

SEC Number **PW-686**
Company TIN **000-263-340**

PHILIPPINE BANK OF COMMUNICATIONS
(Company's Full Name)

PBCOM Tower, 6795 Ayala Ave. cor. V.A. Rufino St., Makati City
(Company's Address: No. Street City/Town/Province)

830-7000
(Company's Telephone Number)

December 31
(Fiscal Year Ending)
(Month & Day)

3rd Tuesday of June
Annual Meeting

SEC Form 17-Q
(Quarterly Report Pursuant to Section 17 of the Securities
Regulation Code and SRC Rule 17(2)(b) Thereunder)
(FORM TYPE)

N/A
Amendment Designation (If Applicable)

None
(Secondary License Type. If any)

Atty. Jovita D.S. Larrazabal
(Company Representative)

920-856-572
(TIN)

June 6, 1981
(Birth Date)

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Cashier

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Central Receiving Unit

Document ID

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2014
2. Commission identification number PW-686 3. BIR Tax Identification No. 000-263-340
4. Exact name of issuer as specified in its charter
Philippine Bank of Communications
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office PBCOM Tower 6795 Ayala Ave., Cor. V.A. Rufino St., Makati City Postal Code 1226
8. Issuer's telephone number, including area code
(632) 830-7000
9. Former name, former address and former fiscal year, if changed since last report

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>PBCom Common Shares</u>	<u>299,564,556 shares</u>

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

Yes [X] No []

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

Philippine Stock Exchange Common Stock

12. Indicate by check mark whether the registrant:

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

Yes [/] No []

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

Yes [/] No []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Please see attached

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

Please see attached

PART II--OTHER INFORMATION


The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

SIGNATURES

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

PHILIPPINE BANK OF COMMUNICATIONS

By:


DANIEL ANG TAN CHAI
EVP/ Chief Finance Officer


ARLENE M. DATU
SVP/ Controller

May 14, 2014

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF CONDITION
(In Thousands)

	MARCH 2014	DECEMBER 2013
	<i>Unaudited</i>	<i>Audited</i>
ASSETS		
Cash and Other Cash Items	451,272	740,012
Due from Bangko Sentral ng Pilipinas	8,137,716	9,573,408
Due from Other Banks	713,348	661,308
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	300,055	202,550
Held-for-Trading Financial Assets	263,286	104,909
Available-For-Sale Investments	13,152,610	20,090,082
Loans and Receivables	26,649,010	24,997,424
Investment in an Associate		
Property and Equipment	1,926,431	1,746,569
Investment Properties Condominium units for lease Foreclosed properties	3,343,826	3,341,665
	482,629	482,554
Other Assets	1,389,839	658,175
	56,810,022	62,598,655
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	7,496,824	7,183,261
Savings	3,816,991	3,089,981
Time	36,981,246	37,007,256
	48,295,062	47,280,497
Bills Payable	3,239,062	9,458,241
Outstanding Acceptances	31,703	43,189
Manager's checks	265,241	173,501
Accrued Interest, Taxes and Other Expenses	487,370	507,545
Deferred Tax Liabilities - Net	524,116	524,116
Other Liabilities	224,529	537,952
	53,067,083	58,525,041
Equity		
Common stock	7,489,114	7,489,114
Additional paid-in capital	813,601	813,601
Surplus reserves	105,772	105,772
Deficit	(3,038,657)	(3,076,034)
Net unrealized gain (losses) on available-for-sale investments	(1,526,413)	(1,219,413)
Remeasurement losses on defined benefit liability	(237,360)	(237,360)
Revaluation increment on land	209,546	209,546
Cumulative translation adjustment	(72,664)	(11,612)
	3,742,939	4,073,615
	56,810,022	62,598,655

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF INCOME AND EXPENSES
(In Thousands, except earnings per share)

