Metrobank

March 2, 2015

Janet A. Encarnacion
Head, Disclosure Department
Philippine Stock Exchange
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Dear Ms. Encarnacion:

We submit a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 and the corresponding Management Discussion and Analysis.

Very truly yours,

Juan Placido T. Mapa III
Head, Investor Relations

COVER SHEET

2 0 5 7 3

SEC Registration Number

M E T R O P O L I T A N   B A N K   &   T R U S T   C O M P A N Y

(Company's Full Name)

M e t r o b a n k   P l a z a,   S e n.   G i l   J.   P u y a t

A v e n u e,   1 2 0 0   M a k a t i   C i t y

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

LAARNI D. BERNABE

(Contact Person)

898-8733

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Fiscal Year)

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(Form Type)

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Month *Day*

(Annual Meeting)

NONE

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2 (C) THEREUNDER

1. March 2, 2015
   Date of Report

2. SEC Identification Number 20573 3. BIR Tax Identification No. 000-477-863

4. METROPOLITAN BANK & TRUST COMPANY
   Exact name of issuer as specified in its charter

5. Manila
   Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
   Industry Classification Code:

7. Metrobank Plaza, Sen. Gil J. Puyat Ave., Makati City 1200
   Address of principal office Postal Code

8. (02) 898-8000
   Issuer's telephone number, including area code

9. N.A.
   Former name or former address, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Shares	2,744,801,066

11. Indicate the item numbers reported herein:

Item No. 9 – Other Events

Attached is a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 and the corresponding Management Discussion and Analysis.

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 hereunto duly authorized.

METROPOLITAN BANK & TRUST COMPANY
Issuer

By:

MARILOU C. BARTOLOME
Senior Vice President/Controller

MANAGEMENT'S DISCUSSION AND ANALYSIS

The highlights of the Group's statements of financial position and statements of income as of and for the three years in the period ended December 31, 2014 are presented below.

Statements of Financial Position
(Amounts in millions)

	December 31			Increase (Decrease) 2014 vs. 2013		Increase (Decrease) 2013 vs. 2012	
	2014	**2013**	**2012**	**Amount**	%	**Amount**	%
Assets							
Cash and Other Cash Items	₱34,943	₱29,742	₱24,382	₱5,201	**17.49**	₱5,360	**21.98**
Due from Bangko Sentral ng Pilipinas (BSP)	215,253	166,774	131,278	48,479	**29.07**	35,496	**27.04**
Due from Other Banks	38,200	26,275	22,996	11,925	**45.39**	3,279	**14.26**
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	119,839	122,011	23,392	(2,172)	(1.78)	98,619	**421.59**
Financial Assets at Fair Value Through Profit or Loss (FVPL)	45,935	55,441	72,920	(9,506)	**(17.15)**	(17,479)	**(23.97)**
Available-for-Sale (AFS) Investments	207,711	273,429	123,041	(65,718)	**(24.03)**	150,388	**122.23**
Held-to-Maturity (HTM) Investments	129,076	38,425	51,451	90,651	**235.92**	(13,026)	**(25.32)**
Loans and Receivables	759,481	611,064	525,895	148,417	**24.29**	85,169	**16.20**
Investments in Associates and a Joint Venture	2,589	6,274	14,868	(3,685)	**(58.73)**	(8,594)	**(57.80)**
Property and Equipment	16,231	15,756	15,345	475	3.01	411	2.68
Investment Properties	10,037	13,125	15,422	(3,088)	**(23.53)**	(2,297)	**(14.89)**
Non-Current Asset Held For Sale	-	-	1,102	-	-	(1,102)	**(100.00)**
Deferred Tax Assets	6,831	7,190	8,871	(359)	(4.99)	(1,681)	**(18.95)**
Goodwill	5,201	5,206	6,409	(5)	(0.10)	(1,203)	**(18.77)**
Other Assets	13,213	7,857	9,271	5,356	**68.17**	(1,414)	**(15.25)**
Total Assets	₱1,604,540	₱1,378,569	₱1,046,643	₱225,971	**16.39**	₱331,926	**31.71**

Liabilities and Equity							
Liabilities							
Deposit Liabilities	₱1,184,454	₱1,016,268	₱738,694	₱168,186	**16.55**	₱277,574	**37.58**
Bills Payable and Securities Sold Under Repurchase Agreements	140,399	127,204	97,108	13,195	**10.37**	30,096	**30.99**
Derivative Liabilities	3,071	4,452	6,692	(1,381)	**(31.02)**	(2,240)	**(33.47)**
Manager's Checks and Demand Drafts Outstanding	4,653	3,927	3,489	726	**18.49**	438	**12.55**
Income Taxes Payable	1,191	676	1,326	515	**76.18**	(650)	**(49.02)**
Accrued Interest and Other Expenses	9,874	8,507	8,341	1,367	**16.07**	166	1.99
Bonds Payable	11,444	11,643	11,556	(199)	(1.71)	87	0.75
Subordinated Debts	29,452	8,628	14,243	20,824	**241.35**	(5,615)	**(39.42)**
Deferred Tax Liabilities	457	479	244	(22)	(4.59)	235	**96.31**
Other Liabilities	60,760	54,080	40,241	6,680	**12.35**	13,839	**34.39**
Total Liabilities	1,445,755	1,235,864	921,934	209,891	**16.98**	313,930	**34.05**

	December 31			Increase (Decrease) 2014 vs. 2013		Increase (Decrease) 2013 vs. 2012	
	2014	**2013**	**2012**	**Amount**	%	**Amount**	%
Equity							
Equity Attributable to Equity Holders of the Bank							
Common stock	₱54,896	₱54,896	₱42,228	₱-	**-**	₱12,668	**30.00**
Hybrid capital securities	6,351	6,351	6,351	-	**-**	-	**-**
Capital paid in excess of par value	19,312	19,312	19,312	-	**-**	-	**-**
Surplus reserves	1,371	1,235	1,108	136	**11.01**	127	**11.46**
Surplus	72,258	55,525	48,418	16,733	**30.14**	7,107	**14.68**
Treasury stock	(30)	-	-	(30)	**-**	-	**-**
Remeasurement losses on retirement plan	(2,440)	(2,870)	(2,011)	430	**14.98**	(859)	**(42.72)**
Net unrealized gain (loss) on AFS investments	(2,394)	(481)	2,439	(1,913)	**(397.71)**	(2,920)	**(119.72)**
Equity in other comprehensive income of associates	260	272	757	(12)	(4.41)	(485)	**(64.07)**
Translation adjustment and others	545	647	(869)	(102)	**(15.77)**	1,516	**174.45**
	150,129	**134,887**	**117,733**	**15,242**	**11.30**	**17,154**	**14.57**
Non-controlling Interest	8,656	7,818	6,976	838	**10.72**	842	**12.07**
Total Equity	158,785	142,705	124,709	16,080	**11.27**	17,996	**14.43**
Total Liabilities and Equity	₱1,604,540	₱1,378,569	₱1,046,643	₱225,971	**16.39**	₱331,926	**31.71**

Statements of Income

Interest Income	₱59,294	₱49,892	₱45,016	₱9,402	**18.84**	₱4,876	**10.83**
Interest and Finance Charges	13,531	11,623	14,162	1,908	**16.42**	(2,539)	**(17.93)**
Net Interest Income	45,763	38,269	30,854	7,494	**19.58**	7,415	**24.03**
Other Operating Income	29,131	40,655	26,224	(11,524)	**(28.35)**	14,431	**55.03**
Total Operating Income	74,894	78,924	57,078	(4,030)	**(5.11)**	21,846	**38.27**
Total Operating Expenses	45,773	49,497	37,853	(3,724)	**(7.52)**	11,644	**30.76**
Income Before Share in Net Income of Associates and a Joint Venture	29,121	29,427	19,225	(306)	(1.04)	10,202	**53.07**
Share in Net Income of Associates and a Joint Venture	443	1,477	2,548	(1,034)	**(70.01)**	(1,071)	**(42.03)**
Income Before Income Tax	29,564	30,904	21,773	(1,340)	(4.34)	9,131	**41.94**
Provision for Income Tax	6,459	6,748	3,856	(289)	(4.28)	2,892	**75.00**
Net Income	₱23,105	₱24,156	₱17,917	(₱1,051)	(4.35)	₱6,239	**34.82**
Attributable to:							
Equity holders of the Bank	₱20,113	₱22,488	₱15,399	(₱2,375)	**(10.56)**	₱7,089	**46.04**
Non-controlling interest	2,992	1,668	2,518	1,324	**79.38**	(850)	**(33.76)**
	₱23,105	₱24,156	₱17,917	(₱1,051)	(4.35)	₱6,239	**34.82**

Statements of Comprehensive Income

Net Income	₱23,105	₱24,156	₱17,917	(₱1,051)	(4.35)	₱6,239	**34.82**
Other Comprehensive Income for the Year, net of tax							
Items that may not be reclassified to profit or loss: Change in remeasurement loss of retirement liability	363	(897)	(556)	1,260	**140.47**	(341)	**(61.33)**
Items that may be reclassified to profit or loss: Change in net unrealized gain/loss on AFS investments	(2,015)	(2,917)	(2,517)	902	**30.92**	(400)	**(15.89)**
Change in equity in other comprehensive income of associates	(12)	(498)	330	486	**97.59**	(828)	**(250.91)**
Translation adjustment and others	(1,182)	1,746	(2,099)	(2,928)	**(167.70)**	3,845	**183.18**
	(3,209)	(1,669)	(4,286)	(1,540)	**(92.27)**	2,617	**61.06**
Total Comprehensive Income for the Year	₱20,259	₱21,590	₱13,075	(₱1,331)	(6.16)	₱8,515	**65.12**
Attributable to:							
Equity holders of the Bank	₱18,516	₱19,740	₱12,256	(₱1,224)	(6.20)	₱7,484	**61.06**
Non-controlling Interest	1,743	1,850	819	(107)	**(5.78)**	1,031	**125.89**
	₱20,259	₱21,590	₱13,075	(₱1,331)	(6.16)	₱8,515	**65.12**

Key Performance Indicators

The performance of the Bank and its significant majority-owned subsidiaries are measured by the following key indicators:

Company Name	Performance Indicators				
	Book Value Per Share	Basic/ Diluted Earnings Per Share	Return on Average Equity	Return on Average Assets	Net Interest Margin on Average Earning Assets

For the Year 2014

Metrobank Group	₱52.40	₱7.15	14.11%	1.35%	3.73%
FMIC (a)	48.93	6.27	12.59%	3.06%	1.91%
PSBank	73.80	9.65	13.64%	1.68%	6.58%
MCC	6.58	2.55	40.11%	5.74%	14.43%

For the Year 2013

Metrobank Group	₱46.83	₱8.02	17.80%	1.85%	3.90%
FMIC (a)	50.70	30.96	68.34%	13.54%	4.25%
PSBank	67.69	12.19	18.72%	2.38%	5.88%
MCC	6.12	2.01	34.49%	5.53%	15.19%

(a) FMIC and Subsidiaries

A separate schedule showing financial soundness indicators of the Group as of December 31, 2014 and 2013 is presented in Exhibit “A” as an attachment to this report.

2014 Performance

Financial Position

The Metrobank Group closed the year 2014 with audited consolidated total assets at ₱1.60 trillion up by ₱225.97 billion from ₱1.38 trillion as of December 31, 2013. Consolidated total liabilities likewise increased to ₱1.45 trillion from ₱1.24 trillion as funds sourced from total deposit liabilities, bills payable and securities sold under repurchase agreements (SSURA) and subordinated debts increased by ₱168.19 billion, ₱13.20 billion and ₱20.82 billion, respectively. With the continued focus on asset quality, the NPL ratio of the Group further improved to 1.03% from 1.29% in 2013. Meanwhile, equity attributable to equity holders of the Bank grew by ₱15.24 billion or 11.30% from ₱134.89 billion to ₱150.13 billion.

Cash and Other Cash Items increased by ₱5.20 billion or 17.49% due to the higher level of cash requirements of the Parent Company and PSBank. Due from BSP which represents 13.41% of the Group’s total assets increased by ₱48.48 billion or 29.07% due to higher balance of SDA maintained with the BSP. On the other hand, Due from Other Banks was higher by ₱11.93 billion or 45.39% as a result of the net movements in the balances maintained with various local and foreign banks.

HTM Investments went up by ₱90.65 billion or 235.92% due to the ₱96.58 billion and ₱3.37 billion increases in investments in treasury notes and private bonds, respectively, reduced by the ₱9.30 billion decline in investment in government bonds. Financial Assets at FVPL consist of held-for-trading (HFT) securities and derivative assets amounting to ₱42.89 billion and ₱3.04 billion, respectively, as of December 31, 2014 and ₱51.36 billion and ₱4.09 billion, respectively, as of December 31, 2013. The ₱9.51 billion or 17.15% decrease resulted from the net disposals of various HFT securities. AFS investments went down by ₱65.72 billion or 24.03% due to the net effect of the ₱71.89 billion decrease in government bonds, and the ₱5.21 billion and ₱0.92 billion increases in investments in private debt securities and equity securities, respectively.

Loans and Receivables, representing 47.33% and 44.33% of the Group’s total assets as of December 31, 2014 and 2013, respectively, expanded by ₱148.42 billion or 24.29% driven by the strong demand from all segments and decreased in unquoted debt securities by ₱2.29 billion due to various redemptions and disposals during the year.

Investments in Associates and a Joint Venture went down by ₱3.69 billion or 58.73% due to the sale to GT Capital Holdings, Inc. (GT Capital) of the Bank’s and PSBank’s ownership in Toyota Financial Services Philippines Corporation (TFSPC); and FMIC’s ownership in Charter Ping An Insurance Corporation (CPAIC). In addition, the reclassification of the FMIC’s investment in Lepanto Consolidated Mining Company to AFS investments as a result of the lost in significant influence contributed to the variance. On the other hand, investment properties also went down by ₱3.09 billion or 23.53% due to the sustained disposal of foreclosed real estate properties including the properties sold to Federal Land, Inc.

Other Assets consist of, among others, assets held under joint operations, software costs, inter-office float items, creditable withholding tax and miscellaneous assets. The increment of ₱5.36 billion or 68.17% was mainly due to the increases in inter-office float items (₱2.03 billion), creditable withholding taxes (₱0.70 billion) and miscellaneous assets (₱2.47 billion).

Deposit liabilities represent 81.93% and 82.23% of the consolidated total liabilities as of December 31, 2014 and 2013, respectively. The Group's deposit level, sourced mainly by the Bank, PSBank and MBCL reached ₱1.18 trillion as of December 31, 2014, an increase of ₱168.19 billion or 16.55% from ₱1.02 trillion as of December 31, 2013. The increment came from demand deposits by ₱36.59 billion, savings deposits by ₱43.85 billion, time deposits by ₱73.49 billion, and Long Term Negotiable Certificates of Deposit (LTNCD) by ₱14.25 billion. Low cost deposits represent 50.14% and 50.52% of the Group's total deposits as of December 31, 2014 and 2013, respectively. On September 18, 2014, the BSP approved the issuance of the Bank of up to ₱20 billion LTNCDs and the subsequent amendment was also approved by the BSP on October 14, 2014. The Bank issued the first tranche amounting to ₱8 billion on October 24, 2014 at 4.00% per annum, payable quarterly, with a tenor of 5.5 years and maturing on April 24, 2020 while the second tranche amounting to ₱6.25 billion was issued on November 21, 2014 at 4.25% per annum, payable quarterly, with a tenor of 7 years and maturing on November 22, 2021. The minimum investment size of the LTNCDs is ₱50 thousand with increments of ₱50 thousand thereafter.

Bills Payable and SSURA representing 9.71% and 10.29% of the Group's total liabilities as of December 31, 2014 and 2013, respectively, went up by ₱13.20 billion or 10.37%. Higher balances of borrowings from local banks by ₱6.16 billion and SSURA by ₱17.63 billion reduced by the decline in balances of borrowings from foreign banks by ₱3.11 billion and deposit substitutes by ₱7.49 billion accounted for the variance. Derivative Liabilities which represent mark-to-market of foreign currency forwards, interest rate swaps, credit default swaps and cross currency swaps with negative fair value decreased by ₱1.38 billion or 31.02%.

The increase of ₱0.73 billion or 18.49% in Manager's Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income taxes payable increased by ₱0.52 billion or 76.18% due to booking of additional accrual for corporate income tax. Accrued interest and other expenses payable increased by ₱1.37 billion or 16.07% due to the increases in accruals for other expenses by ₱1.27 billion and for interest on deposit liabilities and other borrowings by ₱0.10 billion. Accrued other expenses include accruals for compensation and fringe benefits, rentals, percentage and other taxes, professional fees, advertising and information technology expenses and other expenses.

Subordinated Debts increased by 241.35% from ₱8.63 billion to ₱29.45 billion due to the issuance of Basel III-compliant Tier 2 capital notes by the Bank and PSBank amounting to ₱22.5 billion and ₱3.0 billion, respectively, net of the ₱4.5 billion Peso Notes redeemed by the Bank.

Other Liabilities increased by ₱6.68 billion or 12.35% primarily due to higher balance of bills purchased (with contra account classified under Loans and Receivables) by ₱9.75 billion reduced by the ₱2.24 billion decline in marginal deposits.

The growth of ₱15.24 billion or 11.30% in equity attributable to equity holders of the Bank was mainly attributable to the ₱20.11 billion net income generated by the Group (excluding non-controlling interest) reduced by the additional ₱1.91 billion net unrealized loss recognized on AFS investments; cash dividends payment of ₱2.75 billion; and coupon payment on HT1 capital securities of ₱0.50 billion (USD11.25 million). Net unrealized gain on AFS investments decreased by ₱1.91 billion or 397.71% caused by the various disposals of AFS investments and fair value movements. The ₱0.84 billion or 10.72% increase in non-controlling interest was attributed to the net income generated by the majority-owned subsidiaries, net of cash dividend declared and effect of the decrease in the market valuation of AFS investments.

Results of Operations

Net income attributable to equity holders of the Bank reached ₱20.11 billion for the year 2014, ₱2.38 billion or 10.56% lower than the ₱22.49 billion net income recorded for the year 2013. The net decrease was attributed to the decline in other operating income by ₱11.52 billion and share in net income of associates and a joint venture by ₱1.03 billion offset by the increase in net interest income by ₱7.49 billion and lower total operating expenses and provision for income tax by ₱3.72 billion and ₱0.29 billion, respectively.

Interest income improved by ₱9.40 billion or 18.84% resulting from the increases in interest income on loans receivables by ₱4.29 billion (relative to the expansion in loan portfolio); interest income on trading and investment securities by ₱3.58 billion (higher investment portfolio in 2014); and interest income on interbank loans and SPURA by ₱1.73 billion. However, interest expense also increased by ₱1.91 billion coming from the increases in interest expense on deposit liabilities by ₱1.74 billion (volume driven) and on bills payable and SSURA, subordinated debts and other borrowings by ₱0.17 billion. These movements caused improvement in net interest income by ₱7.49 billion or 19.58%.

Other operating income of ₱29.13 billion was lower by ₱11.52 billion or 28.35% from ₱40.66 billion in 2013. For the year 2014, the Group reported a higher profit from the disposal of foreclosed properties of ₱10.20 billion compared with ₱0.89 billion in 2013. However, this was offset by the ₱13.88 billion decrease in trading and securities gain. Moreover, last year's gain realized by the Group from the sale of FMIC's 40% ownership in Global Business Power Corporation (GBPC) and the Bank's 15% ownership in Toyota Motor Philippines Corporation (TMPC) amounting to ₱7.39 billion and ₱3.44 billion, respectively, as against this year's gain realized from the sale of the Bank's 15% and PSBank's 25% ownerships in TFSPC totalling to ₱0.91 billion and FMIC's 33.33% ownership in CPAIC of ₱0.31 billion contributed to the variance in other operating income.

Total operating expenses decreased by ₱3.72 billion or 7.52% from ₱49.50 billion in 2013 to ₱45.77 billion in 2014 with lower provision for credit and impairment losses by ₱5.87 billion or 54.78%, lower taxes and licenses by ₱1.08 billion or 13.27%, higher compensation and fringe benefits by ₱1.61 billion or 10.30% and miscellaneous expenses by ₱1.19 billion or 11.76%.

Share in net income of associates and a joint venture decreased by ₱1.03 billion or 70.01% due to lower net income of certain associates while income attributable to non-controlling interest went up by ₱1.32 billion or 79.38% with noted improvement on the results of operations of certain majority-owned subsidiaries.

Total comprehensive income went down by ₱1.33 billion from ₱21.59 billion in 2013 to ₱20.26 billion in 2014. The variance was attributed to the ₱1.05 billion decrease in the net income of the Group and the ₱0.28 billion decrease in other comprehensive income. The lower other comprehensive income of ₱0.28 billion resulted from the net effect of the ₱2.93 billion decrease in translation adjustment and others; lower net unrealized loss recognized on AFS investments by ₱0.90 billion; and positive movement in remeasurement of retirement liability from a loss of ₱0.90 billion to a gain of ₱0.36 billion. As a result, total comprehensive income attributable to equity holders of the Bank went down to ₱18.52 billion from ₱19.74 billion in 2013.

Market share price as of December 31, 2014 was at ₱83.00 from ₱75.55 in 2013 with a market capitalization of ₱227.82 billion as at December 31, 2014.

2013 Performance

Financial Position

The Group closed the year 2013 with audited consolidated total assets at ₱1.38 trillion up by ₱331.93 billion from ₱1.05 trillion as of December 31, 2012. Consolidated total liabilities likewise increased to ₱1.24 trillion from ₱921.93 billion as funds sourced from total deposit liabilities and bills payable and securities sold under repurchase agreements increased by ₱277.57 billion and ₱30.10 billion, respectively, although subordinated debts decreased by ₱5.62 billion. With the continued focus on asset quality, the NPL ratio of the Group further improved to 1.29% from 1.83% in 2012. Meanwhile, equity attributable to equity holders of the Bank grew by ₱17.15 billion or 14.57% from ₱117.73 billion to ₱134.89 billion mainly due to higher earnings generated for the year.

The increase of ₱5.36 billion or 21.98% in Cash and Other Cash Items was due to the higher level of cash maintained by the Bank, in anticipation of heavy cash requirements of clients. Due from BSP which represents 12.10% of the Group's total assets increased by ₱35.50 billion or 27.04%. Due from Other Banks increased by ₱3.28 billion or 14.26% mainly due to the net effect of the movements in accounts maintained with various local and foreign banks.

Interbank Loans Receivable and SPURA increased by ₱98.62 billion or 421.59% with the increment coming mostly from higher balance of term placements with BSP by ₱89.55 billion.

