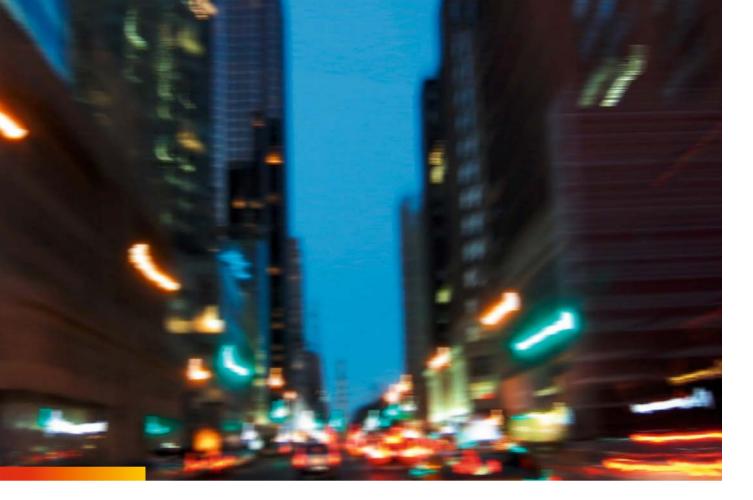
Annual Report 2013 PBCOM PHILIPPINE BANK OF COMMUNICATIONS



Hello.

This is the new PBCOM.

At PBCOM, we do everything for you, our customer.

Our goal is to satisfy your needs by meeting and anticipating them.

We value our relationship with you and together, let us grow and be partners in business and in life.

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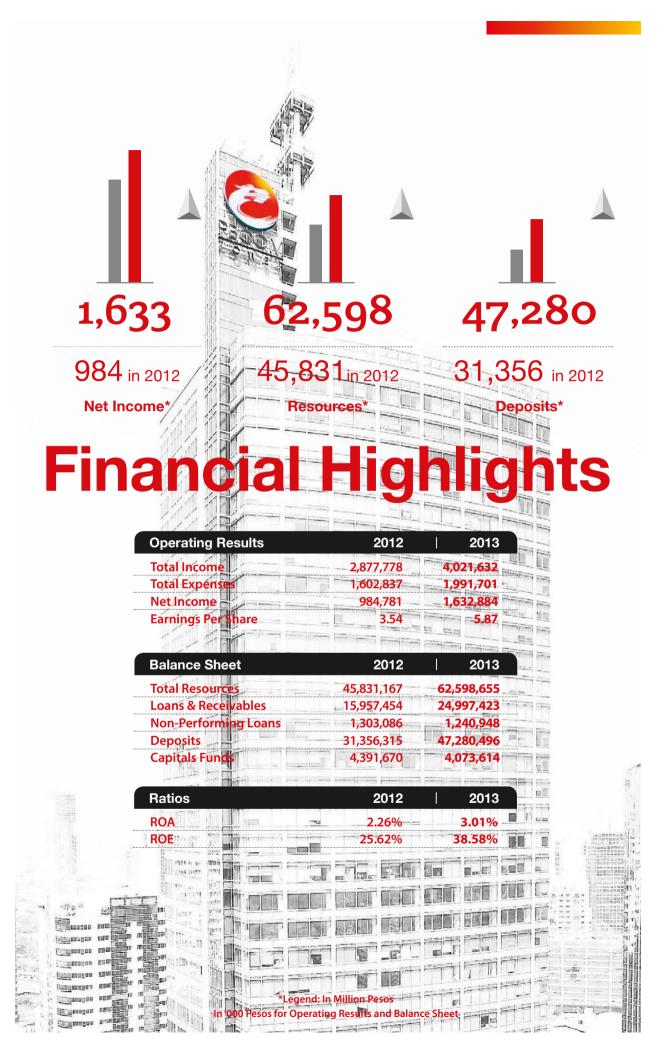


Inspired by the dynamism of today, our Annual Report recognizes the value of people—our customers and our employees. The customer is our one and only consideration and around which we create the products and services that will promise Next Level Banking.

Notes to 2013 Financial Statements









The Chairman Speaks

Q: The Philippine banking industry is enjoying unprecedented growth (the banks controlling 90% of the market garnered 42% growth as of Q3 2013 vs PY). This poses both a challenge and an opportunity. How is PBCOM riding this wave? And how is PBCOM keeping up with the market's speed?

ERIC: I disagree with the notion that we are riding a wave. We have deliberately, in the past two years, positioned ourselves to grow in a way that is measured and smart. I would like to think that we will grow in a well-planned manner rather than just grow like some other banks have grown: substantially but without the necessary structural support. We have a number of strategies to grow the bank in a way that will optimize shareholder returns, especially given the relatively modest size of our capital base.

We are not trying to keep up with the market's speed, instead, we are selective about how we intend to take advantage of the growth of the banking industry. This means being focused and as I just said, meaning structurally, that we are better prepared. With the tremendous growth of the banking industry, our business has more than ever become a business of risk management. More than anything else, capacity building is needed to expand our business. And that is what we've done in the past two years. It means people, it means products, it means technology - and that's what we've spent all of our time on. We've brought in new talent, we have invested very heavily in technology and product development.

My objective is not to keep up with the other big banks but to be able to grow PBCOM in the segments of the market that we can thrive in and be the leader.

Q: When you came on-board as Chairman, you instituted a full transformation for the bank. What is your assessment of its progress and what next development/s are you most excited for?

ERIC: There will never be a time when "full transformation" is achieved because we are always going to be transforming ourselves. Otherwise, we will run into a situation where we become obsolete and we stop responding to changes. Any

organization that is successful is always in transformation, right? So this bank will always be in transformation and I want to make sure that our fellow shareholders and our people understand that. There will never be a time in this organization, for as long as I'm here anyway, that we would pat our backs and say, "Yes, we have achieved full transformation."

So we will always be a work in progress. Am I happy with the pace or rate of progress? No, I will never be. I'm sure that worries a lot of our people.

There are new developments in our business model but I obviously don't want to elaborate on them too much given the competitive nature of the business we are in. The plan that we have set out for the next five years and for the next 10 years, obviously involves specific strategies that we have developed and agreed on as a team. What I can reassure our shareholders and stakeholders about is that they will see these being rolled out in the next year and in the next few years after that. The one thing I can also tell you is that the strategy will change. It will have to be responsive. We have to be agile.

In 2013, we have many things to celebrate and you will find them in the message of our President, Nina Aguas. However, we did not expand our footprint as I thought we would. And we didn't roll out our Internet banking product as I thought we would. On the Internet banking rollout, I think the main culprit of that is that the migration of our core banking platform was pushed back by a few months. And I accept the need to focus on the core banking implementation, T24, as a most important step prior to rolling out Internet banking. I'm pleased to report though that at this point, it looks like the T24 migration is by and large completed. I'm certain and confident that within the first half of 2014, our Internet banking, probably one of the most responsive Internet banking products in the market, will be rolled out.

We have been able to obtain our new branch licenses from the BSP and by the time this goes to print, we would have successfully acquired two rural banks and that immediately adds to our network.

Q: PBCOM is celebrating its 75th Diamond Jubilee this 2014. As one of the oldest banks in the country, how are you introducing new values into its traditions?

ERIC: Arriving at 75 years is unarguably a noteworthy milestone. But what's more important to me is the next 75 years. But let's keep it manageable. When it's the 100th year anniversary of PBCOM, I hope that it will be many multiples of what it is today. And that's the real challenge.

Everything we're doing today revolves around the customer: customer care, customer satisfaction. That is the value philosophy that will permeate this whole organization for the foreseeable future.

PBCOM is a bank that will cater to segments of the market that have a better appreciation for what banking should be. I want PBCOM to be a bank that people want to bank with. It's not because we've got a branch everywhere. It's not because my suppliers forced me to bank with it. I want people to choose PBCOM because they know they will get the best service. It will be their preference.

Q: Why should we invest in or bank with PBCOM?

ERIC: People should bank with PBCOM because PBCOM understands. We are going to be the preferred bank for a whole lot of reasons: but primarily because we care about the customer. For example, people will want to bank with PBCOM because our internet banking capability is one of the best tools around. People will want to bank with PBCOM because the relationship I have with my relationship manager (RM) makes me feel appreciated and understood. That's the least any of our customers deserve if they are depositing their money with us, or if they are borrowing from us.

Can that be achieved? Absolutely. If we think about their needs, we should be able to give them this.

I need to mention that I am grateful for the support of our shareholders, fellow directors, customers and employees. While I will always be challenging our organization to produce the level of banking that will satisfy our vision, heartfelt acknowledgment must be made for the turnaround year that was 2013 and with the work put in. I can comfortably look forward with optimism to the following years.

Eric O. Recto Chairman



Message from the President & CEO

Dear Shareholders

At the beginning of 2013, we had before us the task of making real, the new vision we had set for PBCOM – a goal to bring the bank to the next level. Twelve months later, I am happy to report that we have made great strides in the implementation of our transformation strategy.

- In order to diversify revenue sources and fulfil a broader range of client needs, we launched the new Convenience
 Banking segment to focus on the consumer lending market. A new Personal Loan product and improved Auto
 and Home Loans were introduced to support this line of business.
- We have begun the expansion of our distribution network. In 2013, the Bangko Sentral ng Pilipinas (BSP) approved our request for ten additional banking licenses, and we have since opened three new business centers in Bonifacio Global City, Sta. Rosa and Baguio. In parallel, we rolled out an aggressive ATM expansion plan that has brought our network from 62 ATMs to 135 in just a few months.
- To signal our transformation, we introduced a new corporate identity and, along with our corporate rebranding, completed the upgrade and rebranding of majority of our existing business centers.
- Key to our successful transformation has been a continued investment in people. Through a series of town halls
 held nationwide, we shared our vision for PBCOM with each and every member of our team. We have also launched
 two talent development programs aimed at building bench strength in our business centers: the Relationship

Manager Development Program and the Operations Academy. As a result of our focus on people, we now attract fresh talent at all levels of the organization.

While we gave much attention to our transformation initiatives, we maintained a strong focus on delivering positive financial results.

- We ended 2013 with a net income of P1.63B, 65.8% better than 2012. Operating income increased by P1.14B, driven by a growth in trading & securities gains, fees & commissions and income from trust operations.
- Total balance sheet grew by 36.6% from 2012 to 2013. Total resources stood at **P62.6B**, representing a year over year increase of **P16.8B**. Loans and receivables increased by 56.6%, funded by a 50.8% growth in deposits.
- Return on Assets grew from 2.26% in 2012 to 3.01% in 2013.
- A Return on Equity of 38.58% was achieved in 2013, making PBCOM one of the highest performers in the commercial banking industry.

2013 also saw us commemorating **PBCOM**'s **25th year as a Philippine Stock Exchange listed company**, which we marked by ringing the opening bell at the PSE Trading Floor.

While the year came with many milestones and achievements, one of the things we are most proud of is the establishment of **PBCOM Moves**, a fund that we launched in the wake of Typhoon Yolanda. Through donations from employees, friends and other members of the PBCOM Community, the funds raised were in support of initiatives focused on the rebuilding and rehabilitation of areas affected by the typhoon. The funds are being deployed in partnership with two organizations: Pinoy Relief, a New York based group established to rehabilitate and rebuild Guiuan, Eastern Samar, and the Ormoc Sugar Planters Association.

Our achievements from 2013 pave the way for bigger things to come. In 2014, you can expect to see the continued growth of our distribution network, more new products, our expansion into alternative channels and our migration into a new core banking platform. All these are key to delivering the best service to our clients.

In response to the growing needs of small to medium enterprises (SMEs) across the country, one of our primary objectives in 2014 is the delivery of meaningful, relevant products and services for this client segment. By gaining a deeper understanding of SMEs' needs and expanding our network to be closer to their places of business, we look to offer solutions that will enable small businesses and start-up enterprises, thus contributing to the development of communities nationwide.

By March 2014, we shall have successfully completed PBCOM's exit from our Financial Assistance Agreement with PDIC. This event, which is marked by our full repayment of the P7.6 Billion in aid, is a manifestation of PBCOM's positive trajectory and signals what lies ahead.

As PBCOM celebrates its 75th year in 2014, I am excited about what the future holds. I envision PBCOM in the fullness of time, when we shall have a full range of products and services in our portfolio, our stock is highly sought-after, we hold a leadership position in digital banking channels, the members of our team are excited by the prospect of coming to work each day, our clients are our strongest advocates, and there is a clamour for PBCOM to build presence in communities across the country. We surge ahead, working toward this vision through a continuous process of transformation, for the pursuit of relevance and excellence never ends.

Nina D. Aguas President & CEO



We structured the business segments in line with our philosophy of client care and satisfaction.

Business Segments

At every business size or at an individual level, PBCOM provides holistic, integrated solutions that can fulfill your diverse needs. We have targeted them towards areas where we can best deliver value. But as we grow as a company, we also endeavor to evolve with you and your aspirations.

Enterprise Banking

Enterprise Banking serves large institutional clients, offering products and services that meet the needs of both the corporations and their employees. Through Enterprise Banking, PBCOM offers clients corporate lending facilities and cash management solutions, while delivering deposit products and consumer financing options for clients' employees.

Prosperity Banking

The Prosperity Banking Segment (PBS) consists of the Business Center General Managers and Relationship Managers from all over the country, along with support personnel specializing in Franchise Management, Business Center Marketing, Cash Management, Product Development, and Training. It is focused on deposit growth, general Business Center sales, Cash Management sales, and overall growth of the Business Center and ATM franchise nationwide. It focuses on individual clients, as well as small to medium enterprises and their employees.

SME Banking

SME Banking serves small to medium enterprises in need of a partner who will help start-up or roll-up their growth. PBCOM understands the value of the SMEs to the nation and thus, actively seeks to provide flexible and holistic solutions, ranging from loans to cash management and payroll services, that enable these small to medium businesses to achieve more.

Convenience Banking

Convenience Banking serves individual clients, offering products and services to employees of Enterprise Banking and Prosperity Banking clients, as well as the public at large. Convenience Banking's range of products includes various consumer loans, such as home loans, auto loans and personal loans.

Treasury

The Treasury group ensure the Bank's adequate liquidity at reasonable cost, coordinating with the Enterprise Banking and the Prosperity Banking Segments to arrive at market-driven competitive pricing. Treasury likewise serves clients' foreign exchange requirements. Also a revenue generator, the Treasury Group takes position and trades in peso and US dollar-denominated bonds and undertakes proprietary foreign exchange trading. It exercises prudent and skilful management of the Bank's peso and US dollar trading portfolios under the governance of Policies approved by the Board of Directors.

Trust & Wealth Management

The Trust & Wealth Management Group provides individual and institutional clients, a wide array of financial solutions and investment opportunities for both small and large investors.

The Trust & Wealth Management Group's range of products & services include Investment Management, Escrow Accounts, Provident and Retirement Funds, Personal Living Trust and Unit Investment Trust Fund (UITF) products, which may be accessed by retail and institutional customers who want to diversify their portfolio.

Your financial goals, risk profile and other investment requirements will be carefully evaluated by the Trust Group before we present you with options for your consideration.



01 Mario J. Locsin Vice Chairman and Director 02 Eric O. Recto Chairman of the Board and Director 03 Henry Y. Uy Vice Chairman and Director 04 Gregory T. Yu Director 05 Roberto M. Macasaet, Jr. Independent Director 06 Patrick Sugito Walujo Director 07 Bunsit Carlos G. Chung Director 08 Nina D. Aguas President & Chief Executive Officer and Director 09 Ralph C. Nubla, Jr. Director



10 Jesus S. Jalandoni, Jr. Independent Director 11 Raul O. Serrano Independent Director 12 Teresita Ang See Independent Director 13 Tomas I. Alcantara Independent Director 14 Imelda S. Singzon Independent Director 15 Jose P. Leviste, Jr. Independent Director 16 Edgar J. Sia Board Adviser 17 David L. Balangue PDIC Consultant 18 Jovita D.S. Larrazabal Corporate Secretary, (Not in photo) Marriana H. Yulo Assistant to the Chairman

Directors' Profile



Eric O. Recto Chairman of the Board and Director

Mr. Recto was elected Director and Vice Chairman of the Board on July 26, 2011, appointed Co-Chairman of the Board on

January 18, 2012 and Chairman of the Board on May 23, 2012. He is the Chairman of ISM Communications Corporation,

Vice Chairman and Director of Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc., Alphaland Marina Club, Inc., Atok-Big Wedge Co., Inc., PhilWeb Corporation, and Petron Corporation, a director of San Miguel Corporation, and a member of the Board of Supervisors of Acentic GmbH. Prior to joining the Bank, Mr. Recto served as Undersecretary of Finance of the Republic of the Philippines from 2002 to 2005, in charge of handling both International Finance Group and the Privatization Office. Before his stint with the government, he was chief finance officer of Alaska Milk Corporation and Belle Corporation. Mr. Recto has a degree in Industrial Engineering from the University of the Philippines as well as an MBA from Johnson School, Cornell University.