	UNAUDITED FOR THE QUARTER	
	MARCH 2014	MARCH 2013
INTEREST INCOME		
Trading and investment securities	320,150	321,487
Loans and receivables	454,485	260,701
Interbank loans receivable and securities purchased under resale agreements	2,253	5,877
Deposits with other banks and others	5,396	3,801
	782,285	591,866
INTEREST AND FINANCE CHARGES		
Deposit liabilities	190,561	182,544
Bills payable, borrowings and others	34,319	37,180
	224,880	219,724
NET INTEREST INCOME	557,405	372,142
Trading and securities gain - net	17,783	947,422
Rent Income	74,852	54,319
Service charges, fees and commissions	85,616	40,562
Foreign exchange gain (loss) - net	24,413	(8,267)
Profit/(Loss) from Assets Sold/Exchanged	3,355	774
Income from Trust Operations	4,434	3,677
Miscellaneous	1,758	650
TOTAL OPERATING INCOME	769,617	1,411,278
Compensation and fringe benefits	314,697	256,681
Taxes and licenses	95,518	147,578
Depreciation and amortization	43,483	26,539
Occupancy and other equipment - related costs	41,905	43,755
Provision for impairment losses	721	-
Miscellaneous	161,288	148,837
TOTAL OPERATING EXPENSES	657,611	623,390
NET INCOME BEFORE TAX	112,006	787,889
PROVISION FOR INCOME TAX	74,629	73,087
NET INCOME (a)	37,377	714,801

Basic/ Diluted Earnings Per Share (a/b)	0.12	3.33
No. of Weighted Average Shares (b)	299,565	214,921

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	UNAUDITED FOR THE QUARTER	
	MARCH 2014	MARCH 2013
NET INCOME	37,377	714,801
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items that recycle to profit or loss in subsequent periods:</i>		
Changes in net unrealized gain (loss) on available-for-sale investments	(307,000)	582,098
Net movement in cumulative translation adjustment	(61,053)	11,441
<i>Items that do not recycle to profit or loss in subsequent periods:</i>		
Remeasurements of defined benefit liabilities	-	-
Net movement in revaluation increment	-	-
OTHER COMPREHENSIVE INCOME (LOSS)	(368,053)	593,539
TOTAL COMPREHENSIVE INCOME (LOSS)	(330,676)	1,308,340

PHILIPPINE BANK OF COMMUNICATIONS
STATEMENT OF CASH FLOWS
(In Thousands)

	UNAUDITED FOR THE QUARTER	
	MARCH 2014	MARCH 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	112,006	787,889
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:		
Accretion of interest on bills payable	3,209	6,954
Depreciation and amortization	43,483	26,539
Provision for impairment losses	721	-
Profit from asset sold or exchange	(3,355)	(774)
Securities gains from sale of available-for sale investments	(5,946)	(3,126)
Equity in net earnings of an associates	(24)	(71)
Changes in operating assets and liabilities		
Decrease (increase) in the amounts of:		
Loans and Receivable	(1,652,307)	1,216,766
Other Assets	(731,640)	(141,311)
Increase (decrease) in the amounts of:		
Deposit liabilities	1,014,565	234,661
Manager's checks	91,739	18,596
Accrued interest, taxes and other expenses	(20,176)	123,308
Other liabilities	(313,423)	(159,134)
Net cash generated (used) from operations	(1,461,148)	2,110,296
Income taxes paid	(74,629)	(73,087)
Net cash provided (used) by operating activities	(1,535,777)	2,037,208
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in:		
Held-for-Trading Financial Assets	(158,377)	(57,691)
Available-for-sale securities	6,636,418	(1,986,451)
Property and equipment	(219,990)	(55,052)
Investment properties	(2,235)	9,314
Net cash provided (used) by investing activities	6,255,816	(2,089,880)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in:		
Bills payable	(6,222,388)	519,729
Outstanding acceptance	(11,485)	2,527
Net cash provided (used) by financing activities	(6,233,873)	522,256
EFFECTS OF FXCY TRANSLATION ADJUSTMENTS	(61,053)	11,441
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	(1,574,886)	481,025
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		
Cash and Other Cash Items	740,012	551,098
Due from Bangko Sentral ng Pilipinas	9,573,408	5,511,067
Due from Other Banks	661,308	887,143
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	202,550	993,804
	11,177,278	7,943,112
CASH AND CASH EQUIVALENTS AT ENDING OF THE PERIOD		
Cash and Other Cash Items	451,272	465,149
Due from Bangko Sentral ng Pilipinas	8,137,716	6,653,052
Due from Other Banks	713,348	755,624
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	300,055	550,312
	9,602,391	8,424,137

PHILIPPINE BANK OF COMMUNICATIONS
 STATEMENTS OF CHANGES IN CAPITAL FUNDS
 (In Thousands)