Financial Assets at FVPL consist of HFT securities amounting to ₱51.36 billion in 2013 or decreased by ₱19.23 billion or 27.24% from ₱70.58 billion in 2012; and derivative assets which represent mark-to-market of foreign currency forwards, interest rate swaps, credit default swaps, cross currency swaps, and interest rate derivatives with positive fair value amounting to ₱4.09 billion or increased by ₱1.75 billion or 74.69% from ₱2.34 billion in 2012. The decline in HFT securities resulted from the disposal of investments in various government securities by the Bank. HTM Investments also went down by ₱13.03 billion or 25.32% mainly due to the reclassification by PSBank and FMIC of their HTM investments totaling to ₱13.3 billion (consisting of dollar denominated bonds amounting to US$73.5 million and peso denominated bonds of ₱10.3 billion) and ₱16.3 billion, respectively, to AFS investments. The change in intention was primarily driven by the need to increase capital position with the implementation of Basel III effective 2014. The ₱150.39 billion or 122.23% increase in AFS investments resulted from higher investments in government securities by ₱141.68 billion or 136.45%, private debt securities by ₱4.92 billion or 29.62% and equity securities by ₱3.78 billion or 119.39%.

Loans and Receivables, representing 44.33% and 50.25% of the Group's total assets as of December 31, 2013 and 2012, respectively, expanded by ₱85.17 billion or 16.20%. Receivables from customers grew by ₱85.68 billion, with growth coming from all segments. Unquoted debt securities on the other hand, declined by ₱2.63 billion due to various redemptions and disposals during the year.

Investments in Associates and a Joint Venture went down by ₱8.59 billion or 57.80% resulting from the sale of 40% ownership of FMIC in GBPC (20% to Orix Corporation of Tokyo, Japan and 20% to Meralco PowerGen Corporation). Investment Properties also went down by ₱2.30 billion or 14.89% due to continuous disposal of foreclosed properties. Non-Current Asset Held For Sale decreased by ₱1.10 billion or 100% resulting from the sale of the remaining 15% ownership of the Bank in TMPC to GT Capital.

Deferred Tax Assets decreased by ₱1.68 billion or 18.95% due to net movements in temporary tax base differences. Goodwill decreased by ₱1.20 billion or 18.77% due to booking of impairment loss. Other Assets consist of, among others, assets held under joint operations, software costs, inter-office float items and creditable withholding tax. The decreases in inter-office float items (₱0.42 billion), creditable withholding taxes (₱0.32 billion) and miscellaneous assets (₱0.05 billion) contributed to the ₱1.41 billion or 15.25% decline in Other Assets.

Deposit liabilities represent 82.23% and 80.12% of the consolidated total liabilities as of December 31, 2013 and 2012, respectively. The Group's deposit level, sourced mainly by the Bank, PSBank and MBCL reached ₱1.02 trillion as of December 31, 2013 and was higher by ₱277.57 billion or 37.58% from ₱738.69 billion as of December 31, 2012. Demand, savings and time deposits grew by 41.86% to ₱150.69 billion, 18.98% to ₱362.92 billion and 53.52% to ₱502.66 billion, respectively. Low cost deposits represent 50.52% and 55.65% of the Group's total deposits as of December 31, 2013 and 2012, respectively.

Bills Payable and SSURA representing 10.29% and 10.53% of the Group's total liabilities as of December 31, 2013 and 2012, respectively, increased by ₱30.10 billion or 30.99%. Interbank borrowings with foreign and local banks which are mainly short-term borrowings increased by ₱14.32 billion or 50.71% while balance of SSURA also increased by ₱15.85 billion. Derivative Liabilities which represent mark-to-market of foreign currency forwards, interest rate swaps, credit default swaps, cross currency swaps, and interest rate derivatives with negative fair value decreased by ₱2.24 billion or 33.47%.

The increase of ₱0.44 billion or 12.55% in Manager's Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income Taxes Payable decreased by 49.02% to ₱0.68 billion as a result of lower taxable income subject to regular corporate income tax in 2013.

Subordinated Debts decreased by 39.42% from ₱14.24 billion to ₱8.63 billion. On October 4, 2013, the Bank exercised the call option on its ₱5.5 billion 7.75% Lower Tier 2 Peso Notes. On the other hand, MCC exercised the call option on its 2019 Peso Notes amounting to ₱1.3 billion on July 31, 2013 but subsequently issued a 10-year Peso Notes on December 20, 2013 at 100.00% of the principal amount of ₱1.17 billion and bear interest at 6.21% per annum.

The ₱0.24 billion or 96.31% increase in Deferred Tax Liabilities was mainly due to the net movement of the account recognized by Orix Metro and FMIC. Other Liabilities increased by 34.39% to ₱54.08 billion primarily due to higher balances of marginal deposits by ₱4.97 billion; accounts payable ₱2.14 billion; bills purchased (with contra account classified under Loans and Receivables) by ₱1.42 billion; and retirement liabilities by ₱0.52 billion.

Equity attributable to equity holders of the Bank went up to ₱134.89 billion in 2013, ₱17.15 billion or 14.57% higher than the ₱117.73 billion balance in 2012. The ₱12.67 billion increase in common stock represents the 30% stock dividends issued by the Bank which is equivalent to 633.4 million common shares that represents at least the minimum 25% subscribed and paid-up capital for the increase in the authorized capital stock. Details of the Bank's capital stock are discussed in Note 23 of the audited financial statements of the Group. Surplus Reserves increased by ₱0.13 billion or 11.46% as a result of the Bank's additional appropriations for trust business and self-insurance in 2013. Surplus increased to ₱55.53 billion up by ₱7.11 billion or 14.68% from ₱48.42 billion. The increase was attributable to the ₱22.49 billion higher in net income generated by the Group (excluding non-controlling interest) net of the 30% stock dividends of ₱12.67 billion, the 5% cash dividends of ₱2.11 billion and the two semi-annual coupon payments on HT1 capital securities totaling to US$11.25 million paid by the Bank during the year. Remeasurement losses on retirement plan increased by ₱0.86 billion or 42.72% from a loss of ₱2.01 billion as a result of increase in actuarial losses from experience adjustments and change in actuarial assumptions, computed based on the revised PAS 19 (Employee Benefits). The amendments to PAS 19 include, among others, changes in accounting for defined benefit plans, applied retrospectively from January 1, 2011, including the treatment of actuarial gains and losses that are now recognized in OCI and permanently excluded from profit and loss. Net unrealized gain on AFS investments decreased by ₱2.92 billion or 119.72% caused by the various disposals of AFS investments and fair value movements. Equity in net unrealized gain on AFS investments of associates decreased by ₱0.49 billion or 64.07% as a result of decrease in net unrealized gain recognized by FMIC's associates. Translation adjustment and others increased by ₱1.52 billion or 174.45% resulting from the exchange differences arising on the translation of the HT1 capital securities, foreign currency-denominated assets and liabilities of foreign subsidiaries and the FCDU of the Bank and PSBank.

The ₱0.84 billion or 12.07% increase in non-controlling interest was attributed to the net income generated by the majority-owned subsidiaries, net of cash dividend declared for the year and the effect of the reduction in the net unrealized gain on AFS investments.

Results of Operations

Net income attributable to equity holders of the Bank reached ₱22.49 billion for the year 2013, ₱7.09 billion or 46.04% higher than the ₱15.40 billion net income recorded for the year 2012. As a result, return on average equity (ROE) improved to 17.80% from 13.64% in 2012. Likewise, return on average assets (ROA) went up to 1.85% from 1.53%. The net increase was mainly attributed to the improvement in net interest income by ₱7.42 billion and other operating income by ₱14.43

billion; the decrease in share in net income of associates and a joint venture by ₱1.07 billion; and higher total operating expenses and provision for income tax by ₱11.64 billion and ₱2.89 billion, respectively.

Net Interest Income which represents 48.49% of the Group's total operating income amounted to ₱38.27 billion for the year 2013, up by ₱7.42 billion or 24.03% from ₱30.85 billion in 2012. Interest income increased by ₱4.88 billion or 10.83% while interest expense went down by ₱2.54 billion or 17.93%. The increase in interest income was due to higher interest from loans and receivable by ₱2.81 billion or 8.58%, trading and investment securities by ₱0.95 billion or 9.10% and interbank loans receivable and SPURA by ₱1.87 billion or 338.66% offset by the decline in interest income on deposit with banks and others by ₱0.75 billion or 58.95%. On the other hand, the drop in interest expense was caused by the lower interest on deposit liabilities and bills payable and SSURA by ₱1.20 billion or 13.70% and ₱1.34 billion or 24.77%, respectively.

Other operating income representing 51.51% of the Group's total operating income went up to ₱40.66 billion or higher by ₱14.43 billion or 55.03% from ₱26.22 billion in 2012. This was driven by the increase in trading and securities gain by ₱10.50 billion and the gross gain of ₱7.39 billion of FMIC from the sale of its 40% ownership in GBPC. On the other hand, the Group recognized foreign exchange loss of ₱2.27 billion from foreign exchange gain of ₱3.64 billion in 2012.

Total Operating Expenses went up by ₱11.64 billion or 30.76% to ₱49.50 billion in 2013 from ₱37.85 billion in 2012. Significant movements were noted in compensation and fringe benefits by ₱1.23 billion or 8.52%, taxes and licenses by ₱2.86 billion or 54.35% and miscellaneous expenses by ₱0.93 billion or 10.15%. Further, provision for credit and impairment losses increased by ₱6.24 billion or 139.44% as a result of the additional provision on loans and receivables and goodwill impairment.

Share in Net Income of Associates and a Joint Venture went down by ₱1.07 billion or 42.03% on account of the decrease in the net income of certain associates.

Provision for Income Tax increased by ₱2.89 billion or 75.00% in 2013 coming from deferred income tax and final tax by ₱3.06 billion and ₱0.53 billion, respectively.

Income attributable to non-controlling interest amounted to ₱1.67 billion in 2013 went down by ₱0.85 billion or 33.76% from ₱2.52 billion in 2012 on account of the decline on the results of operations of certain majority-owned subsidiaries.

Total comprehensive income went up by ₱8.52 billion from ₱13.08 billion in 2012 to ₱21.59 billion in 2013 due to the net effect of the ₱6.24 billion increase in the net income of the Group and the P3.85 billion increase in translation adjustment and others reduced by the decreases in net unrealized gain on AFS investments, remeasurement loss of retirement liability and equity in other comprehensive income of associates of ₱0.40 billion, ₱0.34 billion and ₱0.83 billion, respectively. For the year ended December 31, 2013, total comprehensive income attributable to equity holders of the Bank went up to ₱19.74 billion from ₱12.26 billion in 2012.

Market share price as of December 31, 2013 was at ₱75.55 from ₱102.00 in 2012 with a market capitalization of ₱207.37 billion as at December 31, 2013.

Exhibit A

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF DECEMBER 31, 2014 AND 2013

		2014	2013
a)	Liquidity Ratio	49.29%	51.65%
b)	Loans to Deposits Ratio	64.07%	60.14%
c)	Debt to Equity Ratio	963.01%	916.22%
d)	Asset to Equity Ratio	1068.77%	1022.02%
e)	Return on Average Equity	14.11%	17.80%
f)	Return on Average Assets	1.35%	1.85%
g)	Net Interest Margin on Average Earning Assets	3.73%	3.90%
h)	Operating Efficiency Ratio	54.64%	49.13%
i)	Capital Adequacy Ratio	16.03%	16.65%
j)	Common Equity Tier 1 Ratio	12.14%	n.a.

n.a. - not applicable under BASEL II

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil J. Puyat Avenue
Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Bank & Trust Company and Subsidiaries (the Group) and of Metropolitan Bank & Trust Company (the Parent Company), which comprise the statements of financial position as at December 31, 2014 and 2013 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Philippines for banks for the Group and Philippine Financial Reporting Standards for the Parent Company as described in Note 2 to the financial statements, and for such internal control as the Group's management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014 and 2013 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 in accordance with the accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2014 and 2013 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-A (Group A),
July 1, 2013, valid until June 30, 2016
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751306, January 5, 2015, Makati City

February 25, 2015

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Millions)

	Consolidated		Parent Company	
	December 31			
	2014	2013	**2014**	2013
ASSETS				
Cash and Other Cash Items	**₱34,943**	₱29,742	**₱30,733**	₱26,532
Due from Bangko Sentral ng Pilipinas (Note 16)	**215,253**	166,774	**174,259**	143,724
Due from Other Banks	**38,200**	26,275	**25,583**	8,947
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 26)	**119,839**	122,011	**108,441**	96,872
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**45,935**	55,441	**29,850**	36,140
Available-for-Sale Investments (Note 8)	**207,711**	273,429	**179,375**	226,943
Held-to-Maturity Investments (Note 8)	**129,076**	38,425	**110,777**	38,358
Loans and Receivables (Note 9)	**759,481**	611,064	**589,993**	456,895
Investments in Subsidiaries (Note 11)	**–**	–	**26,276**	24,882
Investments in Associates and a Joint Venture (Note 11)	**2,589**	6,274	**428**	578
Property and Equipment (Note 10)	**16,231**	15,756	**10,456**	10,296
Investment Properties (Note 12)	**10,037**	13,125	**6,229**	9,504
Deferred Tax Assets (Note 28)	**6,831**	7,190	**5,273**	6,333
Goodwill (Note 11)	**5,201**	5,206	**–**	–
Other Assets (Note 14)	**13,213**	7,857	**9,507**	4,696
	₱1,604,540	₱1,378,569	**₱1,307,180**	₱1,090,700

LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
Demand	**₱187,285**	₱150,694	**₱169,851**	₱134,788
Savings	**406,767**	362,915	**390,509**	348,244
Time	**576,152**	502,659	**475,818**	407,722
Long-Term Negotiable Certificates	**14,250**	–	**14,250**	–
	1,184,454	1,016,268	**1,050,428**	890,754
Bills Payable and Securities Sold Under Repurchase Agreements (Notes 17 and 31)	**140,399**	127,204	**62,345**	45,993
Derivative Liabilities (Note 8)	**3,071**	4,452	**3,054**	4,452
Manager's Checks and Demand Drafts Outstanding	**4,653**	3,927	**3,399**	2,816
Income Taxes Payable	**1,191**	676	**591**	267
Accrued Interest and Other Expenses (Note 18)	**9,874**	8,507	**7,514**	6,002
Bonds Payable (Note 19)	**11,444**	11,643	**–**	–
Subordinated Debts (Note 20)	**29,452**	8,628	**22,344**	4,497
Deferred Tax Liabilities (Note 28)	**457**	479	**–**	–
Other Liabilities (Note 21)	**60,760**	54,080	**35,789**	28,860
	1,445,755	1,235,864	**1,185,464**	983,641

(Forward)

	Consolidated		Parent Company	
	December 31			
	2014	2013	**2014**	2013
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 23)	**₱54,896**	₱54,896	**₱54,896**	₱54,896
Hybrid capital securities (Note 23)	**6,351**	6,351	**6,351**	6,351
Capital paid in excess of par value	**19,312**	19,312	**19,312**	19,312
Surplus reserves (Note 24)	**1,371**	1,235	**1,371**	1,235
Surplus (Notes 23 and 24)	**72,258**	55,525	**45,265**	30,903
Treasury stock (Note 23)	**(30)**	–	–	–
Remeasurement losses on retirement plan (Note 27)	**(2,440)**	(2,870)	**(2,028)**	(2,617)
Net unrealized loss on available-for-sale investments (Note 8)	**(2,394)**	(481)	**(2,609)**	(2,133)
Equity in other comprehensive income of associates (Note 11)	**260**	272	–	–
Translation adjustment and others (Notes 8 and 11)	**545**	647	**(842)**	(888)
	150,129	134,887	**121,716**	107,059
Non-controlling Interest	**8,656**	7,818	–	–
	158,785	142,705	**121,716**	107,059
	₱1,604,540	₱1,378,569	**₱1,307,180**	₱1,090,700

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Millions, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 31)	**₱39,829**	₱35,537	₱32,728	**₱20,361**	₱18,156	₱17,652
Trading and investment securities (Note 8)	**14,995**	11,415	10,463	**12,951**	9,106	7,118
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**4,145**	2,417	551	**3,029**	1,705	269
Deposits with banks and others	**325**	523	1,274	**108**	282	499
	59,294	49,892	45,016	**36,449**	29,249	25,538
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	**9,299**	7,556	8,756	**6,588**	4,975	5,679
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others (Notes 17, 19, 20 and 31)	**4,232**	4,067	5,406	**1,263**	873	1,389
	13,531	11,623	14,162	**7,851**	5,848	7,068
NET INTEREST INCOME	**45,763**	38,269	30,854	**28,598**	23,401	18,470
Profit from assets sold (Notes 10 and 12)	**10,200**	894	1,119	**9,815**	643	1,118
Service charges, fees and commissions (Note 31)	**8,898**	8,640	8,123	**3,483**	3,555	3,527
Trading and securities gain - net (Notes 8 and 31)	**3,305**	17,182	6,680	**699**	8,586	1,706
Leasing (Notes 12, 13 and 31)	**1,894**	1,638	1,380	**238**	243	207
Gain on sale of investment in associates (Notes 8, 11 and 31)	**1,225**	7,388	–	**638**	–	–
Income from trust operations (Notes 24 and 29)	**1,186**	1,071	853	**1,139**	1,057	841
Dividends (Notes 11 and 31)	**262**	435	156	**3,147**	10,006	1,773
Gain on sale of non-current asset held for sale (Note 31)	**–**	3,440	3,403	**–**	4,201	4,164
Foreign exchange gain (loss) - net (Note 31)	**(102)**	(2,266)	3,636	**(357)**	(2,575)	3,380
Miscellaneous (Note 25)	**2,263**	2,233	874	**973**	421	373
TOTAL OPERATING INCOME	**74,894**	78,924	57,078	**48,373**	49,538	35,559
Compensation and fringe benefits (Notes 27 and 31)	**17,245**	15,634	14,406	**12,268**	11,018	10,385
Taxes and licenses	**7,052**	8,131	5,268	**4,413**	4,167	3,162
Provision for credit and impairment losses (Note 15)	**4,849**	10,722	4,478	**7**	5,294	777
Depreciation and amortization (Notes 10, 12 and 14)	**2,566**	2,400	2,188	**1,057**	1,112	1,028
Occupancy and equipment-related cost (Note 13)	**2,442**	2,225	2,107	**1,405**	1,286	1,215
Amortization of software costs (Note 14)	**330**	284	236	**146**	139	120
Miscellaneous (Note 25)	**11,289**	10,101	9,170	**6,980**	6,162	5,964
TOTAL OPERATING EXPENSES	**45,773**	49,497	37,853	**26,276**	29,178	22,651
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE	**29,121**	29,427	19,225	**22,097**	20,360	12,908
SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE (Note 11)	**443**	1,477	2,548	**–**	–	–
INCOME BEFORE INCOME TAX	**29,564**	30,904	21,773	**22,097**	20,360	12,908
PROVISION FOR INCOME TAX (Note 28)	**6,459**	6,748	3,856	**4,355**	3,646	1,760
NET INCOME	**₱23,105**	₱24,156	₱17,917	**₱17,742**	₱16,714	₱11,148
Attributable to:						
Equity holders of the Parent Company (Note 32)	**₱20,113**	₱22,488	₱15,399			
Non-controlling Interest	**2,992**	1,668	2,518			
	₱23,105	₱24,156	₱17,917			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱7.15**	₱8.02	₱5.44*			

*Restated to include the effect of stock dividend issued in 2013 (Note 23).

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
Net Income	**₱23,105**	₱24,156	₱17,917	**₱17,742**	₱16,714	₱11,148
Other Comprehensive Income (Loss) for the Year, Net of Tax						
Items that may not be reclassified to profit or loss:						
Change in remeasurement loss on retirement plan	**363**	(897)	(556)	**589**	(740)	(519)
Items that may be reclassified to profit or loss:						
Change in net unrealized gain (loss) on available-for-sale investments (Note 8)	**(2,015)**	(2,917)	(2,517)	**(476)**	(3,746)	(764)
Change in equity in other comprehensive income of associates	**(12)**	(498)	330	**–**	–	–
Translation adjustment and others (Notes 8 and 11)	**(1,182)**	1,746	(2,099)	**46**	406	(340)
	(3,209)	(1,669)	(4,286)	**(430)**	(3,340)	(1,104)
Total Comprehensive Income for the Year	**₱20,259**	₱21,590	₱13,075	**₱17,901**	₱12,634	₱9,525
Attributable to:						
Equity holders of the Parent Company	**₱18,516**	₱19,740	₱12,256	**₱17,901**	₱12,634	₱9,525
Non-controlling Interest	**1,743**	1,850	819	**–**	–	–
	₱20,259	₱21,590	₱13,075	**₱17,901**	₱12,634	₱9,525

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

	Consolidated												
	Equity Attributable to Equity Holders of the Parent Company												
	Common Stock (Note 23)	**Hybrid Capital Securities** (Note 23)	**Capital Paid In Excess of Par Value**	**Surplus Reserves** (Note 24)	**Surplus** (Notes 23 and 24)	**Treasury Stock** (Note 23)	**Remeasurement Losses on Retirement Plan** (Note 27)	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (Note 8)	**Equity in Other Comprehensive Income of Associates** (Note 11)	**Translation Adjustment and Others** (Notes 8 and 11)	**Total**	**Non-controlling Interest**	**Total Equity**
Balance as at January 1, 2014	**₱54,896**	**₱6,351**	**₱19,312**	**₱1,235**	**₱55,525**	**₱–**	**(₱2,870)**	**(₱481)**	**₱272**	**₱647**	**₱134,887**	**₱7,818**	**₱142,705**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**20,113**	**–**	**430**	**(1,913)**	**(12)**	**(102)**	**18,516**	**1,743**	**20,259**
Transfer to surplus reserves	**–**	**–**	**–**	**136**	**(136)**	**–**	–	–	–	–	–	–	–
Cash dividends	**–**	**–**	**–**	**–**	**(2,745)**	**–**	–	–	–	–	**(2,745)**	**(905)**	**(3,650)**
Coupon payment of hybrid capital securities (Note 32)	**–**	**–**	**–**	**–**	**(499)**	**–**	**–**	**–**	**–**	**–**	**(499)**	–	**(499)**
Parent Company shares held by a mutual fund subsidiary	**–**	**–**	**–**	**–**	**–**	**(30)**	–	–	–	–	**(30)**	–	**(30)**
Balance at December 31, 2014	**₱54,896**	**₱6,351**	**₱19,312**	**₱1,371**	**₱72,258**	**(₱30)**	**(₱2,440)**	**(₱2,394)**	**₱260**	**₱545**	**₱150,129**	**₱8,656**	**₱158,785**
Balance as at January 1, 2013	₱42,228	₱6,351	₱19,312	₱1,108	₱48,418	₱–	(₱2,011)	₱2,439	₱757	(₱869)	₱117,733	₱6,976	₱124,709
Total comprehensive income for the year	–	–	–	–	22,488	–	(859)	(2,920)	(485)	1,516	19,740	1,850	21,590
Transfer to surplus reserves	–	–	–	127	(127)	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,111)	–	–	–	–	–	(2,111)	(1,008)	(3,119)
Stock dividend	12,668	–	–	–	(12,668)	–	–	–	–	–	–	–	–
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(475)	–	–	–	–	–	(475)	–	(475)
Balance at December 31, 2013	₱54,896	₱6,351	₱19,312	₱1,235	₱55,525	₱–	(₱2,870)	(₱481)	₱272	₱647	₱134,887	₱7,818	₱142,705
Balance as at January 1, 2012	₱42,228	₱6,351	₱19,312	₱1,002	₱35,712	₱–	(₱1,460)	₱4,460	₱433	₱26	₱108,064	₱6,684	₱114,748
Total comprehensive income for the year	–	–	–	–	15,399	–	(551)	(2,021)	324	(895)	12,256	819	13,075
Transfer to surplus reserves	–	–	–	106	(106)	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,111)	–	–	–	–	–	(2,111)	(527)	(2,638)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(476)	–	–	–	–	–	(476)	–	(476)
Balance at December 31, 2012	₱42,228	₱6,351	₱19,312	₱1,108	₱48,418	₱–	(₱2,011)	₱2,439	₱757	(₱869)	₱117,733	₱6,976	₱124,709