Mario J. Locsin Vice Chairman of the Board and Director



Mr. Locsin was elected Director in October 27, 2011 and appointed as Vice Chairman of the Board on January 18, 2012. He is also Executive Vice President and Director of ISM Communications Corporation and Director of PhilWeb Corporation and Atok-Big Wedge, Co., Inc. He is also Independent Director of

Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc. and Alphaland Marina Club, Inc. In the past, he served as President and COO of Eastern Telecommunications Philippines, Inc. and Atok-Big Wedge Co., Inc., Director of Belle Corporation, APC Group, Southwest Resources, Philippine Long Distance Telephone Co., Pilipino Telephone Co., as well as Director, Executive Vice President and COO of Philippine Airlines. Mr. Locsin is also a consultant of Acentic Asia Ltd. He holds a Master's degree in Business Administration from the University of San Francisco (1980), and a degree in Lia-Honors Math from De La Salle University (1973).



Henry Y. Uy Vice Chairman of the Board and Director

Mr. Uy was elected Director on July 18, 1986 and Vice Chairman of the Board on August 29, 2012. He is the Chairman of the Board of

PBCOM Finance Corporation and Vice President of Echague Realty Corporation. In the past, he served as the Bank's President and CEO. He graduated magna cum laude in Business Administration and has an MBA from De La Salle University.



Nina D. Aguas
President and Chief Executive
Officer, Director

Ms. Aguas was elected Director, President and Chief Executive Officer on August 29, 2012. In the past, she served as Managing

Director for Private Banking, Asia Pacific, ANZ group. She was with the Citigroup for over 25 years in critical management positions across Asia Pacific and the US. Most notably, she was the first female in Southeast Asia to become Country Business Manager, Global Consumer Group (Philippines). She has also recently been awarded one of the 100 Most Influential Filipina Women in the World by San Francisco-based FWN Filipina Women's Network.



Bunsit Carlos G. Chung Director

Mr. Chung, Filipino, was elected Director on June 17, 1997. He is President of Supima Holdings, Inc., and Director of Hambrecht & QUIST (Phils.), La Suerte Cigar & Cigarette

Factory, Century Container Corporation, Bicutan Container Corporation, Tosen Foods Corporation and PBCOM Finance Corporation. He is also a member of the Board of Trustees of Xavier School Inc., Mother Ignacia National Social Apostolate Center, Seng Guan Temple and Kim Siu Ching Family Association. Mr. Chung has a degree in Economics from De La Salle University as well as an MBA from the University of Southern California.



Ralph C. Nubla Jr. Director

Mr. Nubla was elected Director on March 24, 1982. He is Director of PBCOM Finance Corporation, R. Nubla Securities and Echague Realty Corporation. He was

Executive Director of the Bank in 2004, Senior Vice President in 1982, Vice Chairman in 2000 and Chairman of the Board in 2010. He has more than 30 years of experience in banking. He was also President of CNC Investment Inc. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Commerce.



Gregorio T. Yu Director

Mr. Yu was elected Director on July 26, 2011. At present, he is Chairman of the Board of CATS Motors, Inc., Vice Chairman of the Board & Chairman of the Executive Committee

of Sterling Bank of Asia, and a member of the Board of Trustees of the Government Service Insurance System. He is Director of the Philippine National Reinsurance Corporation, iRemit, Inc., Phil. Equity Fund, Inc., Prople BPO, Inc., Jupiter Systems, Inc. as well as Director & Treasurer of CMB Partners, Inc. In the past, he was President and CEO of Belle Corporation, Pacific Online Systems Corporation, and Sinophil Corporation, Vice Chairman of APC Group, Inc., and Director of Cebu Holding, Inc. Mr. Yu graduated summa cum laude in Bachelor of Arts in Economics from De La Salle University and holds a Master of Business Administration from the University of Pennsylvania (The Wharton School).



Patrick Sugito Walujo Director

Mr. Walujo was elected Director in July 26, 2011. He is co-founder and co-managing director of Northstar Equity Partners, a leading private equity fund with a primary focus

on Indonesia. Northstar is the Indonesian Partner of TPG Capital, one of the world's leading private equity funds. Before co-founding Northstar, he was Senior Vice President of Pacific Century Group in Tokyo, Japan. Prior to working at Pacific Century Group Japan, he was an associate at the investment banking division of Goldman, Sachs & Co., in London and New York. Mr. Walujo holds a degree in Bachelor of Science in Operations Research and Industrial Engineering from Cornell University, USA and is Ernst & Young Indonesia's 2009 Young Entrepreneur of the Year.



Tomas I. Alcantara Director

Mr. Alcantara was elected Independent Director on March 28, 2012. He is the Chairman and President of Alsons Consolidated Resources, Inc. Alto Power Management Corporation, Alsons

Development and Investment Corporation, Lima Land, Inc., and Sarangani Agricultural Co., Inc. among others. He is Director of Holcim Philippines and DBP-Daiwa Securities Corp. and Independent Director of PhilWeb Corporation. He studied at the Ateneo de Manila University, The Columbia University Graduate School of Business, and the Harvard Business School. He was formerly the Chairman of the Manila Economic and Cultural Office (MECO) and served the Philippine government in various capacities as Undersecretary for Industry Investments, Department of Trade and Industry, Vice Chairman and managing Head of the Board of Investments, and Special envoy of the President of the Philippines to APEC.



Jesus S. Jalandoni, Jr. Independent Director

Mr. Jalandoni was elected Independent Director on January 28, 2013. He is currently Director of Liberty Flour Mills, JM & Co., Inc., Personal Computer Specialist, Inc. as well as Managing

Director of Alegria Development Corporation. He is also Executive Vice President of Enterprise Leasing Corporation, President of LFM Properties Corporation, Valueline Realty & Development Corporation, Buendia Offices Condominium Corporation and Second Midland Corporation. Mr. Jalandoni holds a Bachelor of Science degree in Business Management major in Economics at Simon Fraser University, Burnaby, British Columbia.



Jose P. Leviste, Jr. Independent Director

Mr. Leviste was elected Independent Director on March 28, 2012. He is currently the Chairman of Oceanagold (Phils.), Inc., Constellation Energy Corporation (Phils.)

and Philippine Business Leaders Forum. He is Vice Chairman of MBMI Resources (Phils.) He is also President of Italpinas Euroasian Design & Development Corporation. He is Director of Pico de Loro Beach & Country Club and Independent Director of Alphaland Corporation. He was appointed Member of the Governing Council for Agriculture, Forestry, and Natural Resources Research and Development of the Department of Science and Technology 2011. He graduated from Ateneo de Manila University (with honors) and has a degree in Bachelor of Science in Economics. He earned his Master of Arts in Economics from Fordham University, New York, New York in 1967, Masters in Business Administration from Columbia University, New York, New York in 1968 and Doctor of

Humanities from Nueva Viscaya State University (Honoris Causa) in 2007.



Teresita Ang See Independent Director

Ms. See was elected Independent Director on October 15, 2010. Her experience broadly encompasses that of being an educator and resource person, author, cultural and social

development worker, peace and anti-crime advocate. She was founding President of Kaisa Para sa Kaunlaran, a Chinese-Filipino NGO, President of Kaisa Heritage Center which houses Bahay Tsinoy, Secretary Treasurer of International Society for the Study of Chinese Overseas (ISSCO). Visiting Lecturer at Ateneo de Manila University, Spokesperson of Citizens Action Against Crime (CAAC), and the Founding Chairperson of Movement for Restoration of Peace and Order (MRPO). She is also the Chairman of Philippine National Police Foundation. She obtained her A.B. Political Science As well as a Masters degree in Asian Studies (candidate) from the University of the Philippines.



Raul O. Serrano Independent Director

Mr. Serrano was elected Independent Director on October 15, 2010. In the past, he was a member of the Board of Trustees of the Government Service Insurance System.

He held various managerial positions in Solidbank Corporation and Allied Banking Corporation until retirement. He holds a degree in Bachelor of Science in Commerce major in Finance from Ateneo de Naga University.



Imelda S. Singzon Independent Director

Ms. Singzon was elected Independent Director on October 15, 2010. Currently, she is Executive Vice President for Examination and Resolution Sector of the Philippine Deposit

Insurance Corporation. In the past, she was Independent Director of Export Industry Bank, First Senior Vice President of the Philippine National Bank, Vice President of New York-based First Philippine Fund, a director in various government corporations such as the National Food Authority, Livelihood Corporation, Fertilizer and Pesticides Authority. She holds a degree in Bachelor of Science in Statistics as well as a Certificate in Development Economics (with distinction) from the University of the Philippines.



Jovita D.S. Larrazabal Corporate Secretary

Ms. Larrazabal was elected Corporate Secretary on December 19, 2013 and Assistant Corporate Secretary on June 27, 2012. She is also currently the Corporate

Secretary, Corporate Information Officer, and Legal Counsel of ISM Communications Corporation. She used to be the Assistant Corporate Secretary and Corporate Information Officer of Alphaland Corporation, The City Club at Alphaland Makati Place, Inc., Alphaland Balesin Island Club, Inc., Alphaland Marina Club, Inc., and Atok-Big Wedge Co., Inc. She was also a junior associate of Sycip, Salazar, Hernandez and Gatmaitan, and Martinez Vergara Gonzalez and Serrano law offices. Ms. Larrazabal holds a Juris Doctor degree from the Ateneo de Manila – Law School and a Bachelor of Arts major in Management Economics from the Ateneo De Manila University – College of Arts and Sciences. She is a Member of the Philippine Bar.

Nina D. Aguas

President and Chief Executive Officer

Patrick D. Cheng

Trust & Wealth Management Head

Armando A. Inabangan

SME Banking Head

Victor Q. Lim

Prosperity Banking Head

Kevin R. Lynch

Convenience Banking Head

Emmanuel S. Santiago

Enterprise Banking Head

Jason J. Alba

Legal Services Head

Daniel L. Ang Tan Chai Chief Finance Officer

Horatio S. Aycardo

Connie L. Barcenas

Marketing Head

Ma. Cristina M. Bonifacio

Human Resources Head

Rose Margaret T. Cuatico

Compliance Head

Arlene M. Datu

Controller

Maria Teresita R. Dean

Chief Credit Officer

Roberto Fernandez

Debt Capital Markets Head

Jeruel N. Lobien

Acting Internal Audit Head

Helen G. Oleta

Treasurer

Evelyn D. Vinluan

Chief Risk Officer



Senior Management Team

Seated (From left to right) Rose Margaret T. Cuatico, Nina D. Aguas, Connie L. Barcenas Standing (From left to right) Kevin R. Lynch, Arlene M. Datu, Jason J. Alba, Meryll Anne C. Yan, Helen G. Oleta, Roberto Fernandez, Daniel Ang Tan Chai, Victor Q. Lim, Armando A. Inabangan, Ma. Cristina M. Bonifacio, Evelyn D. Vinluan, Patrick D. Cheng, Horatio S. Aycardo, Maria Teresita R. Dean, Jeruel N. Lobien *Not in photo: Emmanuel S. Santiago

Six months after graduation, lan Neo had a plan. The son of traders, the Tagum native borrowed P200,000 seed money from his father to start Four Seasons Fruits Corporation and produce banana chips for export.

Davao is a rich region. Its agricultural value is already widely known. More than this, however, according to the latest reports, Davao is fast rising to meet the Metro Manila area in Gross Regional Domestic Product (GRDP) per capita. Within Mindanao, Davao is the top city, producing an economic value of P242B in 2012 and growing 7%, in line, if not slightly ahead, of the country.

It is small wonder that a man like Ian Neo would be produced by this fertile region. Only in his mid-30s, lan is living proof that success comes to people who dare to make the leap. "I started out the business with just two people. I would do it all—marketing, purchasing, product development," reminisces Ian. Today, Four Seasons Fruits is a corporation that employs 800 people and exports banana chips to the UK, Europe and Scandinavian territories. Ian recalls, "It was PBCOM who took a risk on me when no other bank would. After all, I was only 23 years old and I had no credit history and no experience in the trade. The initial P200,000 fell short and I needed to be able to ship at least one container van to Germany. With PBCOM, I was able to ship two."

This SME loan jumpstarted lan and Four Seasons Fruits Corporation. It was always lan's dream to be able to showcase the best of the Filipino to the world. "We have some of the best-tasting bananas in the world. And even if we have stiff competition from Thailand, Vietnam and India, we have an edge because our raw materials are better." Still, he does not rest on this fact alone, "The name of the game is really product quality—especially when you're competing against other countries and then servicing markets that have very strict standards, your plant facilities, your processes and your final quality, all have to excellent."

Humble despite his success, lan still has bigger ambitions ahead. "Our goal is to build other facilities. We experienced firsthand the effect of typhoon Pablo. It really wiped out all the farms of our raw material suppliers and we had to go out to South Cotabato and the Saranggani region to be able to source out bananas." However, this bump on the road has also shown him a silver lining. "This also gave me the idea to build another facility so that we can process, cook and pack the materials right on the spot, without having to transport the bananas." This should result in higher output and also in fresher quality.



With a P1.5 million loan from PBCOM, Davao's Ian Neo built a world-class export company called Four Seasons Fruits Corporation proving that the Filipino dream is indeed possible lan grows wistful as he talks about the company and how far it has come. Repeatedly he says, "What is really important is that you have a partner in life. I count myself very lucky that I have this great relationship with PBCOM. They were the first to recognize me and throughout it all, as my business has grown, it has always been there to support me in my aspirations."

And while he may be young, lan has been working nonstop for the last 13 years. He continues to be a hands-on manager and jokes, "After working 16 hours a day, you cannot help but have a good night's sleep."

"It was PBCOM who took a risk on me when no other bank would.
After all, I was only 23 years old and I had no credit history and no experience in the trade."

Interested to get an SME loan? Here's how:

 \bigcirc 1

Step 1: Download the application form from the PBCOM website

02

Step 2: Fill up the application form and submit the pre-approval documents that can be found in the checklist

03

Step 3: Submit the accomplished forms to the nearest PBCOM branch or scan the forms and email mmmatsuda@

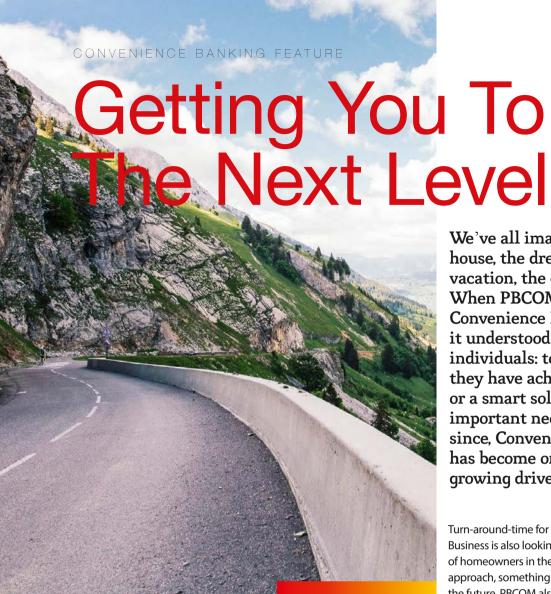
04

Step 4: An Account officer will call you to set an appointment

A father now, Ian and his beautiful wife, Len (who he met through PBCOM) and is CFO of the company, are proof of the Filipino dreamthat even with simple beginnings, if you put in hard work, have the right attitude and enough bravery and yes, the best business partner to support you, then an industry, or maybe an empire can be built. Four Seasons Fruits is now the company that has the highest market share in the banana chips export category of Davao. And from those small beginnings after his graduation, lan is setting his sights further on the world.

"My dream before was only to produce one container per month. Now I can ship 3 containers every 24 hours." And that is only the story so far.