	Preferred Stock	Common Stock	Deposit for Future Subscription	Additional Paid-in Capital	Surplus reserves	Deficit	Net unrealized gain on available-for-sale investments	Remeasurement losses on defined benefit liability	Revaluation increment on land	Cumulative translation adjustment	Total Equity
Balance at January 1, 2014	-	7,489,114	-	813,601	105,772	(3,076,034)	(1,219,413)	(237,360)	209,546	(11,612)	4,073,615
Total comprehensive income (loss) for the period	-	-	-	-	-	37,377	(307,000)	-	-	(61,053)	(330,676)
Balance at March 31, 2014	-	7,489,114	-	813,601	105,772	(3,038,657)	(1,526,413)	(237,360)	209,546	(72,664)	3,742,939
Balance at January 1, 2013	3,000,000	5,259,897	3,552,598	476,012	105,772	(8,687,172)	672,789	-	186,889	(4,886)	4,561,899
Conversion of preferred stock to common stock	(3,000,000)	3,000,000	-	-	-	-	-	-	-	-	-
Reduction of par value of common stock	-	(3,944,922)	-	3,944,922	-	-	-	-	-	-	-
Issuance of additional common stock	-	3,174,140	(3,552,598)	378,458	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	714,801	582,098	-	-	11,441	1,308,340
Balance at March 31, 2013	-	7,489,114	-	4,799,392	105,772	(7,972,370)	1,254,887	-	186,889	6,555	5,870,239

PHILIPPINE BANK OF COMMUNICATIONS
AGING OF LOANS & SELECTED RECEIVABLES
As of March 31, 2014

TYPE OF LOAN/PARTICULARS	OUTSTANDING BALANCE	CURRENT	P A S T D U E F O R			
			90 DAYS OR LESS	91 TO 180 DAYS	181 DAYS - 1 YR.	MORE THAN 1 YR.
Interbank Loans Receivable	-	-				
Loans and Discounts	14,180,533,958	13,740,874,988	16,984,265	25,448,288	51,087,247	346,139,170
Agrarian Reform/Other Agricultural Credit Loans	1,475,515,661	1,460,644,934	-	-	883,227	13,987,500
Bills Purchased	1,962,050,342	1,953,780,652	3,584,713	-	628,012	4,056,965
Customers' Liability on Drafts under LC/TR	2,303,875,536	2,041,908,251	12	9,997,299	-	251,969,973
Customers' Liab. for this Bank's Acceptances	31,703,110	31,703,110	-	-	-	-
Restructured Loans	78,034,460	64,513,904	2,265,019	-	-	11,255,537
Items in Litigation	750,051,208	-	-	-	-	750,051,208
S U B T O T A L	20,781,784,275	19,293,425,838	22,834,010	35,445,588	52,598,485	1,377,460,354
Accounts Receivable	1,094,380,537	1,029,170,456	13,580,093	1,088,898	961,548	49,559,541
Accrued Interest Receivable	783,756,326	286,998,747	24,441	142,951	5,989,426	490,600,762
G R A N D T O T A L	22,659,891,138	20,609,595,041	36,438,544	36,677,437	59,549,459	1,917,620,657

PHILIPPINE BANK OF COMMUNICATIONS
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2014

1. The Bank's Interim Financial Statements have been prepared on a historical cost basis except for derivatives instruments, available-for-sale (AFS) investments, financial assets at fair value through profit or loss and investment properties that are measured at fair value and land, classified as 'Property and equipment', that is measured at appraised value.

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

2. The same accounting policies and methods of computation are followed in the Interim Financial Statements as compared with the most recent Annual Financial Statements.
3. On July 26, 2011, the major shareholders of the Bank, namely the Chung, Luy, and Nubla Groups, signed a Memorandum of Agreement (MOA) with a group of investors led by ISM Communications Corporation (the "ISM Group"), involving the sale of their entire stake in the Bank to the ISM Group and the commitment of the Chung and Nubla groups to reinvest the proceeds of the sale of their respective shares amounting to approximately P2.8 Billion in the Bank.

On October 13, 2011, the Monetary Board approved the ISM Group's acquisition of the controlling interest in the Bank.

On December 23, 2011, the transaction involving the acquisition by the ISM Group of a controlling interest in the Bank was successfully transacted through the facilities of the Philippine Stock Exchange.

On December 27, 2011, the Chung and Nubla Groups had reinvested P2.4 Billion as deposits for future subscription to PBCom shares of stock. Another P0.4 Billion was deposited in March 2012 and additional P22 Million in April 2012 to complete their commitment of approximately P2.8 billion.