	Parent Company								
	Common Stock (Note 23)	**Hybrid Capital Securities** (Note 23)	**Capital Paid In Excess of Par Value**	**Surplus Reserves** (Note 24)	**Surplus** (Notes 23 and 24)	**Remeasurement Losses on Retirement Plan** (Note 27)	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (Note 8)	**Translation Adjustment and Others** (Notes 8 and 11)	**Total Equity**
Balance at January 1, 2014	**₱54,896**	**₱6,351**	**₱19,312**	**₱1,235**	**₱30,903**	**(₱2,617)**	**(₱2,133)**	**(₱888)**	**₱107,059**
Total comprehensive income for the year	–	–	–	–	**17,742**	**589**	**(476)**	**46**	**17,901**
Transfer to surplus reserves	–	–	–	**136**	**(136)**	–	–	–	–
Cash dividends	–	–	–	–	**(2,745)**	–	–	–	**(2,745)**
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	**(499)**	–	–	–	**(499)**
Balance at December 31, 2014	**₱54,896**	**₱6,351**	**₱19,312**	**₱1,371**	**₱45,265**	**(₱2,028)**	**(₱2,609)**	**(₱842)**	**₱121,716**
Balance at January 1, 2013	₱42,228	₱6,351	₱19,312	₱1,108	₱29,570	(₱1,877)	₱1,613	(₱1,294)	₱97,011
Total comprehensive income for the year	–	–	–	–	16,714	(740)	(3,746)	406	12,634
Transfer to surplus reserves	–	–	–	127	(127)	–	–	–	–
Cash dividends	–	–	–	–	(2,111)	–	–	–	(2,111)
Stock dividend	12,668	–	–	–	(12,668)	–	–	–	–
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(475)	–	–	–	(475)
Balance at December 31, 2013	₱54,896	₱6,351	₱19,312	₱1,235	₱30,903	(₱2,617)	(₱2,133)	(₱888)	₱107,059
Balance at January 1, 2012	₱42,228	₱6,351	₱19,312	₱1,002	₱21,115	(₱1,358)	₱2,377	(₱954)	₱90,073
Total comprehensive income for the year	–	–	–	–	11,148	(519)	(764)	(340)	9,525
Transfer to surplus reserves	–	–	–	106	(106)	–	–	–	–
Cash dividends	–	–	–	–	(2,111)	–	–	–	(2,111)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(476)	–	–	–	(476)
Balance at December 31, 2012	₱42,228	₱6,351	₱19,312	₱1,108	₱29,570	(₱1,877)	₱1,613	(₱1,294)	₱97,011

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱29,564**	₱30,904	₱21,773	**₱22,097**	₱20,360	₱12,908
Adjustments for:						
Provision for credit and impairment losses (Note 15)	**4,849**	10,722	4,478	**7**	5,294	777
Trading and securities gain on available-for-sale investments (Note 8)	**(1,862)**	(12,833)	(7,096)	**(965)**	(4,816)	(4,004)
Depreciation and amortization (Notes 10, 12 and 14)	**2,566**	2,400	2,188	**1,057**	1,112	1,028
Share in net income of associates and a joint venture (Note 11)	**(443)**	(1,477)	(2,548)	**–**	–	–
Profit from assets sold (Notes 10 and 12)	**(10,200)**	(894)	(1,119)	**(9,815)**	(643)	(1,118)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	**(748)**	(649)	(139)	**(54)**	(61)	(122)
Amortization of software costs (Note 14)	**330**	284	236	**146**	139	120
Amortization of discount on subordinated debts and bonds payable	**16**	29	42	**4**	20	35
Unrealized market valuation loss (gain) on financial assets and liabilities at FVPL	**(334)**	(4,624)	3,747	**(391)**	(3,691)	3,721
Dividends (Note 11)	**(262)**	(435)	(156)	**(3,147)**	(10,006)	(1,773)
Gain on sale of non-current asset held for sale (Note 31)	**–**	(3,440)	(3,403)	**–**	(4,201)	(4,164)
Net loss on sale/dissolution of investment in subsidiaries (Note 11)	**–**	–	–	**–**	1	14
Gain on sale of investment in associates (Note 11)	**(1,225)**	(7,388)	–	**(638)**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	**8,480**	19,958	(63,989)	**5,305**	23,201	(53,016)
Loans and receivables	**(153,622)**	(95,041)	(73,989)	**(132,554)**	(61,553)	(48,037)
Other assets	**(5,730)**	245	(2,217)	**(5,216)**	1,191	(1,257)
Increase (decrease) in:						
Deposit liabilities	**168,186**	277,574	57,701	**159,674**	256,335	52,783
Manager's checks and demand drafts outstanding	**726**	438	879	**583**	84	777
Accrued interest and other expenses	**1,367**	166	1,142	**1,512**	95	1,360
Other liabilities	**7,021**	12,920	11,191	**7,495**	2,366	5,612
Net cash generated from (used in) operations	**48,679**	228,859	(51,279)	**45,100**	225,227	(34,356)
Dividends received	**579**	716	2,981	**3,147**	10,006	1,773
Income taxes paid	**(5,608)**	(5,482)	(3,706)	**(2,971)**	(3,347)	(1,437)
Net cash provided by (used in) operating activities	**43,650**	224,093	(52,004)	**45,276**	231,886	(34,020)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(218,572)**	(982,284)	(481,008)	**(187,532)**	(882,101)	(408,144)
Held-to-maturity investments	**(106,377)**	(23,798)	(21,577)	**(88,319)**	(23,798)	(19,303)
Property and equipment (Note 10)	**(3,073)**	(3,293)	(3,841)	**(1,447)**	(1,560)	(2,208)
Additional investments in subsidiaries and associates (Note 11)	**–**	(959)	(644)	**(1,452)**	(41)	(41)
Proceeds from sale of:						
Available-for-sale investments	**285,284**	877,988	503,669	**235,636**	759,206	424,436
Property and equipment	**739**	1,299	585	**645**	954	430

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
Investments in subsidiaries and associates (Note 11)	**₱2,812**	₱14,308	₱314	**₱788**	₱–	₱71
Investment properties (Note 12)	**13,412**	3,059	4,090	**12,495**	2,402	3,287
Non-current asset held for sale (Note 31)	–	4,537	4,500	–	4,537	4,500
Increase in interbank loans receivable and securities purchased under resale agreements (Note 26)	**(2,815)**	(492)	(3,380)	**(2,815)**	(492)	(3,380)
Proceeds from maturity of held-to-maturity investments	**15,727**	6,932	17,583	**15,899**	6,932	15,277
Net cash provided by (used in) investing activities	**(12,863)**	(102,703)	20,291	**(16,102)**	(133,961)	14,925
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlements of bills payable	**(2,072,980)**	(1,767,989)	(983,041)	**(1,763,584)**	(1,271,929)	(467,160)
Availments of bills payable and securities sold under repurchase agreement	**2,086,175**	1,798,085	980,491	**1,779,936**	1,301,699	469,783
Repayments of subordinated debts (Note 20)	**(4,500)**	(6,800)	(8,500)	**(4,500)**	(5,500)	(8,500)
Proceeds from issuance of:						
Bonds payable (Note 19)	–	–	6,958	–	–	–
Subordinated debts (Note 20)	**25,315**	1,170	2,968	**22,344**	–	–
Cash dividends paid (Note 23)	**(3,650)**	(3,119)	(2,638)	**(2,745)**	(2,111)	(2,111)
Coupon payment of hybrid capital securities (Note 23)	**(499)**	(475)	(476)	**(499)**	(475)	(476)
Acquisition of Parent Company shares by a mutual fund subsidiary (Note 23)	**(30)**	–	–	–	–	–
Net cash provided by (used in) financing activities	**29,831**	20,872	(4,238)	**30,952**	21,684	(8,464)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**60,618**	142,262	(35,951)	**60,126**	119,609	(27,559)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**29,742**	24,382	20,954	**26,532**	21,540	16,985
Due from Bangko Sentral ng Pilipinas	**166,774**	131,278	156,537	**143,724**	111,515	146,636
Due from other banks	**26,275**	22,996	32,761	**8,947**	7,873	13,310
Interbank loans receivable and securities purchased under resale agreements (Note 26)	**117,175**	19,048	23,403	**92,036**	10,702	2,258
	339,966	197,704	233,655	**271,239**	151,630	179,189
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**34,943**	29,742	24,382	**30,733**	26,532	21,540
Due from Bangko Sentral ng Pilipinas	**215,253**	166,774	131,278	**174,259**	143,724	111,515
Due from other banks	**38,200**	26,275	22,996	**25,583**	8,947	7,873
Interbank loans receivable and securities purchased under resale agreements (Note 26)	**112,188**	117,175	19,048	**100,790**	92,036	10,702
	₱400,584	₱339,966	₱197,704	**₱331,365**	₱271,239	₱151,630

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
Interest paid	**₱13,436**	₱11,663	₱14,371	**₱7,701**	₱5,904	₱7,316
Interest received	**59,389**	48,836	44,714	**36,654**	27,985	25,133

See accompanying Notes to Financial Statements.

1. Corporate Information

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines on April 6, 1962. The Securities and Exchange Commission (SEC) approved the renewal of its Certification of Incorporation until April 6, 2057 on November 19, 2007.

In November 1980, the SEC approved and certified the listing of its shares and on February 26, 1981, the listing and trading took effect in Makati Stock Exchange, Inc. and Manila Stock Exchange which unified and now, The Philippine Stock Exchange, Inc. (PSE). The universal banking license was granted by the Philippine Central Bank, now Bangko Sentral ng Pilipinas (BSP) on August 21, 1981.

The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of about 2,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies. As a bank, the Parent Company provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value.

The financial statements of the Parent Company and Philippine Savings Bank (PSBank) include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation.
The financial statements are presented in PHP, and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

Statement of Compliance

The financial statements of the Group have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks. As discussed in Note 8, in 2011, First Metro Investment Corporation (FMIC), a majority-owned subsidiary of the Parent Company, participated in a bond exchange transaction under the liability management exercise of the Philippine Government. The SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investments under Philippine Accounting

Standard (PAS) 39, *Financial Instruments: Recognition and Measurement,* while the BSP also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of preparation of the financial statements of the availing entities shall not be Philippine Financial Reporting Standards (PFRS) but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the PFRS. Except for the aforementioned exemption which is applied starting 2011, the financial statements of the Group have been prepared in compliance with the PFRS.

The financial statements of the Parent Company have been prepared in compliance with the PFRS.

Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company in 2014 and 2013 (Note 11):

Subsidiary	Country of Incorporation	Effective Percentage of Ownership	Functional Currency
Financial Markets:			
Domestic:			
FMIC and Subsidiaries	Philippines	99.23	PHP
PSBank	Philippines	75.98	PHP
Metrobank Card Corporation (A Finance Company) (MCC)	Philippines	60.00	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	Philippines	59.85	PHP
Foreign:			
Metropolitan Bank (China) Ltd. (MBCL)	China	100.00	Chinese Yuan
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)	The Bahamas	100.00	USD
First Metro International Investment Company Limited (FMIIC) and Subsidiary	Hong Kong	99.85	Hong Kong Dollar (HKD)
Remittances:			
Metro Remittance (Hong Kong) Limited (MRHL)	Hong Kong	100.00	HKD
Metro Remittance (Singapore) Pte. Ltd. (MRSPL)	Singapore	100.00	Singapore Dollar
Metro Remittance (UK) Limited (MR UK)	United Kingdom	100.00	Great Britain Pound
Metro Remittance (USA), Inc. (MR USA)	United States of America (USA)	100.00	USD
Metro Remittance Center, Inc. (MRCI)	USA	100.00	USD
Metro Remittance (Japan) Co. Ltd. (MR Japan)	Japan	100.00	Japanese Yen
Metro Remittance (Italia), S.p.A. (MR Italia)*	Italy	100.00	Euro
Real Estate:			
Circa 2000 Homes, Inc. (Circa)*	Philippines	100.00	PHP
Others:			
Philbancor Venture Capital Corporation (PVCC)*	Philippines	60.00	PHP
MBTC Technology, Inc. (MTI)**	Philippines	100.00	PHP

* In process of dissolution.

** Dissolution approved by SEC on June 24, 2014; in process of liquidation.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation (Note 31). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income and consolidated statements of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the related other comprehensive income recorded in equity and recycles the same to statement of income or retained earnings; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in statement of income; and (g) reclassifies the Parent Company's share of components previously recognized in other comprehensive income (OCI) to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

<u>Entity with Significant Influence over the Group</u>
GT Capital Holdings, Inc. (GT Capital) holds 25.11% of the total shares of the Parent Company as of December 31, 2014 and 2013 (Note 31).

<u>Non-controlling Interest</u>
Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests are accounted for as equity transactions.

<u>Changes in Accounting Policies and Disclosures</u>
The Group applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2014, the accounting policies adopted are consistent with those of the previous financial year.

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

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

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current year.

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This interpretation has no significant impact on the Group's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group since none of the entities in the Group qualifies as an investment entity under PFRS 10.

Annual Improvements to PFRSs (2010 - 2012 cycle)
In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group's financial position or performance.

Significant Accounting Policies

Foreign Currency Translation
Transactions and balances
For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rates as at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU, foreign branches and subsidiaries
As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the PHP) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDS weighted average rate (PDSWAR) for the year. Exchange differences arising on translation are taken to statement of comprehensive income. Upon disposal of a foreign entity or when the Parent Company ceases to have control over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid - ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets at FVPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

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

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' difference

Where the transaction price in a non-active market is different with the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

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

Hedge accounting
For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Translation adjustment and others' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

Hedge effectiveness testing
To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness),

and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80.00% to 125.00%. Any hedge ineffectiveness is recognized in the statement of income.

Embedded derivatives
The Group has certain derivatives that are embedded in host financial (such as structured notes and debt instruments) and non-financial (such as lease and service agreements) contracts. These embedded derivatives include interest rate derivatives in debt instruments which include structured notes and foreign currency derivatives in debt instruments and lease agreements.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets or liabilities at FVPL, when their economic risks and characteristics are not clearly and closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Financial assets or financial liabilities held for trading
Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in 'Trading and securities gain - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' respectively, while dividend income is recorded in 'Dividends' when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

AFS investments
AFS investments include debt and equity instruments. Equity investments classified under AFS investments are those which are neither classified as held-for-trading (HFT) nor designated at FVPL. Debt securities are those that do not qualify to be classified as HTM investments or loans and receivables, are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

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

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as ‘Trading and securities gain - net’ in the statement of income. Gains and losses on disposal are determined using the average cost method.

Interest earned on holding AFS investments are reported as ‘Interest income’ using the effective interest rate (EIR) method. Dividends earned on holding AFS investments are recognized in the statement of income as ‘Dividends’ when the right of the payment has been established. The losses arising from impairment of such investments are recognized as ‘Provision for credit and impairment losses’ in the statement of income.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group’s management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments unless for sales or reclassifications that:

- are so close to maturity or the financial asset’s call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;
- occur after the entity has collected substantially all of the financial asset’s original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity’s control, is non-recurring and could not have been reasonably anticipated by the entity.

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

The Group follows Philippine GAAP for banks in accounting for its HTM investments in the consolidated financial statements. Under Philippine GAAP for banks, the gain on exchange on FMIC’s participation in the domestic bond exchange was deferred and amortized over the term of new bonds (see Statement of Compliance discussion).

Loans and receivables
This accounting policy relates to the statement of financial position captions ‘Due from BSP’, ‘Due from other banks’, ‘Interbank loans receivable and securities purchased under resale agreements (SPURA)’ and ‘Loans and receivables’. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as ‘other financial assets held for trading’, designated as AFS investments or ‘financial assets designated at FVPL’.

Loans and receivables include purchases made by MCC’s cardholders which are collected on installments and are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned discount, shown as a deduction from ‘Loans and receivables’.

Loans and receivables also include ORIX Metro's lease contracts receivable and notes receivable financed which are stated at the outstanding balance, reduced by unearned lease income and unearned finance income, respectively.

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

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

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

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in case of a written put option to an asset that is measured at fair value, the extent of the

Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

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

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as securities sold under repurchase agreements (SSURA) included in 'Bills Payable and SSURA' and is considered as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid including accrued interest, is recognized in the statement of financial position as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

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

Financial assets carried at amortized cost
For financial assets carried at amortized cost such as loans and receivables, due from other banks, and HTM investments, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit and impairment losses' in the statement of income.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group also uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-day past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a percentage ('net flow rate') of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 day past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the net flow rates determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS investments
In case of quoted equity investments classified as 'AFS investments', this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the statement of comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

In case of unquoted equity investments classified as 'AFS investments', the amount of the impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit and impairment losses' in the statement of income.

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

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a

principal in all of its revenue arrangements except for certain trading transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

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

a. *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees. Loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

b. *Fee income from providing transaction services*
   Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Leasing income - Finance lease
The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of equipment at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

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

Trading and securities gain - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and gains and losses from disposal of financial assets held for trading, AFS and HTM investments.

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

Discounts earned and awards revenue on credit cards
Discounts are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when Group is acting as an acquirer. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments. This account also includes interchange income from transactions processed by other acquirers through VISA Inc. (Visa) and MasterCard Incorporated (MasterCard) and service fee from cash advance transactions of cardholders.

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

Income on direct financing leases and receivables financed
Income on loans and receivables financed with short-term maturities is recognized using the EIR method. Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR method.

Underwriting fees, commissions, and sale of shares of stock
Underwriting fees and commissions are accrued when earned. Income derived from sales of shares of stock is recognized upon sale.

Gain on sale of investment in an associate
Upon loss of significant influence over an associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Gain on sale of non-current asset held for sale
The gain or loss arising from the sale of non-current asset held for sale is included in profit or loss when the item is derecognized. The gain or loss arising from the derecognition of non-current asset held for sale is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Revenue on sale of residential and commercial units is recognized only upon completion of the project. Payments received before completions are included under 'Miscellaneous liabilities'.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

Building under construction (BUC) is stated at cost and includes cost of construction and other direct costs. BUC is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful lives of property and equipment follows:

Buildings	25 to 50 years
Furniture, fixtures and equipment	2 to 5 years
Leasehold improvements	5 to 20 years

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

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

Investments in Subsidiaries, Associates and a Joint Venture (JV)
Investment in subsidiaries
Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights.

Investment in associates
Associates pertain to all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting.

Investment in a JV
A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investment in a JV is accounted for under the equity method of accounting. The Group's investment in a JV represents the 40.00% interest of PSBank in Sumisho Motor Finance Corporation (SMFC).

Under the equity method, an investment in an associate or a JV is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate or JV. Goodwill relating to an associate and a JV is included in the carrying value of the investment and is not amortized. When the Group increases its ownership interest in an associate or a JV that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate or JV and the existing interest in the associate or JV is not remeasured. The Group's share in an associate or a JV's post-acquisition profits or losses is recognized in the statement of income while its share of post-acquisition movements in the associate or JV's equity reserves is recognized directly in the statement of comprehensive income. When the Group's share of losses in an associate or a JV equals or exceeds its interest in the associate or JV, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or JV. Profits and losses resulting from transactions between the Group and an associate or JV are eliminated to the extent of the Group's interest in the associate or JV.

Upon loss of significant influence over the associate or joint control over the JV, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

In the Parent Company financial statements, investments in subsidiaries, associates and a JV are carried at cost less allowance for impairment losses.

<u>Investment Properties</u>
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure;
b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c.) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

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

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties based on appraisal reports but not to exceed 50 years for buildings and condominium units.

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

Non-Current Assets Held for Sale (NCAHFS)
Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification (Note 11).

Interest in Joint Operations
The Group is a party to joint operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the joint operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of units by the joint operations. The assets contributed to the joint operations are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale (Note 14).

Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be 5 years.

Subordinated Notes
Subordinated notes issued by SPVs (presented as 'Investment in SPVs' under 'Other assets' in the Parent Company financial statements) are stated at amortized cost reduced by an allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flow expected to be received as payment for the subordinated notes.

Intangible Assets
Intangible assets include software costs and exchange trading right (included under 'Miscellaneous assets') presented under 'Other assets'.

Software costs
Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over three to five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred. Software costs are carried at cost less accumulated amortization.

Exchange trading right
Exchange trading right is a result of the PSE conversion plan to preserve access of FMIC's subsidiary to the trading facilities and continue transacting business in the PSE. The exchange trading right has an indefinite useful life as there is no foreseeable limit to the period over which this asset is expected to generate net cash inflows. It is carried at the amount allocated from the original cost to the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less any allowance for impairment losses. FMIC's subsidiary does not intend to sell the exchange trading right in the near future.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. With respect to investments in associates and a JV, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on Impairment of Non-financial Assets).

Impairment of Non-financial Assets
Property and equipment, investments in subsidiaries, associates and a JV, investment properties, and chattel mortgage properties
At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

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

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

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

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

Leases where the lessor retains substantially all the risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rental payables are recognized as expense in the year in which they are incurred.

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables'. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Retirement Cost
The Group has a non-contributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year.

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

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income.

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

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

The Group's right to be reimbursed of some or all of the expenditure required to settle a DBO is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

Equity

When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed stocks.

Surplus represents accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'Capital paid in excess of par value'. Voting rights related to treasury stocks are nullified for the Group and no dividends are allocated to them respectively. When the stocks are retired, the Common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to capital paid in excess of par value at the time the stocks were issued and to surplus for the remaining balance.

Provisions

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

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

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

Deferred taxes

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:

a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are recognized in other comprehensive income and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Earnings Per Share
Basic earnings per share is computed by dividing net income for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year. The Group does not have dilutive potential common shares.