We've all imagined it: the dream house, the dream car, the dream vacation, the dream renovation. When PBCOM launched its Convenience Banking segment, it understood this desire of individuals: to have a mark that they have achieved something, or a smart solution to an important need. In the year since, Convenience Banking has become one of the fastest-growing drivers of the company

Turn-around-time for home owners. Home Loan Business is also looking into meeting the needs of homeowners in the Philippines with a holistic approach, something you will hear more about in the future. PBCOM also made its mark in the Auto Loan industry, with Marc Villanueva and his team

driving the way to development of strong partnerships with auto manufacturers and dealers nationwide, such as, The Covenant Car Company Inc. (Chevrolet Philippines), Laus Auto Group, Wheels Inc., and Lica Auto Nation (Limcaoco Auto Group).

After one year of operation, we can proudly say that the Bank has the best performing portfolio, with its Personal Loan, Home Loan, and Auto Loan products performing strongly, and way below industry standard of delinquency.

By end of 2013, Convenience Banking was contributing 30% of the Bank's interest revenue and income on fees. And it will be the largest contributor to interest income in 2014 onwards.

Lending will be more convenient for clients, Convenience Banking is capable of lending Personal Loan, Home Loan and Auto Loan products in all PBCOM Business Center locations, and 50% of the locations will have its representative to attend to clients' needs.

As Convenience Banking continues to expand and widen its network, it promises to maintain its integrity, service and dedication to its clients. While PBCOM may not be the biggest, it will be the best, and Convenience Banking will be part of this journey to greatness.

Consumer Finance was unfamiliar territory for PBCOM until the year 2012, when it assembled industry experts to build a close-knit, talented and experienced team. In 2013, Consumer Finance was rebranded into what it is now: the Convenience Banking Segment. From 23 personnel in 2012, the Bank's Convenience Banking Segment now has a total of 134 professionals, each one contributing to bring solutions to customers.

In less than one year, Convenience Banking exceeded P 2.2 billion volume and achieved stellar first year profitability. While this alone may be considered a big accomplishment, it is the building of a team that works so well together, composed of individuals who are dedicated, professional, passionate and focused, that Convenience Banking sees as its brightest 2013 highlight.

In 2013, Convenience Banking developed and launched its products; built an entire infrastructure to support the products, and found ways to grab market niches with its available resources and through active product marketing initiatives.

The Personal Loan business, led by Amiel Crisologo, with the entire Personal Loan Team, immediately established PBCOM Personal Loan as a leader in the industry, starting with its notable first month volume of P70 million. Virgilio Caedo and the Home Loan Team propelled the Bank's Home Loan business through the introduction of one-day conditional approval and fast



Feel at home at any PBCOM Business Center. Whether you are banking with us in Baguio or in Cebu Magallanes, all of our Business Centers bear the same signature look: naturally lit interiors, bright red accents and warm smiles from our frontliners

2013 was a year of growth for PBCOM, not just financially, but with its ATM and branch network as well. In terms of reach, PBCOM's ATM network in 2012 was at 53 machines, most of them onsite at our Business Centers. Over the course of 2013, PBCOM grew this network to 135 machines as at end-Dec 2013, with off-site ATM machines growing at a rapid pace of 531%. At our latest count, this network is now at 152 machines as of end-Feb 2014. This represents aggregate growth of nearly 155% in 2013 alone.

In terms of Business Centers, PBCOM is now at 69 Business Centers. We recently received approval for new licenses from the BSP and PBCOM will end 2014 with more Business Centers all over the Philippines.

In the aftermath of Category 6 storm Yolanda, PBCOM enjoined employees and stakeholders to help in rebuilding and rehabilitating the devastated areas in Eastern Visayas. PBCOM Moves Fund was born.

After the storm hit, there was another surge—that of public desire to help.

There were already several short-term relief efforts being organized by various government and non-government agencies, however, PBCOM desired to create a direct and medium-term contribution to the more difficult task of helping rebuild the lives and communities affected by the storm.

Thus, the Bank launched a PBCOM rehabilitation fund and program called PBCOM Moves. As a startup, the funds for the company Christmas ham and Christmas party were reappropriated towards the fund. And through the generous support of friends and families, the fund steadily grew in size.

The first disbursement of the fund was to the Ormoc Sugarcane Planters' Association (OSPA). OSPA is a non-stock, non-profit organization that provides medical attention and educational training to sugarcane farmers. Yolanda severely damaged their center and the P200,000 that PBCOM Moves, through the donations of individuals, contributed towards repairs and building materials.

The biggest beneficiary was Pinoy Relief, chosen for being the most comprehensive and multi-channel in its approach to rehabilitiation. The funds from PBCOM Moves will be used to procure fully outfitted fishing boat kits to help the small town of Guiuan, the first to be hit by the Yolanda/Haiyan storm surge.

True to the parable of teaching a man how to fish, PBCOM Moves Fund, together with Pinoy Relief, aims to jumpstart the community again by giving these fishermen another chance after the storm.





Basel II Framework

PBCOM's strategic plans and corporate governance incorporate the three pillars of Basel 2. These pillars include:

- Pillar One that involves computing for the amount of capital the bank will need to carry to cover minimum requirements set by regulation through weighting the bank's assets for credit risk, market risk and operational risk;
- Pillar Two that involves assessment of what is necessary
 to sustain the bank's growth and return targets through
 analysis of risks not included in pillar one and of changes
 in business direction and business environment that may
 affect either the bank's available capital or the bank's
 requirements for capital and;
- Pillar Three that involves communication of the profile
 of the risks the bank has taken to achieve its growth and
 return as well as the process by which the bank mitigates,
 manages and absorbs these risks in order to provide
 depositors, creditors and shareholders information on
 the ability of the bank to continue supporting its strategic
 business objectives.

All figures presented are in millions of Philippine Pesos excepting those in percentage.

Risk Management Overview

PBCOM applies risk management across the entire organization — from the Board of Directors, Senior Management, Business Segments and Groups, Business Centers, support units, and to individual employees; as well as in specific functions, programs, projects and activities. Implementation of the Framework contributes to strengthening management practices, decision making and resource allocation, and increasing shareholder value; while protecting the interest of its clients, maintaining trust and confidence, and ensuring compliance with regulations.

The Risk Oversight Committee approved the Financial Risk and Capital Management (FRCM) sub-framework to inter-connect the sub-frameworks monitoring the risks for Credit, Market, Liquidity and Interest Rate in the Banking Books. FRCM also relates with Financial Risk and Business Intelligence, a new sub-framework that handles MIS and data integrity checks for financial risks.

Enterprise risk management (ERM) is the framework of policies, processes and systems, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.



Enterprise Risk Management Control Framework Model

PBCOM builds on the concepts of the COSO Enterprise Risk Management – Integrated Framework as its model for the Bank's enterprise risk management system.

Business Objective and ERM Components

The enterprise risk management framework for PBCOM's goals can be summarized as Management setting objectives, selecting the strategy and laying down more specific objectives throughout PBCOM; guided by its mission and vision. The objectives can be categorized into:

- Strategic high-level goals, that align with and support mission
- Operations effective and efficient use of its resources
- Reporting reliability of reporting
- Compliance compliance with applicable laws and regulations.

Governance, Risk and Compliance Control (GRC)

GRC is the general term encompassing PBCOM's approach to corporate governance, enterprise risk management and corporate compliance with applicable laws and regulations.

- Corporate Governance The system whereby shareholders, creditors, and other stakeholders of PBCOM ensure that Management enhances the value of the Bank as it competes in an increasingly global market place. It is the framework of rules, systems and processes in and of PBCOM that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the stockholders.
- Risk Management The process, effected by PBCOM's Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the Bank, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the Bank's objectives. It also refers to the architecture that is used to manage risk; that includes risk management

- principles, a framework and process.
- Compliance Adherence to applicable laws, regulations, directives, rules of professional conduct and related or similar matters.

The interrelated functions primarily involved in the implementation of the PBCOM's Governance, Risk and Control system are Compliance Group, Internal Audit Group and Enterprise Risk Management Group.

Risk Mission Statement

To develop risk awareness and a risk/return consciousness in the Bank in order to protect deposits, preserve capital and ensure adequate return on capital.

ERM Philosophy

PBCOM recognizes that enterprise risk management is fundamental for its safe and sound operation and sustainable growth. It ensures business success through balanced risk and reward, operational excellence and conformance to the highest ethical standards and regulatory requirements.

Enterprise Risk Management in PBCOM is aligned to its business objectives and strategies. It operates at all levels and in all units of PBCOM that continually manage risk in an environment fostered by an appropriate governance structure, a strong "control culture" and a proactive process of identification, understanding, assessment and mitigation of all its material risks.

ERM Objectives

- Identify, measure, manage and control risks inherent in PBCOM's activities or embedded in its portfolio.
- Define and disseminate risk management philosophy and policies.
- Assist risk-taking business and operating units in understanding and measuring risk/return profiles.
- Develop a risk management infrastructure that includes policies and procedures, organization, limits and approval authorities, MIS and reporting, systems and risk models.
- Promote a risk awareness and strong "control culture" in PBCOM.



Capital Management Framework

PBCOM's capital management framework involves providing shareholders optimal returns within the ability of the capital to protect the interests of all the bank's stakeholders. The framework involves monitoring both capital requirements and capital resources to ensure:

- Qualified capital remains above minimum requirements of ten (10) percent of risk weighted assets;
- Quality of capital resources aligns with the risks present or to be taken to achieve growth & return and;
- Prudent balance between the growth and return required of strategic plans and the continuing institutional strength of bank.

PBCOM consistently maintains a ratio of qualified capital to risk weighted assets that are in excess of the ten (10) percent minimum requirements of Philippine Banking Regulations.

The bank in addition conducts an annual Internal Capital Adequacy Assessment Process (ICAAP), along with its strategic planning exercise. The ICAAP provides the bank the opportunity to:

- Articulate its strategic growth and return targets;
- Identify the businesses, products and services the bank will pursue or use to achieve the targets;
- Define and measure the risks each business, product or service will create;
- Consider how the bank will mitigate and manage the identified risks;
- Determine the amount and the quality of the capital resources necessary to sustain financial strength through a risk event;
- Conduct stress tests to aid in identifying break points

and vulnerabilities; and

Develop capital build-up and contingency plans.

The ICAAP is a collaborative effort of the Management and the Board of Directors. PBCOM submits the documentation of the results of its ICAAP to the supervisory review and examination of the Bangko Sentral ng Pilipinas.

Capital Structure and Adequacy

PBCOM, as required by regulation, computes for and reports its capital adequacy using Philippine Regulatory Accounting Principles (RAP). These may differ from Philippine Financial Reporting Standards used to present the annual financial statements resulting in temporary differences between the figures reported under each accounting standard.

PBCOM reported a capital adequacy ratio of 16.18 percent at the end of 2013. This ratio exceeded the ten percent minimum of Philippine Banking Regulations. Tier One Capital covered 11.83 percent of risk weighted assets.

Adequacy Ratio	2013	2012
Tier One Ratio (Adjusted Tier One Capital/Total Risk Weighted Assets)	11.83%	14.48%
Capital Adequacy Ratio (Total Capital/ Total Risk Weighted Assets)	16.18%	20.45%

The bank at the end of 2013 reported having resources totaling PHP 6.36Bn that qualified as capital under the standards of Basel II. These capital resources include:

Tier One capital that comprises the bank's core capital

resources that are immediately available to sustain the financial stability of the bank. These include paid in capital, retained earnings (free and reserves), and cumulative foreign exchange translation adjustments. Tier One Capital excludes items disallowed by regulation such as deferred income tax assets, unsecured credit extensions. Regulation requires fifty percent of mandatory adjustments such as the investment of PBCOM in a subsidiary (PBCOM Finance) deducted from Tier One Capital. Total Tier One capital in 2013 stood at PHP 4.65Bn or 73 percent of qualified capital resources and;

 Tier Two capital that include auxiliary items that supplement Tier One Capital in sustaining the financial stability of the bank. These include the general loan loss provision and appraisal increment reserves on investment property. Regulation requires fifty percent of mandatory adjustments such as the investment of PBCOM in a subsidiary (PBCOM Finance) deducted from Tier Two Capital. Total Tier Two capital in 2013 stood at

0	0040	0010
Capital Resources	2013	2012
Tier One Capital		
Qualified Items		
Paid-in Capital	8,303	8,736
Deposit for Common Stock Subscription	0	3,553
Retained Earnings Cumulative Foreign Exchange Translation	(3,665)	(8,876)
Adjustment	23	(15)
Total	4,661	3,398
Deductions Outstanding Unsecured Credit Accommodations to Related Parties	0	11
Deferred Income Taxes	0	(563)
Total	0	(552)
TOTAL UNADJUSTED TIER ONE CAPITAL	4,661	3,950
Tier Two Capital		
Qualified Items		
Appraisal Increment Reserves	1,539	1,524
General Loan Loss Provision	175	109
TOTAL UNADJUSTED TIER TWO CAPITAL Capital Adjustments (50 pct form Tier One & 50 pct from Tier Two)	1,714	1,633
Investment in Affiliate (PBCOM Finance)	(13)	(12)
TOTAL ADJUSTMENTS TO CAPITAL	(13)	(12)
ADJUSTED TIER ONE CAPITAL	4,655	3,944
ADJUSTED TIER TWO CAPITAL	1,708	1,627
TOTAL QUALIFIED CAPITAL	6,363	5,571



PHP 1.71Bn or 27 percent of qualified capital resources. Reconciliation between Philippine Financial Reporting Standards (PFRS) capital, capital under Philippine Regulatory Accounting Principles and Qualified Capital under Basel II:

PFRS Capital, 2013	4,052
Differences due to Accounting Principles	(497)
Differences in Appraisal Increment Reserves	1,329
RAP Capital, 2013	4,885
AOCI Filter - Net Unrealized Losses (Gains) – AFS Debt	1,316
General Loan Loss Provision	175
Capital Adjustments (50 pct form Tier One & 50 pct from Tier Two)	(13)
Qualified Capital for Minimum Adequacy Compliance under Basel II	6,363

The bank at the end of 2013 required PHP3.93Bn in capital to cover the minimum requirements of Philippine Banking \ Regulations. The breakdown of the minimum requirement is as follows.

Capital Requirements	2013	2012
Credit Risk		
On-Balance Sheet	3,402	2,304
Off-Balance Sheet Commitments to Lend	144	55
Total	3,546	2,359
Market Risk		
Interest Rate Risk on the Trading Books	7	-
Foreign Exchange Risk	4	2
Total	11	2
Operational Risk		
Total	376	363
TOTAL CAPITAL REQUIREMENTS	3,933	2,725
TOTAL QUALIFIED CAPITAL	6,363	5,571
Excess (Shortfall)	2,430	2,846
Tier One Ratio (Adjusted Tier One Capital/Total Risk Weighted Assets)	11.83%	14.48%
Capital Adequacy Ratio (Total Capital/Total Risk Weighted Assets)	16.18%	20.45%

Credit Risk

Credit Risk Management Process

Credit risk is the primary financial risk in the banking system and exists in all revenue generating activities. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk arises any time when Bank's funds are extended, committed, invested or exposed through actual or implied contractual agreements. Capital depletion through loan losses has been the ultimate cause of most institutions' failures. The Bank's credit risk arises from its lending and trading of securities and foreign exchange activities.

The Credit Management Group (CMG) is responsible for the overall management of the Bank's credit risk, achieved through various functions embedded within the Group. The Bank, in recognition of the importance of identifying and rating credit risk as the initial step towards its effective management, has put in place a comprehensive set of policies and established underwriting processes, as approved by the Board of Directors. Regular analysis of the ability of potential and existing borrowers to meet interest and capital repayment obligations is made, including amendment of lending limits when appropriate. The Bank is thus able to continually manage credit-related risks in its risk asset portfolio through objective assessments/evaluations of credit proposals prior to presentation to the appropriate

approval authority, ensuring the highest standards of credit due diligence and independence. The Bank's approval matrix begins at carefully reviewed and selected individual limit delegations, working its way up to the Management Credit Committee (MCC), the Executive Committee (EXCOM) and the Board of Directors as appropriate.

Banking regulations mandate the implementation of an internal credit risk rating system which is consistent with global ratings standards, compliant with Basel II requirements and appropriate to a bank's nature, complexity and scale of activities. For purposes of measuring credit risk for every exposure in a consistent and accurate manner for purposes of business and financial decision making, the Bank acquired several solutions systems in 2013. In May 2013, the Bank replaced the in-house-developed risk rating system with MOODY's Analytics Risk Origins, a robust, enterprise-wide browser-based credit risk management system that collects, analyzes and stores financial and nonfinancial information, providing a comprehensive solution for managing and analyzing corporate loan accounts. For consumer loan accounts, the Bank acquired in April 2013 the INDUS Loans Originations System, a loan applications processing solution covering the entire process from submission of applications to disbursements. Also, the Bank implemented, in December 2013, FICO's Expert Origination Model for decision-making purposes. The foregoing risk rating systems shall be monitored for their predictive power and model performance.