On May 31, 2012, the LFM Properties Group deposited P0.72 Billion for future subscription to PBCom shares of stock. Another P30 Million was deposited by the LFM Properties Group on October 24, 2012.

On February 8, 2013, BSP issued Certificate of Authority to register its Amended Articles of Incorporation and Amended By-Laws with SEC. On March 8, 2012, the Bank obtained approval from SEC for quasi-reorganization and increased in authorized capital stock. Thus the Articles of Incorporation are now amended with the following:

- a. Reclassification of Bank's existing 120,000,000 preferred shares to common shares;
- b. Reduction of the par value of all its common shares from P100 per share to P25 per share; and
- c. Increase in authorized capital stock to P19,000,000,000 divided into 760,000 common shares with a par value of P25 per share.

As agreed upon with the PSE, the Bank respectfully requested for a voluntary trading suspension of its common (PBC) and preferred (PBCP) shares.

Given the foregoing request of the Bank, PSE implemented a trading suspension on PBC and PBCP shares effective March 12, 2013. The trading of the Bank's common shares under the stock symbol PBC was lifted on March 19, 2013 upon the effectivity of the above-mentioned changes. Further, the reclassification of the said PBCP shares to PBC shares took effect on March 19, 2013. Hence the stock symbol of PBCP was removed from the Official Registry of the Exchange on the same day.

On April 3, 2013, PBCom launched a personal loan package to assist clients with finance needs that may fall beyond their day-to-day expenses. The new product is in line with the bank's efforts to offer one-stop banking products and services that meet the needs of the clients. Currently, the Bank has Auto and Home Loan solutions for consumers, as well as a menu of corporate loans for business needs.

On May 14, 2013, the Bank commemorated its 25th listing anniversary in the Philippine Stock Exchange with the ringing of the bell to open the trading activity. During the ceremony, the Bank reiterates its commitment to serve the best interests of stakeholders, investors, customers, employees, the public at large, and regulators, as it put to heart the dream to transform to next level banking.

On May 28, 2013, Financial Supervision Research and Consumer Protection Sub-section of the BSP approved the Bank's request for authority to establish ten (10) additional branches on top of existing sixty four (64) on the following cities:

- A. Luzon
 - 1. Fort Bonifacio
 - 2. Sta. Rosa, Laguna
 - 3. Calamba, Laguna
 - 4. Cabanatuan, Nueva Ecija
 - 5. Naga, Camarines Sur
 - 6. Cauyan, Isabela
 - 7. Baguio, Benguet
- B. Visayas
 - 1. Dumaguete, Negros Oriental
 - 2. Jaro, Iloilo
 - 3. Cebu City, Cebu

As of March 31, 2014, the Bank has a total network of 69 branches. Three (3) branches were opened for business this quarter namely: Baguio, Cebu Business Park and Calamba

On February 3, 2014, the Bank migrated its core banking system and ATM systems from Silverlake Integrated Banking System to Temenos T24 Core Banking System and HPS Powercard Management Systems, respectively. This is in line with the Bank's objective to implement a Core Banking Platform that will enable technologies required to support the Bank's business transformation initiatives such as the following:

- a. Win new markets and retain existing clients by providing premium services.
- b. Reduce cycle time to market new products and services enabling us to meet our revenue goals.
- c. Re-engineer operations with Straight-Through-Processing to significantly improve Turn-Around-Time and achieve efficiencies.
- d. Implement system support for new technologies focusing on the e-banking space enabling our clients to bank anytime, anywhere.

On February 26, 2014, the Board of Directors of the Bank approved the acquisition of all the outstanding shares of stock of the Rural bank of Nagcarlan, Inc., (RBNI) a Laguna-based rural bank with 6 branches, and no less than 90% of the outstanding common stock of Banco Dipolog, Inc. (BDI) with 11 branches and 7 other banking offices located in Mindanao and

Visayas. These acquisitions will enable the Bank to expand its market reach and engage in countryside and SME lending but are subject to BSP approval and fulfillment of specific closing conditions.

On March 26, 2014, PBCom exited the 10-year Financial Assistance Agreement (FAA) with the Philippine Deposit Insurance Corp. (PDIC) by settling the loan of ₱7.6 Billion which represented the amount extended by the latter as financial assistance to the Bank in 2004. As a consequence of the exit, four PDIC-nominees in PBCom's board of directors, namely – Mr. Roberto M. Macasaet, Mr. Raul O. Serrano, Ms. Teresita Ang See and Ms. Imelda S. Singzon, tendered their resignation from the Bank's Board of Directors. Their resignation was formally accepted by the Board during the board meeting held on March 28, 2014.