Dividends on Common Shares
Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the Board of Directors (BOD) of the Parent Company and the BSP while stock dividends are deducted from equity when approved by BOD, shareholders of the Parent Company and the BSP. Dividends declared during the year but are approved by the BSP after the statement of financial position date are dealt with as a subsequent event.

Coupon Payment on Hybrid Capital Securities
Coupon payment on hybrid capital securities (HT1 Capital) is treated as dividend for financial reporting purposes, rather than interest expense and deducted from equity when due, after the approval by the BOD of the Parent Company and the BSP.

Debt Issue Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance costs are included in the related carrying amount of the debt instrument in the statement of financial position.

Capital Securities Issuance Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity.

Events after the Statement of Financial Position Date
Post year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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

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

Standards Issued but not yet Effective

The Group intends to adopt the following standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have significant impact on its financial statements.

<u>*New Standards*</u>

PFRS 9, *Financial Instruments - Classification and Measuremen*t (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

PFRS 14, *Regulatory Deferral Accounts*
This is an interim standard aimed at enhancing the comparability of financial reporting by entities that are engaged in rate-regulated activities. It allows first-time adopters to continue to recognize amounts related to rate regulation in accordance with the previous GAAP requirements when they adopt IFRS. The standard which becomes effective on January 1, 2016, is not applicable to the Group.

<u>*Amendments*</u>
PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*
The revised PAS 16 and PAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The amendments to PAS 16 explicitly prohibits revenue-based depreciation of property, plant and equipment while the amendments to PAS 38 introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reason that there are multiple factors that influence revenue and that not all these factors are related to the way the asset is used or consumed. The revised standards are effective for periods beginning January 1, 2016, with earlier application permitted.

PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture - Change in Financial Reporting for Bearer Plants*
The amendments require entities to account for bearer plants in the same way as property, plant and equipment in PAS 16, *Property, Plant and Equipment,* because their operation is similar to that of manufacturing, bringing them within the scope of PAS 16, instead of PAS 41. The produce growing on bearer plants will remain within the scope of PAS 41. The amended standards are effective for annual periods beginning on or after January 1, 2016, with earlier applications permitted. The amendments are not applicable to the Group.

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after January 1, 2015.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
The amendments provide guidance on how to account for acquisition of an interest in a joint operation that constitutes a business, and apply the relevant principles of IFRS 3 and other IFRS in accounting for business combination as well as the disclosures required by such IFRS. The amendments shall be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain

or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

Annual Improvements to PFRSs (2010 - 2012 cycle)
The Annual Improvements to PFRSs (2010 - 2012 cycle) which will take effect for annual periods beginning on or after January 1, 2015, contain non-urgent but necessary amendments to the following standards:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after January 1, 2015. This amendment does not apply to the Group as it has no share-based payments.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after January 1, 2015. The Group shall consider this amendment for future business combinations.

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

Revaluation Method (Amendments to PAS 16 and PAS 38 - *Proportionate Restatement of Accumulated Depreciation and Amortization)*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, and intangible assets, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

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

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

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

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

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

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

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

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

Annual Improvements to PFRSs (2012 - 2014 cycle)
The Annual Improvements to PFRSs (2012 - 2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments* - Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is

separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the impact of adopting this standard.

The Group conducted an evaluation of the financial impact of the adoption of PFRS 9 based on the audited financial statements as of December 31, 2013 and decided not to early adopt PFRS 9 in its 2014 financial reporting.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

<u>Judgments</u>

a. *Consolidation of subsidiaries*
   The determination whether the Group has control over an investee company requires significant judgment. The Group considers that the following criteria are all met, including: (a) an investor has the power over an investee; (b) the investor has exposure, or rights, to

variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's return.

In accordance with PFRS 10, the Group included the accounts of First Metro Save and Learn Balance Fund, Inc. (FMSALBF) and First Metro Save and Learn Equity Fund, Inc. (FMSALEF), collectively the "Funds", in its consolidated financial statements. The Group re-assessed the control conclusion for these Funds. Although the ownership is less than half of the voting power of these investees, the Group has control due to its power to direct the relevant activities of the Funds through First Metro Asset Management Inc. (FAMI), a subsidiary of FMIC, which acts as the fund manager of the Funds. Further, the Group has the exposure to variable returns from its investments and its ability to use its power over the Funds to affect their returns.

b. *Existence of significant influence over an associate with less than 20.00% ownership*
As discussed in Note 11, there are instances that an investor exercises significant influence even if its ownership is less than 20.00%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation in the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

c. *HTM investments*
The classification under HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost. In 2014 and 2013, the Group follows Philippine GAAP for banks in accounting for HTM investments in the consolidated financial statements (Notes 2 and 8).

In addition, as discussed in Note 8, the Group's management has determined that the change in intention on certain HTM investments of PSBank and FMIC in response to the significant increase in the regulatory capital requirements of the BSP is an isolated event that is beyond the Group's control and is non-recurring and could not have been reasonably anticipated.

d. *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (Note 5).

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

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

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

g. *Leases*
Operating lease
Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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

Finance lease
The Group has determined, based on an evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset, lease term is for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee), that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

h. *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following: (a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled); (b) the currency in which funds from financing activities are generated; and (c) the currency in which receipts from operating activities are usually retained.

i. *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (Note 30).

Estimates

a. *Credit losses of loans and receivables*

The Group reviews its loan portfolios and receivables to assess impairment on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. In determining whether credit losses should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates in the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Note 9. In 2014, 2013 and 2012, provision for credit losses on loans and receivables amounted to ₱4.8 billion, ₱8.7 billion and ₱4.3 billion, respectively, for the Group and ₱7.3 million, ₱3.3 billion and ₱0.7 billion, respectively, for the Parent Company (Note 15).

b. *Fair values of structured debt instruments and derivatives*

The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques such as discounted cash flow analysis and standard option pricing models. The models incorporate various inputs including the credit quality of counterparties. Where valuation techniques are used to determine fair values, they are reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used and to the extent practicable, models use only observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments. Credit valuation adjustments (CVA) are applied to over-the-counter derivative instruments where the theoretical base spread is discounted using the relevant yield curve as discount rate. The effect of such CVA on the marked-to-market value of derivatives is not material. Refer to Note 5 for the information on the fair values of these investments and Note 8 for information on the carrying values of these instruments.

c. *Valuation of unquoted equity securities*

The Group's investments in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment losses.

As of December 31, 2014 and 2013, the carrying value of unquoted AFS equity securities amounted to ₱3.5 billion for the Group and ₱0.1 billion for both years for the Parent Company (Note 8).

d. *Impairment of AFS equity securities*
The Group determines that AFS equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged', greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2014 and 2013, allowance for impairment losses on AFS equity securities amounted to ₱525.9 million and ₱568.3 million, respectively, for the Group and ₱162.0 million and ₱178.0 million, respectively, for the Parent Company. As of December 31, 2014 and 2013, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱7.8 billion and ₱6.4 billion, respectively, for the Group and ₱349.4 million and ₱325.1 million, respectively, for the Parent Company (Notes 8 and 15).

e. *Recognition of deferred income taxes*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 28.

f. *Present value of retirement liability*
The cost of defined retirement pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 27.

g. *Impairment of non-financial assets*
Property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs and chattel mortgage properties
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following: a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends. The Group uses the higher of fair value less costs to sell and VIU in determining recoverable amount. The carrying values of the property and equipment, investments in subsidiaries and associates and a JV, investment properties, software costs and chattel mortgage properties of the Group and the Parent Company are disclosed in Notes 10, 11, 12 and 14, respectively.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group estimated the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the CGU. Average growth rate was derived from the average increase in annual income during the last 5 years. The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. In 2014 and 2013, the applicable pre-tax discount rate applied to cash flow projections is 14.09% and 16.78%, respectively. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The Parent Company has undergone reorganizations of various units and has changed its business plans which affected the recoverable amount of the CGUs to which the goodwill relates. In 2013, the Parent Company fully impaired its goodwill amounting to ₱1.2 billion (Note 11).

As of December 31, 2014 and 2013, goodwill amounted to ₱5.2 billion for the Group (Note 11).

4. Financial Risk and Capital Management

Introduction
The Group has exposure to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

Risk management framework
The BOD has overall responsibility for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Supporting the BOD in this function are certain Board-level committees such as Risk Oversight Committee (ROC), Audit Committee (AC) and senior management committees through the Executive Committee, Asset and Liability Committee (ALCO) and Policy Committee.

The AC is responsible for monitoring compliance with the Parent Company's risk management policies and procedures, and for reviewing the adequacy of risk management practices in relation to the risks faced by the Parent Company. The AC is assisted in these functions by the Internal Audit Group (IAG). IAG undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management processes but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group. Risk management policies adopted by the subsidiaries and affiliates are aligned with the Parent Company's risk policies. As a background, to further promote compliance with PFRS and Basel II and to prepare for Basel III, the Parent Company created a Risk Management Coordinating Council composed of the risk officers of the Parent Company and its financial institution subsidiaries.

Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related groups of borrowers, for market segmentation, and industry concentrations, and by monitoring exposures in relation to such limits. The same is true for treasury-related activities. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by IAG and Risk Management Group (RSK).

Management of credit risk

The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enter into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation; and
- Monitoring compliance with approved exposure limits.

Borrowers, counterparties or group of related accounts across the Group are aggregated and managed by the Parent Company's Institutional Banking Sector as the "Control Unit". Group Limits for conglomerates are set-up and approved to guide subsidiaries and affiliates of the Group. Consolidated exposures are regularly reported to senior management and the ROC.

The ICRRS contains the following:

a. Borrower Risk Rating (BRR) - an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations when it falls due. The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower based on audited financial statements as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually.	40.00%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.00%
Management Quality	Refers to the management's ability to run the company successfully.	30.00%

b. Facility Risk Factor (FRF) - determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.

c. Adjusted Borrower Risk Rating - combination of BRR and FRF.

Maximum exposure to credit risk after collateral held or other credit enhancements

An analysis of the maximum credit risk exposure relating to on balance sheet assets is shown below:

	Consolidated							
	2014				2013			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
Interbank loans receivable and SPURA	**₱96,527**	**₱98,394**	**₱96,400**	**₱127**	₱94,548	₱95,623	₱94,476	₱72
Loans and receivables - net								
Receivables from customers								
Commercial loans	**158,815**	**267,870**	**143,280**	**15,535**	139,566	254,828	124,524	15,042
Residential mortgage loans	**73,160**	**156,799**	**72,996**	**164**	62,364	135,727	61,953	411
Auto loans	**63,158**	**106,900**	**62,773**	**385**	53,933	91,979	53,532	401
Trade	**34,821**	**34,368**	**34,210**	**611**	29,678	28,806	28,806	872
Others	**3,471**	**3,476**	**3,394**	**77**	1,336	1,307	1,278	58
	333,425	**569,413**	**316,653**	**16,772**	286,877	512,647	270,093	16,784
Unquoted debt securities	**350**	**661**	**350**	**–**	–	–	–	–
Accounts receivable	**–**	**–**	**–**	**–**	1	1	–	1
Accrued interest receivable	**2,533**	**1,976**	**1,377**	**1,156**	1,986	2,042	1,440	546
Sales contract receivable	**420**	**1,140**	**409**	**11**	408	882	368	40
	336,728	**573,190**	**318,789**	**17,939**	289,272	515,572	271,901	17,371
Total	**₱433,255**	**₱671,584**	**₱415,189**	**₱18,066**	₱383,820	₱611,195	₱366,377	₱17,443

	Parent Company							
	2014				2013			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
Interbank loans receivable and SPURA	**₱95,460**	**₱97,239**	**₱95,333**	**₱127**	₱79,872	₱79,938	₱79,800	₱72
Loans and receivables - net								
Receivables from customers								
Commercial loans	**136,906**	**239,450**	**122,738**	**14,168**	116,254	224,374	102,262	13,992
Residential mortgage loans	**39,131**	**92,673**	**38,967**	**164**	34,350	81,393	33,939	411
Auto loans	**17,672**	**41,878**	**17,300**	**372**	15,970	36,338	15,579	391
Trade	**34,821**	**34,368**	**34,210**	**611**	29,678	28,806	28,806	872
Others	**1,664**	**1,624**	**1,592**	**72**	1,287	1,229	1,229	58
	230,194	**409,993**	**214,807**	**15,387**	197,539	372,140	181,815	15,724
Accrued interest receivable	**1,771**	**614**	**614**	**1,157**	1,354	809	809	545
Sales contract receivable	**174**	**615**	**166**	**8**	136	319	101	35
	232,139	**411,222**	**215,587**	**16,552**	199,029	373,268	182,725	16,304
Total	**₱327,599**	**₱508,461**	**₱310,920**	**₱16,679**	₱278,901	₱453,206	₱262,525	₱16,376

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2014 and 2013.

The following tables show the effect of rights of set-off associated with the recognized financial assets and financial liabilities.

				Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) offsetting criteria		
Financial assets recognized by type	**Gross Carrying Amounts (before offsetting)**	**Gross Amounts Offset in Accordance with the Offsetting Criteria**	**Net Amount Presented in Statement of Financial Position**	**Financial Instruments**	**Fair Value of Financial Collateral**	**Net Exposure**
Consolidated						
2014						
Derivative assets	**₱139,700**	**₱136,901**	**₱2,799**	**₱631**	**₱–**	**₱2,168**
SPURA	**96,826**	–	**96,826**	–	**96,700**	**126**
	₱236,526	**₱136,901**	**₱99,625**	**₱631**	**₱96,700**	**₱2,294**
2013						
Derivative assets	₱114,506	₱110,734	₱3,772	₱1,298	₱–	₱2,474
SPURA	94,548	–	94,548	–	94,476	72
	₱209,054	₱110,734	₱98,320	₱1,298	₱94,476	₱2,546
Parent Company						
2014						
Derivative assets	**₱139,244**	**₱136,455**	**₱2,789**	**₱631**	**₱–**	**₱2,158**
SPURA	**95,042**	–	**95,042**	–	**94,915**	**127**
	₱234,286	**₱136,455**	**₱97,831**	**₱631**	**₱94,915**	**₱2,285**
2013						
Derivative assets	₱112,264	₱108,506	₱3,758	₱1,298	₱–	₱2,460
SPURA	79,324	–	79,324	–	79,252	72
	₱191,588	₱108,506	₱83,082	₱1,298	₱79,252	₱2,532
Financial liabilities recognized by type						
Consolidated						
2014						
Derivative liabilities	**₱89,646**	**₱86,575**	**₱3,071**	**₱631**	**₱–**	**₱2,440**
SSURA	**42,748**	–	**42,748**	–	**42,748**	–
	₱132,394	**₱86,575**	**₱45,819**	**₱631**	**₱42,748**	**₱2,440**
2013						
Derivative liabilities	₱115,897	₱111,466	₱4,431	₱1,298	₱–	₱3,133
SSURA	25,117	–	25,117	–	25,098	19
	₱141,014	₱111,466	₱29,548	₱1,298	₱25,098	₱3,152
Parent Company						
2014						
Derivative liabilities	**₱87,909**	**₱84,855**	**₱3,054**	**₱631**	**₱–**	**₱2,423**
SSURA	**40,248**	–	**40,248**	–	**40,248**	–
	₱128,157	**₱84,855**	**₱43,302**	**₱631**	**₱40,248**	**₱2,423**
2013						
Derivative liabilities	₱115,897	₱111,466	₱4,431	₱1,298	₱–	₱3,133
SSURA	22,180	–	22,180	–	22,180	–
	₱138,077	₱111,466	₱26,611	₱1,298	₱22,180	₱3,133

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits.

Concentration of risks of financial assets with credit risk exposure
An analysis of concentrations of credit risk at the reporting date based on carrying amount is shown below:

	Consolidated				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2014					
Concentration by Industry					
Financial and insurance activities	**₱43,503**	**₱373,296**	**₱22,099**	**₱95,843**	**₱534,741**
Manufacturing	**168,807**	–	**1,322**	**10,630**	**180,759**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**121,196**	–	**775**	**15,332**	**137,303**
Real estate activities	**121,199**	–	**4,898**	**713**	**126,810**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**151,013**	–	**953**	**48**	**152,014**
Transportation and storage, information and communication	**36,159**	–	**7,661**	**4,219**	**48,039**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**54,183**	–	**9,037**	**1,846**	**65,066**
Construction	**23,012**	–	**242**	**609**	**23,863**
Accommodation and food service activities	**15,327**	–	**4**	**6**	**15,337**
Agricultural, forestry and fishing	**12,022**	–	**26**	**682**	**12,730**
Others****	**26,626**	–	**336,234**	**7,252**	**370,112**
	773,047	**373,296**	**383,251**	**137,180**	**1,666,774**
Less allowance for credit losses	**16,450**	**4**	**529**	**9,961**	**26,944**
	₱756,597	**₱373,292**	**₱382,722**	**₱127,219**	**₱1,639,830**
Concentration by Location					
Philippines	**₱752,654**	**₱315,868**	**₱335,145**	**₱134,089**	**₱1,537,756**
Asia	**19,990**	**32,575**	**25,210**	**3,085**	**80,860**
USA	**121**	**20,664**	**10,360**	**6**	**31,151**
Europe	**163**	**4,036**	**5,740**	–	**9,939**
Others	**119**	**153**	**6,796**	–	**7,068**
	773,047	**373,296**	**383,251**	**137,180**	**1,666,774**
Less allowance for credit losses	**16,450**	**4**	**529**	**9,961**	**26,944**
	₱756,597	**₱373,292**	**₱382,722**	**₱127,219**	**₱1,639,830**
2013					
Concentration by Industry					
Financial and insurance activities	₱38,353	₱315,062	₱16,614	₱10,764	₱380,793
Manufacturing	124,090	–	1,891	9,652	135,633
Wholesale and retail trade, repair of motor vehicles, motorcycles	96,062	–	99	9,402	105,563
Real estate activities	102,998	–	3,124	563	106,685
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	130,305	–	868	69,611	200,784
Transportation and storage, information and communication	36,505	–	3,197	4,936	44,638

(Forward)

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	₱42,953	₱–	₱7,830	₱408	₱51,191
Construction	16,462	–	524	6,160	23,146
Accommodation and food service activities	12,764	–	–	82	12,846
Agricultural, forestry and fishing	6,258	–	–	47	6,305
Others****	18,888	–	333,716	2,176	354,780
	625,638	315,062	367,863	113,801	1,422,364
Less allowance for credit losses	16,626	2	568	9,956	27,152
	₱609,012	₱315,060	₱367,295	₱103,845	₱1,395,212
Concentration by Location					
Philippines	₱603,058	₱270,127	₱328,670	₱111,403	₱1,313,258
Asia	22,075	34,245	15,445	2,047	73,812
USA	328	4,281	15,973	351	20,933
Europe	102	4,258	4,038	–	8,398
Others	75	2,151	3,737	–	5,963
	625,638	315,062	367,863	113,801	1,422,364
Less allowance for credit losses	16,626	2	568	9,956	27,152
	₱609,012	₱315,060	₱367,295	₱103,845	₱1,395,212

	Parent Company				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2014					
Concentration by Industry					
Financial and insurance activities	**₱40,634**	**₱308,283**	**₱12,265**	**₱10,088**	**₱371,270**
Manufacturing	**161,499**	**–**	**196**	**10,630**	**172,325**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**108,079**	**–**	**19**	**15,332**	**123,430**
Real estate activities	**87,757**	**–**	**167**	**703**	**88,627**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**58,818**	**–**	**953**	**48**	**59,819**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**51,830**	**–**	**4,100**	**1,846**	**57,776**
Transportation and storage, information and communication	**29,535**	**–**	**7,047**	**4,219**	**40,801**
Construction	**18,149**	**–**	**1**	**555**	**18,705**
Accommodation and food service activities	**15,006**	**–**	**3**	**6**	**15,015**
Agricultural, forestry and fishing	**10,202**	**–**	**3**	**683**	**10,888**
Others****	**14,555**	**–**	**295,410**	**6,198**	**316,163**
	596,064	**308,283**	**320,164**	**50,308**	**1,274,819**
Less allowance for credit losses	**8,955**	**–**	**162**	**9,961**	**19,078**
	₱587,109	**₱308,283**	**₱320,002**	**₱40,347**	**₱1,255,741**
Concentration by Location					
Philippines	**₱592,416**	**₱269,789**	**₱277,200**	**₱47,233**	**₱1,186,638**
Asia	**3,062**	**13,806**	**20,207**	**3,070**	**40,145**
USA	**269**	**20,513**	**10,244**	**5**	**31,031**
Europe	**198**	**4,023**	**5,740**	**–**	**9,961**
Others	**119**	**152**	**6,773**	**–**	**7,044**
	596,064	**308,283**	**320,164**	**50,308**	**1,274,819**
Less allowance for credit losses	**8,955**	**–**	**162**	**9,961**	**19,078**
	₱587,109	**₱308,283**	**₱320,002**	**₱40,347**	**₱1,255,741**

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2013					
Concentration by Industry					
Financial and insurance activities	₱32,007	₱249,543	₱10,384	₱10,354	₱302,288
Manufacturing	114,839	–	166	9,651	124,656
Wholesale and retail trade, repair of motor vehicles, motorcycles	88,753	–	22	9,402	98,177
Real estate activities	70,242	–	4	557	70,803
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	50,273	–	868	16	51,157
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	40,872	–	3,532	408	44,812
Transportation and storage, information and communication	28,577	–	2,121	4,936	35,634
Construction	12,174	–	–	6,106	18,280
Accommodation and food service activities	12,120	–	–	82	12,202
Agricultural, forestry and fishing	4,125	–	–	47	4,172
Others****	10,511	–	284,522	1,443	296,476
	464,493	249,543	301,619	43,002	1,058,657
Less allowance for credit losses	9,650	–	178	9,956	19,784
	₱454,843	₱249,543	₱301,441	₱33,046	₱1,038,873
Concentration by Location					
Philippines	₱460,238	₱224,024	₱265,173	₱40,842	₱990,277
Asia	3,615	15,051	12,876	1,811	33,353
USA	421	4,118	15,795	349	20,683
Europe	144	4,199	4,038	–	8,381
Others	75	2,151	3,737	–	5,963
	464,493	249,543	301,619	43,002	1,058,657
Less allowance for credit losses	9,650	–	178	9,956	19,784
	₱454,843	₱249,543	₱301,441	₱33,046	₱1,038,873

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.
**** Includes government-issued debt securities.

Credit quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings.

Loans and receivables
The credit quality is generally monitored using the 10-grade ICRRS which is integrated in the credit process particularly in provision for credit losses. Probability of default (PD) models are used in parallel to the ICRRS. The models are assessed and recalibrated as needed. Validation of the individual borrower's risk rating is performed by the Credit Group to maintain accurate and consistent risk ratings across the credit portfolio. The credit quality with the corresponding ICRRS Grade and description of commercial loans follows:

<u>High Grade</u>
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and with high degree of stability, substance and diversity. Borrower has access to raise substantial amounts of funds through public market at any time; very strong debt service capacity and has conservative balance sheet ratios. Track record in profit terms is very good. Borrower exhibits highest quality under virtually all economic conditions.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Have a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative. Concerned multinationals or local corporations are well capitalized.