Credit Exposure Limits

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers as well as limits on large exposures, maturity, industry/geographical concentrations, real estate loan ceilings, secured/unsecured exposures, related exposures and mandatory lending to agricultural/agrarian entities as well as small and medium-sized enterprises. Such risks are monitored on a regular basis

and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentrations are approved by the Board of Directors. The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly. The Bank likewise makes use of a comprehensive management information system (MIS) to monitor the performance of its loan products against business goals, including validation of risk criteria and policies.

Collateral and Other Credit Enhancements

Exposure to credit risk is also managed in part by obtaining collateral. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. In order to minimize credit loss, additional collateral shall be sought from the borrower when impairment indicators are observed for the relevant individual loans and advances. The Bank implements guidelines on the acceptability and valuation parameters of specific classes of collateral for credit risk mitigation. The main types of collateral obtained are as follows: (i) for securities lending and reverse repurchase transactions: cash or securities; (ii) for commercial lending: mortgages over real estate properties, machineries, inventory and trade receivables; and (iii) for retail lending: mortgages over residential properties and vehicles. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also has in place an independent review of the loan portfolio quality and credit process that allows it to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Credit Review Unit under the Bank's Internal Audit Group.

The Bank also measures credit risk exposure in terms of



regulatory capital requirement using the standardized approach. Under this method, credit exposures are risk-weighted to reflect third-party credit assessment of the individual exposure from acceptable external credit rating agencies and allow the use of eligible collateral to mitigate credit risk. All documentation used in the collateralized transactions and for guarantees are binding on all parties and legally enforceable in the relevant jurisdiction.

While CMG manages credit risks at individual credit or transaction levels, the Enterprise Risk Management Group (ERMG) manages credit risk at strategic and portfolio level. ERMG conducts pro-active assessment of the loan portfolio through periodic stress testing of loan accounts. Among the tools used are:

- a. Rapid Portfolio Review (RPR). This is a form of "stress testing" meant to cover significant development in the credit environment that can affect borrower's business and ultimately the quality of Bank's portfolio within a 12-month scenario. It allows management to determine the capital impact for the excessive large loan exposure given to the corporate/group of borrowings. Also, this is also performed to determine potential capital impact arising from adverse development/s affecting specific concentrations within the Bank's loan portfolio, e.g. natural calamities, military action, regulatory changes, etc;
- b. Specific Impairment Test. This is performed for classified loan accounts whose outstanding principal balances and booked Accrued Interest Receivable (AIR) fall within selected criteria. Computation is based on the carrying amount of outstanding loan and booked AIR less net present value of the expected collection discounted at the loan's original interest rate; and
- Collective Impairment Test. This is performed for loan accounts with no signs of impairment. This may be compared with the general loan loss provisioning of Bangko Sentral ng Pilipinas (BSP).

The management of the credit portfolio is subject to prudential limits which serve to control the magnitude of credit risk exposures and preserve the quality of the portfolio. ERMG also monitors large exposures and credit risk concentrations in accordance with BSP Circular 414.

The ERMG credit risk management function also involves the identification of inherent risks related to transactions or processes executed with respect to all lending-related activities. In line with this function, the Key Risk Indicators Report (KRIR) serves as a tool to monitor the risk profile of the Bank's business units (e.g. lending and support groups) and to establish internal loss and key risk indicator databases.

Credit Ratings by Asset Class Loans and Receivables

Description of the internal credit risk ratings (ICRR) used by the bank to classify corporate loan accounts are as follows:

 a. High Grade (ICRR 1 to 7)
 Under this category, the borrower has the apparent ability to satisfy its obligations in full and therefore, no loss in ultimate collection is anticipated. These loans or



portions thereof are secured by hold-outs on deposits/deposit substitute, margin deposits or government-supported securities, other readily marketable collateral or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

b. Standard Grade (ICRR 8 to 10)

Under this category are accounts not considered adversely classified but require close supervision/monitoring due to some warning signals such as start-up business, substantial changes in the business affecting operation or management, three continuous years of substantial decline in income (exclusive of extraordinary income/losses).

c. Substandard Grade (ICRR 11 to 14)

Under this category are loans which exhibit unfavorable record or unsatisfactory characteristics, or where existing facts, conditions and values, make collection or liquidation in full improbable. Positive and vigorous management action is required to avert or minimize loss. These risk ratings are mapped to the following BSP loan classifications: (i) Loans Especially Mentioned (which are loans that have potential weaknesses that deserve management's close attention, with such weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the Bank); (ii) Substandard (which are loans which appear to involve a substantial degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics, exhibiting well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral); (iii) Doubtful (which are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable); and (iv) Loss (which are loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have

some recovery or salvage value).

Due From Other Banks, Interbank Receivables and Government Securities

The Bank follows an internally-developed risk rating system for local banks and external risk ratings [i.e. Standard and Poor's (S&P)] for foreign banks and government securities. Description of the risk ratings for local banks is as follows:

a, High Grade (Tier 1)

Tier 1 - Banks categorized under this tier are capable of withstanding very difficult market conditions for 2-3 years without deteriorating to a substandard credit classification by virtue of their size, reputation and ranking in the industry.

b. Standard Grade (Tier 2 to Tier 3)

These are accounts that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the financial instrument thus increase credit risk to the Bank.

Tier 2 - Banks categorized under this tier may deteriorate to substandard within 1-2 years under very difficult market conditions.

Tier 3 - Banks categorized under this tier may deteriorate to substandard within one year under very difficult market conditions. These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of PHP3.00 billion to less than PHP4.50 billion and net income of PHP200.00 million to less than PHP400.00 million are included in this category.

c. Substandard Grade (Tier 4)

Tier 4 - These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of PHP1.50 billion to less than PHP3.00 billion and net income of PHP70.00 million to less than PHP200.00 million are included in this category.

Foreign Banks and Other Government Securities

Description of the risk ratings for government securities, foreign banks and foreign corporate investment outlets:

- a. **AAA** Obligor's capacity to meet its financial commitment is extremely strong.
- AA Obligor's capacity to meet its financial commitment is very strong. It differs from the highest-rated obligors at a minimal degree.
- c. A Obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors rated in higher-rated categories.
- d. **BBB** Obligation rated 'BBB' has adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
- BB Obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing



uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

- B Obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
- g. CCC Obligation is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
- h. **CC** Obligation is currently highly vulnerable to nonpayment.
- C Obligations are currently highly vulnerable to nonpayment, payment arrearages allowed by the terms of the documents, and subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is



less than par.

j. D - Obligation is in payment default. Payments on an obligation are not made on the date due even if the applicable grace period has not expired. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

Loan classification and credit risk ratings are an integral part of the Bank's management of credit risk. On an annual basis, loans are reviewed, classified and rated based on internal and external factors that affect its performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions. For consumer loan accounts, the INDUS Collections System was acquired in September 2013 to serve as an automated platform for streamlining and recording the consumer collections process.

Counterparty Credit Risk

PBCOM engages in bilateral transactions to acquire or dispose of assets or to purchase or sell foreign exchange from counterparties. These transactions give rise to a risk that the counterparty may default on its obligations to the bank.

The bank does not calculate capital charges for counterparties for transactions that settle in any of the following cases:

Interest Rate Transactions

 Any transaction that settles the regular way or within the normal settlement cycle for similar transactions in the capital market where the manner of settlement is delivery-versus-payment

Foreign Exchange Transactions

- Spot foreign exchange transactions that settle by the next business day for USD-PHP transactions or the second business day following trade date for other currency pairs and;
- Forward foreign exchange contracts involving any currency pair whose original settlement date was within fourteen calendar days from the trade date.

Minimum Capital Requirements to Cover Credit Risk Exposures

PBCOM computes for capital requirements to cover credit risk exposures using the standardized approach.

The bank applies risk weights to credit exposures based on ratings made available by External Credit Rating Institutions (ECAIs). ECAIs whose ratings have received accreditation for use in establishing requirements for capital coverage include: Standard &Poor's Financial Services, LLC; Moody's Investor Services; and Fitch Ratings. Inc.

The national government of the Philippines and the Bangko Sentral ng Pilipinas receive a credit risk weight equivalent to that

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	Below B-	Unrated
Sovereigns	0%	0%	20%	50%	100%	100%	150%	100%
Banks (Except Interbank Call Loans)	20%	20%	50%	50%	100%	100%	150%	100%
Interbank Call Loans					20%			
Corporate Borrowers	20%	20%	50%	50%	100%	100%	150%	100%
Housing Loans, First Mortgage Occupied by Borrower					50%			
Consumer Credit (Other than First Mortgage)					100%			
ROPA					150%			
Other Assets					100%			

of a AAA borrower in exposures denominated in Philippine Pesos. The bank determined it had PHP35.46Bn in weighted exposures to credit risk at the end of 2013. Exposures reflected on the balance sheet totaled PHP34.02Bn. Those proceeding from off-balance sheet commitments to lend

Credit Risk Exposures	2013	2012
On-Balance Sheet 3	34,018	23,043
Off-Balance Sheet Commitments to Lend 1	1,445	546
Total	35,464	23,590

totaled PHP1.44Bn. Credit risk exposures on balance sheet requiring capital coverage are the product of the carrying value appearing on the balance sheet and the risk weight applicable to the exposure.

Credit Risk Exposures on Balance Sheet		20	13	2012		
	Risk Weight	Before Risk Weighting	After Risk Weighting	Before Risk Weighting	After Risk Weighting	
Cash and Other Clearing Items	0%	740	0	551	(
Due from Bangko Sentral ng Pilipinas	0%	9,573	0	6,011	(
Due from Banks		819	437	1,217	648	
Rated AAA through AA	20%	92	18	158	32	
Rated A through BBB	50%	618	309	884	442	
Unrated	100%	109	109	174	174	
Securities Portfolio (Excluding Trading Books Positions)		22,104	1,261	16,564	1,218	
Sovereign		22,104	1,261	16,564	1,218	
Rated AAA through AA (Inc. Domestic Ccy PHP NG Debt)	0%	19,582	0	15,346	(
Rated A through BBB	50%	2,522	1,261	0	(
Rated Below BBB	100%	0	0	1,218	1,218	
Corporates		0	0	0	(
Loan Portfolio (Net of Specific Provisions for Loss)		24,932	24,724	16,146	14,926	
Sovereign		0	0	1,127	. (
Rated AAA through AA (Inc Domestic Ccy PHP NG Debt)	0%	0	0	1,127	(
Interbank	20%	45	9	164	33	
Corporate		22,558	22,617	14,589	14,629	
Current	100%	22,439	22,439	14,510	14,51	
Non-Current	150%	119	178	79	119	
Consumer - First Mortgage		510	278	(2)	(2	
Current	50%	463	232	0	(
Non-Current	100%	46	46	(2)	(2	
Consumer - Other than First Mortgage		1,820	1,820	267	267	
Current	100%	1,820	1,820	267	26	
Non-Current	150%	0	0	0	(
Sales Contracts Receivable		105	117	120	118	
Current	100%	80	80	126	126	
Non-Current	150%	25	37	(5)	(8	
Real & Other Properties Acquired	150%	248	373	212	318	
Other Assets	100%	7,107	7,107	5,815	5,815	
TOTAL CREDIT RISK EXPOSURES ON BALANCE SHEET		65,629	34,019	46,635	23,043	
Deduct: General Loan Loss Provision		175		109		
Add: Assets Carried at Fair Value Through Profit & Loss Add: Derivatives with Positive Fair Value Held for		108		0		
Hedging Add: Net Unrealized Gains (Losses) on AFS Debt		(1.216)		2		
Securities		(1,316)		852		
Add: Deferred Income Tax Assets		0		0		
Add: Investment in PBCom Finance Add: Unsecured Credit Accommodations to Related Parties		13		12 11		
Deduct: Advances from the RBU to the FCDU		622		144		
TOTAL BALANCE SHEET ASSETS		64,880		47,547		

Off-Balance Sheet Commitments to Lend				201	13		2012	
	Loan Equivalent Factor	Risk Weight	Notional	Loan Equivalent	Risk Weighted	Notional	Loan Equivalent	Risk Weighted
Direct Commitments	100%	100%	1,156	1,156	1,156	479	479	479
Transaction-Related Commitments	50%	100%	-	-	-	-	-	-
Trade-related Commitments (& others of original maturity up to one (1) year)	20%	100%	1,450	290	290	340	68	68
Cancellable Commitments	0%	0%	5,954	-	-	5,997	_	-
TOTAL OFF-BALANCE COMMITMENTS			8,559	1,446	1,446	6,815	547	547

Credit risk exposures from off-balance sheet commitments to lend involve computing for a loan equivalent for the exposure. This equivalent considers the nature of the commitment and determines the size of a balance sheet loan that would result in similar exposure. Required capital coverage is the product of the loan equivalent of the commitment and the risk weight applicable to the beneficiary of the commitment. *PBCOM at the end of 2013 had no counterparty risk exposures requiring capital coverage*.



Market Risk on the Trading Book Managing Market Risk on the Trading Book

The trading business of the bank centers on exposures to interest rates from the portfolio of debt securities and from the currency mismatches on and off the balance sheet.

Market risk on the trading book proceeds from the potential impact of adverse movements in market conditions either eroding asset values or increasing liabilities resulting in financial losses. These principally include:

- Changes in prevailing interest rates eroding the values of securities and foreign exchange contracts and;
- Changes in prices affecting the values of positions in foreign currency.

Management of market risk in the trading book begins at the level of the portfolio managers in Treasury that execute trading strategies. These portfolio managers are responsible for the results of their execution, including financial performance, adherence to limits and

compliance with regulation. The Treasurer discusses the condition and performance of trading books exposures at the meetings of the Bank's Asset and Liability Committee (ALCO).

Risk control functions ensure that the exposures taken on the trading books remain consistent with those approved by and acceptable to the Board of Directors.

- The market risk management function sets the risk framework and conducts an independent revaluation of all risk exposures to ensure adherence to the limits approved by the Board. They report their findings in each of the monthly meetings of the Board's Risk Oversight Committee.
- Financial control and operations ensure that all exposures are recognized, reported and re-measured according to proper financial reporting standards. The Chief Executive Officer reports the financial condition and performance to Senior Management and the Board of Directors.

 Compliance ensures that both risk-taking and risk management remains consistent with the requirements of regulation. They report any issues to the Board's Corporate Governance Committee.

The internal audit (IA) function conducts reviews of the effectiveness of the governance and risk infrastructure supporting the trading business and recommends solutions to further strengthen the ability of the whole business to properly achieve its objectives. Independent reviews of the market risk measurement system also cover assessments of the assumptions, parameters, and methodologies used. IA reports their findings to the Board's Audit Committee.

Valuation

PBCOM carries and reports all of its trading books exposures at fair value. The bank revalues all exposures at the end of each business day to reflect their market values. All changes in the values of the exposures form part of current operating performance.

The fair value of financial instruments traded in active markets at the statement of financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and asking price for short positions), without any deduction for transaction costs. Where the current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using valuation techniques, which includes discounted cash flow technique and comparison to similar instruments for which observable market prices exists.

Accumulated losses in the market value of trading positions are subject to Management Action Trigger (MAT) and Stop Loss Limits. Risk managers investigate any observed excesses in exposure over the limit or any unusual changes to exposure and escalate these for proper disposition.

Value-at-Risk

PBCOM internally monitors its market risk exposures proceeding from financial instruments using value-at-risk (VaR).

Value-at-Risk is a statistical measure of the probable loss an exposure may incur under prevailing market conditions. PBCOM measures its value-at-risk using statistical parameters reflective of current market conditions over a ten day period with ninety-nine percent confidence. The resulting measure reflects a level of loss that has a one percent chance of being exceeded under prevailing market conditions.

The bank also conducts stress tests that model the impact of severe adverse movements on the financial condition of the bank. The bank reports the results of these tests to the Board's Risk Oversight Committee. PBCOM does not use the internal VaR as basis for setting up capital requirements to comply with Pillar One requirements.

