



**PHILIPPINE  
BUSINESSBANK**  
*a savings bank*

12 November 2013

Disclosure Department  
Philippine Stock Exchange, Inc.  
Philippine Stock Exchange Plaza,  
Ayala Triangle Ayala Avenue  
Makati City

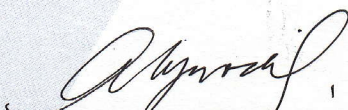
Attention : **Ms. JANET ENCARNACION**  
Head - Disclosure Department

RE : SEC Form 17-Q

Dear Ms. Encarnacion:

We transmit with this letter the SEC Form 17-Q of the Quarterly Report of Philippine Business Bank, Inc. as of September 30, 2013 submitted to the Securities and Exchange Commission.

Truly yours,



**ALICE P. RODIL**

SVP / Controller

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 **SEPTEMBER 30, 2013**
- 2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **000-005-469-606**
- 4. Exact name of issuer as specified in its charter **PHILIPPINE BUSINESS BANK, INC.**
- 5. **CALOOCAN** Province, Country or other jurisdiction of incorporation or organization
- 6.  (SEC Use Only) Industry Classification Code:
- 7. **350 Rizal Avenue corner 8<sup>th</sup> Avenue Gracepark, Caloocan City** **1400**  
Address of principal office Postal Code
- 8. **(02) 363-33-33**  
Issuer's telephone number, including area code
- 9. **NOT APPLICABLE**  
Former name, former address, and former fiscal year, if changed since last report.
- 10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common</b>	<b>343,333,400</b>

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

Yes [ x ] No [ ]

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

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

**PHILIPPINE STOCK EXCHANGE**

**COMMON SHARES OF STOCK**

- 12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [ ] No [√]

## **PART I – FINANCIAL INFORMATION**

Item I:

**Management's Discussion & Analysis of Financial Position and Results of Operations**

Item II:

**Financial Statements** (Attachment 1 - Unaudited Interim Financial Statements)

## **PART II – OTHER INFORMATION**

Please refer to the following:

Attachment 2 – Aging of Past Due Loans and Other Receivables

Attachment 3 – Consolidated Financial Ratios

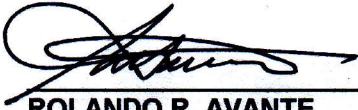
There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

**SIGNATURES**

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

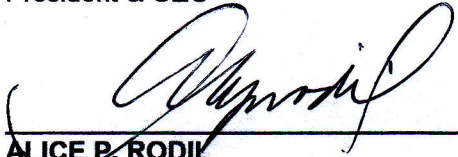
**PHILIPPINE BUSINESS BANK, INC.**  
Issuer

By:



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**ROLANDO R. AVANTE**  
President & CEO



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**ALICE P. RODIL**  
SVP / Controller

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements.

The accompanying financial reporting package (FRP) of Philippine Business Bank (PBB) which comprise the financial position as of September 30, 2013 and December 31, 2012 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the nine months ended September 30, 2013 and September 30, 2012 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS)

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

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

##### a) *Financial Performance Highlights*

The bank posted a net income of Php1,002.99 million, a 60.71% increase over last year's earnings of Php624.10 million, which translated to an annualized Return on Equity (ROE) and Return on Assets (ROA) of 19.33% and 3.88% respectively.

Total Resources grew from Php33.10 billion in December 2012 to Php44.14 billion in September 2013. Loans rose by 35.07% to Php28.19 billion. Liquid Assets were at high Php13.75 billion compared to Php10.29 billion in December 2012. Overall earning assets grew by 35.20% totaling Php41.54 billion. Total deposits increased from Php26.45 billion in December 2012 to Php33.87 billion or a growth rate of 28.04%.

NPL ratio likewise improved to 2.61% from its year end rate of 3.26%. NPL cover is at high 88.25% CAR is 25.89% way above the BSP requirement of 10%.

Operating Expenses were 26.63% higher than last year, as the Bank opened 13 branches in nine months period ending September 2013. As of September 30, 2013 the bank have 91 branches. Provision for credit losses increased from Php68.26 million in September 2012 to Php162.33 million in September 2013 as the Bank accelerated its provisioning simultaneously with the growth of loan portfolio and increase in revenues.

##### b) *Revenues*

Operating Income increased from Php1.54 billion to Php2.21 billion or an increase of 43.06%. Other income sources such as trading gains also posted a high Php857.20 million from last year's Php630.24 million. Core Income of the bank composed of net interest income and fee based income, exclusive of trading gains increased from Php911.12 million to Php1,347.84 million or 47.93% growth rate.

##### c) *Net Interest Income*

Net Interest Income stood at Php1.227.29 million versus last years Php778.07 million or 57.74% growth rate. The higher net interest income was a result of the increase in loan portfolio coupled with the declining cost of funds. Net Interest Margin (NIM) is almost constant at 4.48% and 4.33% for nine months period ending September 2013 and 2012 respectively, even with the continuing decline in corporate loan interest rates. Also the CASA ratio to total deposits continues to increase at 35.83%, a major source of low cost of funds.

**d) Trading Income**

The Bank took the opportunity to book trading income on the fixed income securities held by the bank, as interest rates continue to drop. Trading Income increased by 36.01% from Php630.24 million to Php857.20 million.

**e) Operating Expenses**

Operating expenses increased by 26.63% to Php1.01 billion due to the bank's branch expansion. Compensation and Fringe Benefits of Php282.06 million was higher by Php64.56 million or 29.68% from the first three quarters of 2012 due to increasing head count to handle branch operations and corporate lending.

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

**f) Provision for Credit Losses**

The bank accelerated its provisioning for loan losses from Php68.26 million in the three quarters of 2012 to Php162.33 million or 137.80%, simultaneously with income growth in the first semester as well as the increase in the loan portfolio of the Bank.

**g) Loans and Other Receivables**

Total Net loans and other receivables increased to Php28.19 billion from Php20.87 billion in December 2012. The aggressive lending stance to the SME's by the bank coupled with the opportunity to improve the loan portfolio of bank made way to increase the banks primary earning asset, improving the core earnings and helped increase its NIM's. The increase was 35.07%.