Standard Grade
3 - Good
This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Access is however limited to favorable economic and/or market conditions. While probability of default is quite low, it bears characteristics of some degree of stability and substance. However, susceptibility to cyclical changes and more concentration of business risk, by product or market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.

4 - Satisfactory
A ‘satisfactory’ rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater. Volatility of earnings and overall performance: normally has limited access to public markets. Borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. Combination of reasonable sound asset and cash flow protection: debt service capacity is adequate. Reported profits in the past year and is expected to report a profit in the current year.

5 - Acceptable
An ‘acceptable’ rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. Risk is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Substandard Grade
6 - Watchlist
This rating is given to a borrower that belongs to an unfavorable industry or has company-specific risk factors which represent a concern. Operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance. Borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Borrower which incurs net losses and has salient financial weaknesses, reflected on statements specifically in profitability. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

7 - Especially Mentioned
This rating is given to a borrower that exhibits potential weaknesses that deserve management’s close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus, increase credit risk to the Bank.

Impaired

8 - Substandard

These are loans or portions, thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the Bank unless given closer supervision. Borrower has well-defined weaknesses or weaknesses that jeopardize loan liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

9 - Doubtful

This rating is given to a nonperforming borrower whose loans or portions thereof have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

10 - Loss

This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

The credit quality of consumer loan applicants are currently evaluated using PD models.

For booked consumer loans, the description of credit quality is as follows:

High Grade

Good credit rating

This rating is given to a good repeat client with very satisfactory track record of its loan repayment (paid at least 50.00%) and whose account did not turn past due during the entire term of the loan.

Standard Grade

Good

A good rating is given to accounts which did not turn past due for 90 days and over.

Limited

This rating is given to borrowers who have average track record on loan repayment (paid less than 50.00%) and whose account did not turn past due for 90 days and over.

Substandard Grade

Poor

A poor rating is given to accounts who reached 90 days past due regardless of the number of times and the number of months past due.

Poor litigation

This rating is given to accounts that were past due for 180 days and over and are currently being handled by lawyers.

Impaired

Poor repossessed

This rating is given to accounts whose collaterals were repossessed.

Poor written-off
This rating is given to accounts that were recommended for write-off.

Trading and investment securities
In ensuring quality investment portfolio, the Parent Company uses the credit risk rating from the published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies. Presented here is Moody's rating - equivalent S&P rating and other rating agencies applies:

Credit Quality	**External Rating**								
High grade	Aaa	Aa1	Aa2	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2				
Substandard grade	B3	Caa1	Caa2	Caa3	Ca	C			
Impaired	D								

The following table shows the credit quality of financial assets:

	Consolidated				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2014					
Neither past due nor impaired	**₱745,692**	**₱373,296**	**₱381,284**	**₱127,219**	**₱1,627,491**
Past due but not impaired	**14,933**	–	–	–	**14,933**
Impaired	**12,422**	–	**1,967**	**9,961**	**24,350**
Gross	**773,047**	**373,296**	**383,251**	**137,180**	**1,666,774**
Less allowance for credit losses	**16,450**	**4**	**529**	**9,961**	**26,944**
Net	**₱756,597**	**₱373,292**	**₱382,722**	**₱127,219**	**₱1,639,830**
2013					
Neither past due nor impaired	₱598,241	₱315,062	₱366,000	₱103,845	₱1,383,148
Past due but not impaired	13,164	–	–	–	13,164
Impaired	14,233	–	1,863	9,956	26,052
Gross	625,638	315,062	367,863	113,801	1,422,364
Less allowance for credit losses	16,626	2	568	9,956	27,152
Net	₱609,012	₱315,060	₱367,295	₱103,845	₱1,395,212

	Parent Company				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2014					
Neither past due nor impaired	**₱588,191**	**₱308,283**	**₱319,934**	**₱40,347**	**₱1,256,755**
Past due but not impaired	**348**	–	–	–	**348**
Impaired	**7,525**	–	**230**	**9,961**	**17,716**
Gross	**596,064**	**308,283**	**320,164**	**50,308**	**1,274,819**
Less allowance for credit losses	**8,955**	–	**162**	**9,961**	**19,078**
Net	**₱587,109**	**₱308,283**	**₱320,002**	**₱40,347**	**₱1,255,741**
2013					
Neither past due nor impaired	₱454,309	₱249,543	₱301,366	₱33,046	₱1,038,264
Past due but not impaired	623	–	–	–	623
Impaired	9,561	–	253	9,956	19,770
Gross	464,493	249,543	301,619	43,002	1,058,657
Less allowance for credit losses	9,650	–	178	9,956	19,784
Net	₱454,843	₱249,543	₱301,441	₱33,046	₱1,038,873

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.

The table below shows the credit quality per class of financial assets that are neither past due nor individually impaired (gross of allowance for credit losses):

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2014					
Loans and advances to banks					
Due from BSP	**₱215,253**	**₱–**	**₱–**	**₱–**	**₱215,253**
Due from other banks	**33,535**	**3,910**	**–**	**755**	**38,200**
Interbank loans receivable and SPURA	**115,158**	**2,186**	**–**	**2,499**	**119,843**
	363,946	**6,096**	**–**	**3,254**	**373,296**
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	**26,849**	**2,329**	**–**	**–**	**29,178**
Private	**1,793**	**763**	**46**	**1,323**	**3,925**
Equity securities - quoted	**4,324**	**4,729**	**738**	**–**	**9,791**
Derivative assets	**973**	**146**	**–**	**1,922**	**3,041**
	33,939	**7,967**	**784**	**3,245**	**45,935**
AFS investments					
Debt securities					
Government	**165,755**	**7,214**	**37**	**336**	**173,342**
Private	**8,486**	**6,614**	**–**	**11,639**	**26,739**
Subtotal	**174,241**	**13,828**	**37**	**11,975**	**200,081**
Equity securities					
Quoted	**7**	**799**	**1,628**	**286**	**2,720**
Unquoted	**–**	**3,298**	**99**	**75**	**3,472**
Subtotal	**7**	**4,097**	**1,727**	**361**	**6,192**
	174,248	**17,925**	**1,764**	**12,336**	**206,273**
HTM investments					
Government bonds	**27,088**	**1,990**	**–**	**–**	**29,078**
Private bonds	**849**	**2,522**	**–**	**–**	**3,371**
Treasury notes	**96,582**	**–**	**–**	**45**	**96,627**
	124,519	**4,512**	**–**	**45**	**129,076**
Loans and receivables					
Receivables from customers					
Commercial loans	**154,254**	**311,495**	**30,590**	**–**	**496,339**
Residential mortgage loans	**28,737**	**38,400**	**1,620**	**–**	**68,757**
Auto loans	**39,470**	**16,558**	**85**	**–**	**56,113**
Trade	**4,829**	**30,150**	**1,201**	**–**	**36,180**
Others	**67,466**	**8,007**	**101**	**127**	**75,701**
	294,756	**404,610**	**33,597**	**127**	**733,090**
Unquoted debt securities	**1,291**	**925**	**–**	**–**	**2,216**
Accrued interest receivable	**4,978**	**1,315**	**119**	**224**	**6,636**
Accounts receivable	**802**	**323**	**–**	**1,726**	**2,851**
Sales contract receivable	**211**	**–**	**1**	**184**	**396**
Other receivables	**3**	**2**	**–**	**498**	**503**
	302,041	**407,175**	**33,717**	**2,759**	**745,692**
Others	**85,553**	**–**	**–**	**41,666**	**127,219**
	₱1,084,246	**₱443,675**	**₱36,265**	**₱63,305**	**₱1,627,491**
2013					
Loans and advances to banks					
Due from BSP	₱148,132	₱18,642	₱–	₱–	₱166,774
Due from other banks	19,279	6,734	–	262	26,275
Interbank loans receivable and SPURA	105,332	12,647	–	4,034	122,013
	272,743	38,023	–	4,296	315,062
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	30,494	8,873	–	–	39,367
Private	1,177	684	–	471	2,332
BSP	19	–	–	–	19
Equity securities - quoted	4,610	4,938	89	–	9,637
Derivative assets	1,547	211	–	2,328	4,086
	37,847	14,706	89	2,799	55,441

(Forward)

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
AFS investments					
Debt securities					
Government	₱202,368	₱37,027	₱31	₱6,094	₱245,520
Private	8,976	4,319	–	8,236	21,531
Subtotal	211,344	41,346	31	14,330	267,051
Equity securities					
Quoted	453	889	–	247	1,589
Unquoted	–	3,277	148	69	3,494
Subtotal	453	4,166	148	316	5,083
	211,797	45,512	179	14,646	272,134
HTM investments					
Government bonds	37,437	22	–	921	38,380
Treasury notes	45	–	–	–	45
	37,482	22	–	921	38,425
Loans and receivables					
Receivables from customers					
Commercial loans	120,700	231,249	35,302	–	387,251
Residential mortgage loans	19,458	38,694	1,811	–	59,963
Auto loans	28,541	19,755	120	–	48,416
Trade	6,650	21,632	1,490	–	29,772
Others	51,895	6,714	208	98	58,915
	227,244	318,044	38,931	98	584,317
Unquoted debt securities	1,620	2,342	–	133	4,095
Accrued interest receivable	4,731	964	755	246	6,696
Accounts receivable	872	17	12	1,510	2,411
Sales contract receivable	231	–	18	161	410
Other receivables	–	183	–	129	312
	234,698	321,550	39,716	2,277	598,241
Others	70,091	6	–	33,748	103,845
	₱864,658	₱419,819	₱39,984	₱58,687	₱1,383,148

	Parent Company				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
2014					
Loans and advances to banks					
Due from BSP	**₱174,259**	**₱–**	**₱–**	**₱–**	**₱174,259**
Due from other banks	**25,424**	**5**	**–**	**154**	**25,583**
Interbank loans receivable and SPURA	**105,942**	**–**	**–**	**2,499**	**108,441**
	305,625	**5**	**–**	**2,653**	**308,283**
Financial assets at FVPL					
HFT debt securities					
Government	**21,765**	**2,050**	**–**	**–**	**23,815**
Private	**1,277**	**484**	**–**	**1,288**	**3,049**
Derivative assets	**963**	**102**	**–**	**1,921**	**2,986**
	24,005	**2,636**	**–**	**3,209**	**29,850**
AFS investments					
Debt securities					
Government	**151,957**	**3,287**	**37**	**336**	**155,617**
Private	**7,745**	**4,030**	**–**	**11,633**	**23,408**
Subtotal	**159,702**	**7,317**	**37**	**11,969**	**179,025**
Equity securities					
Quoted	**7**	**–**	**–**	**214**	**221**
Unquoted	**–**	**–**	**–**	**61**	**61**
Subtotal	**7**	**–**	**–**	**275**	**282**
	159,709	**7,317**	**37**	**12,244**	**179,307**
HTM investments					
Government bonds	**12,228**	**1,967**	**–**	**–**	**14,195**
Treasury notes	**96,582**	**–**	**–**	**–**	**96,582**
	108,810	**1,967**	**–**	**–**	**110,777**

(Forward)

	Parent Company				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
Loans and receivables					
Receivables from customers					
Commercial loans	**₱127,725**	**₱302,234**	**₱30,321**	**₱–**	**₱460,280**
Residential mortgage loans	**1,224**	**37,572**	**751**	**–**	**39,547**
Auto loans	**1,772**	**15,992**	**24**	**–**	**17,788**
Trade	**4,829**	**30,150**	**1,201**	**–**	**36,180**
Others	**26,307**	**427**	**–**	**–**	**26,734**
	161,857	**386,375**	**32,297**	**–**	**580,529**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**
Accrued interest receivable	**4,031**	**1,150**	**111**	**223**	**5,515**
Accounts receivable	**–**	**–**	**–**	**1,813**	**1,813**
Sales contract receivable	**–**	**–**	**–**	**171**	**171**
Other receivables	**–**	**–**	**–**	**163**	**163**
	165,888	**387,525**	**32,408**	**2,370**	**588,191**
Others	**–**	**–**	**–**	**40,347**	**40,347**
	₱764,037	**₱399,450**	**₱32,445**	**₱60,823**	**₱1,256,755**
2013					
Loans and advances to banks					
Due from BSP	₱143,724	₱–	₱–	₱–	₱143,724
Due from other banks	8,785	57	–	105	8,947
Interbank loans receivable and SPURA	92,838	–	–	4,034	96,872
	245,347	57	–	4,139	249,543
Financial assets at FVPL					
HFT debt securities					
Government	30,421	–	–	–	30,421
Private	781	464	–	472	1,717
BSP	19	–	–	–	19
Derivative assets	1,547	107	–	2,329	3,983
	32,768	571	–	2,801	36,140
AFS investments					
Debt securities					
Government	199,959	–	31	6,093	206,083
Private	8,062	4,237	–	8,236	20,535
Subtotal	208,021	4,237	31	14,329	226,618
Equity securities					
Quoted	–	7	–	182	189
Unquoted	–	–	–	61	61
Subtotal	–	7	–	243	250
	208,021	4,244	31	14,572	226,868
HTM investments					
Government bonds	37,437	–	–	921	38,358
	37,437	–	–	921	38,358
Loans and receivables					
Receivables from customers					
Commercial loans	92,510	220,978	34,536	–	348,024
Residential mortgage loans	801	34,802	641	–	36,244
Auto loans	1,348	14,700	21	–	16,069
Trade	6,420	21,632	1,490	–	29,542
Others	16,623	429	–	–	17,052
	117,702	292,541	36,688	–	446,931
Unquoted debt securities	–	–	–	133	133
Accrued interest receivable	4,248	376	741	246	5,611
Accounts receivable	–	–	–	1,461	1,461
Sales contract receivable	–	–	–	145	145
Other receivables	–	–	–	28	28
	121,950	292,917	37,429	2,013	454,309
Others	266	–	–	32,780	33,046
	₱645,789	₱297,789	₱37,460	₱57,226	₱1,038,264

Notes:

1. *Accounts are presented gross of allowance for credit losses but net of unearned interest and discount.*
2. *For classification by grade, refer to Risk Rating Table for Investments (based on Moody's Rating Scale) as guide.*

Breakdown of restructured receivables from customers by class are shown below:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Commercial loans	**₱3,284**	₱3,326	**₱2,850**	₱2,830
Residential mortgage loans	**231**	605	**37**	525
Auto loans	**89**	1	**2**	–
Others	**171**	69	**–**	–
	₱3,775	₱4,001	**₱2,889**	₱3,355

Aging analysis of past due but not impaired loans and receivables is shown below:

	Consolidated					
	Within 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**Over 180 days**	**Total**
2014						
Receivables from customers						
Commercial loans	**₱176**	**₱37**	**₱25**	**₱5**	**₱69**	**₱312**
Residential mortgage loans	**2,912**	**933**	**323**	**219**	**218**	**4,605**
Auto loans	**4,077**	**1,639**	**697**	**684**	**664**	**7,761**
Trade	**–**	**–**	**–**	**–**	**5**	**5**
Others	**249**	**617**	**486**	**72**	**302**	**1,726**
Receivables from customers - net of unearned discounts and capitalized interest	**7,414**	**3,226**	**1,531**	**980**	**1,258**	**14,409**
Accrued interest receivable	**65**	**32**	**18**	**23**	**27**	**165**
Accounts receivable	**8**	**1**	**2**	**283**	**24**	**318**
Sales contract receivable	**9**	**4**	**5**	**2**	**21**	**41**
	₱7,496	**₱3,263**	**₱1,556**	**₱1,288**	**₱1,330**	**₱14,933**
2013						
Receivables from customers						
Commercial loans	₱173	₱137	₱68	₱47	₱232	₱657
Residential mortgage loans	2,191	664	224	135	1,018	4,232
Auto loans	3,261	1,193	472	373	988	6,287
Trade	–	–	–	1	–	1
Others	589	420	28	86	442	1,565
Receivables from customers - net of unearned discounts and capitalized interest	6,214	2,414	792	642	2,680	12,742
Accrued interest receivable	40	20	11	12	35	118
Accounts receivable	3	4	1	3	274	285
Sales contract receivable	–	–	–	6	13	19
	₱6,257	₱2,438	₱804	₱663	₱3,002	₱13,164

	Parent Company					
	Within 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**Over 180 days**	**Total**
2014						
Receivables from customers						
Commercial loans	**₱–**	**₱–**	**₱–**	**₱3**	**₱55**	**₱58**
Residential mortgage loans	**–**	**–**	**–**	**9**	**182**	**191**
Auto loans	**–**	**–**	**–**	**–**	**76**	**76**
Trade	**–**	**–**	**–**	**–**	**5**	**5**
Others	**3**	**–**	**–**	**–**	**1**	**4**
Receivables from customers - net of unearned discounts and capitalized interest	**3**	**–**	**–**	**12**	**319**	**334**
Accrued interest receivable	**–**	**–**	**–**	**–**	**3**	**3**
Sales contract receivable	**–**	**–**	**–**	**–**	**11**	**11**
	₱3	**₱–**	**₱–**	**₱12**	**₱333**	**₱348**

	Parent Company					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2013						
Receivables from customers						
Commercial loans	₱51	₱87	₱65	₱42	₱95	₱340
Residential mortgage loans	6	–	–	–	197	203
Auto loans	–	–	–	–	70	70
Trade	–	–	–	1	–	1
Others	–	–	–	–	5	5
Receivables from customers - net of unearned discounts and capitalized interest	57	87	65	43	367	619
Accrued interest receivable	–	–	1	–	3	4
	₱57	₱87	₱66	₱43	₱370	₱623

The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2014 and 2013.

Liquidity Risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due.

The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

Specifically for the Parent Company, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Parent Company manages its liquidity risk by holding sufficient liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is repriced on a regular basis. Deposits with banks are made on a short-term basis.

In the Parent Company, the Treasury Group uses liquidity forecast models to estimate its cash flow needs based on its actual contractual obligations under normal and extraordinary circumstances. RSK generates Maximum Cumulative Outflow (MCO) reports on a monthly basis to estimate short- and long-term net cash flows of the bank under business-as-usual and stress parameters. The Group's financial institution subsidiaries (excluding insurance companies) prepare their respective MCO reports. These are reported to the Parent Company's ROC on a monthly basis.

Financial assets

Analysis of equity securities at FVPL into maturity groupings is based on the expected date on which these assets will be realized. For other financial assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier the expected date the assets will be realized.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

The table below summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

	Consolidated						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
2014							
Financial Assets							
Cash and other cash items	₱34,943	₱–	₱–	₱–	₱–	₱–	₱34,943
Due from BSP	184,453	30,808	–	–	–	–	215,261
Due from other banks	36,032	788	1,193	185	–	3	38,201
Interbank loans receivable and SPURA	–	110,575	5,989	849	2,670	–	120,083
Financial assets at FVPL							
HFT investments	279	–	31,197	65	–	–	31,541
Derivative assets*							
Trading:							
Receive	–	36,658	18,030	17,282	3,540	1,000	76,510
Pay	–	(36,531)	(17,859)	(17,132)	(3,531)	(475)	(75,528)
	–	127	171	150	9	525	982
AFS investments	–	181	1,006	2,362	5,892	235,754	245,195
HTM investments	–	128	407	115	294	215,003	215,947
Loans and receivables							
Receivables from customers	28,005	137,839	96,999	66,440	78,898	488,762	896,943
Unquoted debt securities	–	14	20	320	762	2,555	3,671
Accounts receivable	3,736	95	528	3	26	29	4,417
Accrued interest receivable	6,883	8	330	260	247	591	8,319
Sales contract receivable	47	49	62	18	46	383	605
Other receivables	13	47	445	–	–	–	505
Other assets							
Returned checks and other cash items	83	–	189	–	–	–	272
Residual value of leased assets	13	22	44	49	124	580	832
Miscellaneous	2	5	3	6	13	103	132
	₱294,489	₱280,686	₱138,583	₱70,822	₱88,981	₱944,288	₱1,817,849
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱187,285	₱–	₱–	₱–	₱–	₱–	₱187,285
Savings	406,767	–	–	–	–	–	406,767
Time	–	346,345	161,866	25,197	10,086	38,104	581,598
LTNCD	–	80	66	146	293	17,284	17,869
	594,052	346,425	161,932	25,343	10,379	55,388	1,193,519
Bills payable and SSURA	–	54,508	55,676	7,894	9,145	14,926	142,149
Manager's checks and demand drafts outstanding	4,653	–	–	–	–	–	4,653
Accrued interest payable	–	596	837	66	42	324	1,865
Accrued other expenses	6,296	454	69	–	71	–	6,890
Bonds payable	–	–	135	135	484	12,431	13,185
Subordinated debt	–	–	403	403	807	37,028	38,641
Other liabilities*							
Bills purchased - contra	26,386	–	–	–	–	–	26,386
Accounts payable	1,218	6,058	3	–	1,673	21	8,973
Outstanding acceptances	–	252	287	69	73	8	689
Marginal deposits	6	–	4,574	–	–	–	4,580
Deposits on lease contracts	3	26	57	65	254	766	1,171
Dividends payable	–	40	–	–	64	–	104
Notes payable	–	–	–	–	–	517	517
Miscellaneous	4	27	–	–	–	–	31
	632,618	408,386	223,973	33,975	22,992	121,409	1,443,353
Derivative liabilities*							
Trading:							
Pay	–	31,355	7,224	3,722	4,601	5,979	52,881
Receive	–	(30,647)	(6,882)	(3,473)	(4,445)	(5,762)	(51,209)
	–	708	342	249	156	217	1,672
Loan commitments and financial guarantees	2,317	3,557	12,309	8,014	7,190	90,115	123,502
	₱634,935	₱412,651	₱236,624	₱42,238	₱30,338	₱211,741	₱1,568,527

