

(Forward)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Metro Pacific Investments	702,000	₱–	₱2,343	₱24
Megaworld Corporation	644,000	–	2,087	26
PNB Management and Development Corporation	313,380	–	1,933	–
Bloomberry Resorts Corporation	177,000	–	1,524	–
Asia Pacific Rural and Agricultural Credit Association	1	–	1,500	–
Petron Corporation	1	–	1,464	–
BAP Credit Guaranty	29,800	–	1,138	–
Baguio City Country Club	1	–	1,000	–
Evercrest Golf Club-A	2	–	1,000	–
Manila Southwoods Golf Club "B"	2	–	869	–
Pueblo de Oro Gold & Country Club	2	–	833	–
Bulawan Mining Corp	2,500,000	–	800	–
PICOP Resources, Inc	19,008,000	–	798	–
Valley Golf & Country Club	4	–	600	–
Tagaytay Midlands	1	–	500	–
Heavenly Garden	5,000	–	500	–
Riviera Golf & Country Club “C”	2	–	470	–
Quezon City Sports Club	1	–	320	–
Camp John Hay	2	–	300	–
Club Filipino	2	–	294	–
Makati Sports Club-A	1	–	280	–
Orchard Golf & Country Club	1	–	210	
East Ridge Golf and Country Club	2	–	200	–
Tower Club	1	–	200	–
Ternate Development Corporation	1	–	170	–
Mimosa Golf & Country Club	1	–	125	–
Philippine Electric Corporation Shares	202,440	–	95	–
Sierra Grande Country	100	–	32	–
Philodril	695,625	–	24	–
Philippine Central Depository Inc.	175	–	23	–
Northern Telephone Company	40	–	18	–
Marikudo Country Club Iloilo City	1	–	18	–
PLDT Communication and Energy Venture	20	–	9	–
Philippine Columbian Association	2	–	8	–
Retelco	20	–	5	–
Chibakakusai Club	1	–	4	–
Cruz Tel Co.	30	–	3	–
Southern Iloilo Telephone Co.	20	–	2	–
APO Golf Shares	1	–	2	–
Inco Mining	1	–	2	–
(Forward)				

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
National Reinsurance Corporation of the Philippines	1,000	₱–	₱2	₱–
Iligan Golf & Country Club	1	–	1	–
Lepanto Consolidated Mining Co."A"	4,973	–	1	–
Philex Mining	151	–	1	–
SWIFT Shareholders	9	–	*–	–
Bacnotan Steel Industries	3,345,800	–	*–	–
Philippine Telephone Corporation	650	–	*–	–
Lepanto Consolidated Mining Co."B"	1,776	–	*–	–
JG Summit Holdings	–	–	*–	29
Proton Chemical Industries	44,419	–	*–	–
Total Equity Securities	**377,189,118**	**₱–**	**₱1,839,640**	**₱53,887**
Total Available-for-Sale Securities	**377,189,118**	**₱66,382,076**	**₱80,304,149**	**₱14,231,252**

*amount less than 1,000 pesos

Financial Assets at Fair Value through Profit or Loss

The total amount of Financial Assets at Fair Value through Profit or Loss (FVPL) does not exceed five (5%) of the total current assets of the Bank. Information related to FVPL is shown under Note 7 to the Audited Financial Statements of the Bank and Subsidiaries.

Loans and Receivables
(In thousands)

Name of Issuing Entity and Association of each Issue	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet	Valued based on Market Quotation at end of Reporting Period	Income Received and Accrued
Unquoted Debt Securities				
Home Development Mutual Fund (Pag-ibig)	₱3,480,517	₱3,480,519	₱–	₱92,872
Philippine Sugar Corporation Bonds	2,741,000	2,741,000	–	–
National Food Authority	546,880	546,866	–	27,351
Province of Aklan (Caticlan Super Marina)	260,000	187,778	–	5,359
High Street (SPV-AMC) Inc. (Bacnotan Steel)	282,821	112,134	–	–
Alfonso Lista Water Bonds	72,500	53,309	–	2,417
Landbank of the Philippines	*–	49,992	–	984
Quedancor Corporation	60,000	49,057	–	–
National Development Corporation	50,000	43,589	–	242
Philippine National Bank	32,622	28,439	–	5,447
Home Guaranty Corporation	2,848	2,848	–	712
Golden Dragon Star Equities Inc.	*–	*–	–	–
Steel Asia Manufacturing Corp	24,202	*–	–	–
Pilipinas Hino Incorporated	6,988	*–	–	–
Zanorte Bonds	*–	*–	–	374
Opal Portfolio Investment	*–	*–	–	265,725
Global Steel (NSC)	3,927,466	*–	–	–
Total Unquoted Debt Securities	**₱11,487,844**	**₱7,295,531**	**₱–**	**₱401,483**

*amount less than 1,000 pesos

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2013

(In thousands)