**h) Deposits**

Total bank deposits increased from Php26.45 billion to Php33.87 billion or a 28.04% increase. CASA deposits, the bank source of low cost funds increased from Php8.93 billion to Php12.13 billion or 35.70% increase. This low cost funds comprised 35.83% of the total deposits.

High Costs funds slightly increased from Php17.51 billion to Php21.73 billion or 24.09% growth rate. FCDU Deposits increased from USD51.89 million to USD76.50 million or 47.43% growth rate.

**i) Capital**

Bank's total equity as of September 30, 2013 is Php7.26 billion 64.99% increase over December 31, 2012 of Php4.40 billion, the increase was due to the February 19, 2013 Public Listing of PBB Shares amounting to Php3.192 billion, this shares are 101,333,400 at market price of Php31.50 during its IPO, equivalent to 29.51% of the total bank shares and the Bank's 2012 earnings of Php593 million.

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

## **B. Key Performance Indicators**

### **a. Capital Adequacy**

The Bank's capital adequacy ratio (CAR) is at 25.89% as of September 2013 from 18.69% in December 2012. The improvement was due to increase in capital as a result of the public listing in February 2013.

### **b. Asset Quality**

The Bank's NPL was favorably reduced to 2.61% as of September 2013 from 3.26% in December 2012 while NPL cover was 88.25% in September from 91.77% in December 2012.

### **c. Profitability**

Return on equity increased as of September 2013 to 19.33% from 16.41% in December 2012. Net interest margin also increased to 4.48% for September 2013 as compared to 3.90% in December 2012.

### **d. Liquidity**

The Bank's loans to deposit ratio as of September 2013 is at 80.61% from 74.42% in December 2012. Moreover, allowance for impairment on loans to total NPL is at 88.25% as of September 2013 from 91.77% in December 2012.

### **e. Cost Efficiency**

Cost to income ratio was favorably reduced in September 2013 at 46.04% from 60.00% in December 2012.

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

### **Vertical and Horizontal Analysis**

*Financial Condition (September 30, 2013 vs. December 31, 2012)*

- PBB's assets reached Php44.14 billion as of September 30, 2013. This is 33.27% higher compared to Php33.10 billion as of December 31, 2012. Significant changes (more than 5%) in assets were registered in the following accounts:
  - a) Cash and Other Cash items declined by Php29.40 million or 9.04% due to efforts to reduce non-interest bearing assets.
  - b) Due from BSP and Other Banks decline by Php475.15 million or 11.67% due to shift in interest bearing assets such as Interbank lending to the BSP, as a result of a very liquid position during the nine months of the year.
  - c) Available for Sale Investments increased by Php2.54 billion or 43.94% due to acquisition of various government securities.
  - d) Loans and Receivables grew by Php7.32 billion or 35.07% from Php20.87 billion in December 31, 2012 to Php28.19 billion in September 30, 2013 as a result of deployment of funds to borrowing clients.

- e) Bank Premises grew by Php51.50 million or 12.92% due to branch expansion.
- f) Real and Other Properties Owned decrease by 10.37% or Php56.94 million due to sales of foreclosed properties during the third quarter of 2013.
- PBB's liabilities amounted to Php36.88 billion as of September 30, 2013. This is Php8.18 billion or 28.52% higher as compared to December 31, 2012 level of Php28.69 billion.
- High cost liability in the form of Bills Payable was reduced greatly by 14.23% or Php108.96 million from Php765.49 million in December 2012 to Php656.53 million in September 2013. This is because of set maturities and use of IPO proceeds in lieu of our discounting lines with BSP.

*Results of Operations for the third quarter ended September 30, 2013 and September 30, 2012*

- PBB posted a Php208.17 million net income for the third quarter ending September 30, 2013. This is attributable to favorable treasury positions and strong performance for the quarter. This is a 63.32% or Php80.71 million increase as compared to the same quarter last year.
- Interest income for the third quarter ending September 30, 2013 from loans increased by 38.14% or Php125.06 million for the same quarter last year due to increased loan portfolio volume. Total interest income increased by 42.09% or P175.41 million as compared to same quarter last year.
- Service charges, fees and commissions slightly increased by .65% from Php16.30 million in the third quarter ending September 30, 2012 to Php16.41 million for the same quarter this year resulting from a slight increase in the volume of transaction of consumer lending.
- Trading gains decreased in the third quarter ending September 30, 2013 by 34.10% to Php77.01 million from Php116.86 million in the same quarter last year due to unfavorable market conditions during the period.
- Miscellaneous Income increased in the third quarter ending September 30, 2013 by 18.40% to Php11.84 million from Php10.00 million in the same period of 2012.
- Manpower costs continue to rise from Php77.85 million in the third quarter ending September 30, 2013 last year to Php92.64 million in the same quarter this year on account of business expansion and larger branches network.
- The Bank continued its conservative provisioning on account of its loan expansion by setting aside Php20.00 million in provision for probable losses, an increase of 202.40% from what was reported in the third quarter 2012.
- Taxes and licenses, Management and other professional fees increased by 9.41% and 27.15% respectively as a direct result of higher operating income, Depreciation and amortization, Insurance, Representation and entertainment and Miscellaneous expenses increased by 29.54%, 235.13%, 17.71%, 21.78% respectively, on account of business expansion.

*Results of Operations for nine months ended September 30, 2013 and September 30, 2012*

- PBB posted a Php1,002.99 million net income for the nine-month period ending September



30, 2013. This is attributable to favorable treasury positions and strong performance for the quarter. This is a 60.71% or Php378.89 million increase as compared to the same period last year.