4. Financial Risk Management

The Bank is exposed to financial risks such as (a) credit risk, (b) liquidity risk and (c) market risk. These risks are managed through process of identification, measurement and monitoring subject to limits and other controls. The risk information on the interim financial statement should be read in conjunction with the most recent Annual Financial Statements since the same contain detailed risk disclosure. As of March 31, 2014, there are no changes in the Bank's risk management policies.

5. PFRS 9, Financial Instruments

The Bank opted not to early adopt PFRS 9 in its 2013 audited financial statements and will evaluate its position whether to early adopt or not for the year 2014.

6. Fair Value Measurement

The Bank uses three level hierarchies as a valuation technique in determining and disclosing the fair value of financial instruments.

- Level 1 – quoted prices in active market for identical assets or liabilities.
- Level 2 – those involving inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices)
- Level 3 – those inputs for the asset or liability that are not based on observable market data

As of March 31, 2014, the Bank used level 1 measurements of financial assets in AFS amounting to ₱13.2B and level 2 measurements used in AFS amounting to ₱ 31.7M. The Bank used level 3 fair value measurements for its land classified under property and equipment and on investment properties. There are no transfers between level 1 and 2 and no transfers into and out of level 3.

7. The interim financial statement is consistent with the most recent Annual Financial Statement on its fair value measurement. As of March 31, 2014 and 2013, carrying values of AFS and HFT securities are ₱13.4B and ₱19.4B, respectively, while unrealized gains (losses) amounted to (₱1.53B) and ₱1.2B, respectively.

8. The Bank evaluates and classifies financial instruments whether it is quoted or not in an active market. Quoted prices in an active market are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

9. The Bank has no investment in foreign securities as of the reporting period.

10. There are no other items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.

11. There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that had a material effect in the current interim period.

12. There were no dividends paid as of March 31, 2014.

13. Financial Information by Segment (In Thousand)

AS OF MARCH 31, 2014

Particulars	Prosperity Banking Segment	Enterprise Banking Segment	Treasury Segment	Leasing & Shared cost	Total
Segment results					
Net Interest Income	136,771	80,338	113,891	226,405	557,405
Trading and securities gain-net	-	-	18,885	(1,102)	17,783
Rent income	-	-	-	74,852	74,852
Service charges, fees and commissions	15,521	50,040	2	20,053	85,616
Foreign Exchange gain (loss) - net	3,405	2,332	(1,806)	20,482	24,413
Profit /loss) from Asset Sold/Exchange	-	-	-	3,355	3,355
Income from Trust Operations	1,545	883	-	2,006	4,434
Miscellaneous	1,867	244	-	(352)	1,758
Total Operating Income	159,109	133,836	130,973	345,699	769,617
Compensation and Fringe benefits	98,134	28,677	5,610	182,277	314,697
Taxes and licenses	41,298	16,818	22,462	14,941	95,518
Occupancy and Other equipment-related costs	28,925	136	58	14,364	43,483
Depreciation and amortization	14,955	1,760	569	24,621	41,905
Other operating expense	61,705	13,394	9,922	76,987	162,009
Total Operating Expense	245,017	60,785	36,620	313,189	657,611
Segment profit (loss)	(85,908)	73,052	92,353	32,510	112,006
Provision for income Tax	-	1,806	39,377	33,446	74,629
Net Income (loss)	(85,908)	71,246	52,976	(936)	37,377
Total segment assets	10,995,232	19,128,434	18,714,412	7,971,944	56,810,022
Total segment liabilities	47,228,487	32,230	5,455,542	350,824	53,067,083