Name and Designation of Debtor	Balance at Beginning of Period (12/31/12)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/13)	Due Dates	Interest Rates	Terms of Payment	Collateral
Related Party										
Philippine Airlines Inc.	₱2,466,421	₱–	(₱308,892)	₱–	Current	₱2,157,529				
Paramount Holdings	–	1,177,161	–	–	Current	1,177,161				
Lufthansa Teknik	–	1,110,763	–	–	Current	1,110,763				
Interbev Philippines Inc.	–	11,912	–	–	Current	11,912				
Maranaw Hotel & Resort Corporation	–	38,100	–	–	Current	38,100	1/3/2014 to 8/29/2016	3.75% to 4.79%	Payable within one to seven years	Bank deposits hold-out, government securities, real estates and chattel mortgages
Maranaw Hotel & Resort Corporation	–	76,200	–	–	Current	76,200				
Victoria's Milling Company Inc	228,090	–	(171,801)	–	Current	56,289				
University of the East Ramon Magsaysay Medical Memorial Center Inc.	710	–	(710)	–	–	–	–	–	–	–
Eton Properties Philippines Inc.	105,750	–	–	–	Current	105,750	4/6/2014	n/a	Payable within a year	Investment property sold
Key Management Personnel	17,683	4,880	(4,009)	–	Current	18,554	various	various	Payable on demand	various
Officers	406,590	–	(34,153)	–	Current	372,437	1/31/2013 to 9/30/2036	0.5% to 16.5%	Payable within 1 month to 25 years	Bank deposit hold-out, real estate and chattel mortgages
	₱3,225,244	₱2,419,016	(₱519,565)	–		₱5,124,695				

The related party transactions indicated above are within the ordinary course of business of the Bank and shall be settled in cash. There are no provisions for credit losses in 2013.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2013

(In thousands)

Name and Designation of Debtor	Balance at Beginning of Period (12/31/12)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/13)	Due Dates	Interest Rates	Terms of Payment	Collateral
Japan PNB Leasing Corporation	₱564,000	₱4,038,000	₱4,002,000	₱–	Current	₱600,000	2/21/2014 to 3/10/2014	4.25%	Payable within 70 days	Clean

The related party transactions indicated above are within the ordinary course of business of the Bank and shall be settled in cash. There are no provisions for credit losses in 2013

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE D – INTANGIBLE ASSETS – OTHER ASSETS
DECEMBER 31, 2013

(In thousands)

Description	Beginning Balance 12/31/2012	Additions	Charged to Costs and Expenses (Amortization)	Charged to Other Accounts	Other Changes	Ending Balance 12/31/2013
Core deposits*	₱–	₱1,897,789	₱169,747	₱–	₱–	₱1,728,042
Customer relationship*	–	391,943	116,857	–	–	275,086
Other Intangibles	377,022	178,445	180,555	–	–	374,912
	₱377,022	₱2,468,177	₱467,159	₱–	₱–	₱2,378,040

**Acquired from business combination*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE E – LONG TERM DEBT
DECEMBER 31, 2013

(In thousands)

Type of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under caption "Current Portion of Long-Term Debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rates	Amounts or Numbers of Periodic Installments	Maturity Dates
Long Term Negotiable Certificates of Deposits	₱4,000,000	₱–	₱3,971,075	3.25%	Interest shall be payable quarterly	4/22/2019
Long Term Negotiable Certificates of Deposits	5,000,000	–	4,968,004	3.00%	Interest shall be payable quarterly	2/5/2019
Long Term Negotiable Certificates of Deposits	3,100,000	–	3,086,513	5.18%	Interest shall be payable quarterly	2/17/2017
Long Term Negotiable Certificates of Deposits	3,500,000	3,582,808	–	7.00%	Interest shall be payable quarterly	10/23/2014
Long Term Negotiable Certificates of Deposits	3,250,000	3,248,369	–	6.50%	Interest shall be payable quarterly	3/31/2014
Unsecured Subordinated Notes	6,500,000	–	6,471,960	6.75%	Interest shall be payable quarterly	6/15/2021
Unsecured Subordinated Notes	3,500,000	–	3,481,691	5.88%	Interest shall be payable quarterly	5/9/2022
Bills Payable	1,741,704	1,761	1,739,943	0.75% to 10.00%	Various	05/12/2014 to 09/11/2021

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2013

(In thousands)

Name of Related Parties [i]	Balance at beginning of period	Balance at end of period [ii]	Nature, Terms and Conditions

None to Report

[i] The related parties named shall be grouped as in Schedule D. The information called shall be stated for any persons whose investments shown separately in such related schedule.

[ii] For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2013

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding (i)	Amount owned by person of which statement is filed	Nature of guarantee (ii)

None to Report

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
(ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of Dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2013

(Absolute number of shares)

Title of Issue [i]	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties [ii]	Directors, officers and employees	Others [iii]
Common Shares	**1,250,000,001**	**1,086,208,416**	**–**	**–**	**13,136,784**	**–**
Preferred Shares	**–**	**–**	**–**	**–**	**–**	**–**

Required information is contained in Note 25: Equity to the Audited Financial Statements of the Bank and Subsidiaries.