- Interest income for the nine month period ending September 30, 2013 from loans alone increased by 34.63% or Php315.55 million for the same period last year due to increased loan portfolio volume. Total interest income increased by 28.90% or Php358.33 million as compared to same period last year.
- Service charges, fees and commissions increased by 2.22% to Php48.45 million from Php47.39 million in 2012 resulting from increase in volume transaction of consumer lending.
- Trading gains increased by 36.01% to Php857.20 million from Php630.24 million in 2012 as the Bank took advantage of the favorable market conditions during the period.
- Miscellaneous Income decreased by 15.82% to Php72.11 million from Php85.66 million in 2012.
- Manpower costs continue to rise from Php217.50 million last year to Php282.06 million this year on account of business and branch expansion.
- The Bank continued its conservative provisioning on account of its loan expansion by setting aside Php162.33 million in provision for probable losses, an increase of 137.80% from what was reported in the first semester of 2012.
- Taxes and licenses, Management and other professional fees, Depreciation and amortization, Insurance, Representation and entertainment and Miscellaneous expenses increased by 27.84%, 51.24%, 27.96%, 56.06%, 29.12% and 9.18% respectively, on account of business expansion.

#### **Significant Elements of Income or Loss**

Significant elements of the net income of the Bank for the nine month ended September 30, 2013 came from its operations. Significant portion came from trading gains from sale of Peso securities

Per requirement of PAS19, the Bank will also provide for P22 million in past service cost recognized from the employees' defined benefit plan. This shall be amortized on a straight line basis in the next seven months (April 2013 to December 2013) until fully provided

#### **Known trends, demands, commitments, events or uncertainties**

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

#### **Events that will trigger direct or contingent financial obligation**

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

#### **Material off-balance sheet transactions, arrangements or obligations**

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other

persons created during the reporting period other than those disclosed in the financial statements.

**Significant Elements of Income or Loss**

Significant elements of the consolidated net income for the quarter ended September 30, 2013 and 2012 came from its continuing operations.

**Seasonal Aspects**

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

**PHILIPPINE BUSINESS BANK, INC.**

Interim Consolidated Financial Statements

As of September 30, 2013 (Unaudited) and December 31, 2012 (Audited)

And for the Nine Months Ended September 30, 2013 and 2012 (Unaudited)

**PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK**  
**UNAUDITED STATEMENTS OF FINANCIAL POSITION**  
September 30, 2013 AND December 31, 2012  
*(Amounts in Philippine Pesos)*

	<u>Unaudited</u> <u>September 30, 2013</u>	<u>Audited</u> <u>December 31, 2012</u>
<b><u>RESOURCES</u></b>		
CASH AND OTHER CASH ITEMS	P 396,498,962	P 435,898,545
DUE FROM BANGKO SENTRAL NG PILIPINAS	3,070,172,401	3,073,180,153
DUE FROM OTHER BANKS	527,946,565	1,000,089,458
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	1,424,082,413	-
AVAILABLE-FOR-SALE SECURITIES	8,326,213,099	5,784,536,589
HELD TO MATURITY FINANCIAL ASSETS	8,912,599	
LOANS AND OTHER RECEIVABLES - Net	28,186,932,302	20,869,152,721
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	449,997,197	398,495,157
INVESTMENT PROPERTIES - Net	492,293,783	549,237,420
OTHER RESOURCES - Net	<u>1,260,350,243</u>	<u>986,674,737</u>
<b>TOTAL RESOURCES</b>	<b><u>P 44,143,399,564</u></b>	<b><u>P 33,097,264,780</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>DEPOSIT LIABILITIES</b>		
Demand	P 373,506,342	P 366,102,479
Savings	11,760,361,747	8,569,873,133
Time	<u>21,732,378,497</u>	<u>17,512,911,126</u>
Total Deposit Liabilities	33,866,246,586	26,448,886,738
<b>BILLS PAYABLE</b>	656,525,009	765,489,517
<b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>	<u>2,356,975,643</u>	<u>1,480,537,015</u>
Total Liabilities	36,879,747,238	28,694,913,270
<b>EQUITY</b>	<u>7,263,652,326</u>	<u>4,402,351,510</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>P 44,143,399,564</u></b>	<b><u>P 33,097,264,780</u></b>

**PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK**  
**UNAUDITED STATEMENTS OF INCOME**  
**FOR NINE MONTHS ENDED SEPTEMBER 30, 2013, AND SEPTEMBER 30, 2012**  
*(Amounts in Philippine Pesos)*

	<u>For the quarter ended Sept. 30, 2013</u>	<u>For the quarter ended Sept. 30, 2012</u>	<u>Unaudited For the nine months ended Sept. 30, 2013</u>	<u>Audited For the nine months ended Sept. 30, 2012</u>
<b>INTEREST INCOME</b>				
Loans and other receivables	P 452,955,107	P 327,891,634	P 1,226,684,485	P 911,128,558
Investment and trading securities	133,035,749	74,402,224	334,345,623	268,816,370
Securities purchased under reverse repurchase agreements	-	10,108,452	2,657,451	45,941,917
Due from Bangko Sentral ng Pilipinas and other banks	<u>6,137,688</u>	<u>4,312,702</u>	<u>34,758,129</u>	<u>14,225,321</u>
	<u>592,128,544</u>	<u>416,715,012</u>	<u>1,598,445,688</u>	<u>1,240,112,166</u>
<b>INTEREST EXPENSE</b>				
Deposit liabilities	117,612,619	146,639,304	366,048,615	446,971,512
Bills payable	<u>1,582,306</u>	<u>5,823,148</u>	<u>5,105,743</u>	<u>15,069,643</u>
	<u>119,194,925</u>	<u>152,462,452</u>	<u>371,154,358</u>	<u>462,041,155</u>
<b>NET INTEREST INCOME</b>	472,933,619	264,252,560	1,227,291,330	778,071,011
<b>IMPAIRMENT LOSSES</b>	<u>20,000,000</u>	<u>6,613,673</u>	<u>162,331,033</u>	<u>68,262,481</u>
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>	<u>452,933,619</u>	<u>257,638,887</u>	<u>1,064,960,297</u>	<u>709,808,530</u>
<b>OTHER INCOME</b>				
Trading gains - net	77,008,045	116,863,219	857,201,633	630,237,696
Service charges, fees and commissions	16,406,195	16,300,610	48,445,976	47,394,544
Miscellaneous	<u>11,838,399</u>	<u>9,999,054</u>	<u>72,107,496</u>	<u>85,656,744</u>
	<u>105,252,639</u>	<u>143,162,883</u>	<u>977,755,105</u>	<u>763,288,984</u>
<b>OTHER EXPENSES</b>				
Salaries and other employee benefits	92,643,958	77,847,825	282,061,551	217,503,502
Taxes and licenses	59,254,970	54,157,431	206,924,600	161,866,932
Management and other professional fees	25,352,545	19,939,803	119,660,339	79,120,436
Depreciation and amortization	26,130,519	20,171,941	70,409,161	55,022,344
Insurance	23,013,649	6,867,177	59,877,033	38,368,791
Representation and entertainment	7,367,409	6,259,071	22,876,828	17,716,905
Miscellaneous	<u>86,378,473</u>	<u>70,927,453</u>	<u>253,478,274</u>	<u>232,174,514</u>
	<u>320,141,523</u>	<u>256,170,701</u>	<u>1,015,287,786</u>	<u>801,773,424</u>
<b>PROFIT BEFORE TAX</b>	238,044,735	144,631,069	1,027,427,616	671,324,090
<b>TAX EXPENSE</b>	<u>29,879,680</u>	<u>17,171,417</u>	<u>24,437,276</u>	<u>47,222,269</u>
<b>NET PROFIT</b>	<u>P 208,165,055</u>	<u>P 127,459,652</u>	<u>P 1,002,990,340</u>	<u>P 624,101,821</u>
<b>Earnings Per Share</b>				
Basic			<u>P 2.92</u>	<u>P 2.58</u>
Diluted			<u>P 2.92</u>	<u>P 2.58</u>

**PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK**  
**UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR NINE MONTHS ENDED SEPTEMBER 30, 2013, AND SEPTEMBER 30, 2012**  
*(Amounts in Philippine Pesos)*

	<b>For the quarter ended Sept. 30, 2013</b>	<b>For the quarter ended Sept. 30, 2012</b>	<b>Unaudited For the nine months ended Sept. 30, 2013</b>	<b>Audited For the nine months ended Sept. 30, 2012</b>
<b>NET PROFIT</b>	<u><b>P 208,165,055</b></u>	<u>P 127,459,652</u>	<u><b>P 1,002,990,340</b></u>	<u>P 624,101,821</u>
<b>OTHER COMPREHENSIVE INCOME</b>				
Fair value loss on available-for-sale securities during the year - net	<u>( 100,216,695 )</u>	422,012,301	<u>( 817,796,027 )</u>	128,149,169
Fair value (loss) gain recycled to profit or loss	<u>( 490,510 )</u>	<u>( 383,672,717 )</u>	<u>( 323,893,499 )</u>	<u>( 383,806,910 )</u>
	<u>( 100,707,205 )</u>	<u>38,339,584</u>	<u>( 1,141,689,526 )</u>	<u>( 255,657,741 )</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u><b>P 107,457,850</b></u>	<u>P 165,799,236</u>	<u>( 138,699,186 )</u>	<u>P 368,444,080</u>

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK  
 UNAUDITED STATEMENTS OF CHANGES IN EQUITY  
 FOR NINE MONTHS ENDED SEPTEMBER 30, 2013, AND SEPTEMBER 30, 2012  
 (Amounts in Philippine Pesos)

	<u>Capital Stock</u>		<u>Surplus</u>		Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Total Equity
	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Appropriated</u>	<u>Unappropriated</u>		
BALANCE AS OF JANUARY 1, 2013	P 620,000,000	P 2,420,000,000	P 873,498	P 1,038,902,212	P 322,575,800	P 4,402,351,510
Proceeds from capital stock issuance	-	3,000,000,000	-	-	-	P 3,000,000,000
Total comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002,990,342</u>	<u>( 1,141,689,526 )</u>	<u>( 138,699,184 )</u>
<b>BALANCE AS OF SEPTEMBER 30, 2013</b>	<b><u>P 620,000,000</u></b>	<b><u>P 5,420,000,000</u></b>	<b><u>P 873,498</u></b>	<b><u>P 2,041,892,554</u></b>	<b><u>( 819,113,726 )</u></b>	<b><u>P 7,263,652,326</u></b>
BALANCE AS OF JANUARY 1, 2012	P 245,000,000	P 420,000,000	P 277,564	P 2,485,562,794	P 521,895,286	P 3,672,735,644
Appropriation for trust reserves	-	-	441,180	( 441,180 )	-	-
Collection of subscription receivable	375,000,000					375,000,000
Total comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>624,101,821</u>	<u>( 255,657,741 )</u>	<u>368,444,080</u>
<b>BALANCE AS OF SEPTEMBER 30, 2012</b>	<b><u>P 620,000,000</u></b>	<b><u>P 420,000,000</u></b>	<b><u>P 718,744</u></b>	<b><u>P 3,109,223,435</u></b>	<b><u>P 266,237,545</u></b>	<b><u>P 4,416,179,724</u></b>

**PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK**  
**UNAUDITED STATEMENTS OF CASH FLOWS**  
**FOR NINE MONTHS ENDED SEPTEMBER 30, 2013, AND SEPTEMBER 30, 2012**  
*(Amounts in Philippine Pesos)*