	Consolidated						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
2013							
Financial Assets							
Cash and other cash items	₱29,742	₱–	₱–	₱–	₱–	₱–	₱29,742
Due from BSP	166,474	300	–	–	–	–	166,774
Due from other banks	17,836	914	150	233	53	7,097	26,283
Interbank loans receivable and SPURA	–	111,517	6,258	1,937	2,495	–	122,207
Financial assets at FVPL							
HFT investments	185	18,914	30,032	–	26	–	49,157
Derivative assets*							
Trading:							
Receive	–	19,372	17,062	6,085	7,497	2,539	52,555
Pay	–	(18,985)	(16,866)	(5,671)	(7,200)	(2,022)	(50,744)
	–	387	196	414	297	517	1,811
AFS investments	–	542	437	1,306	3,769	333,181	339,235
HTM investments	–	220	–	–	990	62,746	63,956
Loans and receivables							
Receivables from customers	23,585	90,017	75,012	50,796	54,884	387,833	682,127
Unquoted debt securities	–	5	22	405	1,452	4,340	6,224
Accounts receivable	2,889	133	8	5	338	448	3,821
Accrued interest receivable	7,235	1	6	1	480	691	8,414
Sales contract receivable	42	9	30	22	48	323	474
Other receivables	12	112	–	–	190	–	314
Other assets							
Returned checks and other cash items	14	–	54	–	–	–	68
Residual value of leased assets	6	4	36	39	98	529	712
Pledged certificate of time deposit	–	–	–	–	–	266	266
Miscellaneous	1	5	4	8	18	63	99
	₱248,021	₱223,080	₱112,245	₱55,166	₱65,138	₱798,034	₱1,501,684
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱150,694	₱–	₱–	₱–	₱–	₱–	₱150,694
Savings	362,915	–	–	–	–	–	362,915
Time	–	304,575	129,551	21,459	21,077	32,039	508,701
	513,609	304,575	129,551	21,459	21,077	32,039	1,022,310
Bills payable and SSURA	–	69,120	30,295	9,176	5,612	13,906	128,109
Manager's checks and demand drafts outstanding	3,927	–	–	–	–	–	3,927
Accrued interest payable	247	499	301	50	282	391	1,770
Accrued other expenses	5,304	97	3	–	153	–	5,557
Bonds payable	–	–	87	169	338	25,953	26,547
Subordinated debt	–	–	127	4,628	86	8,579	13,420
Other liabilities							
Bills purchased - contra	16,637	–	–	–	–	–	16,637
Accounts payable	1,382	5,002	–	1,067	886	–	8,337
Outstanding acceptances	–	365	551	59	26	–	1,001
Marginal deposits	–	–	324	6,495	–	–	6,819
Deposits on lease contracts	–	8	55	52	197	679	991
Dividends payable	–	3	–	–	26	–	29
Notes payable	–	–	–	–	–	517	517
Miscellaneous	3	–	–	–	48	–	51
	541,109	379,669	161,294	43,155	28,731	82,064	1,236,022
Derivative liabilities*							
Trading:							
Pay	–	42,859	11,022	22,358	3,138	2,099	81,476
Receive	–	(40,270)	(9,877)	(21,596)	(1,470)	(1,684)	(74,897)
	–	2,589	1,145	762	1,668	415	6,579
Loan commitments and financial guarantees	2,114	2,133	9,508	7,258	7,570	73,653	102,236
	₱543,223	₱384,391	₱171,947	₱51,175	₱37,969	₱156,132	₱1,344,837

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
2014							
Financial Assets							
Cash and other cash items	**₱30,733**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱30,733**
Due from BSP	**157,759**	**16,506**	**–**	**–**	**–**	**–**	**174,265**
Due from other banks	**25,583**	**–**	**–**	**–**	**–**	**–**	**25,583**
Interbank loans receivable and SPURA	**–**	**102,236**	**1,802**	**874**	**3,755**	**–**	**108,667**
Financial assets at FVPL							
HFT investments	**–**	**–**	**25,302**	**–**	**–**	**–**	**25,302**
Derivative assets*							
Trading:							
Receive	**–**	**36,658**	**17,574**	**17,282**	**3,540**	**1,000**	**76,054**
Pay	**–**	**(36,531)**	**(17,414)**	**(17,132)**	**(3,531)**	**(475)**	**(75,083)**
	–	**127**	**160**	**150**	**9**	**525**	**971**
AFS investments	**–**	**101**	**854**	**1,696**	**5,319**	**211,960**	**219,930**
HTM investments	**–**	**–**	**152**	**–**	**–**	**191,453**	**191,605**
Loans and receivables							
Receivables from customers	**1,966**	**134,972**	**86,197**	**53,673**	**46,695**	**338,076**	**661,579**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**822**	**822**
Accounts receivable	**2,878**	**–**	**–**	**–**	**–**	**–**	**2,878**
Accrued interest receivable	**6,705**	**–**	**–**	**–**	**–**	**–**	**6,705**
Sales contract receivable	**21**	**47**	**58**	**9**	**29**	**36**	**200**
Other receivables	**10**	**155**	**–**	**–**	**–**	**–**	**165**
Other assets							
Returned checks and other cash items	**–**	**–**	**189**	**–**	**–**	**–**	**189**
	₱225,655	**₱254,144**	**₱114,714**	**₱56,402**	**₱55,807**	**₱742,872**	**₱1,449,594**
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	**₱169,851**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱169,851**
Savings	**390,509**	**–**	**–**	**–**	**–**	**–**	**390,509**
Time	**–**	**327,343**	**109,684**	**21,127**	**8,401**	**10,428**	**476,983**
LTNCD	**–**	**80**	**66**	**146**	**293**	**17,284**	**17,869**
	560,360	**327,423**	**109,750**	**21,273**	**8,694**	**27,712**	**1,055,212**
Bills payable and SSURA	**–**	**28,355**	**32,674**	**1,400**	**–**	**–**	**62,429**
Manager's checks and demand drafts outstanding	**3,399**	**–**	**–**	**–**	**–**	**–**	**3,399**
Accrued interest payable	**–**	**587**	**203**	**28**	**10**	**225**	**1,053**
Accrued other expenses	**5,356**	**–**	**–**	**–**	**–**	**–**	**5,356**
Subordinated debt	**–**	**–**	**300**	**300**	**601**	**27,131**	**28,332**
Other liabilities							
Bills purchased - contra	**26,303**	**–**	**–**	**–**	**–**	**–**	**26,303**
Accounts payable	**–**	**4,356**	**–**	**–**	**–**	**–**	**4,356**
Outstanding acceptances	**–**	**252**	**287**	**69**	**73**	**8**	**689**
Marginal deposits	**–**	**–**	**130**	**–**	**–**	**–**	**130**
	595,418	**360,973**	**143,344**	**23,070**	**9,378**	**55,076**	**1,187,259**
Derivative liabilities*							
Trading:							
Pay	**–**	**30,326**	**6,509**	**3,722**	**4,601**	**5,979**	**51,137**
Receive	**–**	**(29,615)**	**(6,169)**	**(3,473)**	**(4,445)**	**(5,762)**	**(49,464)**
	–	**711**	**340**	**249**	**156**	**217**	**1,673**
Loan commitments and financial guarantees	**2,317**	**3,557**	**12,303**	**7,997**	**7,135**	**4,562**	**37,871**
	₱597,735	**₱365,241**	**₱155,987**	**₱31,316**	**₱16,669**	**₱59,855**	**₱1,226,803**
2013							
Financial Assets							
Cash and other cash items	₱26,532	₱–	₱–	₱–	₱–	₱–	₱26,532
Due from BSP	143,424	300	–	–	–	–	143,724
Due from other banks	6,440	2,075	190	198	49	2	8,954
Interbank loans receivable and SPURA	–	88,128	4,051	1,937	2,943	–	97,059
Financial assets at FVPL							
HFT investments	–	–	29,958	–	–	–	29,958
Derivative assets*							
Trading:							
Receive	–	21,142	17,068	6,097	7,938	2,539	54,784
Pay	–	(20,763)	(16,869)	(5,678)	(7,654)	(2,022)	(52,986)
	–	379	199	419	284	517	1,798

(Forward)

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
AFS investments	₱–	₱411	₱191	₱522	₱2,636	₱283,074	₱286,834
HTM investments	–	220	–	–	990	62,674	63,884
Loans and receivables							
Receivables from customers	2,365	88,182	72,137	43,377	34,131	280,968	521,160
Unquoted debt securities	–	–	–	133	–	1,113	1,246
Accounts receivable	2,360	–	–	–	–	–	2,360
Accrued interest receivable	6,910	–	–	–	–	–	6,910
Sales contract receivable	22	8	30	21	40	49	170
Other receivables	12	18	–	–	–	–	30
Other assets							
Returned checks and other cash items	–	–	54	–	–	–	54
Pledge certificate of time deposit	–	–	–	–	–	266	266
	₱188,065	₱179,721	₱106,810	₱46,607	₱41,073	₱628,663	₱1,190,939
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱134,788	₱–	₱–	₱–	₱–	₱–	₱134,788
Savings	348,244	–	–	–	–	–	348,244
Time	–	250,440	121,833	19,886	6,805	9,780	408,744
	483,032	250,440	121,833	19,886	6,805	9,780	891,776
Bills payable and SSURA	–	45,996	–	–	–	–	45,996
Manager's checks and demand drafts outstanding	2,816	–	–	–	–	–	2,816
Accrued interest payable	–	469	185	28	9	212	903
Accrued other expenses	4,031	–	–	–	–	–	4,031
Subordinated debt	–	–	84	4,584	–	–	4,668
Other liabilities							
Bills purchased – contra	16,587	–	–	–	–	–	16,587
Accounts payable	–	4,674	–	–	–	–	4,674
Outstanding acceptances	–	365	551	59	26	–	1,001
Marginal deposits	–	–	324	–	–	–	324
	506,466	301,944	122,977	24,557	6,840	9,992	972,776
Derivative liabilities*							
Trading:							
Pay	–	42,859	11,022	22,358	3,138	2,099	81,476
Receive	–	(40,270)	(9,877)	(21,595)	(1,470)	(1,684)	(74,896)
	–	2,589	1,145	763	1,668	415	6,580
Loan commitments and financial guarantees	2,114	2,079	9,506	7,011	7,569	4,058	32,337
	₱508,580	₱306,612	₱133,628	₱32,331	₱16,077	₱14,465	₱1,011,693

*Does not include derivatives embedded in financial and non-financial contracts.

Market Risk

Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, and other market factors. The Parent Company's market risk originates from its holdings in foreign currencies, debt securities and derivatives transactions. The Parent Company manages market risk by segregating its balance sheet into a trading book and a banking book. ALCO, chaired by the Parent Company's Chairman is the senior review and decision-making body for the management of all related market risks. The Parent Company enforces a set of risk limits to properly monitor and manage the market risks. The risk limits are approved by the BOD. The RSK serves under the ROC and performs daily market risk analyses to ensure compliance with the Parent Company's policies. The Treasury Group manages asset/liability risks arising from both banking book and trading operations in financial markets.

Similarly, certain subsidiaries of the Parent Company independently quantify and manage their respective market risk exposures. Each institution has its respective risk management system and processes in place.

As part of its oversight function, the Parent Company regularly coordinate with subsidiaries to monitor their compliance to their respective risk tolerances and ensure consistency of risk management practices. Risk aggregation and consolidation of exposures are part of the ongoing initiatives to provide senior management with a group-wide market risk profile perspective such as Group Trading VaR.

Market risk - trading book
In measuring the potential loss in its trading portfolio, the Parent Company uses Value-at-Risk (VaR) as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period.

VaR methodology assumptions and parameters
The Parent Company is using 260-day Historical Simulation Method to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the specified historical period. In calculating VaR, the Parent Company uses a 99.00% confidence level and a one-day holding period. This means that, statistically, within a one-day horizon, the trading losses will exceed VaR in 1 out of 100 trading days. Like any other model, the Historical Simulation Method has its own limitations. To wit, it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is verified through a daily back testing analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily back testing analysis is reported to the ALCO and ROC monthly. The Parent Company measures and monitors the VaR daily and this value is compared against the set VaR limit.

A summary of the VaR levels of the trading portfolio of the Parent Company appears below:

	Parent Company		
	Rates and FX	Fixed Income	FX Options
As of December 31, 2014			
December 29	**₱149.86**	**₱133.32**	**₱0.07**
Average	**209.60**	**203.62**	**20.78**
Highest	**305.97**	**339.47**	**64.58**
Lowest	**145.39**	**87.60**	**0.02**

	Parent Company		
	Rates and FX	Fixed Income	FX Options
As of December 31, 2013			
December 27	₱296.42	₱212.60	₱18.70
Average	283.79	203.47	13.23
Highest	448.91	373.87	35.45
Lowest	123.81	37.81	3.49

Rates and Foreign Exchange (FX) VaR is the correlated VaR of the following products: FX spot, outright forward, NDF, FX swaps, IRS and cross currency swaps. The Fixed Income VaR is the correlated VaR of these products: peso and foreign currency bonds, bond forwards and credit default swaps (CDS).

Each subsidiary performs daily mark-to-market valuation and VaR calculations for their trading book exposures. Risk exposures are bounded by a system of risk limits and monitoring tools to effectively manage these risks.

The table below summarizes the VaR levels of FMIC and PSBank:

	FMIC			PSBank		
		Bonds		Bonds		
	EQUITIES	**PHP**	**USD**	**PHP**	**USD**	**FX**
As of December 31, 2014						
December 29	**₱14.275**	**₱31.119**	**USD–**	**₱1.470**	**USD0.014**	**₱0.450**
Average	**21.939**	**105.517**	**0.182**	**4.000**	**0.017**	**0.580**
Highest	**33.654**	**218.137**	**0.468**	**24.690**	**0.070**	**2.030**
Lowest	**11.628**	**18.187**	**0.000**	**0.320**	**0.004**	**0.002**

	FMIC			PSBank				
		Bonds		Bonds				
	EQUITIES	PHP	USD	PHP		USD		FX
As of December 31, 2013								
December 27	₱31.83	₱115.40	USD–	₱3.82	₱–	USD–	USD–	₱0.43
Average	45.63	65.86	0.14	2.17	–	41.17	–	0.84
Highest	121.24	182.04	1.07	10.06*	7.64**	1.15*	0.00**	1.96
Lowest	27.62	9.60	–	1.79*	1.21**	0.51*	0.00**	0.01

* January 1 to May 31- Using Bloomberg Historical Simulation VaR
** June 1 to December 31 - Using Spreadsheet-based model Historical Simulation VaR

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures and by doing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if an actual loss goes beyond what is deemed to be tolerable to the bank, even before the VaR limit is hit.

Stress testing is performed by the Parent Company on a quarterly basis, PSBank on monthly basis and FMIC on a daily basis to complement the VaR methodology. The stress testing results of the Parent Company are reported to the ALCO and subsequently to the ROC and the BOD.

Market risk - banking book
To quantify interest rate risk for banking book or accrual portfolios, the Group uses tools or approaches such as Earnings-at-Risk (EaR) and Sensitivity analysis. EaR Methodology is used to measure the potential effect of interest rate movements to net interest earnings. The measurement and monitoring of exposures are done on a monthly basis.

EaR is derived by multiplying the repricing gap by the change in interest rate and the time over which the repricing gap is in effect. The repricing/maturity gap is a method that distributes rate-sensitive assets, liabilities, and off-balance sheet positions into predefined time bands. Floating rate positions are distributed based on the time remaining to next repricing dates. On the other hand, fixed rate items are distributed based on the time remaining to respective maturities. There are certain balance sheet items that may require set-up of assumptions as to their distribution to time bands. For the Parent Company, rate-sensitive positions that lack definitive repricing dates or maturity dates (e.g. demand and savings deposit accounts) are assigned to repricing time bands based according to the judgment, past experience or behavioral patterns. Dynamic assumptions, which considers potential amount of loan pre-payments and time deposit pre-terminations, are based on analysis of historical cash flow levels.

The table below shows the earnings-at-risk profile of the Parent Company and certain subsidiaries as of December 31, 2014 and 2013:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro	Total
2014	**(₱2,542.86)**	**(₱122.36)**	**(₱429.52)**	**(₱88.70)**	**(₱0.98)**	**(₱3,184.42)**
2013	(₱1,656.51)	(₱268.10)	(₱54.13)	₱45.42	(₱0.47)	(₱1,933.79)

Foreign currency risk
Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the current foreign currency exchange rates on its financial performance and cash flows. Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table sets forth, for the year indicated, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity:

	Consolidated						**Parent Company**					
	2014			2013			**2014**			2013		
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	**+1.00%**	**(₱67.75)**	**(₱0.26)**	+1.00%	(₱23.24)	(₱359.67)	**+1.00%**	**(₱70.22)**	**(₱0.27)**	+1.00%	(₱25.35)	(₱0.87)
EUR	**+1.00%**	**3.34**	–	+1.00%	19.00	–	**+1.00%**	**3.24**	–	+1.00%	18.87	–
JPY	**+1.00%**	**0.95**	–	+1.00%	(6.21)	–	**+1.00%**	**0.95**	–	+1.00%	(6.21)	–
GBP	**+1.00%**	**(3.34)**	–	+1.00%	0.78	–	**+1.00%**	**(3.34)**	–	+1.00%	0.78	–
Others	**+1.00%**	**150.22**	–	+1.00%	9.09	–	**+1.00%**	**150.22**	–	+1.00%	9.09	–
USD	**-1.00%**	**67.75**	**0.26**	-1.00%	23.24	359.67	**-1.00%**	**70.22**	**0.27**	-1.00%	23.35	0.87
EUR	**-1.00%**	**(3.34)**	–	-1.00%	(19.00)	–	**-1.00%**	**(3.24)**	–	-1.00%	(18.87)	–
JPY	**-1.00%**	**(0.95)**	–	-1.00%	6.21	–	**-1.00%**	**(0.95)**	–	-1.00%	6.21	–
GBP	**-1.00%**	**3.34**	–	-1.00%	(0.78)	–	**-1.00%**	**3.34**	–	-1.00%	(0.78)	–
Others	**-1.00%**	**(150.22)**	–	-1.00%	(9.09)	–	**-1.00%**	**(150.22)**	–	-1.00%	(9.09)	–

Information relating to Parent Company's currency derivatives is included in Note 8. As of December 31, 2014 and 2013, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱8.1 billion and ₱8.4 billion, respectively (sold), and ₱6.9 billion and ₱9.6 billion, respectively (bought).

The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit and loss.

Capital Management

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

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

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the compliance with regulatory requirements and ratios is based on the amount of the "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

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

Prior to January 1, 2014, the risk-based capital ratio is computed in accordance with BSP Circular No. 538 or Basel II.

The details of CAR, as reported to the BSP, as of December 31, 2014 and 2013 based on Basel III and Basel II, respectively, follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Tier 1 capital	**₱147,953**	₱123,895	**₱139,523**	₱118,183
CET1 Capital	**147,953**		**139,523**	
Less: Required deductions	**31,055**	1,380	**66,960**	24,721
Sub-total	**116,898**	122,515	**72,563**	93,462
Excess from Tier 2 deducted to Tier 1 Capital*		–		(15,868)
Net Tier 1 Capital	**116,898**	122,515	**72,563**	77,594
Tier 2 capital	**37,430**	15,021	**27,874**	8,853
Less: Required deductions		1,380		24,721
Sub-total	**37,430**	13,641	**27,874**	(15,868)
Excess of Tier 2 deducted to Tier 1 Capital*		–		15,868
Net Tier 2 Capital	**37,430**	13,641	**27,874**	–
Total Qualifying Capital	**₱154,328**	₱136,156	**₱100,437**	₱77,594

**In 2013, deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital in accordance with the Basel II standards.*

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Credit Risk-Weighted Assets	**₱816,557**	₱665,376	**₱634,754**	₱483,969
Market Risk-Weighted Assets	**34,042**	58,196	**32,571**	52,222
Operational Risk-Weighted Assets	**112,180**	94,240	**66,708**	55,791
Total Risk-Weighted Assets	**962,779**	817,812	**734,033**	591,981
CET1 Ratio*	**12.14%**		**9.89%**	
Tier 1 capital ratio	**12.14%**	14.98%	**9.89%**	13.11%
Total capital ratio	**16.03%**	16.65%	**13.68%**	13.11%

**of which capital conservation buffer is 6.14% and 3.89% for the Group and Parent Company, respectively.*

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, surplus including current year profit, surplus reserves, other comprehensive income (net unrealized gains or losses on AFS securities and cumulative foreign currency translation) and non-controlling interest less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI), deferred income tax, other intangible assets, defined benefit pension fund assets and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision.

RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

As of December 31, 2014 and 2013, the Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products.

Credit risk mitigants on risk-weighted assets were based on collateralized transactions (margin deposits and hold-out on deposits) as well as guarantees by the Philippine National Government and those guarantors and exposures with highest credit rating.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by S&P, Moody's, Fitch and PhilRatings on exposures to Sovereigns, Multilateral Development Banks, Banks, Local Government Units, Government Corporations, and Corporates.

Operational RWA are computed using the Basic Indicator Approach.

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

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every January 31. Pursuant to MB Resolution No. 84 dated January 14, 2015, the deadline for submission of ICAAP documents was amended from January 31 of each year to March 31 effective 2015 (BSP Circular No. 869 dated January 30, 2015).

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

5. Fair Value Measurement

Financial Instruments
The methods and assumptions used by the Group in estimating the fair value of financial instruments are:

Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA - Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

Trading and investment securities - Fair values of debt securities (financial assets at FVPL, AFS and HTM investments) and equity investments are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models. The models utilize published underlying rates (e.g. interest rates, FX rates, CDS rates, FX volatilities and spot and forward FX rates) and are implemented through validated calculation engines.

Loans and receivables - Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

Liabilities - Fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any. The carrying amount of demand and savings deposit liabilities and other short-term liabilities approximate fair value considering that these are either due and demandable or with short-term maturities.