Market Risk Limit Framework for the Trading Books

The risks on the trading book originate from the exposure of the bank and are affected by the changes in market conditions. These exposures may include:

Interest Rates

- Specific risk in relationship to interest rate exposures arises from a probable deterioration in the value of a financial instrument due to circumstances unique to the issuer or principal.
- General market risk in relationship to interest rate exposures arises from a probable deterioration in the value of a financial instrument due to changes in interest rates.

Foreign Exchange Rates

c) Foreign exchange risk arising from mismatches in currencies between assets and liabilities.

PBCOM puts in place a system of limits whose objectives are to constrain the exposures to market risk within the willingness of the bank to incur such risk. These limits include:

- Nominal Position Limits that constrain the size of the exposure the bank may take;
- Stop-Loss Limits that prescribe maximum tolerable deterioration in the value of an asset or liability in the trading books at which point the bank will cut its losses and end the exposure and;
- c) Value-at-Risk that sets a limit to the size of the statistical potential loss that the bank may carry at any point in time.

PBCOM calibrates its risk limits based at levels that can sustain the objectives of its trading business. The Board's Risk Oversight Committee reviews and approves all limits and endorses for confirmation of the Board of Directors. Utilization of these limits forms part of the regular discussions at the meetings of the Bank's Asset and Liability Committee.

Minimum Capital Requirements to Cover Market Risk Exposures on the Trading Book

PBCOM computes for capital requirements to cover market risk exposures using the standardized approaches for each market risk exposure.

Market Risk Exposures	2013	2012
Interest Rate Risk	73	-
Foreign Exchange Risk	36	25
Total	109	25

Interest Rate Exposures - Specific Risk

The bank applies risk weights to specific risk exposures based on ratings made available by External Credit Rating Institutions (ECAIs). ECAIs whose ratings have received accreditation for use in establishing requirements for capital

coverage include: Standard & Poor's Financial Services, LLC; Moody's Investor Services; and Fitch Ratings Inc.

The national government of the Philippines and the Bangko Sentral ng Pilipinas receive a credit risk weight equivalent to that of a AAA borrower in exposures denominated in Philippine Pesos.

Sovereigns	Corporates	Unadjusted Weight
AAA through AA-		0.00%
A+ through BBB-	AAA through BBB-	
Residual Maturity less than 6 Mos	Residual Maturity less than 6 Mos	0.25%
Residual Maturity of 6 Mos to 2 Yrs	Residual Maturity of 6 Mos to 2 Yrs	1.00%
Residual Maturity more than 2 Yrs	Residual Maturity more than 2 Yrs	1.60%
Other Exposures	Other Exposures	8.00%

PBCOM at the end of 2013 had no specific risk exposures that required capital coverage.

Interest Rate Exposures – General Market Risk

The bank applies risk weights to exposures to general market risk based on their remaining term to maturity to arrive at the capital charge for general market risk.

Foreign Exchange Exposures

The bank applies an eight percent risk weight to the sum of its net open positions to foreign exchange movements (expressed in Philippine Pesos) to maturity to arrive at the capital charge for foreign exchange risk.

Market Risk Exposures by Source	2013		2012		
	Before Risk Weighting	After Risk Weighting	Before Risk Weighting	After Risk Weighting	
Debt Securities Portfolio	105	73	0	0	
Specific Risk	0	0	0	0	
General Market Risk	105	73	0	0	
Foreign Exchange Risk	36	36	25	25	
Overall Net Open Position	36	36	25	25	

Philippine Banking Regulations apply a capital coverage requirement that is 1.25 times higher than other regulators resulting in Philippine banks having to adjust capital charges for market risk by a factor of 1.25. The equivalent risk weighted asset is ten times the adjusted capital charge.



Market Risk on the Banking Book Managing Market Risk on the Banking Book

The banking business of the bank centers on its core business to source funding and extend credit. Exposures in the banking book arise from mismatches in the structure of its transactions that result in assets and liabilities re-pricing at differing times.

The risks on the banking book originate from the structure of both the balance sheet and other obligations to pay and are affected by changes in market conditions. Risks from exposures may include:

- Spread compression risk when assets and liabilities re-price at different times leading either to the yield of assets dropping or the cost of liabilities rising resulting in compression of interest rate spreads;
- Yield-curve risks where sudden changes in the relative spreads between short-term and long-term interest rates may erode the profitability of the funding strategies of the bank;
- Basis risks where the re-pricing characteristics of assets and liabilities do not perfectly correlate resulting in adverse changes to interest spreads;
- Foreign exchange risk that occurs when adverse changes in exchange rates erode the Philippine Peso value of interest income in foreign currency generated by the bank and;
- Price risk when adverse changes in interest rates erode the values of marketable securities resulting in the total return on the investment (interest plus fair value gain) falling below the cost of the funds dedicated.

PBCOM structures its balance sheet and prices its funds to maximize the interest rate spreads between assets and liabilities. The structure of the balance sheet and the pricing of funds form part of the regular discussions at the meetings of the Bank's Asset and Liability Committee.

- Risk control functions ensure that the exposures taken on the banking books remain consistent with those approved by and acceptable to the Board of Directors.
- The market risk management function sets the risk framework and conducts an independent measurement of all risk exposures to ensure adherence to the limits approved by the Board.
- Financial control and operations ensure that all exposures are recognized, reported and re-measured according to proper financial reporting standards.
- Compliance ensures that both risk-taking and risk management remains consistent with the requirements of regulation.

The internal audit function conducts reviews of the effectiveness of the governance and risk infrastructure supporting the business and recommends solutions to further strengthen the ability of the whole business to properly achieve its objectives.

Valuation

PBCOM generally carries and reports all of its banking books exposures at their fair amortized costs.

The bank may occasionally store liquidity in a portfolio of

marketable debt securities. The bank carries these securities at their fair value and reports changes to these values by marking these exposures to market at the end of each business day. The bank accumulates any changes in the values of the exposures in securities as other comprehensive income that recycles to operating income should the bank sell the asset.

Market Risk Measurement Framework

The bank's management of market risk on its banking books centers on interest rate re-pricing gap reports. The liquidity risk management function prepares these reports, one per currency, reflecting the interest rate sensitive assets and liabilities of the bank in each of a series of time bands that begin at one week and stretch out to non-maturity. The assumptions used to position the assets and liabilities in the time hand are:

- Actual or contractual maturity when there is a definite schedule in payment of interest and principal where the stipulated interest will not change through maturity.
- Re-pricing date when there is a definite schedule in payment of interest and principal where the stipulated interest is subject to periodic re-price or change.
- Behavioral when there is no specified timing of payment. Designation of time bands depends on the earliest time the interest could possibly change.



The bank measures risk exposure to interest rates on the banking book using the following models:

- a) Earnings at Risk(EaR) that are a statistical measure of the probable loss in net interest income under prevailing market conditions should the spread between yield on assets and cost of liabilities compress. The resulting measure reflects a level of loss in net interest income for the year that has a one percent chance of being exceeded under prevailing market conditions.
- b) Economic Value of Equity (EVE) that is a financial measure of the value of the bank's equity reflected as the difference between the present value of all of the bank's assets and the present value of the bank's liabilities. The resulting measure reflects how changes in interest rates will affect the value of the bank's equity.

The bank determined its exposures to be as follows:

Interest Rate Gap 2013							
PH PESO (in PHP millions)	1-30 D	31-60 D	61-90 D	91 D - 1 Y	>1 -2 Y	2Y+	Total
Interest Rate Sensitive Assets	13,351.18	1,673.52	7,897.19	663.46	201.46	20,004.69	43,791.51
Interest Rate Sensitive Liabilities	29,596.06	6,565.72	1,422.51	305.70	0.52	12,764.43	50,654.94

US DOLLAR (in PHP millions)	1-30 D	31-60 D	61-90 D	91 D - 1 Y	>1 -2 Y	2Y+	Total
Interest Rate Sensitive Assets	24.35	0.01	0.23	22.85	-	104.03	151.48
Interest Rate Sensitive Liabilities	80.47	22.80	12.73	9.81	-	15.32	141.12

РНР ММ	201	2013		2
	RBU	FCDU	RBU	FCDU
Earnings-at-Risk				
at +25bps	(36.47)	(0.20)	(17.10)	(0.14)
at +50bps	(72.94)	(0.39)	(34.20)	(0.27)
at +100bps	(145.89)	(0.79)	(68.40)	(0.55)
at +300bps	(437.66)	(2.36)	(205.19)	(1.64)
at +400bps	(583.55)	(3.15)	(273.58)	(2.19)
at +500bps	(729.44)	(3.94)	(341.98)	(2.74)
EVE sensitivity				
at +25bps	(2.95)	(0.02)	(0.86)	(0.03)
at +100bps	(11.81)	(0.06)	(3.42)	(0.13)
at +300bps	(35.42)	(0.18)	(10.27)	(0.38)
at +500bps	(59.03)	(0.30)	(17.12)	(0.64)

The Bank also employs stress testing particular to market risk on the banking books and relates the result to the capital and to current and target net interest income to assess the impact of changes in net interest income on the ability of the bank to sustain both profitability and adequate capital cover.

Market Risk Limit Framework for the Banking Books

In addition, the bank puts in place a system of limits whose objectives are to constrain the exposures to market risk within the willingness of the bank to incur such risk. These limits include:

- Maximum Cumulative Outflows that constrain the size of excess projected pay-outs of funds over expected cash receipts;
- Earnings-at-Risk limits that that prescribe maximum tolerable compression of spread between the cost of funds and the return on assets;

- Management action triggers that establish maximum tolerable deterioration in the value of an asset in the banking books carried at fair value at which point management must make decisions on whether or not to continue with the exposure;
- Notional Exposure limits that constrain the size of the exposure the bank may take and;
- e) Value-at-Risk that is a statistical measure of the probable loss an exposure may incur under prevailing market conditions. PBCOM measures its value-at-risk over a one day period with ninety-nine percent confidence.

PBCOM calibrates its risk limits based at levels that can sustain the objectives of its lending business. The Board's Risk Oversight Committee reviews and approves all limits and endorses for confirmation of the Board of Directors.

Market Value-at-Risk

Value-at-Risk is a statistical measure of the probable loss an exposure may incur under prevailing market conditions. PBCOM measures its value-at-risk using statistical parameters reflective of current market conditions over a ten day period with ninety-nine percent confidence. The resulting measure reflects a level of loss that has a one percent chance of being exceeded under prevailing market conditions. Losses include any movement that reduce the value of the bank and may be either realized through profit and loss or unrealized as comprehensive income in equity.

The bank's values-at-risk at the end of 2013 were as follows:

PH Peso Interest Rates 2	2013	2012
Year-End	551	190
High	636	353
Low	188	148
Average	436	214

In PHPMM

US Dollar Interest Rates 2	2013	2012
Year-End	2.4	1.2
High	2.8	3.7
Low	1.2	0.2
Average	1.9	1.7

In USD MM

Foreign Exchange Rates 2	2013	2012
Year-End	5,049.00	12,157.00
High	120,556.00	146,020.00
Low	4,539.00	5,583.00
Average	20,222.95	22,236.48

In PHPMM

Since VaR is designed to describe risk in normal market conditions (i.e. 99.00% of the time), it may not capture potential losses in the extreme that occur following movements outside the prevailing market trend. The bank conducts simulation and scenario stress tests to analyze the potential impact of a severe movement in market prices on the bank's financial condition.



Operational Risk Managing Operational Risk

All business lines have a role in executing PBCOM's strategy; thus, operational risk pervades in every unit in the Bank in varying scales. To ensure operational support for strategies, all employees are educated on risk management. From their first day in PBCOM, personnel are introduced to the Bank's risk management philosophies, policies and tools to achieve a consistent enterprise-wide "balanced-risk" attitude. To keep everyone else attuned and updated, the risk culture is sustained through the Continuing Education Program that focuses on Compliance and Risk Management. In effect, possible risks between human resource and attainment of company objectives are addressed by instilling how risk management can contribute in their daily work.

At the start of the year, the Bank continued its general transformation which included, in terms of risk management: Review and streamlining of procedures; Examination of processes in business centers, including on-site verification, to identify transaction bottlenecks, negate inefficiencies and improve internal controls; and Evaluation of new product and service specifications prior to launch. These activities contributed to upgrading the level of client processing and better operational controls.

To manage risks relative to PBCOM's growing business, the Bank anticipated that added protection must be given to its resources and customers; thus, a Fraud Prevention program was established to:

- Foster a Control Environment
- Establish the Fraud Risk Management Framework
- Perform Fraud Risk Assessment
- Design & Implement Anti-Fraud Control Activities
- Timely capture, analyze, monitor and report fraud risks
- Monitor activities

Information and policies were shared with the enterprise; and fraud databases were also acquired for eventual integration with the various systems. As a result, the Bank ably prevented the use of its facilities for underhanded schemes and saved a significant amount in averted potential losses.

Technology Transformation

To support its aggressive marketing expansion and product offering in 2013, the Bank implemented significant technology advances that further enhanced process automation, improved network resiliency and connectivity, strengthened information security infrastructure and control, and major infrastructure upgrades to facilitate personnel mobility and external communications with clients.

As the Bank continues to pursue its next level banking thru automated services and subsequently achieve its strategic goals, a more robust management of IT risk becomes imperative, necessitating augmentation of its Technology Risk Management Framework that provides for a strengthened foundation and guidance on how the Bank should effectively manage emerging technology risks. A more comprehensive risk assessment and profiling methodologies for both IT functions and application systems were instituted to identify, monitor and control technology



risks. Enhancements in project management and quality assurance processes were likewise established to cover technology innovations. New risk management policies were developed to provide guidance in managing risks inherent in electronic channels. To further improve information security controls, vulnerability and third party penetration assessment initiatives were employed to counter internal and external security threats. An Enterprise Security Incident Response Team (ESIRT) was established to coordinate the timely response and resolution of information security incidents.

Information Security

It also became evident that there would be a need to manage the exponential increase in data. Data protection was strengthened through the creation of a formalized function to handle Information Security. Enhancements to existing policies were such as:

- Enterprise Information Security Policy
- Information Security Standards
- Enterprise Incident Management Policy
- Secure Workplace Guidelines
- Third Party Information Security Assessment
- Role-Based Access Control Policy
- Completion of External Vulnerability Assessment conducted by 3rd party service provider.

The Enhanced Information Security Awareness program instituted the regular communication of critical information to employees through email, the employee onboarding process, and the Continuing Education Program.

Business Continuity

An effective business continuity management facilitates and hastens resumption of critical business processes after disruptions affecting manpower resource, facilities, technical infrastructure, information assets, security and business operations.

In line with this, the Bank conducted the annual review, testing and update of its Business Continuity Plan (BCP) to ensure appropriate responses are made in the event of contingencies.

Trust Risk Management

The Trust Department adopted the components and standards of the new Trust Rating System of BSP in conducting its own risk assessment of pertinent fiduciary activities. It is intended to complement the risk-focused supervision of the BSP and to comprehensively evaluate the administration of Trust Group's fiduciary activities. The results of the exercise will determine effectiveness of the Group's risk management practices and capability to handle its fiduciary dealings.

Minimum Capital Requirements to Cover Operational Risk Exposures

PBCOM computes for capital requirements to cover operational risk exposures using the basic indicator approach.

Under this approach to operational risk, banks must maintain fifteen percent of average positive gross income over the previous three years as capital buffer for losses due to operations. Philippine Banking Regulations apply a capital coverage requirement that is 1.25 times higher than other regulators resulting in Philippine banks having to carry 18.75 percent of previous three years as capital buffer for losses due to operations.

The equivalent risk weighted asset is ten times the capital charge.

Operational Risk Exposure	2013	2012
Average Gross Income (Previous 3 Years)	2,006	1,936
Capital Charge (Avg Gross Income times 18.75%)	376	363
Risk Weighted Asset (Capital Charge times 10)	3,761	3,630



overnance

- 1. It is the Bank's objective to enhance shareholders' value by making the most efficient use of resources. Its human capital strategy is one of its vital focus areas, as it is a principal indicator for the company's success.
- 2. The Bank's Governance Committee, through its Nominations Sub-Committee, ensures the quality of its leadership, consistent with its "fit and proper" rule when selecting its Directors and Senior Management Team.
- 3. It's Board Committees, namely Governance, Audit and Risk Management Committees are all chaired by Independent Directors and with at least one other independent director as member; all of whom have a good understanding of the business.
- 4. Transparency in its annual reports is ensured; reflecting true and fair accounting information prepared in accordance with applicable standards; disclosed and discussed all material risks; disclosed and explained the rationale for all material estimates. Disclosures are all done in a timely manner.
- 5. To ensure that all act in the best interest of the Bank, full disclosure by its Directors, Officers and Employees on any actual or expected conflict of interest is required.
- 6. The Bank's Code of Ethics and Code of Conduct clearly states Management's philosophy and compliance standards.