	<u>Unaudited</u> <u>2013</u>	<u>Audited</u> <u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	P 1,027,427,618	P 671,324,090
Adjustments for:		
Depreciation and amortization	70,409,161	55,022,344
Impairment losses	162,331,033	68,262,481
Loss (gain) on foreclosure - net	-	1,006,665
Gain on sale of properties - net	<u>-</u>	<u>( 10,723,650 )</u>
Operating profit before working capital changes	1,260,167,812	784,891,930
Increase in financial assets at fair value through profit or loss	( 1,424,082,413 )	( 4,824,338,528 )
Increase in hold to maturity	( 8,912,599 )	
Increase in loans and other receivables	( 7,480,110,614 )	( 1,624,382,039 )
Increase in other resources	( 224,976,196 )	( 464,623,221 )
Increase in deposit liabilities	7,386,055,769	1,811,054,996
Increase in accrued expenses and other liabilities	<u>908,353,253</u>	<u>453,067,367</u>
Cash generated from (used in) operations	416,495,012	( 3,864,329,495 )
Cash paid for income taxes	<u>( 73,136,586 )</u>	<u>( 68,584,908 )</u>
Net Cash From (Used in) Operating Activities	<u>343,358,426</u>	<u>( 3,932,914,403 )</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale (AFS) securities	18,843,347,443	1,675,541,547
Proceeds from sale of AFS securities	( 22,526,713,479 )	-
Proceeds from sale of investment and other properties	56,943,637	62,030,276
Net acquisitions of bank premises, furniture, fixtures and equipment	<u>( 121,911,201 )</u>	<u>( 87,610,355 )</u>
Net Cash From (Used In) Investing Activities	<u>( 3,748,333,600 )</u>	<u>1,649,961,468</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (payments) of bills payable	( 109,575,054 )	775,515,495
Proceeds from capital stock issuance	3,000,000,000	
Collection of subscription receivable	<u>-</u>	<u>375,000,000</u>
Net Cash From (Used in) Financing Activities	<u>2,890,424,946</u>	<u>1,150,515,495</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>( 514,550,228 )</u>	<u>( 1,132,437,440 )</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		
Cash and other cash items	435,898,545	297,076,011
Due from Bangko Sentral ng Pilipinas	3,073,180,153	1,119,319,376
Due from other banks	1,000,089,458	630,690,655
Securities purchased under reverse repurchase agreements	<u>-</u>	<u>2,754,000,000</u>
	<u>4,509,168,156</u>	<u>4,801,086,042</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		
Cash and other cash items	396,498,962	243,337,009
Due from Bangko Sentral ng Pilipinas	3,070,172,401	1,270,632,113
Due from other banks	527,946,565	1,138,679,480
Securities purchased under reverse repurchase agreements	<u>-</u>	<u>1,016,000,000</u>
	<u>P 3,994,617,928</u>	<u>P 3,668,648,602</u>



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

**1. CORPORATE MATTERS**

*Incorporation and Operations*

Philippine Business Bank, Inc. A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to adoption and use of safe and sound banking practices as promulgated by the BSP.

As of September 30, 2013, the Bank operates within the Philippines with 91 branches, respectively, located nationwide.

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

The Bank's unissued common shares were subsequently approved for initial public offering and were listed at the main board of the Philippine Stock Exchange (PSE) on February 19, 2013.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Basis of Preparation of Financial Statements*

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

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

Under PFRS, the Bank is not allowed to classify financial assets under HTM investments for at least two years upon tainting of its investments in 2006. However, in 2008, the Bank reclassified financial assets previously classified as AFS securities due to tainting of HTM investments portfolio back to HTM category for prudential reporting purposes as allowed under FRSP.

The unamortized fair value gains related to debt securities previously reclassified from AFS securities to HTM investments amounted to P0.2 million in December 31, 2012 and nil for September 30, 2013.

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

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

*b) Presentation of Financial Statements*

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

The Bank early adopted PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*, which is mandatorily effective for annual periods beginning January 1, 2013.

*c) Functional and Presentation Currency*

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

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

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

*a) Effective in 2012 that are Relevant to the Bank*

In 2012, the Bank adopted the following amendments to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:Income Taxes – Deferred Tax: Recovery of Underlying Assets

Discussed below are the relevant information about these amended standards.

- PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Bank did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Bank's disclosures in its financial statements.
- PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value under PAS 40, *Investment Property* should reflect the tax consequence of recovering the carrying amount of the asset entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretation Committee 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* should always be measured on a sale basis of the asset. The amendment has no significant impact on the Bank's financial statements as the Bank's investment properties and land classified as bank premises, furniture, fixture, and equipment are measured at cost.

b) *Effective in 2012 that is not Relevant to the Bank*

PFRS 1, *First-time Adoption of PFRS*, was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Bank's financial statements.

c) *Early Adoption of PAS 1 (Amendment), Presentation of Financial Statements*

In the preparation of the 2012 financial statements, the Bank adopted PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*, which is mandatorily effective from January 1, 2013. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for the opening statement of financial position

If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

Other than disclosure of certain specified information in Note 18.03, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

d) *Effective Subsequent to 2012 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements.

- PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Bank's management expects that this will not affect the presentation of items in other comprehensive income since the Bank's other comprehensive income only includes unrealized fair value gains or losses on AFS securities which can be reclassified to profit or loss when specified conditions are met.
- PAS 19 (Revision), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
  - (1) eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
  - (2) streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
  - (3) enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed through participation in those plans.
- PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including

those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the Bank's financial position. The amendment affects disclosures only and has no impact on the bank's financial position or performance.

- PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Bank.
- PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable in the normal course of business; in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Bank does not expect this amendment to have a significant impact on its financial statements.
- PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

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

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to International Financial Reporting Standard (IFRS) 9's financial asset classification model to address certain application issues.

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

- 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, only PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*, is relevant to the Company but management does not expect a material impact on the Company's financial statements:

The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

- PAS 27, *Separate Financial Statements* (as revised in 2011) As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. This standard will have no material impact on the Group's financial position and performance upon its adoption.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011) As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. This standard is not applicable to the Group.
- PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. The exception will give first time adopters relief from retrospective measurement of government loans with a below market rate of interest. As a result of not applying PFRS 9 (or IAS 39, as applicable) and PAS 20 retrospectively, first-time adopters will not have to recognize the corresponding benefit of a below-market rate government loan as a government grant. This standard is not applicable to the Group.
- PFRS 10, *Consolidated Financial Statements* - PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.
- PFRS 11, *Joint Arrangements* - PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation.

Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard is not applicable to the Group.