(i) Include in this column each type of issue authorized
(ii) Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.
(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.

PART III

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE OF FINANCIAL RATIOS
DECEMBER 31, 2013 AND 2012

RATIOS	FORMULA	CONSOLIDATED		PARENT	
		2013	2012	2013	2012
(i) Liquidity Ratios					
a. Current Ratio	Current Assets/Current Liabilities	67.03%	59.80%	61.83%	58.72%
b. Liquid assets to total assets-gross	Liquid Assets-gross/Total Assets-gross	42.38%	40.16%	41.03%	41.03%
c. Liquid assets to total assets-net	Liquid Assets-net/Total Assets-net	44.03%	44.57%	42.72%	44.13%
d. Liquid assets ratio-gross	Liquid Assets-gross/Liquid Liabilities	56.43%	56.69%	53.53%	55.19%
e. Liquid assets-net	Liquid Assets-net/Liquid Liabilities	56.24%	56.33%	53.33%	54.83%
f. Liquid assets-gross to total deposits	Liquid Assets-gross/Total Deposits	59.06%	61.49%	55.21%	59.81%
g. Liquid assets-net to total deposits	Liquid Assets-net/Total Deposits	58.86%	61.11%	55.00%	59.42%
h. Net loans to total deposits	Net Loans/Total Deposits	53.70%	52.64%	52.65%	51.48%
(ii) Solvency Ratios					
a. Debt to equity ratio	Total Liabilities/Total Shareholders’ Equity	6.37	7.58	6.29	7.72
b. Debt ratio					
1. ROA w/ revaluation increment	Total Liabilities/Total Assets	86.43%	88.34%	86.28%	88.53%
2. ROA w/o revaluation increment	Total Liabilities/Total Assets less increment	86.78%	89.10%	86.65%	89.31%
c. Equity ratio					
1. ROA w/ revaluation increment	Total SHE/Total Assets	13.57%	11.66%	13.72%	11.47%
2. ROA w/o revaluation increment	Total SHE/Total Assets less increment	13.63%	11.76%	13.78%	11.57%
(iii) Asset-to-Equity Ratios					
a. Asset to Equity ratio	Total Assets/Total SHE	7.37	8.58	7.29	8.72
b. Fixed assets to equity ratio	Total Fixed Assets/Total SHE	52.53%	83.13%	54.24%	85.18%
c. Fixed assets to total assets ratio	Total Fixed Assets/Total Assets	7.13%	9.69%	7.44%	9.77%
(iv) Interest Rate Coverage Ratios					
a. Times interest earned ratio	EBIT/Interest Expense	2.35	2.29	2.39	2.25
(v) Profitability Ratios					
a. Return on Assets					
1. Using Net Income					
1. ROA w/ revaluation increment	Net Income/Average Assets	1.10%	1.47%	1.19%	1.44%

2. ROA w/o revaluation increment	Net Income/Average Assets less increment	1.11%	1.48%	1.19%	1.46%
2. Using Net Income attributable to parent					
1. ROA w/ revaluation increment	NIATP/Average Assets	1.08%	1.47%	1.19%	1.44%
2. ROA w/o revaluation increment	NIATP/Average Assets less increment	1.09%	1.48%	1.19%	1.46%
a. Return on Equity					
1. Using Net Income					
1. ROE w/ revaluation increment	Net Income/Average Capital	8.53%	13.05%	9.19%	13.06%
2. ROE w/o revaluation increment	Net Income/Average Capital less increment	8.92%	14.16%	9.63%	14.20%
2. Using Net Income attributable to parent					
1. ROE w/ revaluation increment	NIATP/Average Capital	8.37%	13.03%	9.19%	13.06%
2. ROE w/o revaluation increment	NIATP/Average Capital less increment	8.75%	14.13%	9.63%	14.20%
(iv) Capital Adequacy Ratios					
a. Tier I capital ratio	Tier 1/Total RWA	16.37%	11.87%	15.37%	11.40%
b. Capital risk asset ratio	Qualifying Capital/Total RWA	19.68%	18.12%	16.95%	16.63%
(iv) Other Ratios					
a. Non-performing loans ratio	Non-performing loans/Total Loans	4.51%	4.14%	4.45%	4.20%
b. Net interest margin	Net Interest Income/Average Earnings Assets	3.41%	2.61%	3.37%	2.59%
c. Efficiency ratio	Total Operating Expenses/Total Operating Income	73.97%	66.01%	70.87%	64.31%
d. Allowance for probable loan losses to total loans ratio	Allowance for probable loan losses/Total Loans	1.71%	4.06%	1.71%	4.05%
e. Allowance for probable loan losses to NPL ratio	Allowance for probable loan losses/NPL	38.15%	83.36%	38.49%	81.56%