Board And Board Committee AttendanceJanuary – December 2013

Name	Attendance
Eric O. Recto Chairman	12/13
Mario J. Locsin Vice Chairman	12/13
Henry Y. Uy Vice Chairman	13/13
Nina D. Aguas President & CEO	12/13
Carlos G. Chung Bunsit	12/13
Ralph C. Nubla Jr.	13/13
Imelda S. Singzon	10/13
Patrick Sugito Walujo	7/13
Gregorio T. Yu	11/13
Tomas I. Alcantara (Independent)	12/13
Jesus S. Jalandoni (Independent)	13/13
Jose P. Leviste Jr. (Independent)	12/13
Roberto M. Macasaet Jr. (Independent)	11/13
Teresita Ang See (Independent)	11/13

Board of Directors

Executive Committee

Chairman

Gregorio T. Yu

Vice-Chairman

Eric O. Recto

Members

Mario J. Locsin

Nina D. Aguas

Imelda S. Singzon

Roberto M. Macasaet, Jr.

Raul O. Serrano

Audit Committee

Chairman

Raul O. Serrano

Members

Imelda S. Singzon

Henry Y. Uy

Carlos G. Chung Bunsit

Teresita Ang See

Trust Committee

Chairman

Eric O. Recto

Members

Nina D. Aguas

Roberto M. Macasaet, Jr.

Ralph C. Nubla Jr.

Governance Committee

Chairman

Jose P. Leviste Jr.

Members

Eric O. Recto

Raul O. Serrano

Teresita Ang See

Ralph C. Nubla Jr.

Risk Oversight Committee

Chairman

Roberto M. Macasaet, Jr.

Members

Ralph C. Nubla Jr.

Gregorio T. Yu

Carlos G. Chung Bunsit,

Imelda S. Singzon

Nina D. Aguas

Executive Committee

The Executive Committee is composed of seven regular members chosen from among the members of the Board of Directors. The Board may also appoint such number of alternate members (from among the remaining members of the Board) as it may desire. The Committee has the power to exercise functions and prerogatives of the Board of Directors during intervals between Board meetings except for matters the Board has specifically reserved for itself by law or under the By-laws. The Committee has its own rules and procedures. Minutes of all meetings of the Executive Committee are kept and carefully preserved as a record of business transacted. They are also submitted, together with a report of all matters acted upon by this Committee, at the regular meetings of the Board of Directors.

A quorum at any meeting of the Executive Committee consists of a majority of all members thereof (and if a regular member is absent, an alternate member's presence may be considered for purposes of determining quorum). A majority of members present (provided there is a quorum) can decide any question that may come before the meeting. The Secretary of the Board also acts as Secretary of the Executive Committee

Name	Attendance	
Gregorio T. Yu (Chairman)	17/19	
Eric O. Recto	16/19	
Mario J. Locsin	13/19	
Nina D. Aguas	16/19	
Imelda S. Singzon	11/19	
Roberto M. Macasaet, Jr.	17/19	
Raul O. Serrano	18/19	

Trust Committee

The Trust Committee is composed of five members: three members of the Board of Directors, one of whom is an independent director, the President/CEO, and the Trust Officer. All of the members of the Trust Committee are financially literate. The Trust Committee, as authorized by the Board of Directors, ensures that Trust policies and procedures address clients' needs and risk tolerance. The Committee establishes and maintains policies on internal controls and information technology security, accounting policies, and financial reporting practices pertaining to the Trust business of PBCOM.

Name	Attendance	
Eric O. Recto (Chairman)	4/4	
Ralph C. Nubla Jr.	4/4	
Roberto M. Macasaet, Jr.	2/4	
Nina D. Aguas	2/4	
Raul C. Diaz*	4/4	
Patrick Cheng**	1/4	

^{*} Up to October 2013

Audit Committee

The Audit Committee is composed of five members of the Board of Directors, three of whom are independent directors.

It has a written charter, which includes its purpose, objective, duties and responsibilities, duly approved by the Board. The Committee assists the Board of Directors in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, including financial reporting practices, information technology security, accounting policies, and auditing.

Name	Attendance
Raul O. Serrano (Chairman)	13/13
Imelda S. Singzon	9/13
Henry Y. Uy	13/13
Carlos G. Chung Bunsit	12/13
Teresita Ang See	7/13

Risk Oversight Committee

The Risk Oversight Committee is composed of six members of the Board of Directors who possess adequate knowledge of the Bank's risk exposures. The Chairman of the Committee is an independent director, while the Secretary of the Committee is the Chief Risk Officer. It assists the Board of Directors in the execution of its function in overseeing the risk management program of the Bank. An effective risk management program is a critical component of financially sound Bank operations. It is a key element in achieving PBCOM's goal and objectives, optimizing growth and capital while minimizing losses to the Bank.

Name	Attendance
Roberto M. Macasaet, Jr.(Chairman)	12/14
Ralph C. Nubla Jr.	13/14
Gregorio T. Yu	7/14
Carlos G. Chung Bunsit	14/14
Imelda S. Singzon	8/14
Nina D. Aguas	12/14
Henry Y. Uy(alternate)	14/14

Governance Committee

The Governance Committee acts as the primary arm of the Board of Directors in determining the structure, charter, policies and practices of the Board and its committees. The Committee is composed of four members of the Board of Directors under the chairmanship of an Independent Director.

Its mandate covers the organization of the Board of Directors, screening of new members, assessing the

^{**}Joined the Bank 01 October 2013

propriety of business strategies and determining how the corporation operates, makes decisions and builds its relationships with shareholders and the public at large.

The corporate governance function ensures that accountability is enforced at all levels and that the Bank always acts in the best interests of the company, its shareholders and stakeholders.

The Committee ensures that such purposes are met by creating a climate of transparency in the Bank where shareholders are fully informed of business decisions and long-term business plans.

One of the primary responsibilities of the Committee is to evaluate and recommend amendments to the Articles of Incorporation and by-laws and to set corporate governance guidelines including, but not limited to:

- Size (number of members) of the Board
- Criteria for membership (e.g. Qualifications, Stock Ownership, Diversity)
- Mix of management and independent directors
- Prevention of conflicts of interest
- Compensation and benefits program of managing and non-managing members of the Board and Senior Management
- Structure and Charter of Board Committees
- Rotation of committee members and chairs
- Performance evaluation of CEO and members of the Board
- Succession Planning and Development Program for Senior Management and Directors

The Governance Committee oversees the programs of the following sub-committees:

Nomination Sub-Committee

 The Nomination Sub-Committee identifies, evaluates and recommends individuals qualified to become directors of the Bank based on factors such as probity of character, extent of business experience and expertise and maturity or judgment. The Sub-Committee also exercises oversight functions in the selection, nomination and appointment of members of senior management.

Compensation and Remuneration Sub-Committee

 This committee overseas the implementation of the compensation and benefits program for Directors and senior management to attract and retain the best talents by benchmarking against other leading financial institutions.

Performance Evaluation Sub-Committee

 The sub-committee oversees the implementation of performance management program for senior management and the members of the Board.

Name	Attendance
Jose P. Leviste Jr. (Chairman)	12/12
Eric O. Recto	11/12
Raul O. Serrano	12/12
Teresita Ang See	9/12
Ralph C. Nubla Jr.	10/12

Core Corporate Values

The PBCOM Code of Ethics embodies the corporate principles that serve to guide the conduct and behavior of Bank employees in every situation. As an institution imbued with public trust, the Bank requires a high level of integrity and professionalism among all employees.

Through the Code of Ethics, the Bank has institutionalized the observance of its Core Corporate Values such as, **Trust, Integrity, Professionalism, Loyalty and Excellence.**

The specific objectives of the Code of Ethics are to:

- 1. Promote a corporate culture of good governance and best practices.
- 2. Empower and protect employees by making them aware of the criteria/standards involved in carrying out their functions and in making decisions.
- 3. Standardize application of policies and regulations and corrective measures in case of deviations from expected behavior.

The Code of Ethics enforces the following fundamental policies of the Bank:

- 1. Putting the interests of the Bank above in situations where actual or potential conflict of interest exists. When such situation occurs, employees must put the Bank's interests over and above other interests and ensure that employees' personal interests do not conflict with the duties, which they must perform for the Bank, or with the duties, which the Bank performs for clients. This covers the following restrictions:
- Personal transactions with clients.
- Receiving gifts and gratuities from clients.
- 2. Probity in handling of confidential information, the disclosure or non-disclosure of such information is vital to the Bank's well-being. Employees are mandated under the Code of Ethics to be able to:
- Support good internal governance by prompt reporting of critical information within the Bank.
- In accordance with law, keep client information confidential including the Bank's propriety rights to trade secrets.
- Comply with regulatory requirements to disclose and report specific information as mandated by the antimoney laundering law.

- 3. Compliance with the law and with internal regulations challenging within the Bank, any values or policies that are inconsistent with these guidelines.
- 4. Provide quality customer service toward clients while protecting the legitimate interests of the Bank at all times.
- 5. Render services to customers on the basis of rational business criteria rather than on factors such as race, gender or religion.
- 6. Conduct personal, professional or business affairs in accordance with the highest moral standards so that there can be no opportunity for unfavorable reflections upon the Bank as follows:
- Employees of PBCOM must observe proper conduct at all times when handling their personal affairs.
- Employees of PBCOM should know the importance of meeting their financial obligations and living within their means.
- Employees of PBCOM, especially those having money and property accountability, are prohibited from frequenting gambling establishments.

To ensure employees' adherence to the Code of Ethics, the Bank formulated its implementing guidelines under the PBCOM Code of Conduct.

The Code of Conduct was discussed and adopted by the Labor-Management Committee of the Bank consisting of

representatives from the Human Resources Group and Union representatives to ensure support and commitment from all sectors in the Bank.

The Code of Conduct serves as guidelines for the enforcement of the provisions of the Code of Ethics and prescribes the applicable sanctions in case of deviation thereof.

Any breach of the provisions of the Code may result in disciplinary action ranging from reprimand to termination of employment, depending on the gravity of the offense, after observance of due process of law. However, the spirit of implementation also gives more emphasis on positive motivation rather than punitive measures. Penalties shall be enforced only when necessary and only to the extent required by the circumstances. Sanctions shall be meted to:

- Correct unacceptable conduct
- · Restore the integrity of order and discipline

Application of sanctions are always guided by impartiality, open-mindedness, consistency, and fairness.

The Code of Ethics and the Code of Conduct are printed in handbook form and disseminated to all officers and staff.

Adherence to the Code is the responsibility of each employee of the Bank and is a condition for continued employment. Employees of PBCOM annually confirm their adherence to these guidelines.







Credit and Loan Facilities

Short term loan
Term loan
Trade Check Discounting Line
Letter of Credit / Trust Receipt Line
Trade Finance Receivable Line
Domestic Bills Purchase Line
Commercial Loans
Foreign Currency Loans
Export Packing Credit
Trade Financing
Trust Receipt Financing
Real Estate Development Loan
Project Finance

Consumer Loans

Personal Loans Salary Loans Auto Loans Home Loans

Treasury

Deposit Substitutes – Promissory Notes Philippine Sovereign Instruments

- Treasury Bills and Notes
- · Retail Treasury Bonds
- Republic of the Philippine Bonds Foreign Exchange
- Spot Contracts
- Forward Contracts

Remittances

Outgoing Telegraphic Transfer Incoming Telegraphic Transfer Domestic Dollar Transfer (PDDTS) Domestic Peso Transfer (RTGS) Incoming OFW Transfer (Philpass Remit)

Trade-Related Services

Import and Domestic Letters of Credit
Foreign and Domestic Standby Letter of Credit
Bank Guaranty/Shipside Bond
Trust Receipts
Export Bills Purchase
Clean and Documentary Financing
Import Bills/Customer's Liability under Acceptance
Trade Financing of Receivable and Payables

Trust Products & Services

Living Trust Accounts
Investment Management Accounts
Escrow Accounts
Unit Investment Trust Funds (UITFs)

- Signature Trust Fund
- Best Balanced Fund
- Value Equity Fund

Metro Manila

Annapolis

Unit 101 Victoria Plaza Condominium 41 Annapolis St., Greenhills, San Juan Telefax: 723-4856, 722-6613, annapolis@pbcom.com.ph 577-9406/0917-5541409

Corinthian Gardens

687-7088/0917-5541425

Sanso St., Corinthian Gardens, Quezon City 687-4397, 687-7088 corinthian.garden@pbcom.com.ph

_ ...

Greenhills
Sanso St., Corinthian Gardens, Quezon Ci
723-8520,722-7060,721 2601
greenhills@pbcom.com.pt
722-7060/0917-5541461

Meralco Avenue

C-1 Horizon Condominium, Meralco Ave. Pasig City 632-0419, 632-0422, 637-2857 meralcoave@pbcom.com.ph 577-9112/0917-5541487

Pioneer

G/F, RFM Corp. Center, Pioneer cor. Sheridan St., Mandaluyong City 631-9213, 637-8927, 706-6120, 631-8101 loc 7160-62/7180/7162, pioneer@pbcom.com.ph, 577-6477/0917-5541356

Elcano

SHC Tower, 613 Elcano St. San Nicolas, Manila 242-3591, 242-3575 elcano@pbcom.com.ph 577-7779/0917-5541451

Masangkay

1004-1006 G. Masangkay St. Binondo, Manila 244-8679, 244-8787, 244-8751 masangkay@pbcom.com.ph 744-8787/0917-5541485

Ongpin

796 Ongpin St., cor. S. Padilla St. Sta. Cruz, Manila 733-1165, 733-1188 ongpin@pbcom.com.ph 577-9116/0917-5541348

Padre Rada

G/F, 951 Juan Luna St., Tondo, Manila 245-2354, 245-2356 padrerada@pbcom.com.ph 577-9118/0917-5541350

Ouezon Avenue

APC Bldg., 1186 Quezon Ave., Quezon City 410-8013, 371-2940 to 41 quezonavenue@pbcom.com.ph 577-6478/0917-5541360

Sto. Cristo

565-567 Sto. Cristo St., Binondo, Manila 242-5386, 245-6570, 242-3194

Cubao

Lower G/F, Ali Mall II P. Tuazon Blvd. cor. Times Square Ave., Araneta Center, Quezon City 913-4912, 912-2947 cubao@pbcom.com.ph 913-4912/0917-5541447

Caloocan

298 Rizal Ave. ext., bet. 5th and 6th Ave., Grace Park, Caloocan City 361-2094, 361-1302, 361-3653) caloocan@pbcom.com.ph 361-1302/0917-5541463

Malabon

123 Gov. Pascual Ave., Acacia Malabon, Metro Manila 238-6599, 446-0381 malabon@pbcom.com.ph 288-6599/0917-5541475

Marikina

36 J.P. Rizal St., Calumpang, Marikina City 645-8374, 645-2637, 645-2966 marikina@pbcom.com.ph 577-9108/0917-5541481

Sta. Mesa

440-A G. Araneta Ave. cor. Bayani St. Sta. Mesa, Quezon City 781-4948, 743-1453 stamesa@pbcom.com.ph 781-5803/0917-5541374

Branch Directory

San Miguel Avenue

G/F, 101 One Magnificent Lille (OMM) Citra Condominium, San Miguel Ayel, Pasig City 637-1719, 637-1717 sanmiguelaye@pbcom.com.ph 577-6479/0917-5541362

Shaw Blvd.

146 Shaw Blvd. cor. San Roque St., Pasig City 634-5758, 634-1433 shaw@pbcom.com.ph 634-1433/0917-5541372

Valenzuela

246 McArthur Highway, Karuhatan Valenzuela City 291-5197, 291-2514 valenzuela@pbcom.comph 677-6490/0917-5541396

Binondo Banking Center

214-216 Juan Luna St., Binardo, Manila 242-8711.242-8716 242-1796 830-7000 loc 7811, 242-1843, 242-1851 binondo.banking@pbcom.com.ph 577-9477/0917-5541419

Echague

88-90 Carlos Palanca cor. Isla de Romero St, Quiapo, Manila 736-0124-736-0123 echague@pbcom.com.ph 577-7776, 0917-5541449 stocristo@pbcom.com.ph 245-6570/0917-5541378

T. Alonzo

G/F, Tan Kiang Bldg. 665 T. Alonzo St. Sta. Cruz, Manila

733-1520, 733-1598 talonzo@pbcom.com.ph 677-6487/0917-5541384

Tutuban

Unit No. PL-LS07 & PL-LS08 Tutuban Center Prime Block, C. M. Recto Ave., Tondo, Manila 252-4938, 253-5217, 525-4997 tutuban@pbcom.com.ph 253-5217/0917-5541386

Soler

G/F, R and S Tower, 943 Soler St.