- PFRS 12, *Disclosure of Interests in Other Entities* – PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of the standard has no material impact on the financial position or performance of the Group.

### ***Segment Reporting***

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

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

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

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

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

### *(a) Impairment of AFS Securities*

The Bank follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that no assets are impaired as of September 30, 2013 and December 31, 2012. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

### *(b) Fair Value of Financial Assets and Liabilities*

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

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

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
  - Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- (c) The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

As of September 30, 2013, financial assets at FVTPL, AFS and HTM securities amounting to Php1,424.08 million, Php8,772.4 and 8.91 million, are the only financial assets (nil for liabilities) measured at fair value while as of December 31, 2012, AFS securities amounting to P5,784.5 million, are the only financial assets (nil for liabilities) measured at fair value

The financial asset values are determined under Level 1 of the fair value hierarchy.

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

The following table summarizes the cost and fair values of those financial assets and liabilities not presented in the statement of financial position as financial assets at FVTPL and AFS securities:

	<b>September 30, 2013</b>	
	Cost	Fair Value
<i><u>Financial Resources:</u></i>		
Cash and other cash items	<b>P 396,498,962</b>	<b>P 396,498,962</b>
Due from BSP	<b>3,070,172,401</b>	<b>3,070,172,401</b>
Due from other banks	<b>527,946,565</b>	<b>527,946,565</b>
Loans and other receivables	<b>28,816,599,803</b>	<b>28,186,932,302</b>
Other resources	<b>56,695,878</b>	<b>56,695,878</b>
<i><u>Financial Liabilities:</u></i>		
Deposit liabilities	<b>33,866,246,586</b>	<b>P 33,866,246,586</b>
Bills payable	<b>656,525,009</b>	<b>656,525,009</b>
Accrued expenses and other liabilities	<b>2,356,975,643</b>	<b>2,356,975,643</b>



December 31, 2012

	Cost	Fair Value
<i>Financial Resources:</i>		
Cash and other cash items	P 435,898,545	P 435,898,545
Due from BSP	3,073,180,153	3,073,180,153
Due from other banks	1,000,089,458	1,000,089,458
Loans and other receivables	21,426,766,835	20,869,152,721
Other resources	46,303,372	46,303,372
<i>Financial Liabilities:</i>		
Deposit liabilities	P 26,448,886,738	P 26,448,886,738
Bills payable	765,489,517	765,489,517
Accrued expenses and other liabilities	1,426,270,239	1,426,270,239

*(i) Due from BSP and other banks*

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

*(ii) Loans and other receivables*

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

*(iii) Other resources*

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

*(iv) Deposit and bills payable*

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

*(v) Accrued expenses and other liabilities*

Accrued expenses and other liabilities, except for post-employment benefit obligation and tax

liabilities, are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

#### 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

##### Liquidity Risks

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

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

For the period ending Sept. 30, 2013, the MCO of the Bank did not exceed the limit set by the BOD. The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of Sept. 30, 2013 and June 30, 2013 is presented below (amounts in thousands).

in THOU PHP

	Sep-13	Jun-13
MCO	4,296,333	2,241,173

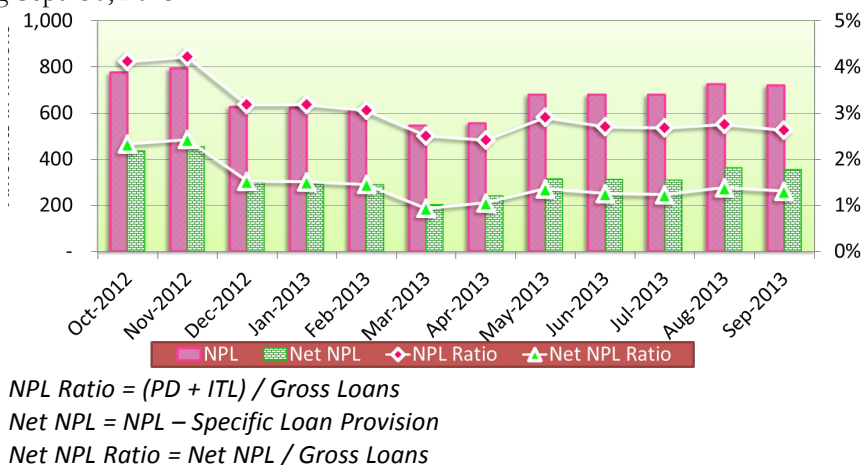
##### Credit Risks

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

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

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

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios. As of Sept 30, 2013, the ratio of the Bank's loan loss provisions to its non-performing loans is at 88%. The table below shows the NPL and Net NPL trend of the Bank for the 12-month period ending Sept. 30, 2013:



### Interest Rate Risks

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

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

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

For the period ending Sept. 30, 2013, the EAR of the Bank did not exceed the limit set by the BOD.

in THOU PHP

	Sep-13	Jun-13
EAR	77,731	126,315

### Price Risks

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (VaR) methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity

of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days). As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Philippine Dealing Exchange Corporation and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and 10 days consistent with best practices and BSP standards.

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

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

Table below shows HFT and FX VaR statistics from Jan-Sept 2013:

### Value-at-Risk

in Thou PHP

	HFT	FX
<b>Average</b>	11,529	707
<b>High</b>	37,127	2,505
<b>Low</b>	1,036	14

### FX Risks

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

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

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

## 5. SEGMENT REPORTING

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

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

- (a) **Consumer banking** – includes auto financing, home financing, and salary or personal loans;
- (b) **Commercial banking** – includes term loans, working capital credit lines, bills purchase and discounting lines; and,
- (c) **Treasury Operations** – manages liquidity of the Bank and is a key component in revenue and income generation through its investment and trading activities.