Non-financial Asset
Investment properties - Fair value of investment properties is determined based on valuations performed by independent and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restrictions, building coverage and floor area ratio restrictions, among others. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amounts and fair values of the financial assets and liabilities, analyzed among those whose fair value is based on:

- Quoted market prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	2014				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	**₱29,178**	**₱28,142**	**₱1,036**	**₱–**	**₱29,178**
Private	**3,925**	**3,887**	**38**	**–**	**3,925**
	33,103	**32,029**	**1,074**	**–**	**33,103**
Equity securities					
Quoted	**9,791**	**9,791**	**–**	**–**	**9,791**
Derivative assets					
Currency forwards	**598**	**–**	**598**	**–**	**598**
Bond forward	**27**	**–**	**27**	**–**	**27**
Interest rate swaps	**345**	**–**	**345**	**–**	**345**
Cross currency swaps	**1,857**	**–**	**1,857**	**–**	**1,857**
Put option	**164**	**–**	**164**	**–**	**164**
Call option	**45**	**–**	**45**	**–**	**45**
Embedded derivatives in non-financial contract	**5**	**–**	**5**	**–**	**5**
	3,041		**3,041**		**3,041**
	45,935	**41,820**	**4,115**	**–**	**45,935**
AFS investments					
Debt securities					
Government	**173,628**	**169,278**	**4,350**	**–**	**173,628**
Private	**26,739**	**25,923**	**816**	**–**	**26,739**
	200,367	**195,201**	**5,166**	**–**	**200,367**
Equity securities					
Quoted	**3,892**	**3,892**	**–**	**–**	**3,892**
	204,259	**199,093**	**5,166**	**–**	**204,259**
	₱250,194	**₱240,913**	**₱9,281**	**₱–**	**₱250,194**
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	**₱29,078**	**₱32,957**	**₱24**	**₱–**	**₱32,981**
Private	**3,371**	**3,344**	**–**	**–**	**3,344**
Treasury notes	**96,627**	**98,748**	**–**	**–**	**98,748**
	129,076	**135,049**	**24**	**–**	**135,073**
Loans and receivables - net					
Receivables from customers					
Commercial loans	**493,604**	**–**	**494,875**	**–**	**494,875**
Residential mortgage loans	**73,826**	**–**	**72,149**	**–**	**72,149**
Auto loans	**63,353**	**–**	**66,485**	**–**	**66,485**
Trade	**36,189**	**–**	**36,197**	**–**	**36,197**
Others	**76,452**	**–**	**76,351**	**–**	**76,351**
	743,424	**–**	**746,057**	**–**	**746,057**
Unquoted debt securities	**2,508**	**–**	**2,740**	**–**	**2,740**
Sales contract receivable	**430**	**–**	**451**	**–**	**451**
	746,362	**–**	**749,248**	**–**	**749,248**
Other Assets					
Residual value of leased assets	**832**	**–**	**791**	**–**	**791**
Miscellaneous	**115**	**–**	**117**	**–**	**117**
	947	**–**	**908**	**–**	**908**
	876,385	**135,049**	**750,180**	**–**	**885,229**
Non-Financial Assets					
Investment properties	**10,037**	**–**	**–**	**15,773**	**15,773**
	₱886,422	**₱135,049**	**₱750,180**	**₱15,773**	**₱901,002**

(Forward)

	2014				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	**₱506**	**₱–**	**₱506**	**₱–**	**₱506**
Foreign exchange swaps	**16**	**–**	**16**	**–**	**16**
Interest rate swaps	**1,113**	**–**	**1,113**	**–**	**1,113**
Cross currency swaps	**1,436**	**–**	**1,436**	**–**	**1,436**
	₱3,071	**₱–**	**₱3,071**	**₱–**	**₱3,071**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	**₱576,152**	**₱–**	**₱580,433**	**₱–**	**₱580,433**
LTNCD	**14,250**	**8,080**	**6,215**	**–**	**14,295**
Bills payable and SSURA	**140,399**	**–**	**141,626**	**–**	**141,626**
Bonds payable	**11,444**	**–**	**12,004**	**–**	**12,004**
Subordinated debt	**29,452**	**19,687**	**7,107**	**–**	**26,794**
Other liabilities					
Deposits on lease contracts	**1,171**	**–**	**1,031**	**–**	**1,031**
	₱772,868	**₱27,767**	**₱748,416**	**₱–**	**₱776,183**

	2014				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	**₱23,815**	**₱23,815**	**₱–**	**₱–**	**₱23,815**
Private	**3,049**	**3,049**	**–**	**–**	**3,049**
	26,864	**26,864**	**–**	**–**	**26,864**
Derivative assets					
Currency forwards	**598**	**–**	**598**	**–**	**598**
Bond forward	**27**	**–**	**27**	**–**	**27**
Interest rate swaps	**345**	**–**	**345**	**–**	**345**
Cross currency swaps	**1,847**	**–**	**1,847**	**–**	**1,847**
Put option purchased - warrants	**164**	**–**	**164**	**–**	**164**
Call option	**–**	**–**	**–**	**–**	**–**
Embedded derivatives in non-financial contract	**5**	**–**	**5**	**–**	**5**
	2,986	**–**	**2,986**	**–**	**2,986**
	29,850	**26,864**	**2,986**	**–**	**29,850**
AFS investments					
Debt securities					
Government	**155,617**	**155,501**	**116**	**–**	**155,617**
Private	**23,408**	**22,912**	**496**	**–**	**23,408**
	179,025	**178,413**	**612**	**–**	**179,025**
Equity securities					
Quoted	**289**	**289**	**–**	**–**	**289**
	179,314	**178,702**	**612**	**–**	**179,314**
	₱209,164	**₱205,566**	**₱3,598**	**₱–**	**₱209,164**
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	**₱14,195**	**₱17,868**	**₱–**	**₱–**	**₱17,868**
Treasury notes	**96,582**	**98,702**	**–**	**–**	**98,702**
	110,777	**116,570**	**–**	**–**	**116,570**

(Forward)

	2014				
	Parent Company				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Loans and receivables - net					
Receivables from customers					
Commercial loans	**₱458,516**	**₱–**	**₱457,438**	**₱–**	**₱457,438**
Residential mortgage loans	**39,797**	**–**	**40,028**	**–**	**40,028**
Auto loans	**17,853**	**–**	**17,981**	**–**	**17,981**
Trade	**36,189**	**–**	**36,197**	**–**	**36,197**
Others	**26,740**	**–**	**26,740**	**–**	**26,740**
	579,095	**–**	**578,384**	**–**	**578,384**
Unquoted debt securities	**163**	**–**	**163**	**–**	**163**
Sales contract receivable	**184**	**–**	**184**	**–**	**184**
	579,442	**–**	**578,731**	**–**	**578,731**
	690,219	**116,570**	**578,731**	**–**	**695,301**
Non-Financial Assets					
Investment properties	**6,229**	**–**	**–**	**10,672**	**10,672**
	₱696,448	**₱116,570**	**₱578,731**	**₱10,672**	**₱705,973**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	**₱506**	**₱–**	**₱506**	**₱–**	**₱506**
Interest rate swaps	**1,113**	**–**	**1,113**	**–**	**1,113**
Cross currency swaps	**1,435**	**–**	**1,435**	**–**	**1,435**
	₱3,054	**₱–**	**₱3,054**	**₱–**	**₱3,054**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	**₱475,818**	**₱–**	**₱475,818**	**₱–**	**₱475,818**
LTNCD	**14,250**	**8,080**	**6,215**	**–**	**14,295**
	490,068	**8,080**	**482,033**	**–**	**490,113**
Bills payable and SSURA	**62,345**	**–**	**62,345**	**–**	**62,345**
Subordinated debt	**22,344**	**19,687**	**–**	**–**	**19,687**
	₱574,757	**₱27,767**	**₱544,378**	**₱–**	**₱572,145**

	2013				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱39,367	₱39,294	₱73	₱–	₱39,367
Private	2,332	2,306	26	–	2,332
BSP	19	19	–	–	19
	41,718	41,619	99	–	41,718
Equity securities					
Quoted	9,637	9,637	–	–	9,637
Derivative assets					
Currency forwards	1,059	–	1,059	–	1,059
Interest rate swaps	1,061	–	1,061	–	1,061
Cross currency swaps	1,652	–	1,652	–	1,652
Put option	215	–	215	–	215
Call option	93	–	93	–	93
Embedded derivatives in non-financial contract	6	–	6	–	6
	4,086	–	4,086	–	4,086
	55,441	51,256	4,185	–	55,441
AFS investments					
Debt securities					
Government	245,520	241,566	3,954	–	245,520
Private	21,531	21,012	519	–	21,531
	267,051	262,578	4,473		267,051
Equity securities					
Quoted	2,882	2,882	–	–	2,882
	269,933	265,460	4,473	–	269,933
	₱325,374	₱316,716	₱8,658	₱–	₱325,374

(Forward)

	2013				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	₱38,380	₱41,176	₱25	₱–	₱41,201
Treasury notes	45	46	–	–	46
	38,425	41,222	25	–	41,247
Loans and receivables - net					
Receivables from customers					
Commercial loans	385,251	–	383,705	–	383,705
Residential mortgage loans	64,496	–	64,782	–	64,782
Auto loans	54,101	–	58,082	–	58,082
Trade	29,847	–	29,854	–	29,854
Others	60,767	–	60,922	–	60,922
	594,462	–	597,345	–	597,345
Unquoted debt securities	4,639	–	5,067	–	5,067
Sales contract receivable	421	–	442	–	442
	599,522	–	602,854	–	602,854
Other Assets					
Residual value of leased assets	712	–	680	–	680
Miscellaneous	97	–	104	–	104
	809	–	784	–	784
	638,756	41,222	603,663	–	644,885
Non-Financial Assets					
Investment properties	13,125	–	–	22,941	22,941
	₱651,881	₱41,222	₱603,663	₱22,941	₱667,826
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱1,365	₱–	₱1,365	₱–	₱1,365
Interest rate swaps	1,407	–	1,407	–	1,407
Cross currency swaps	1,641	–	1,641	–	1,641
Call option	11	–	11	–	11
Credit default swaps	10	–	10	–	10
Embedded derivatives in non-financial contract	18	–	18	–	18
	₱4,452	₱–	₱4,452	₱–	₱4,452
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱502,659	₱–	₱509,097	₱–	₱509,097
Bills payable and SSURA	127,204	–	127,768	–	127,768
Bonds payable	11,643		12,820	–	12,820
Subordinated debt	8,628	4,561	4,832	–	9,393
Other liabilities					
Deposits on lease contracts	991	–	951	–	951
	₱651,125	₱4,561	₱655,468	₱–	₱660,029

	2013				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱30,421	₱30,421	₱–	₱–	₱30,421
Private	1,717	1,717	–	–	1,717
BSP	19	19	–	–	19
	32,157	32,157	–	–	32,157

(Forward)

	2013				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Derivative assets					
Currency forwards	₱1,059	₱–	₱1,059	₱–	₱1,059
Interest rate swaps	1,061	–	1,061	–	1,061
Cross currency swaps	1,639	–	1,639	–	1,639
Put option purchased - warrants	215	–	215	–	215
Call option	3	–	3	–	3
Embedded derivatives in non-financial contract	6	–	6	–	6
	3,983	–	3,983	–	3,983
	36,140	32,157	3,983	–	36,140
AFS investments					
Debt securities					
Government	206,083	205,895	188	–	206,083
Private	20,535	20,311	224	–	20,535
	226,618	226,206	412	–	226,618
Equity securities					
Quoted	264	264	–	–	264
	226,882	226,470	412	–	226,882
	₱263,022	₱258,627	₱4,395	₱–	₱263,022
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments - Government	₱38,358	₱41,176	₱–	₱–	₱41,176
Loans and receivables - net					
Receivables from customers					
Commercial loans	347,808	–	344,300	–	344,300
Residential mortgage loans	36,482	–	36,709	–	36,709
Auto loans	16,120	–	16,208	–	16,208
Trade	29,617	–	29,625	–	29,625
Others	17,056	–	17,056	–	17,056
	447,083	–	443,898	–	443,898
Unquoted debt securities	534	–	534	–	534
Sales contract receivable	148	–	148	–	148
	447,765	–	444,580	–	444,580
	486,123	41,176	444,580	–	485,756
Non-Financial Assets					
Investment properties	9,504	–	–	18,264	18,264
	₱495,627	₱41,176	₱444,580	₱18,264	₱504,020
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱1,365	₱–	₱1,365	₱–	₱1,365
Interest rate swaps	1,407	–	1,407	–	1,407
Cross currency swaps	1,641	–	1,641	–	1,641
Call option	11	–	11	–	11
Credit default swaps	10	–	10	–	10
Embedded derivatives in non-financial contract	18	–	18	–	18
	₱4,452	₱–	₱4,452	₱–	₱4,452
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposits	₱407,722	₱–	₱407,722	₱–	₱407,722
Bills payable and SSURA	45,993	–	45,993	–	45,993
Subordinated debt	4,497	4,561	–	–	4,561
	₱458,212	₱4,561	₱453,715	₱–	₱458,276

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy. For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Instruments included in Level 3 include those for which there is currently no active market.

The following table shows transfers from Level 2 to Level 1 of the fair value hierarchy as of December 31, 2014:

	Level 1	Level 2
HFT investments - debt securities	₱15	(₱15)
AFS investments - debt securities	45	(45)

As of December 31, 2014, the price of these securities is quoted in an active market.

There were no transfers between Levels of the fair value hierarchy in 2013.

6. Segment Information

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

- Consumer Banking - principally providing consumer type loans and support for effective sourcing and generation of consumer business;
- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions; and providing advisory services primarily aimed to create wealth to individuals and institutions;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking;
- Branch Banking - principally handling branch deposits and providing loans and other loan related businesses for domestic middle market clients; and
- Others - principally handling other services including but not limited to remittances, leasing, account financing, and other support services. Other operations of the Group comprise the operations and financial control groups.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds. The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities:

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2014							
Results of Operations							
Net interest income (expense)							
Third party	₱9,183	₱17,004	₱164	₱16,265	₱1,248	₱1,899	₱45,763
Intersegment	(331)	(9,731)	–	(7,834)	20,612	(2,716)	–
Net interest income (expense) after intersegment transactions	8,852	7,273	164	8,431	21,860	(817)	45,763
Non-interest income	5,009	940	408	912	3,886	17,976	29,131
Revenue - net of interest expense	13,861	8,213	572	9,343	25,746	17,159	74,894
Non-interest expense	9,024	2,089	28	1,288	17,898	15,446	45,773
Income before share in net income of associates and a JV	4,837	6,124	544	8,055	7,848	1,713	29,121
Share in net income of associates and a JV	–	77	–	–	–	366	443
Provision for income tax	(946)	(280)	–	(3,475)	201	(1,959)	(6,459)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(2,992)	(2,992)
Net income (loss)	₱3,891	₱5,921	₱544	₱4,580	₱8,049	(₱2,872)	₱20,113
Statement of Financial Position							
Total assets	₱119,790	₱521,546	₱–	₱566,013	₱134,958	₱262,233	₱1,604,540
Total liabilities	₱51,474	₱512,814	₱–	₱545,049	₱204,002	₱132,416	₱1,445,755
Other Segment Information							
Capital expenditures	₱450	₱119	₱–	₱121	₱226	₱2,883	₱3,799
Depreciation and amortization	₱296	₱116	₱–	₱29	₱1,016	₱1,439	₱2,896
Provision for credit and impairment losses	₱4,195	₱43	₱–	₱8	₱858	(₱255)	₱4,849
2013							
Results of Operations							
Net interest income (expense)							
Third party	₱7,851	₱7,999	(₱44)	₱11,148	₱9,994	₱1,321	₱38,269
Intersegment	(280)	(4,014)	–	(5,995)	12,443	(2,154)	–
Net interest income (expense) after intersegment transactions	7,571	3,985	(44)	5,153	22,437	(833)	38,269
Non-interest income	4,068	382	731	13,426	3,646	18,402	40,655
Revenue - net of interest expense	11,639	4,367	687	18,579	26,083	17,569	78,924
Non-interest expense	8,307	1,573	149	2,547	17,123	19,798	49,497
Income (loss) before share in net income of associates and a JV	3,332	2,794	538	16,032	8,960	(2,229)	29,427
Share in net income of associates and a JV	–	110	–	–	–	1,367	1,477
Provision for income tax	(862)	(370)	(52)	(3,242)	64	(2,286)	(6,748)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(1,668)	(1,668)
Net income (loss)	₱2,470	₱2,534	₱486	₱12,790	₱9,024	(₱4,816)	₱22,488
Statement of Financial Position							
Total assets	₱97,439	₱202,740	₱861	₱503,490	₱321,033	₱253,006	₱1,378,569
Total liabilities	₱41,792	₱197,033	₱6	₱481,636	₱377,608	₱137,789	₱1,235,864
Other Segment Information							
Capital expenditures	₱409	₱212	₱–	₱105	₱328	₱2,599	₱3,653
Depreciation and amortization	₱293	₱103	₱–	₱7	₱949	₱1,332	₱2,684
Provision for credit and impairment losses	₱3,665	(₱157)	₱–	₱426	₱1,886	₱4,902	₱10,722
2012							
Results of Operations							
Net interest income (expense)							
Third party	₱6,785	₱8,860	(₱66)	₱6,730	₱7,392	₱1,153	₱30,854
Intersegment	(217)	(5,672)	–	(3,837)	10,979	(1,253)	–
Net interest income (expense) after intersegment transactions	6,568	3,188	(66)	2,893	18,371	(100)	30,854
Non-interest income	3,435	234	739	8,193	3,106	10,517	26,224
Revenue - net of interest expense	10,003	3,422	673	11,086	21,477	10,417	57,078
Non-interest expense	7,007	1,342	106	1,220	13,918	14,260	37,853
Income (loss) before share in net income of associates and a JV	2,996	2,080	567	9,866	7,559	(3,843)	19,225
Share in net income of associates and a JV	–	1	–	–	–	2,547	2,548

(Forward)

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Provision for income tax	(₱796)	(₱155)	(₱29)	(₱1,844)	(₱232)	(₱800)	(₱3,856)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(2,518)	(2,518)
Net income (loss)	₱2,200	₱1,926	₱538	₱8,022	₱7,327	(₱4,614)	₱15,399
Statement of Financial Position							
Total assets	₱64,184	₱208,115	₱2,210	₱306,726	₱264,946	₱200,462	₱1,046,643
Total liabilities	₱33,952	₱205,180	₱2,302	₱278,774	₱295,235	₱106,491	₱921,934
Other Segment Information							
Capital expenditures	₱446	₱281	₱–	₱75	₱229	₱3,472	₱4,503
Depreciation and amortization	₱311	₱81	₱–	₱15	₱879	₱1,138	₱2,424
Provision for credit and impairment losses	₱3,051	₱83	₱–	₱–	₱572	₱772	₱4,478

Non-interest income consists of service charges, fees and commissions, profit from assets sold, trading and securities gain - net, foreign exchange gain - net, income from trust operations, leasing, dividends and miscellaneous income. Non-interest expense consists of compensation and fringe benefits, taxes and licenses, provision for credit and impairment losses, depreciation and amortization, occupancy and equipment-related cost, amortization of software costs and miscellaneous expense.

Geographical Information

The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2). The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

	Philippines	**Asia (Other than Philippines)**	**USA**	**Europe**	**Total**
2014					
Interest income	**₱57,557**	**₱1,709**	**₱28**	**₱–**	**₱59,294**
Interest expense	**12,893**	**632**	**6**	**–**	**13,531**
Net interest income	**44,664**	**1,077**	**22**	**–**	**45,763**
Non-interest income	**27,834**	**912**	**335**	**50**	**29,131**
Provision for credit and impairment losses	**4,689**	**157**	**3**	**–**	**4,849**
Total external net operating income	**₱67,809**	**₱1,832**	**₱354**	**₱50**	**₱70,045**
Non-current assets	**₱27,851**	**₱620**	**₱19**	**₱5**	**₱28,495**
2013					
Interest income	₱48,614	₱1,243	₱35	₱–	₱49,892
Interest expense	11,155	462	6	–	11,623
Net interest income	37,459	781	29	–	38,269
Non-interest income	39,130	1,000	411	114	40,655
Provision for credit and impairment losses	10,630	92	–	–	10,722
Total external net operating income	₱65,959	₱1,689	₱440	₱114	₱68,202
Non-current assets	₱30,985	₱667	₱25	₱13	₱31,690
2012					
Interest income	₱44,264	₱708	₱44	₱–	₱45,016
Interest expense	13,940	215	7	–	14,162
Net interest income	30,324	493	37	–	30,854
Non-interest income	24,637	1,118	329	140	26,224
Provision for credit and impairment losses	4,444	34	–	–	4,478
Total external net operating income	₱50,517	₱1,577	₱366	₱140	₱52,600
Non-current assets	₱33,775	₱550	₱31	₱13	₱34,369

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, software costs and assets held under joint operations.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Interbank loans receivable (Note 31)	**₱23,017**	₱27,465	**₱13,399**	₱17,548
SPURA	**96,826**	94,548	**95,042**	79,324
	119,843	122,013	**108,441**	96,872
Less allowance for impairment losses (Note 15)	**4**	2	**–**	–
	₱119,839	₱122,011	**₱108,441**	₱96,872

The outstanding balance of SPURA represents overnight placements with the BSP where the underlying securities cannot be sold or repledged to parties other than BSP.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Financial assets at FVPL (Note 29)	**₱45,935**	₱55,441	**₱29,850**	₱36,140
AFS investments (Notes 11, 29 and 31)	**207,711**	273,429	**179,375**	226,943
HTM investments (Notes 29 and 31)	**129,076**	38,425	**110,777**	38,358
	₱382,722	₱367,295	**₱320,002**	₱301,441

Financial assets at FVPL consist of the following:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
HFT investments (Note 31)				
Debt securities				
Government (Notes 17 and 19)	**₱29,178**	₱39,367	**₱23,815**	₱30,421
Private	**3,925**	2,332	**3,049**	1,717
BSP	**–**	19	**–**	19
	33,103	41,718	**26,864**	32,157
Equity securities - quoted	**9,791**	9,637	**–**	–
	42,894	51,355	**26,864**	32,157
Derivative assets	**3,041**	4,086	**2,986**	3,983
	₱45,935	₱55,441	**₱29,850**	₱36,140

Derivative Financial Instruments

The following are fair values of derivative financial instruments of the Parent Company recorded as derivative assets/liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2014 and 2013 and are not indicative of either market risk or credit risk.

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2014				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	**₱140**	**₱65**	**USD 830**	**₱44.7364**
CNY	**11**	**238**	**CNY 3,931**	**CNY 0.1601**
EUR	–	**1**	**EUR 0**	**EUR 1.2695**
TWD	**77**	–	**TWD 1,641**	**TWD 0.0326**
HKD	–	**0**	**HKD 15**	**HKD 0.1289**
CHF	–	**4**	**CHF 4**	**CHF 1.0358**
AUD	–	**0**	**AUD 1**	**AUD 0.8183**
SOLD:				
USD	**112**	**180**	**USD 1,067**	**₱44.8498**
CNY	**250**	**17**	**CNY 3,963**	**CNY 0.1608**
JPY	**4**	–	**JPY 807**	**JPY 0.0084**
EUR	**3**	–	**EUR 1**	**EUR 1.2080**
THB	**0**	**0**	**THB 15**	**THB 0.0303**
CHF	**0**	–	**CHF 2**	**CHF 1.0133**
SGD	**1**	–	**SGD 31**	**SGD 0.7560**
AUD	**0**	**1**	**AUD 14**	**AUD 0.8131**
DKK	**0**	–	**DKK 1**	**DKK 0.1675**
ZAR	**0**	–	**ZAR 3**	**ZAR 0.0864**
Put option purchased warrants	**164**	–	**USD 645**	
Interest rate swaps - PHP	**252**	**386**	**₱54,788**	
Interest rate swaps - FX	**93**	**727**	**USD 1,455**	
Cross currency swaps	**1,804**	**46**	**USD 1,088**	
Cross currency swaps - PHP	**43**	**1,389**	**₱18,047**	
Over-the-counter FX option	**0**	–	**USD 2**	
Bond forwards	**27**	–	**USD 50**	
Embedded derivatives in non-financial contract**	**5**	–	**USD 0**	
	₱2,986	**₱3,054**		
December 31, 2013				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱769	₱181	USD 754	₱43.6032
CNY	182	2	CNY 1,664	CNY 0.1612
TWD	17	–	TWD 933	TWD 0.0338
EUR	7	–	EUR 14	EUR 1.3687
JPY	–	2	JPY 1,141	JPY 0.0096
CHF	1	–	CHF 3	CHF 1.1160
THB	–	1	THB 10	THB 0.0312
AUD	–	–	AUD 3	AUD 0.8888
SOLD:				
USD	57	1,078	USD 1,723	₱43.7730
CNY	15	94	CNY 2,922	CNY 0.1632
JPY	11	3	JPY 2,827	JPY 0.0097
EUR	–	1	EUR 1	EUR 1.3699
THB	–	–	THB 29	THB 0.0304
SGD	–	–	SGD 11	SGD 0.7900
AUD	–	3	AUD 5	AUD 0.8925

(Forward)

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
Put option purchased warrants	₱215	₱–	USD 645	
Interest rate swaps - PHP	892	857	₱55,694	
Interest rate swaps - FX	169	550	USD 1,270	
Cross currency swaps	1,639	234	USD 1,154	
Cross currency swaps - PHP	–	1,407	₱13,632	
Credit default swaps	–	10	USD 35	
Over-the-counter FX option	3	11	USD 89	
Embedded derivatives in:				
Financial contract*	–	18	USD 1	
Non-financial contract**	6	–	USD 0	
	₱3,983	₱4,452		

* As of December 31, 2013, this pertains to interest rate derivatives embedded in structured debt instrument with outstanding notional amount of USD1.1 million.