Binondo, Manila
244-9326, 242-9069
soler@pbcom.com.ph
577-6492/0917-5541402

ВМА

64 Web-Jet Bldg. Quezon Ave. BMA St., Brgy. Tatalon, Quezon City 712-3505, 712-8414 bma@pbcom.com.ph 577-9476/0917-5541417

Congressional

8 Congressional Avenue, Barangay Bahay Toro, Quezon City 925-9848, 925-9850 congressional@pbcom.com.ph 577-9478/0917-5541421

Ayala-Alabang

Unit 101 ALPAP II Bldg. Trade cor. Investment
Drive, Madrigal Business Park Alabang,
Muntinlupa City
809-4204, 809-4538
ayala.diobang@pbcom.com.ph
577-9475

Legaspi Village

G/F. Vernida 1 Condominium, 120 Amorsolo St., Legaspi Village, Makati City 813-2482, 813-2506 legaspi.village@pbcom.com.ph 577-7801/0917-5541469

Makati Banking Center

PBCOM Tower, 6795 Ayala Ave. cor. V.A. Rufino St., 1226 Makati City 810-2334, 810-2267, 810-2332, 810-2329,830-7000 LOC,7130, 7310, 7210, 7131 makati.banking@pbcom.ph 810-2267/0917-5541471

Parañague

Stall Nos. 3 & 4 Kingsland Bldg. Dr. A. Santos Ave., Sucat, Paranaque City 829-2424, 820-0902 paranaque@pbcom.com.ph 577-6474/0917-5541352

Pasay

2492 Taft Ave. ext., Pasay City 832-7838, 831-0329, 831-0878 pasay@pbcom.com.ph 831-0878/0917-5541354

Sen. Gil Puyat Avenue

G/F, Oppen Building, 349 Sen. Gil Puyat Ave. Makati Citv 843-9311, 843-9287, sengilpuyat@pbcom.com.ph 843-9287/0917-5541364

Southgate Mall

3/F. Alphaland Southgate Mall 2258 Chino Roces St., cor. Edsa, Makati City, 822-7573, 822-2655 southgatemall@pbcom.com.ph 822-7573/0917-5541491

Makati Place

G/F Unit C-15, Alphaland Makati Place Ayala Avenue corner, Malugay St. Makati City 525-7154; 662-9104; 662-9103 makatiplace@pbcom.com.ph, 662-9104

U.N. Avenue

G/F, Unit 101 & 102, Don Alfonso Sycip Condominium, 1108 M.H. Del Pilar St., cor. U.N. Ave. & Guerero St., Ermita, Manila 523-0568,524-8291, unave@pbcom.com.ph 577-6489/0917-5541390

BGC

G/F F1 Hotel Building, Lane Q. cor. Lane A. Roads, Bonifacio Global City, Taguig PLDT 662-8408; Fax No. 519-9988 F1BonifacioGlobalCity@pbcom.com.ph 662-8408

Luzon

Angeles

810 Henson St., Brgy. Lourdes Northwest, Angeles City 830-7000 loc. 2700 (045), 625-8712/888-9650, angeles@pbcom.com.ph 045-625-8712

FIB Bldg., M. H. Del Pilar, Mayombo District, Dagupan City, 830-7000 loc. 2820 (075) 515-2097/523-6862/523-6954 dagupan@pbcom.com.ph, 075-515-2097

La Union

G/F, CJ Arch Bldg. Quezon Avenue, San Fernando City, La Union 830-7000 loc. 2610, (072) 888-2044/888-2741/888-2740 launion@pbcom.com.ph, 072-888-2741

Malolos

Malolos Shopping Arcade, Paseo Del Congreso, Brgy. San Agustin Malolos, Bulacan 830-7000 loc. 2720, (044) 790-6536/662-0896 malolos@pbcom.com.ph, 044-790-6536

Meycauayan

Mancon Bldg., McArthur Highway Barrio Calvario, Meycauayan, Bulacan 815-2502, 480-3476, (044) 840-4496/815-2501 meycauayan@pbcom.com, 044-840-4496

San Fernando – Pampanga

McArthur Highway, Dolores San Fernando City, Pampanga, 830-7000 loc. 2710, (045) 963-6784/ 860-1890/963-6785, sanfernando@pbcom.com.ph 045-963-6784

G/F 105,106 & 106B Baguio Holiday Villas 10 Legarda Road Baguio City (074) 637-5990 Local 2603, 2606 baguio@pbcom.com.ph, **074-637-5993**

Batangas

Diego Silang St., Batangas City, Batangas 830-7000 loc. 2750, 2751, (043) 723-7801/ 723-4208/723-4207, batangas@pbcom.com.ph 043-723-4208/0917-556-4310

Dasmariñas

EVY Bldg., Molino-Paliparan Road Salawag, Dasmariñas, Cavite, 830-7000 loc. 2780, 2781 (046) 481-5268/481-7250, dasmarinas@pbcom.com.ph 046-481-5268

P. Nueño St., cor. Gaerlan St., Imus, Cavite 830-7000 loc. 2390, (046) 471-4349/471-3368 imus@pbcom.com.ph 046-471-4349

Lipa

G/F, ATDRMAM Laguna Corp. Bldg. Ayala Highway, Mataas na Lupa Lipa City, Batangas 930-7000 loc. 2790, 2791, (043) 757-3258/757-3261 lipa@pbcom.com.ph 043-7573258/0917-556-4314

Lucena

G/F, VCII Bldg., Merchan St. Lucena City Quezon Province, 830-7000 loc. 2740, 2741 (042) 373-6462/373-6464/373-6465 lucena@pbcom.com.ph 042-556-4312/0917-556-4312

San Pablo

65 Rizal Ave., Poblacion, San Pablo, Laguna 830-7000 loc. 2681, (049) 561-1186/ 561-1187/561-1188 sanpablo@pbcom.com.ph 049-561-1187

San Pedro - Pacita Complex

Unit 20 & 21 Bldg. 2, Centro Pacita Pacita Complex, Phase 2, San Pedro, Laguna 808-6083, 808-6081, 808-6082 sanpedro-pacita@pbcom.com.ph, 808-6083

Sta. Rosa

Unit No. 2, Paseo 5, Phase 2 Paseo de Sta. Rosa Greenfield City, Sta. Rosa, Laguna 830-7000 loc. 2673, 2678 (049) 502-6693, (049)508-0266, sta.rosa@pbcom.com.ph 049-502-6693

Calamba

G/F Walter Mart, National Highway cor. Real Street, Calamba, Laguna

Visayas Bacolod

G/F, OMEI Bldg., Locsin St., Bacolod City 830-7000 loc. 2961, (034) 433-0404/ 435-0690/433-0402, bacolod@pbcom.com 034-433-0402

Magallanes near cor. Manalili St., Cebu City 830-7000 loc. 2900, (032) 3182487/253-2851/ 253-2761(032)255-3286/253-2740 cebu@pbcom.com.ph 032-253-2761/0917-554-1404

Cebu Mango

General Maxillom Mango Ave., Cebu City 830-7000 loc. 2950, (032) 318-2488/ 253-1419/253-2326, mango@pbcom.com.ph 032-318-2488/0917-554-1416

lloilo

Ledesma cor. Valeria St., Iloilo City 830-7000 loc. 2930, 2932 (033) 337-3668/336-8989/337-3594(033), 336-8987/335-1181, iloilo@pbcom.com.ph 033-335-1181

National Highway, Mandaue, Cebu City 830-7000 loc. 2940, 2491, (032) 344-1078/ 318-2489/246-5110 (032) 346-5109 mandaue@pbcom.com.ph 032-318-2489/0917-554-1420

Mandaue - Basak

Co Tiao King Bldg. Cebu North Road Basak, **Mandaue City** 830-7000 loc. 2801, (032) 318-3506/346-2709 mandaue.basak@pbcom.ph 032-318-3506/0917-554-1422

Cebu Business Park

G/F Creativo Building II, Mindanao Avenue, Cebu Business Park, Cebu City

Mindanao

Cagayan De Oro

Tiano Bros. cor. Hayes St. Cagayan De Oro City 830-7000 loc. 2920, 2921, (08822) 726-519 (088) 857-1558/857-1559 cdo@pbcom.com.ph 088-857-1558

Davao-Monteverde

42 Monteverde Ave., Davao City 830-7000 loc. 2910, 2912 (082) 221-2140/221-2141, 330-7985) davao@pbcom.com.ph 082-221-2141,0917-556-4457

Davao-Bajada

G/F, RAQ Building, J.P. Laurel Ave. Bajada, Davao City 830-7000 loc. 2810, 2811,(082) 330-7987/ 222-0060/222-0061 DavaoBajada@pbcom.com.ph 082-222-0060/0917-556-4308

Davao-Quirino

111 E. Quirino Ave., Davao City, Davao Del Sur 830-7000 loc. 2880, (082) 222-4161/ 330-7986/222-4160 quirino.davao@pbcom.com.ph 082-222-4161/0917-556-4459

General Santos

Santiago Blvd., General Santos City 830-7000 loc. 2980, (083) 552-8167/301-8445 gensan@pbcom.com.ph 083-552-8167

Iligan

M.H. Del Pilar cor. M. Badelles St., J. Luna St. Iligan City 830-7000 loc. 2840, (063) 223-2702/223-2703 iligan@pbcom.com.ph 063-223-2702

Koronadal

General Santos Drive, Koronadal South Cotabato 830-7000 loc. 2891, (083) 228-3917/228-3919 koronadal@pbcom.com.ph 083-228-3917

Tagum

Pioneer, Tagum, Davao Del Norte 830-7000 loc. 2970, 2971 (084) 217-3901/400-2768 tagum@pbcom.com.ph 084-217-3901

Zamboanga

G/F, Interco Bldg., N. S. Valderrosa St. Zamboanga City 830-7000 loc. 2850, (062) 992-6437/ 992-6435/992-6438 zamboanga@pbcom.com.ph 062-992-6435

Zamboanga Veterans

HC Bldg. Veterans Ave., Zamboanga City 830-7000 loc. 2870, 2871 (062) 991-1865/991-6162/991-619 zamboanga.veteran@pbcom.com.ph 062-991-1865

FACTS AND FIGURES

"We make sure that client's needs are the utmost reason of our existence, thus we continually seek for better solutions to our clients' financial needs and aspirations.

Client experience goes beyond servicing and transacting, as relationship building is a journey and series of experiences with clients for a better tomorrow."

Patrick Cheng, Head of Trust & Wealth Management, on Next Level Banking

P5.87

Earnings per share (2013)

"We will always be a work in progress."

Chairman Eric Recto, on the need for constant transformation

P1.6b

PBCOM Net Profit End of 2013

"We surge ahead, working towards this vision because the pursuit of relevance and excellence

President & CEO Nina D. Aguas, on the rebranding of PBCOM

never ends."

eventy Million

ooked volume of Convenience Banking in their first month (2013)

38,58%

PBCOM's ROE, the highest in the industry*

We will grow

grow together.

PBCOM client, Ian Neo

*Commercial banking

Statement of Management's Responsibility for Financial Statements

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

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

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

Chairman of the Board

President and Chief Executive Officer

Lauve Z. Aug Va L. Daniel Ang Tan Chai Chief Financial Officer





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 Bank of Communications

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Bank of Communications (the Bank) 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

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

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 32 and 33 to the financial statements, respectively, 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 Bank of Communications. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO

Vicky Lee Salas

Partner

CPA Certificate No. 86838

SEC Accreditation No. 0115-AR-3 (Group A),

February 14, 2013, valid until February 13, 2016

Tax Identification No. 129-434-735

BIR Accreditation No. 08-001998-53-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225181, January 2, 2014, Makati City

February 26, 2014

Philippine Bank of Communications Statements of Financial Position

	December 31 J		
		2012	2012
		(As restated -	(As restated -
	2013	Note 2)	Note 2)
ASSETS			
Cash and Other Cash Items	₽740,012,114	₽551,097,752	₽369,163,701
Due from Bangko Sentral ng Pilipinas	• •		, ,
(Notes 14 and 15)	9,573,407,804	5,511,066,971	6,040,783,141
Due from Other Banks	661,307,665	887,142,721	514,811,974
Interbank Loans Receivable and Securities Purchased Under	•		
Resale Agreements (Notes 7 and 30)	202,550,011	993,804,210	2,830,082,240
Held-for-Trading Financial Assets (Note 8)	104,908,937	-	-
Available-for-Sale Investments(Note 8)	20,090,081,921	16,778,802,551	16,143,744,549
Loans and Receivable: (Notes 9 and 27)	24,997,423,832	15,957,494,540	10,521,538,433
Property and Equipment (Note 10)			
At cost	1,329,539,925	960,161,779	582,767,709
At appraised value	417,029,000	377,667,700	369,300,000
Investment Propertie (Note 11)			
Condominium units for lease	3,341,665,026	3,220,308,474	3,466,407,778
Foreclosed properties	482,553,959	375,813,301	432,234,394
Other Assets (Note 12)	658,175,288	217,807,399	150,200,481
	₽62,598,655,482	₽45,831,167,398	₽41,421,034,400
LIABILITIES AND EQUITY			
LIABILITIES AND EQUITY Liabilities			
· · · · · · · · · · · · · · · · · · ·			
Liabilities Deposi: Liabilities (Notes 14 and 27) Demand	₽7,183,260,534	₽5,788,176,888	₽4,883,897,485
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings	₽7,183,260,534 3,089,980,661	₽5,788,176,888 2,751,041,326	P 4,883,897,485 2,424,174,911
Liabilities Deposi: Liabilities (Notes 14 and 27) Demand		2,751,041,326 22,817,096,856	
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings	3,089,980,661	2,751,041,326	2,424,174,911
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings	3,089,980,661 37,007,255,546	2,751,041,326 22,817,096,856	2,424,174,911 20,509,819,319
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time	3,089,980,661 37,007,255,546 47,280,496,741	2,751,041,326 22,817,096,856 31,356,315,070	2,424,174,911 20,509,819,319 27,817,891,715
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500
Liabilities Deposi' Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19) Additional paid-in capital	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937 7,489,113,875	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165 476,011,662	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602 476,011,662
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19) Additional paid-in capital Surplus reserves (Note 19)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937 7,489,113,875	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165 476,011,662 105,772,314	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602 476,011,662 105,772,314
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19) Additional paid-in capital Surplus reserves (Note 19) Deficit	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937 7,489,113,875	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165 476,011,662 105,772,314	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602 476,011,662 105,772,314
Liabilities Deposi: Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19) Additional paid-in capital Surplus reserves (Note 19) Deficit Net unrealized gains (losses) on available-for-sale	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937 7,489,113,875 - 813,600,843 105,772,314 (3,076,034,075)	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165 476,011,662 105,772,314 (8,653,841,019)	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602 476,011,662 105,772,314 (9,638,622,596)
Liabilities Deposit Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19) Additional paid-in capital Surplus reserves (Note 19) Deficit Net unrealized gains (losses) on available-for-sale investments (Note 8)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937 7,489,113,875 - 813,600,843 105,772,314 (3,076,034,075) (1,219,412,641) 209,545,919	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165 476,011,662 105,772,314 (8,653,841,019)	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602 476,011,662 105,772,314 (9,638,622,596) 1,723,163,315 173,260,544
Liabilities Deposi: Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19) Additional paid-in capital Surplus reserves (Note 19) Deficit Net unrealized gains (losses) on available-for-sale investments (Note 8) Revaluation increment on land (Note 10)	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937 7,489,113,875 - 813,600,843 105,772,314 (3,076,034,075) (1,219,412,641) 209,545,919 (11,611,782)	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165 476,011,662 105,772,314 (8,653,841,019) 672,789,188 186,888,809	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602 476,011,662 105,772,314 (9,638,622,596) 1,723,163,315 173,260,544 (22,652,759)
Liabilities Deposi: Liabilities (Notes 14 and 27) Demand Savings Time Bills Payable (Notes 15 and 30) Outstanding Acceptances Manager's Check Accrued Interest, Taxes and Other Expenses(Note 16) Deferred Tax Liabilities (Note 26) Other Liabilities (Note 17) Equity Common stock (Note 19) Preferred stock (Note 19) Deposit for future stock subscription (Note 19) Additional paid-in capital Surplus reserves (Note 19) Deficit Net unrealized gains (losses) on available-for-sale investments (Note 8) Revaluation increment on land (Note 10) Cumulative translation adjustment	3,089,980,661 37,007,255,546 47,280,496,741 9,458,240,938 43,188,569 173,501,481 507,545,390 524,116,091 537,951,727 58,525,040,937 7,489,113,875 - 813,600,843 105,772,314 (3,076,034,075) (1,219,412,641) 209,545,919	2,751,041,326 22,817,096,856 31,356,315,070 7,823,512,656 32,322,191 67,050,176 445,409,382 432,716,410 1,282,171,307 41,439,497,192 5,259,896,500 3,000,000,000 3,552,598,165 476,011,662 105,772,314 (8,653,841,019) 672,789,188 186,888,809 (4,885,729)	2,424,174,911 20,509,819,319 27,817,891,715 7,355,846,372 57,006,115 33,800,311 412,054,734 428,223,235 2,019,950,490 38,124,772,972 5,259,896,500 3,000,000,000 2,373,032,602 476,011,662 105,772,314 (9,638,622,596) 1,723,163,315 173,260,544

See accompanying Notes to Financial Statements.