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

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

The contribution of these various business activities to the Bank's revenues and income for the nine months period ended September 30, 2013:

#### Statement of Income

<b>Period Ended September 30, 2013 (Unaudited)</b>	<b>Commercial Banking</b>	<b>Consumer Banking</b>	<b>Treasury Operations</b>	<b>Total</b>
Net interest income	878	89	260	1,227
Non-interest income	121	0	857	978
Total income (after interest expense)	999	89	1117	2,205
Operating expenses	832	41	305	1,178
Pre-tax profit	167	48	812	1,027
Net profit	162	47	794	1,003

### Statement of Financial Position

<b>Period Ended September 30, 2013 (Unaudited)</b>	<b>Commercial Banking</b>	<b>Consumer Banking</b>	<b>Treasury Operations</b>	<b>Total</b>
Total Resources				
Segment assets	28,242	1,867	13,754	43,863
Intangible assets				32
Deferred tax assets				248
	28,242	1,867	13,754	44,143
Total Liabilities	24,339	1,474	11,067	36,880
Other segment information				
Depreciation and amortization	34	2	15	51
Capital expenditures	18	1	8	27

The contribution of these various business activities to the Bank's revenues and income for the nine months period ended September 30, 2012:

### Statement of Income

<b>Period Ended September 30, 2012</b>	<b>Commercial Banking</b>	<b>Consumer Banking</b>	<b>Treasury Operations</b>	<b>Total</b>
Net interest income	542	58	178	778
Non-interest income	133	0	630	763
Total income (after interest expense)	675	58	808	1,541
Operating expenses	580	27	263	870
Pre-tax profit	95	31	545	671
Net profit	88	29	507	624

## Statement of Financial Position

Period September 30, 2012	Commercial Banking	Consumer Banking	Treasury Operations	Total
Total Resources				
Segment assets	20,165	1,020	8,264	29,450
Intangible assets				17
Deferred tax assets				195
	20,165	1,020	8,264	29,662
Total Liabilities	16,126	842	8,278	25,246
Other segment information				
Depreciation and amortization	35	2	18	55
Capital expenditures	26	1	14	41

### 6. CASH AND DUE FROM BSP

This account is composed of the following:

	2013	2012
Cash and other cash items	<u>P 396,498,962</u>	<u>P 435,898,545</u>
Due from BSP		
Mandatory reserves	1,824,172,401	1,488,180,153
Other than mandatory reserves	<u>1,246,000,000</u>	<u>1,585,000,000</u>
	<u>3,070,172,401</u>	<u>3,073,180,153</u>
	<u>P 3,466,671,363</u>	<u>P 3,509,078,698</u>

### 7. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2013	2012
Local banks	<u>P 478,352,685</u>	<u>P 796,043,987</u>
Foreign banks	<u>49,593,880</u>	<u>204,045,471</u>
	<u>P 527,946,565</u>	<u>P 1,000,089,458</u>

The breakdown of due from other banks by currency follows:

	<u>2013</u>	<u>2012</u>
US dollars	<b>P 231,608,516</b>	P 864,129,447
Philippine pesos	<b><u>296,338,049</u></b>	<u>135,960,011</u>
	<b><u>P 527,946,565</u></b>	<u>P 1,000,089,458</u>

#### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held for trading government securities with fair value of Php1,424.08 million as of September 30, 2013 (nil as of December 31, 2012) which earn interest ranging from 5.87% to 8.13% per annum. Total interest income earned amounted to Php13.34 million and Php73.5 million in September 2013 and September 2012 respectively and is included as part of Interest Income on Investment Securities in the statement of income. Related unrealized fair value gains, presented as part of Trading Gains – net in September 2013 and September 2012 statement of income, amounted to Php27.6 million and Php29.0 million respectively. Realized trading gains, presented as part of Trading Gains – net in September 2013 and September 2012 statements of income, amounted to Php102.02 million and 44.2 million, respectively.

#### 9. AVAILABLE-FOR-SALE SECURITIES

This account is mainly composed of the following:

	<u>2013</u>	<u>2012</u>
Government securities	<b>P 7,119,297,731</b>	P 4,895,202,574
Other private debt instruments	<b><u>1,206,915,368</u></b>	<u>889,334,015</u>
	<b><u>P 8,326,213,099</u></b>	<u>P 5,784,536,589</u>

As to currency, this account consists of the following:

	<u>2013</u>	<u>2012</u>
Philippine pesos	<b>P 5,793,663,217</b>	P 4,497,597,109
Foreign currencies	<b><u>2,532,549,882</u></b>	<u>1,286,939,480</u>
	<b><u>P 8,326,213,099</u></b>	<u>P 5,784,536,589</u>



Changes in the AFS securities are summarized below.

	2013	2012
Balance at beginning of year	5,784,536,589	P 5,710,865,521
Additions	18,843,347,443	13,528,772,418
Disposals	(15,213,687,223)	(13,137,527,190)
Fair value gains	(817,796,027)	185,130,710
Foreign currency revaluation	76,930,464	(119,891,281)
Amortization of premium	(347,118,147)	(382,813,589)
	<u>P 8,326,213,099</u>	<u>P 5,784,536,589</u>

## 10. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

	2013	2012
Receivables from customers:		
Loans and discounts	P 22,627,121,573	P 16,289,726,871
Bills purchased	1,136,525,454	742,197,945
Customers' liabilities on acceptances, letters of credit and trust receipts	<u>3,535,213,828</u>	<u>2,650,658,670</u>
	27,298,860,855	19,682,583,486
Unearned discount	<u>(99,089,406)</u>	<u>(50,518,495)</u>
	<u>27,199,771,449</u>	<u>19,632,064,91</u>
Other receivables:		
Unquoted debt securities	1,246,997,266	1,450,830,479
Accrued interest receivable	150,544,651	114,753,768
Sales contracts receivable	118,744,537	94,217,865
Accounts receivable	79,796,735	86,343,332
Deficiency claims receivable – net	20,745,165	43,366,498
SPURRA	-	-
Others		5,169,902
	<u>1,616,828,354</u>	<u>1,794,701,844</u>
Allowance for impairment losses	28,816,599,803	21,426,766,835
	<u>(629,667,501)</u>	<u>(557,614,114)</u>
	<u>P 28,186,932,302</u>	<u>P 20,869,152,721</u>

As of September 30, 2013 and December 31, 2012 non-performing loans of the Bank amounted to Php713.5 million and Php607.6 million, respectively, while restructured loans amounted to Php116.7

million and Php133.58 million, respectively.