AS OF MARCH 31, 2013

Particulars	Prosperity Banking Segment	Enterprise Banking Segment	Treasury Segment	Leasing & Shared cost	Total
Segment results					
Net Interest Income	97,110	43,850	31,539	199,643	372,142
Trading and securities gain-net	-	-	947,840	(418)	947,422
Rent income	-	-	-	54,319	54,319
Service charges, fees and commissions	10,246	28,807	2	1,507	40,562
Foreign Exchange gain (loss) - net	503	345	666	(9,782)	(8,267)
Profit /loss) from Asset Sold/Exchange	21	-	-	754	774
Income from Trust Operations	1,152	207	-	2,318	3,677
Miscellaneous	1,832	106	-	(1,288)	650
Total Operating Income	110,864	73,316	980,047	247,052	1,411,278
Compensation and Fringe benefits	61,310	16,465	3,782	175,124	256,681
Taxes and licenses	24,814	9,905	85,355	27,504	147,578
Occupancy and Other equipment-related costs	24,013	176	21	19,545	43,755
Depreciation and amortization	10,931	992	390	14,226	26,539
Bad Debts	-	-	-	-	-
Other operating expense	40,212	5,356	12,564	90,705	148,837
Total Operating Expense	161,279	32,894	102,111	327,105	623,390
Segment profit (loss)	(50,415)	40,422	877,936	(80,053)	787,889
Provision for income Tax	13	616	22,722	49,736	73,087
Net Income (loss)	(50,428)	39,805	855,214	(129,790)	714,801
Total segment assets	5,299,308	10,691,538	19,544,810	12,350,493	47,886,148
Total segment liabilities	30,263,522	34,849	2,987,946	8,729,592	42,015,909

Costs of Prosperity Banking Segment and Enterprise Banking Segment increased significantly this year compared to the same period last year as the Bank hired more personnel to support the rapid growth of the business. Operating expenses of the group grew by 5.5% mainly on compensation and depreciation and amortization cost.

14. There are no changes in the composition of the bank in terms of business combinations, acquisition or disposal of subsidiaries, restructurings and discontinuing operations. As to long-term investments, the bank continues to maintain holdings on marketable long-term bonds.
15. The following is a comparative summary of the Bank's commitments and contingent liabilities at their equivalent peso amounts (In thousand):

	March 2014	December 2013
Trust department accounts	5,310,794	5,200,111
Standby LC	1,154,673	1,155,845
Spot exchange:		
Sold	248,707	676,596
Bought	141,026	676,675
Sight import LC outstanding	435,768	323,916
Usance import LC outstanding	330,468	537,026
Deficiency claims receivable	27,498	27,498
Inward bills for collection	28,740	5,542
Outstanding shipping guarantees	443,102	500,478
Late deposits/ payment received	246	17,162
Outward bills for collection	19,042	24,103
Items held for safekeeping	150	17
Items held as collateral	3	2
Other contingent	226,184	88,254

Any changes in the above figures are part of the regular operations of the Bank.

16. There are no contingencies and any other events or transactions that are material to an understanding of the current interim period.

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

Total assets stood at ₱56.810 Billion as of March 31, 2014 while total liabilities and equity amounted to ₱53.067 Billion and ₱3.743 Billion, respectively. Cash and Due from Banks decreased by ₱1.672 Billion from the year-end level of ₱10.975 Billion. Trading and investment securities likewise went down by 33.57% or ₱6.772 Billion mainly due to the maturity of the securities which were purchased from the proceeds of the loan extended by the PDIC as part of the Financial Assistance Agreement. Meanwhile, Interbank Loans Receivable and Loans and Receivable were up by ₱97.505 Million and ₱1.652 Billion, respectively, due to the continued focus on growing the loan portfolio. The Bank's NPL ratio for the quarter is 1.21%. As a result of the Bank's efforts to expand its branch network, Property and Equipment increased by ₱179.862 Million from last year's level of ₱1.746 Billion to ₱1.926 Billion this year. Other Assets rose by 111.17% or ₱731.664 Million mainly on higher prepaid expense that included payments of software maintenance and business licenses for the year and various investment projects booked as Miscellaneous Assets. On the liability side, increased productivity and additional branches have resulted in Deposit Liabilities improving by ₱1.014 Billion from last year's level of ₱47.280 Billion to ₱48.295 Billion. Meanwhile, Bills Payable went down by 65.75% or ₱6.219 Billion due to the Bank's payment in full of the loan extended by the PDIC under its 10-year Financial Assistance Agreement. Manager's Checks increased by 52.88% or ₱91.739 Million while Miscellaneous liabilities decreased by ₱313.423 Million mainly due to the accretion of unearned income related to the loan from the PDIC. The Bank's capital base declined by ₱330.676 Million from the year end level of ₱4.074 Billion due to the decrease in unrealized gains from the mark-to-market valuation on its Available-for-Sale Financial Assets by ₱307.00 Million and net translation adjustment for the period. The Bank's Risk-Based Capital Adequacy Ratio as of the first quarter is at 10.80%. The ratio covers credit, market and operational risk for the first quarter of 2014.