Philippine Bank of Communications Statements of Income

	Year	s Ended December	31
		2012	2011
		(As restated -	(As restated -
	2013	Note 2)	Note 2)
INTEREST INCOME			
Loans and receivables (Notes 9 and 27)	₽1,275,529,047	₽1,100,749,030	₽962,579,022
Trading and investment securities (Note 22)	1,256,063,337	1,295,873,452	1,258,635,032
Deposits with other banks and others	27,702,591	15,222,937	34,495,207
Interbank loans receivable and securities purchased under	_,,,,,,,,,,,	. 5,222,757	0 ., ., 0, 20.
resale agreements (Note 7)	10,075,880	44,024,361	41,694,258
Others (Note 17)	774,557,435	684,016,154	608,226,075
others (Note 17)	3,343,928,290	3,139,885,934	2,905,629,594
INTEREST AND FINANCE CHARGES		-,,,	, , , , , , , , , , , , , , , , , , , ,
INTEREST AND FINANCE CHARGES Bills payable, borrowings and others (Notes 15 and 23)	936,698,684	850,316,182	783,338,940
Deposit liabilities (Notes 14 and 27)	689,479,098	784,563,874	805,901,776
Deposit liabilities (Notes 14 and 27)			
	1,626,177,782	1,634,880,056	1,589,240,716
NET INTEREST INCOME	1,717,750,508	1,505,005,878	1,316,388,878
Trading and securities gain - net (Notes 8 and 22)	1,540,599,577	754,081,491	235,993,409
Rent income (Notes 11, 24 and 27)	256,294,205	295,759,044	289,688,114
Fair value gain (loss) from investment properties (Note 11)	248,913,322	(4,491,698)	313,265,824
Service charges, fees and commissions	215,476,713	153,588,462	127,672,852
Gains on assets exchanged (Note 11)	23,384,984	_	1,673,422
Income from trust operations (Notes 21 and 27)	22,481,120	15,386,124	19,707,792
Profit from assets sold (Note 11)	10,702,897	123,280,774	8,307,707
Foreign exchange gain (loss) - net	(17,766,725)	24,297,249	45,892,901
Miscellaneous	3,795,968	10,870,732	28,053,164
TOTAL OPERATING INCOME	4,021,632,569	2,877,778,056	2,386,644,063
Compensation and fringe benefits (Notes 23 and 27)	1,080,179,977	707,756,119	593,441,729
Taxes and licenses	456,925,887	323,632,540	294,569,756
Depreciation and amortization (Note 10)	133,238,857	77,892,134	58,806,651
Occupancy and other equipment-related costs (Notes 24 and 27)	130,530,679	97,034,374	90,520,051
Provision for (reversal of) credit and impairment			
losses - net (Note 13)	(402,674,955)	(1,265,107)	10,649,067
Miscellaneous (Note 25)	593,501,544	397,787,376	160,126,031
TOTAL OPERATING EXPENSES	1,991,701,989	1,602,837,436	1,208,113,285
INCOME BEFORE TAX	2,029,930,580	1,274,940,620	1,178,530,778
PROVISION FOR INCOME TAX (Note 26)	397,046,011	290,159,043	365,536,330
NET INCOME (Note 28)	₽1,632,884,569	₽984,781,577	₽812,994,448
Basic/Diluted Earnings Per Share(Note 28)	₽5.87	₽3.54	₽2.92

See accompanying Notes to Financial Statements.

Philippine Bank of Communications Statements of Comprehensive Income

Years Ended December 31		
	2012	2011
	(As restated -	(As restated -
2013	Note 2)	Note 2)
₽1,632,884,569	₽984,781,577	₽812,994,448
(1,520,582,609)	(738,069,044)	(220,166,698)
(371,619,220)	(312,305,083)	177,509,632
(6,726,053)	17,767,030	(47,450,153)
(33,800,224)	(49,959,530)	(16,632,144)
32,367,300	19,468,950	(27,502,000)
(9,710,190)	(5,840,685)	8,250,600
(1,910,070,996)	(1,068,938,362)	(125,990,763)
(₽277,186,427)	(₽84,156,785)	₽687,003,685
	2013 P1,632,884,569 (1,520,582,609) (371,619,220) (6,726,053) (33,800,224) 32,367,300 (9,710,190) (1,910,070,996)	2012 (As restated - Note 2) P1,632,884,569 ₱984,781,577 (1,520,582,609) (738,069,044) (371,619,220) (312,305,083) (6,726,053) 17,767,030 (33,800,224) (49,959,530) 32,367,300 19,468,950 (9,710,190) (5,840,685) (1,910,070,996) (1,068,938,362)

See accompanying Notes to Financial Statements.

Philippine Bank of Communications Statements of Changes in Equity

	Preferred Stock (Note 19)	Common Stock (Note 19)	Deposit for Future Stock Subscription (Note 19)	Additional Paid-in Capital	Surplus Reserves (Note 19)	Deficit	Net Unrealized Gains (Losses) on Available-for-Sale Investments	Remeasurement Losses on Defined Benefit Liability (Note 23)	Revaluation Increment on Land (Note 10)	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2013 Effect of retroactive application of PAS 19 (Revised) (Note 2)	#3,000,000,000	P5,259,896,500	P3,552,598,165	P476,011,662 -	P 105,772,314	(P8,687,171,774) 33,330,755	₽672,789,188 -	₽- (203,559,684)	P186,888,809	(P4,885,729) _	P4,561,899,135 (170,228,929)
Balance at January 1, 2013, as restated Conversion of preferred stock to common stock	3,000,000,000	5,259,896,500	3,552,598,165	476,011,662	105,772,314	(8,653,841,019)	672,789,188	(203,559,684)	186,888,809	(4,885,729)	4,391,670,206
Reduction of par value of common stock	1	(3,944,922,375)	1	3,944,922,375	1	1	1	1	•	1	1
Issuance of additional common stock Application of APIC against deficit	' '	3,174,139,750	(3,552,598,165)	337,589,181	1 1	3 944 922 375	1 1				(40,869,234)
Total comprehensive income (loss) for the year	1	1	1	(0.000000000000000000000000000000000000	1	1,632,884,569	(1,892,201,829)	(33,800,224)	22,657,110	(6,726,053)	(277,186,427)
Balance at December 31, 2013	-#	₽7,489,113,875	-d-	₽813,600,843	₽105,772,314	(P3,076,034,075)	(P1,219,412,641)	(P237,359,908)	P209,545,919	(₽11,611,782)	P4,073,614,545
Balance at January 1, 2012	P3 ,000,000,000	P5,259,896,500	P2,373,032,602	P476,011,662	₽105,772,314	(P9,655,254,740)	P1,723,163,315	an	P173,260,544	(P22,652,759)	P3,433,229,438
Effect of retroactive application of PAS 19 (Revised) (Note 2)				1	1	16,632,144	1	(153,600,154)			(136,968,010)
Balance at January 1, 2012, as restated	3,000,000,000	5,259,896,500	2,373,032,602	476,011,662	105,772,314	(9,638,622,596)	1,723,163,315	(153,600,154)	173,260,544	(22,652,759)	3,296,261,428
Proceeds from deposit for future stock subscription Total comprehensive income (loss) for the year	1 1	1 1		1 1	1 1	984,781,577	(1,050,374,127)	- (49,959,530)	13,628,265	17,767,030	(84,156,785)
Balance at December 31, 2012	P3,000,000,000	P5,259,896,500	P3,552,598,165	P476,011,662	₽105,772,314	(P 8,653,841,019)	₽672,789,188	(P203,559,684)	₽186,888,809	(P4,885,729)	P4,391,670,206
Balance at January 1, 2011 Fffort of retroartive annication of PAS 19 (Roviced) (Note 2)	P3,000,000,000	P5,259,896,500	aļ '	P476,011,662	₽105,772,314 _	(P10,451,617,044)	P1,765,820,381	- d	P192,511,944	P24,797,394	P373,193,151
Balance at January 1, 2011, as restated	3,000,000,000	5,259,896,500	1	476,011,662	105,772,314	(10,451,617,044)	1,765,820,381	(136,968,010)	192,511,944	24,797,394	236,225,141
Proceeds from deposit for future stock subscription		1	2,373,032,602	1			1				2,373,032,602
Total comprehensive income (loss) for the year	-	-	-	-	-	812,994,448	(42,657,066)	(16,632,144)	(19,251,400)	(47,450,153)	687,003,685
Balance at December 31, 2011	P 3,000,000,000	₽5,259,896,500	₽2,373,032,602	P476,011,662	₽105,772,314	(P 9,638,622,596)	₽1,723,163,315	(P 153,600,154)	P173,260,544	(P22,652,759)	P3,296,261,428

See accompanying Notes to Financial Statements

Philippine Bank of Communications Statements of Cash Flows

	Years Ended December 31		
		2012	2011
		(As restated -	(As restated -
	2013	Note 2)	Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₽2,029,930,580	₽1,274,940,620	₽1,178,530,778
Adjustments to reconcile income before income tax tnet cash	-2,023,330,300	1 1/27 1/3 10/020	,.,,,,,,,,,,,,,,
generated from (used in) operations:			
Securities gains from sale of available-for			
investment (Notes 8 and 22)	(1,520,582,609)	(738,069,044)	(220,166,698)
Accretion of interest on bills payable (Note 15)	802,372,613	706,659,555	624,051,417
Depreciation and amortization (Note 10)	133,238,857	77,892,134	58,806,651
Profits from assets sold (Note 11)	(10,702,897)	(123,280,774)	(8,307,707)
Gains on assets exchanged (Note 11)	(23,384,984)	(123,200,774)	(1,673,422)
Fair value loss (gain) on investment	(23,304,704)	_	(1,073,422)
properties (Note 11)	(240 012 222)	4,491,698	(212 265 024)
Accretion of interest on unquoted debt	(248,913,322)	4,491,090	(313,265,824)
	(262.010.547)	(262.440.020)	(425,000,020)
securities (Note 9)	(262,919,547)	(362,449,029)	(435,980,820)
Provision for (reversal of) credit and	(400 674 055)	(1.265.107)	10.640.067
impairment losses (Note 13)	(402,674,955)	(1,265,107)	10,649,067
Amortization of unearned income credited	(774 557 405)	(604.016.154)	(600 226 075)
to interest income - others (Note 17)	(774,557,435)	(684,016,154)	(608,226,075)
Reversal of provision for tax assessments (Note 20)	-	-	(197,871,861)
Decrease (increase) in the amounts of:	(4040000000		
Financial assets at FVPL	(104,908,937)	(5.024.060.744)	2 4 5 6 0 4 0 7 0 2
Loans and receivables	(8,461,923,173)	(5,021,968,744)	3,156,049,792
Other assets	(170,367,764)	(59,337,267)	18,864,357
Increase (decrease) in the amounts of:			
Deposit liabilities	15,924,181,671	3,538,423,355	210,243,286
Accrued interest, taxes and other expenses	63,356,449	(16,613,355)	123,654,733
Manager's checks	106,451,305	33,249,865	(219,511)
Other liabilities	(2,217,304)	(55,008,094)	(37,514,219)
Net cash generated from (used in) operations	7,076,378,548	(1,426,350,341)	3,557,623,944
Income taxes paid (Notes 16 and 26)	(302,412,118)	(291,498,080)	(249,004,094)
Net cash provided by (used in) operating activitie	6,773,966,430	(1,717,848,421)	3,308,619,850
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in interbank loans receivable			
(Notes 7 and 30)	(3,421,721)	2,590,590	_
Acquisitions of:	(-, , ,	, ,	
Investment properties (Note 11)	(20,478,820)	(6,420,586)	(3,291,223)
Property and equipment (Note 10)	(409,339,532)	(205,371,194)	(37,375,416)
Software cost (Note 12)	(301,659,160)	(56,561,834)	(4,587,247)
Available-for-sale investments	(63,878,978,767)		(26,697,370,076)
Proceeds from:	(05,070,0770,7	(5.756.7 67655)	(20,000,000,0)
Sale of available-for-sale investments	60,196,080,177	30,559,174,488	26,748,012,437
Disposals of investment properties (Note 11)	62,379,395	176,999,772	141,604,008
Disposals of property and equipment (Note 10)	17,814,522	5,876,764	3,368,048
Disposal of chattel mortgage		4,999,999	5,500,040
Net cash provided by (used in) investing activities	(4,337,603,906)	(1,026,190,854)	150,360,531
iver cash provided by (used in) investing activities	(7,337,603,700)	(1,020,130,034)	150,000,051

(Forward)

Philippine Bank of Communications Statements of Cash Flows (Cont.)

	Years Ended December 31			
		2012	2011	
		(As restated -	(As restated -	
	2013	Note 2)	Note 2)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Transaction cost on shares issuance (Note 19)	(₽40,869,234)	₽-	₽-	
Proceeds from deposit for future stock subscription (Note 19)	-	1,179,565,563	2,373,032,602	
Availments of:		, .,,.	,, ,	
Bills payable	14,045,317,156	11,392,737,224	15,076,554,633	
Outstanding acceptances	2,825,687,195	1,461,405,538	1,049,319,401	
Marginal deposits	269,006,828	6,134,966	14,504,421	
Settlements of:	,,	5,151,555	,	
Marginal deposits	(270,251,893)	(4,889,901)	(18,721,871)	
Outstanding acceptances	(2,814,820,817)	(1,486,089,462)	(1,045,495,256)	
Bills payable	(13,212,961,487)		(15,630,909,727)	
Net cash provided by financing activitie	801,107,748	917,133,433	1,818,284,203	
EFFECT OF FOREIGN CURRENCY TRANSLATION				
ADJUSTMENT	(6,726,053)	17,767,030	(47,450,153)	
NET INCREASE (DECREASE) IN CASH				
AND CASH EQUIVALENTS	3,230,744,219	(1,809,138,812)	5,229,814,431	
CASH AND CASH EQUIVALENTS AT				
BEGINNING OF YEAR				
Cash and other cash items	551,097,752	369,163,701	379,603,692	
Due from Bangko Sentral ng Pilipinas	5,511,066,971	6,040,783,141	2,439,553,972	
Due from other banks	887,142,721	514,811,974	556,586,784	
Interbank loans receivable and securities purchased under				
resale agreements (Notes 7 and 29)	952,554,800	2,786,242,240	1,105,442,177	
	7,901,862,244	9,711,001,056	4,481,186,625	
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	740,012,114	551,097,752	369,163,701	
Due from Bangko Sentral ng Pilipinas	9,573,407,804	5,511,066,971	6,040,783,141	
Due from other banks	661,307,665	887,142,721	514,811,974	
Interbank loans receivable and securities purchased under	22.,22.,000	,,,-		
resale agreements (Notes 7 and 29)	157,878,880	952,554,800	2,786,242,240	
	₽11,132,606,463	₽7,901,862,244	₽9,711,001,056	

Operational Cash Flows From Interest

	Years Ended December 31			
	2013	2012	2011	
Interest received	₽2,184,973,121	₽2,086,124,517	₽1,851,233,687	
Interest paid	809,982,373	927,302,708	957,034,060	

 ${\it See accompanying Notes to Financial Statements}.$