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

	<b>2013</b>	2012
Within one year	<b>P 19,563,755</b>	P 15,620,655
Beyond one year	<b><u>7,735,106</u></b>	<u>4,061,928</u>
	<b><u>P 27,298,861</u></b>	<u>P 19,682,583</u>

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

	<b>2013</b>	2012
Wholesale and retail trade	<b>P 9,127,405</b>	P 7,371,658
Manufacturing (various industries)	<b>4,598,525</b>	3,397,525
Real estate, renting and other related activities	<b>3,367,613</b>	2,484,314
Agriculture	<b>450,982</b>	495,271
Others	<b>9,754,336</b>	5,933,815
	<b><u>P 27,298,861</u></b>	<u>P 19,682,583</u>

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

	<b>2013</b>	2012
Secured:		
Real estate mortgage	<b>P 7,680,337</b>	P 5,946,384
Deposit hold-out	<b>1,610,502</b>	1,475,719
Chattel mortgage	<b>1,724,472</b>	1,431,387
Others	<b>1,491,829</b>	238,238
Unsecured	<b>14,791,721</b>	10,590,855
	<b><u>P 27,298,861</u></b>	<u>P 19,682,583</u>

## 11. CAPITAL STOCK

Capital stock consists of:

	Number of Shares		Amount	
	Sept 30, 2013 Unaudited	Dec 31, 2012 Audited	Sept 30, 2013 Unaudited	Dec 31, 2012 Audited
Preferred shares - P10 par value				
Authorized - 130,000,000 shares				
Issued and subscribed				
Balance at beginning of period	62,000,000	6,200,000	620,000,000	620,000,000
Change in par value		55,800,000		
Balance at end of period	62,000,000	62,000,000	620,000,000	620,000,000
Subscriptions receivable				
Balance at beginning of period				(375,000,000)
Collections during the year				375,000,000
Balance at end of period			620,000,000	620,000,000
Common shares - P10 par value				
Authorized - 870,000,000 shares				
Balance at beginning of period	242,000,000	4,200,000	2,420,000,000	420,000,000
Capital stock insurance	101,333,400		1,013,334,000	
Paid-in capital			1,986,666,000	
Stock dividends		20,000,000		2,000,000,000
Change in par value		217,800,000		
Balance at beginning of period	343,333,400	242,000,000	5,420,000,000	2,420,000,000

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

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

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

As of December 31, 2012, the Bank has eight stockholders owning 100 or more common shares each of the Bank's capital stock.

Bank's total equity as of September 30, 2013 is Php7.264billion 64.99% increase over equity as of December 31, 2012 of of Php 4.402billion , the increase was due to the February 19, 2013 Public Listing of PBB Shares amounting to Php3.192B, this shares are 100,333,400 at market price of Php31.50 during its IPO, equivalent to 29.51% of the total bank shares and the banks 2012 earnings of Php593million.

## 12. RELATED PARTY TRANSACTIONS

The Bank's related parties include entities under common ownership, key management and others. These includes Loans and Deposit Liabilities to related parties as of September 30, 2013 and December 31, 2012 amounted to Php1.19 billion and Php0.78 billion, and Php6.99 billion and Php5.66 billion respectively.

## 13. EARNINGS PER SHARE

Basic Earnings Per Share

	For the Six Months Ended			
	September 30, 2013		September 30, 2012	
	Unaudited		Audited	
Net profit	<b>P</b>	<b>1,002,990,340</b>	P	624,101,821
Dividends on preferred shares		-		-
Net profit attributable to common shareholders		<b>1,002,990,340</b>		624,101,821
Dividend by the weighted average number of outstanding common shares		<b>343,333,400</b>		242,000,000
Basic earnings per share		<b><u>P 2.92</u></b>		<b><u>P 2.58</u></b>

As of September 30, 2013 and December 2012, the Bank has no convertible preferred shares

#### 14. EQUITY TRANSACTIONS

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

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

#### 15. APPLICATION OF PROCEEDS FROM IPO

For the quarter ended September 30, 2013, the applications of the net proceeds are broken down as follows:

Use of Proceeds	Amount in Pesos
Available-for-Sale (AFS) Financial Assets	330,012,975.78
Branch Expansion	49,570,273.32
Information Technology Infrastructure	29,037,230.70
General Corporate Purpose	2,600,000,000.00
<b>Total</b>	<b>3,008,620,479.80</b>

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

**SCHEDULE OF AGING OF LOANS RECEIVABLES**  
**(PSE Requirement per Circular No. 2164-99)**  
**As of September 30, 2013**

Current Accounts (by maturity)	
Up to 12 months	20,240,207,079
Over 1 year to 3 years	2,918,046,761
Over 3 years to 5 years	1,391,291,230
Over 5 years	2,041,866,897
Past due and items in litigations	707,448,888
Loans Receivables (gross)	27,298,860,855
Less:	
Unearned and other deferred income	99,089,406
Allowance for credit losses	629,667,501
Loans Receivables (Net)	26,570,103,948

**CONSOLIDATED FINANCIAL RATIOS**  
**(As Required by SRC Rule)**

	September 30, 2013	September 30, 2012
Current Ratio <sup>(1)</sup>	113.35%	92.44%
Solvency Ratio <sup>(2)</sup>	1.20%	1.17%
Debt-to-equity <sup>(3)</sup>	5.09%	5.72%
Asset-to-equity <sup>(4)</sup>	6.09%	6.72%
Interest rate coverage ratio <sup>(5)</sup>	376.82%	245.30%
Return on Equity <sup>(6)</sup>	19.33%	15.43%
Return on Assets <sup>(7)</sup>	3.88%	2.25%
Net Interest Margin <sup>(8) (9)</sup>	4.48%	2.99%
Cost-to-Income Ratio <sup>(10)</sup>	46.04%	40.02%

**Notes:**

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