In terms of profitability, the Bank posted a net income of ₱37.377 Million in the first quarter of 2014. Interest income improved by 32.17% or ₱190.419 Million from the level of ₱591.866 Million in the same period last year to ₱782.285 Million this year. The increase was brought about by the higher interest on Loans and Receivables amounting to ₱193.785 Million and ₱1.596 Million from Deposit with other Banks. Interest expense, on the other hand, increased slightly by ₱5.156 Million mainly due to higher deposit liabilities. Total operating income went down by ₱641.661 Million or 45.47% mainly due to the decrease in trading and securities gain amounting to ₱929.639 Million which was partially offset by the increase in rental income and service charges, fees and commission by ₱20.534 Million and ₱45.054 Million, respectively. Foreign exchange gain improved by ₱32.680 Million from a loss of ₱8.267 Million as of March 2013 to income of ₱24.413 Million as of March 2014. Operating expenses went up by 5.49% or ₱34.222 Million from the level of ₱623.390 Million in the same period last year to ₱657.611 Million in the current reporting period. The increase of ₱34.222 Million in operating expenses was a result of the hiring of key personnel and staff to support the Bank's growth.

2. Discussion of various key indicators:

A. Key Financial Performance

Ratio	March 2014	December 2013	Remarks
Net Profit Margin (Net income divided by Gross income)	4.86%	50.65*	Ratio dropped by 46% as a result of 98% lower trading income for the 1 st quarter of 2014.
Return on Average Asset (Net income divided by Average assets)	0.24%	3.01%	Slower growth in net income for the 1 st quarter was outpaced by the increase in Average Assets
Return on Average Equity (Net income divided by Average equity)	4.00%	38.58%	Lower net income brought down the Bank's return on average equity ratio
Capital Adequacy Ratio (Basel 3) (Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)	10.80%	16.18%**	The implementation of BASEL 3 starting Jan 2014, changed the way CAR was computed. This brought down the ratio by 5.38% but the ratio remains above the 10% minimum required by the BSP.
Basic Earnings per share (Net income divided by average no. of common shares)	0.12	3.33*	Lower earnings per share is a result of lower results of operation for the first quarter of this year.

* As of March 2013

** Basel 2

B. Financial Soundness

Ratio	March 2014	December 2013	Remarks
Liquidity Ratio (Liquid Assets to Total Deposits) <i>Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities Total deposit refers to the total of peso and foreign currency deposits.</i>	47.57%	66.26%	Liquidity ratio decreased by 18.69% as the Bank paid off its obligation while increasing its deposits. Total Deposit liabilities grew by P1.01B or 2.15% for the first quarter of 2014.
Debt Ratio (Total Liability to Total Assets) <i>Debt refers to the total liabilities while assets refers to total Assets</i>	93.41%	93.5%	Minimal decrease in ratio is brought about by the settlement of the PDIC obligation which was matched by the maturity of the GS held
Asset to Equity Ratio (Total Asset to Total Equity)	1,517.8%	1,536.7%	Total assets declined mainly due to the maturity of the securities matched to the loan paid off to PDIC which resulted to the decline in Asset to Equity ratio by 18.9%.
Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense)	149.81%	177.58% *	Interest rate coverage declined by 27.77% as a result of lower earnings from securities and loans and lower interest expense.
Net Interest Margin Net interest income over Average Earning assets	5.03%	4.34%	NIM improved due mainly to lower average earning asset of P4.79B for the period with the maturity of the PDIC related GS

* As of March 2013

3. Discussion and Analysis of Material Event/s and Uncertainties

- a. The Bank does not foresee any event that will trigger direct or contingent financial obligation that is material to the company.
- b. The Bank does not have any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the company with

unconsolidated entities or other persons created during the reporting period.

- c. As of March 31, 2014, unspent amount of capital expenditures was P224.1M from the last years approved budget and additional projects this quarter. The projects included are for technology upgrade, computer and communication upgrade and renovation of certain business centers and branches.
- d. There are no known trends, events or uncertainties that are expected to have a material impact on net sales or revenues of the Bank in the near future.
- e. There were no recorded significant income or losses during the quarter that did not arise from the Bank's regular operations.
- f. Interest income on non-discounted loans are recognized based on the accrual method of accounting while unearned discounts are amortized to income over the terms of the loans. As such, there is no seasonal aspect that has materially impact on the Bank's interest revenues. Non-interest revenues, on the other hand, are largely dependent on market dynamics and economic trends rather than on seasonal factors.

Statement of Condition: March 2014 vs. December 2013

	Increase (Decrease)	Percentage	Remarks
Cash and Other Cash Items	(288,740)	-39.02%	Lower cash balance due to effective cash management.
Due from BSP	(1,435,692)	-15.00%	Lower BSP balance due to payments made by the Bank towards the end of March 2014.
Due from Other Banks	52,041	7.87%	Increase in balance of settlement accounts maintained with correspondent banks in the comparable period.
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	97,505	48.14%	Higher investment in SPURA for the period.
Held for Trading Financial Assets	158,377	150.97%	Increased inventory of held for trading securities for the period
Available-for-Sale Investments	(6,937,472)	-34.53%	Maturity of securities funded by PDIC loan that was paid off on March 26, 2014
Loans and Receivables	1,651,586	6.61%	Increased volume of loans and discounts by P1.3B partially offset by lower unquoted debt securities of P27.7B for the period.
Property and Equipment	179,862	10.30%	Purchase of various furniture, IT infrastructures, branch renovation and vehicles during the period.
Investment Properties	2,235	0.06%	Improvements paid on Condominium Units for Lease by P2.2 Million
Other Assets	731,664	111.17%	Higher miscellaneous asset due to capitalized cost of various projects for the year.
Demand Deposits	313,564	4.37%	Increase in deposits due to continued deposit generation efforts
Savings Deposits	727,011	23.53%	
Time Deposits	(26,009)	-0.07%	
Bills Payable	6,219,179	-65.75%	Payment of loan extended by PDIC under the 10-year Financial Assistance Agreement that matured on March 26, 2014
Outstanding Acceptances	(11,485)	-26.59%	Decrease in bills of exchange accepted by the Bank
Manager's Checks	91,739	52.88%	Increase in un-negotiated MC's as of report date
Accrued Interest, Taxes and Other Expenses Payable	(20,176)	-3.98%	Decrease in interest accruals on deposits.
Other Liabilities	(313,423)	-58.26%	Decrease in unearned income due to accretion on borrowing from PDIC and other borrowings for the period.

Statement of Income and Expenses : Jan-Mar 2014 vs Jan-Mar 2013

	Increase (Decrease)	Percentage	Remarks
Interest Income on Loans and receivable	193,785	74.33%	Higher interest income from loans and discount on increased average volume with Consumer loans contributing P118M for the period
Interest Income on IBCL & SPURA	(3,624)	-61.67%	Lower year-on-year average volume of investment in SPURA.
Interest Income on Deposit with other Banks and others	1,596	41.98%	Higher interest income from Due from BSP by P1.6M as a result of various placements to SDA for the period.
Interest Expense on Deposit Liabilities	8,017	4.39%	Higher interest from time deposit by P10.4M compared to same period last year
Interest Expense on Bills payable, borrowings and others	(2,861)	-7.70%	Lower amortization of transaction costs related to Bills Payable to PDIC by P3.7M as it matured in March 2014.
Trading and Securities Gain – net	(929,639)	-98.12%	Lower trading income due to the rising market rates.
Service Charges, Fees & Commissions	45,054	111.08%	Higher participation fees and bank commissions collected for the comparable period
Income from Trust Operations	757	20.60%	More trust activities that resulted to higher fees this year
Rent Income	20,534	37.80%	Escalation of rental rates this year.
Profit/(Loss) from Assets Sold/Exchanged	2,581	333.21%	Slightly better gains from sale of ROPA properties for the period.
Foreign Exchange Gain (Loss) –Net	32,680	-395.29%	Combination of higher revaluation income and higher actual/realized gain from foreign exchange trading.
Miscellaneous Other Income	1,109	170.67%	Higher ancillary income generated for the period
Compensation and Fringe Benefits	58,016	22.60%	Hiring of additional manpower and accrual of additional employees benefits for the period
Depreciation & Amortization	16,944	63.84%	Higher depreciation as a result of upgrades of various furniture and equipment of the Bank.
Occupancy and other equipment- related costs	(1,849)	-4.23%	Higher reimbursement received from tenants of PBCom Tower on utilities and repairs and lower rental expense incurred for the period.
Taxes and Licenses	(52,060)	-35.28%	Lower GRT expense due to decline in trading income generated this quarter compared to last year's income level and documentary stamp tax on time deposits.
Miscellaneous	12,451	8.37%	Higher representation expense by P14.8M, insurance by P6.4M and security and messengerial services by P9.8M.