** Non-financial host contracts include foreign currency derivatives with average notional amounts of USD1,467 and USD1,440 per month as of December 31, 2014 and 2013, respectively (with maturities until 2021).

As of December 31, 2014 and 2013, the Group's derivative assets include embedded call option in a financial contract amounting to ₱44.5 million and ₱90.4 million, respectively and IRS amounting to ₱10.6 million and ₱13.3 million, respectively. Derivative liabilities of the Group include foreign currency swaps of ₱16.2 million as of December 31, 2014.

Derivatives Designated as Accounting Hedges

MCC has a cross currency swap agreement with a certain bank to hedge the foreign exchange and interest rate risks arising from its dollar-denominated loan with the same bank. Under the agreement, MCC, on a quarterly basis, pays fixed annual interest rates ranging from 5.45% to 4.10% in 2014 and 2013, respectively, on the peso principals and receives floating interest at 3 months London interbank offered rate (LIBOR) on the USD principals. As of December 31, 2014 and 2013, the swaps which are designated as hedging instruments under cash flow hedges have an aggregate positive fair value of ₱10.6 million and ₱13.3 million, respectively. Cash outflows relating to the hedged item amounting to ₱0.5 billion and ₱2.2 billion as of December 31, 2014 and 2013, respectively, are expected to be settled within one year. MCC assessed the hedge relationship of the swaps and the hedged loans as highly effective. The effective fair value changes on the swaps that were deferred in equity under 'Translation adjustment and others' as of December 31, 2014 and 2013 amounted to ₱2.7 million and ₱17.7 million, respectively. This is to recognize the offsetting effect of the change in fair value of the swaps and that of the hedged loans in the statement of income due to movements in the foreign exchange rates. No ineffectiveness was recognized in 2014 and 2013.

AFS investments consist of the following:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Debt securities:				
Government (Notes 17 and 19)	**₱173,631**	₱245,520	**₱155,617**	₱206,083
Private (Note 14)	**26,739**	21,531	**23,408**	20,535
	200,370	267,051	**179,025**	226,618
Equity securities:				
Quoted (Note 11)	**4,205**	3,182	**370**	356
Unquoted	**3,665**	3,764	**142**	147
	7,870	6,946	**512**	503
	208,240	273,997	**179,537**	227,121
Less allowance for impairment losses (Note 15)	**529**	568	**162**	178
	₱207,711	₱273,429	**₱179,375**	₱226,943

AFS investments include net unrealized losses as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Balance at the beginning of year	**(₱371)**	₱2,546	**(₱2,133)**	₱1,613
Unrealized gain (loss) recognized in other comprehensive income	**(119)**	9,910	**523**	1,163
Amounts realized in profit or loss	**(1,862)**	(12,833)	**(965)**	(4,816)
	(2,352)	(377)	**(2,575)**	(2,040)
Tax (Note 28)	**(34)**	6	**(34)**	(93)
Balance at end of year	**(₱2,386)**	(₱371)	**(₱2,609)**	(₱2,133)

AFS investments include floating rate notes with carrying value of USD11.1 million and USD5.1 million as of December 31, 2014 and 2013, respectively (with peso equivalent of ₱496.2 million and ₱224.3 million, respectively) which are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation (FDIC) and the Office of the Controller of the Currency (OCC) in New York.

In August 2014, the Parent Company and FMIC participated in a bond exchange transaction affecting HFT and AFS investments and received 10-year Benchmark bonds with coupon of 4.125% and face value of ₱13.3 billion and ₱10.2 billion, respectively, at a price equivalent to the ratio of the Eligible Bond Repurchase Price to the New Benchmark Bond Issue Price for every ₱1.00 principal amount of each series of Eligible Bonds offered. The Parent Company and FMIC realized net trading loss of ₱9.0 thousand and ₱80.4 million, respectively.

Investment of FMIC in Global Business Power Corporation (GBPC)
The Group's AFS investment - equity securities include FMIC's 4.73% ownership in GBPC amounting to ₱3.3 billion following the sale of its 20.00% ownership to ORIX Corporation of Tokyo, Japan at a consideration of ₱7.2 billion which resulted in a gain of ₱3.1 billion and another 20.00% to Meralco PowerGen Corporation, a wholly-owned subsidiary of Manila Electric Company, at a consideration of ₱7.2 billion which resulted in a gain of ₱4.3 billion. The sale of GBPC shares was in line with the Group's capital raising initiatives in preparation for the implementation of Basel III in the Philippines on January 1, 2014 (Note 11).

Investments of FMIC in Toyota Manila Bay Corporation (TMBC) and Toyota Cubao, Inc. (TCI)
In March 2014, FMIC sold AFS investments representing 19.25% ownership in TMBC and 9.00% ownership in TCI to GT Capital at a price of ₱237.3 million and ₱35.9 million, respectively, resulting in a gain of ₱189.1 million and ₱35.9 million, respectively (Note 31).

Investment of FMIC in Lepanto Consolidated Mining Company (LCMC)
As discussed in Note 11, as of December 31, 2014, AFS investment - quoted equity securities include FMIC's 14.22% ownership in LCMC with fair market value of ₱1.6 billion.

HTM investments consist of the following:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Government bonds (Notes 17 and 19)	**₱29,078**	₱38,380	**₱14,195**	₱38,358
Treasury notes	**96,627**	45	**96,582**	–
Private bonds	**3,371**	–	**–**	–
	₱129,076	₱38,425	**₱110,777**	₱38,358

HTM investments include US government securities with carrying value of USD1.0 million (with peso equivalent of ₱45.2 million and ₱45.1 million as of December 31, 2014 and 2013, respectively) which are pledged by MR USA to the State Treasury Office pursuant to the California Financial Code and in accordance with the requirements of the California Department of Business Oversight (formerly California Department of Financial Institutions) relative to its license as a transmitter of money.

Bond Exchange Transaction
In July 2011, the Department of Finance and the Bureau of Treasury embarked on a Liability Management exercise through the exchange of eligible fixed income government bonds for a new 10-year bonds (due 2022) or 20-year bonds (due 2031) wherein the proceeds of a simultaneous issuance of additional new 20-year bonds were used to buy back Eligible bonds via Tender Offer. Given the existing tainting rule on HTM investment under PAS 39, the SEC granted an exemptive relief from the tainting rule subject to, among others, (a) proper disclosures to the SEC; (b) Day 1 profit or loss shall not be recognized and any unrealized gains or losses shall be amortized over the term of the new benchmark bonds; (c) basis of preparation of the financial statements shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the PFRS; and (d) appropriate clearance shall be obtained from the BSP. In October 2011, the BSP through Circular 738 issued exemption from tainting provision for prudential reporting on certain securities booked under HTM category which are covered by an offer and accepted tender offer pursuant to liability management transactions of the Republic of the Philippines, among others.

In July 2011, given its nature of business, FMIC participated in the domestic bond exchange covering its ₱3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings (from maturity date of December 16, 2020 to July 19, 2031) and benefit from the higher yields (from 5.875% to 8.00%). FMIC has complied with the disclosure and other requirements of the SEC as follows: total HTM investments portfolio of FMIC before and after the exchange remain the same while the gain on exchange of ₱14.5 million is deferred and amortized over the term of the new bonds; and as disclosed in Note 2, the related financial statements of the Group have been prepared in accordance with Philippine GAAP for banks.

Reporting under PFRS
Had the Group accounted for the transaction under PFRS, the unamortized balance of the deferred gain on exchange of ₱0.2 million as of December 31, 2013 would have been credited to the Group’s 2011 net income and the entire HTM investments portfolio of the Group with amortized cost of ₱36.6 billion and ₱38.4 billion as of December 31, 2014 and 2013, respectively, would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱4.1 billion and ₱2.8 billion, respectively, being recognized in other comprehensive income.

Reclassification of HTM Portfolio in 2013
In 2013, PSBank and FMIC reclassified its HTM investments totaling to ₱13.3 billion (consisting of dollar-denominated bonds amounting to USD73.5 million and peso-denominated bonds of ₱10.3 billion) and ₱16.3 billion, respectively, to AFS investments as they no longer intend to hold them up to maturity but rather stands ready to sell such investments. The change in intention was primarily driven by the need to increase capital position in view of the following directions set forth in BSP Circular No. 781: (a) significant increase in the industry’s regulatory capital requirements in view of the early implementation of Basel III effective 2014; (b) inclusion of “loss absorbency” feature in the issuance of additional Tier 2 capital; and (c) for PSBank, disqualification of its ₱3.0 billion subordinated debt as Tier 2 Capital under Basel III. The change in intention and eventual disposal of the said HTM investment portfolio in response to the significant increase in regulatory capital requirements is one of the conditions permitted under PAS 39 thus, not covered by the tainting rule.

As of December 31, 2013, out of the reclassified securities of PSBank, bonds originally costing ₱12.6 billion (dollar-denominated bonds of USD73.5 million and peso-denominated bonds of ₱9.6 billion) have been sold with total trading gain of ₱4.0 billion. In 2014, bonds originally costing ₱200.0 million were redeemed by the issuer at face value without any gain to PSBank. For FMIC, bonds with total par value of ₱5.2 billion and ₱11.3 billion have been sold in 2014 and 2013, respectively, with total trading gain of ₱0.7 billion and ₱3.8 billion, respectively. As of December 31, 2014, the total portfolio covered by such reclassification has been disposed.

Interest income on trading and investment securities consists of:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Financial assets at FVPL	**₱1,799**	₱1,775	₱1,326	**₱1,409**	₱1,495	₱1,190
AFS investments	**8,883**	8,119	5,743	**7,660**	6,469	4,840
HTM investments	**4,313**	1,521	3,394	**3,882**	1,142	1,088
	₱14,995	₱11,415	₱10,463	**₱12,951**	₱9,106	₱7,118

In 2014, 2013 and 2012, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.39% to 10.63%, 0.54% to 10.63% and 0.88% to 11.63%, respectively, for the Group and from 0.39% to 10.63%, 0.63% to 10.63% and 0.88% to 11.63%, respectively, for the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 1.63% to 18.25%, 1.30% to 14.60% and 3.30% to 18.25%, respectively, for the Group and from 1.63% to 18.25%, 1.70% to 14.60% and 3.30% to 11.50%, respectively, for the Parent Company.

Trading and securities gain - net consists of:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
HFT investments	**₱1,790**	₱992	₱3,699	**₱33**	₱409	₱1,791
AFS investments	**1,862**	12,833	7,096	**965**	4,816	4,004
Derivative asset/liabilities - net	**(347)**	3,357	(4,115)	**(299)**	3,361	(4,089)
	₱3,305	₱17,182	₱6,680	**₱699**	₱8,586	₱1,706

Trading gains on AFS investments include realized gains/losses previously reported in other comprehensive income.

9. Loans and Receivables

This account consists of:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Receivables from customers (Note 31):				
Commercial loans	**₱502,858**	₱393,676	**₱464,368**	₱354,064
Residential mortgage loans	**74,870**	65,686	**40,225**	36,910
Auto loans	**65,048**	57,734	**17,990**	16,568
Trade loans	**36,427**	30,186	**36,427**	29,956
Others	**79,689**	63,937	**26,779**	17,099
	758,892	611,219	**585,789**	454,597
Less unearned discounts and capitalized interest	**2,628**	3,942	**284**	580
	756,264	607,277	**585,505**	454,017
Unquoted debt securities (Note 17):				
Government	**614**	1,609	**194**	191
Private	**2,456**	3,745	**425**	829
	3,070	5,354	**619**	1,020

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Accrued interest receivable (Note 31)	**₱8,319**	₱8,414	**₱6,705**	₱6,910
Accounts receivable (Note 31)	**7,301**	5,873	**5,762**	4,412
Sales contract receivable	**472**	458	**192**	156
Other receivables	**505**	314	**165**	30
	775,931	627,690	**598,948**	466,545
Less allowance for credit losses (Note 15)	**16,450**	16,626	**8,955**	9,650
	₱759,481	₱611,064	**₱589,993**	₱456,895

Receivables from customers consist of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Loans and discounts	**₱697,947**	₱564,374	**₱524,348**	₱407,870
Less unearned discounts and capitalized interest	**2,628**	3,942	**284**	580
	695,319	560,432	**524,064**	407,290
Customers' liabilities under letters of credit (LC)/trust receipts	**34,981**	30,186	**34,981**	29,956
Bills purchased (Note 21)	**25,964**	16,659	**26,460**	16,771
	₱756,264	₱607,277	**₱585,505**	₱454,017

Receivables from customers - others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱38.8 billion, ₱4.6 billion and ₱4.4 billion, respectively, as of December 31, 2014 and ₱32.6 billion, ₱4.7 billion and ₱4.0 billion, respectively, as of December 31, 2013.

As of December 31, 2014 and 2013, other receivables include dividends receivable of ₱160.1 million and ₱206.9 million, respectively, for the Group and ₱154.9 million and ₱18.0 million, respectively, for the Parent Company. Dividends receivable of FMIC from its investee companies amounted to ₱5.2 million and ₱188.9 million as of December 31, 2014 and 2013, respectively.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Receivables from customers	**₱28,810**	₱25,853	₱23,548	**₱18,871**	₱16,953	₱16,293
Receivables from cardholders	**7,415**	6,500	5,810	–	–	–
Lease contract receivables	**1,556**	1,372	1,156	–	–	–
Customer liabilities under LC/trust receipts	**752**	713	848	**752**	713	808
Restructured loans	**202**	268	413	**150**	207	335
Unquoted debt securities and others	**1,094**	831	953	**588**	283	216
	₱39,829	₱35,537	₱32,728	**₱20,361**	₱18,156	₱17,652

Interest income on unquoted debt securities and others include interest accreted on impaired receivables in accordance with PAS 39 and interest income on sales contract receivable.

BSP Reporting

As of December 31, 2014 and 2013, 80.93% and 76.81% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. In 2014 and 2013, the remaining peso receivables from customers earn annual fixed interest rates ranging from 3.00% to 42.00% while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.27% to 36.00% and from 1.25% to 36.00%, respectively.

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

	Consolidated				Parent Company			
	2014		2013		2014		2013	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Real estate	**₱87,344**	**11.51**	₱103,936	17.00	**₱61,064**	**10.42**	₱57,835	12.72
Chattel	**78,737**	**10.38**	69,775	11.42	**18,286**	**3.12**	17,539	3.86
Equity securities	**21,073**	**2.78**	13,674	2.24	**10,947**	**1.87**	11,421	2.51
Deposit hold-out	**14,822**	**1.95**	11,530	1.88	**14,116**	**2.41**	10,798	2.37
Other securities	**124,938**	**16.46**	98,491	16.11	**124,938**	**21.33**	98,491	21.67
Others	**10,766**	**1.42**	6,999	1.15	**2,782**	**0.48**	3,624	0.80
	337,680	**44.50**	304,405	49.80	**232,133**	**39.63**	199,708	43.93
Unsecured	**421,212**	**55.50**	306,814	50.20	**353,656**	**60.37**	254,889	56.07
	₱758,892	**100.00**	₱611,219	100.00	**₱585,789**	**100.00**	₱454,597	100.00

Information on the concentration of credit as to industry of receivables from customers, gross of unearned discount and capitalized interest, follows:

	Consolidated				Parent Company			
	2014		2013		2014		2013	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Manufacturing	**₱167,183**	**22.03**	₱122,513	20.04	**₱159,782**	**27.27**	₱113,451	24.96
Real estate activities	**119,749**	**15.78**	100,861	16.50	**87,743**	**14.98**	69,937	15.39
Wholesale and retail trade, repair of motor vehicles, motorcycles	**121,828**	**16.05**	98,897	16.18	**108,015**	**18.44**	88,618	19.49
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**148,452**	**19.56**	82,578	13.51	**57,138**	**9.75**	49,886	10.97
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**53,158**	**7.00**	41,443	6.78	**51,772**	**8.84**	40,104	8.82
Financial and insurance activities	**41,483**	**5.47**	34,743	5.68	**38,085**	**6.50**	29,710	6.54
Transportation and storage, information and communication	**35,871**	**4.73**	33,793	5.53	**29,102**	**4.97**	28,224	6.21
Construction	**23,104**	**3.04**	16,615	2.72	**18,006**	**3.07**	12,156	2.67
Accommodation and food service activities	**15,139**	**2.00**	12,738	2.08	**14,912**	**2.55**	12,111	2.66
Agricultural, forestry and fishing	**12,285**	**1.62**	6,401	1.05	**10,176**	**1.74**	4,120	0.91
Others	**20,640**	**2.72**	60,637	9.93	**11,058**	**1.89**	6,280	1.38
	₱758,892	**100.00**	₱611,219	100.00	**₱585,789**	**100.00**	₱454,597	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks. Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from non-performing classification those receivables from customers classified as ‘Loss’ in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

Non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Total NPLs	**₱7,774**	₱7,808	**₱2,456**	₱3,125
Less NPLs fully covered by allowance for credit losses	**1,873**	2,506	**914**	1,389
	₱5,901	₱5,302	**₱1,542**	₱1,736

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.00% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2014						
Cost						
Balance at beginning of year	**₱5,858**	**₱7,725**	**₱16,673**	**₱2,682**	**₱40**	**₱32,978**
Additions	–	**80**	**2,201**	**219**	**573**	**3,073**
Disposals	**(583)**	**(49)**	**(1,449)**	–	–	**(2,081)**
Reclassification/others	**493**	**174**	**(64)**	**303**	**(319)**	**587**
Balance at end of year	**5,768**	**7,930**	**17,361**	**3,204**	**294**	**34,557**
Accumulated depreciation and amortization						
Balance at beginning of year	–	**3,629**	**11,914**	**1,677**	–	**17,220**
Depreciation and amortization	–	**345**	**1,634**	**281**	–	**2,260**
Disposals	–	**(27)**	**(1,263)**	–	–	**(1,290)**
Reclassification/others	–	**3**	**53**	**54**	–	**110**
Balance at end of year	–	**3,950**	**12,338**	**2,012**	–	**18,300**
Allowance for impairment losses (Note 15)	–				–	
Balance at beginning of year	–	–	**2**	–	–	**2**
Reclassification	–	**24**	–	–	–	**24**
Balance at end of year	–	**24**	**2**	–	–	**26**
Net book value at end of year	**₱5,768**	**₱3,956**	**₱5,021**	**₱1,192**	**₱294**	**₱16,231**
2013						
Cost						
Balance at beginning of year	₱5,103	₱7,740	₱15,198	₱2,406	₱601	₱31,048
Additions	11	119	2,695	134	334	3,293
Disposals	(52)	(334)	(1,244)	–	–	(1,630)
Reclassification/others	796	200	24	142	(895)	267
Balance at end of year	5,858	7,725	16,673	2,682	40	32,978
Accumulated depreciation and amortization						
Balance at beginning of year	–	3,406	10,787	1,508	–	15,701
Depreciation and amortization	–	316	1,537	228	–	2,081
Disposals	–	(233)	(490)	–	–	(723)
Reclassification/others	–	140	80	(59)	–	161
Balance at end of year	–	3,629	11,914	1,677	–	17,220
Allowance for impairment losses (Note 15)	–	–	2	–	–	2
Net book value at end of year	₱5,858	₱4,096	₱4,757	₱1,005	₱40	₱15,756

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2014						
Cost						
Balance at beginning of year	**₱4,542**	**₱6,274**	**₱10,344**	**₱1,672**	**₱40**	**₱22,872**
Additions	–	**1**	**867**	**6**	**573**	**1,447**
Disposals	**(583)**	–	**(998)**	–	–	**(1,581)**
Reclassification/others	**493**	**169**	**(5)**	**156**	**(319)**	**494**
Balance at end of year	**4,452**	**6,444**	**10,208**	**1,834**	**294**	**23,232**

(Forward)

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
Accumulated depreciation and amortization						
Balance at beginning of year	**₱–**	**₱3,158**	**₱8,419**	**₱999**	**₱–**	**₱12,576**
Depreciation and amortization	**–**	**297**	**532**	**125**	**–**	**954**
Disposals	**–**	**–**	**(843)**	**–**	**–**	**(843)**
Reclassification/others	**–**	**–**	**69**	**(4)**	**–**	**65**
Balance at end of year	**–**	**3,455**	**8,177**	**1,120**	**–**	**12,752**
Allowance for impairment losses (Note 15)						
Balance at beginning of year	–	–	–	–	–	–
Reclassification	–	**24**	–	–	–	**24**
Balance at end of year	–	**24**	–	–	–	**24**
Net book value at end of year	**₱4,452**	**₱2,965**	**₱2,031**	**₱714**	**₱294**	**₱10,456**
2013						
Cost						
Balance at beginning of year	₱4,508	₱5,608	₱9,996	₱1,502	₱601	₱22,215
Additions	–	26	1,174	26	334	1,560
Disposals	(52)	(50)	(819)	–	–	(921)
Reclassification/others	86	690	(7)	144	(895)	18
Balance at end of year	4,542	6,274	10,344	1,672	40	22,872
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,937	8,010	947	–	11,894
Depreciation and amortization	–	258	592	109	–	959
Disposals	–	(30)	(232)	–	–	(262)
Reclassification/others	–	(7)	49	(57)	–	(15)
Balance at end of year	–	3,158	8,419	999	–	12,576
Net book value at end of year	₱4,542	₱3,116	₱1,925	₱673	₱40	₱10,296

Building under construction pertains to bank premises yet to be completed and used by the Parent Company.

As of December 31, 2014 and 2013, the cost of fully depreciated property and equipment still in use amounted to ₱3.0 billion and ₱1.8 billion, respectively, for the Group and ₱1.3 billion and ₱600.9 million, respectively, for the Parent Company.

In January 2014, the BOD of the Parent Company, upon the endorsement of the Related Party Transactions Committee (RPTC), has approved the sale of a bank owned property to Federal Land, Inc. (FLI), a related party. This property, consisting of a vacant commercial lot located at the Metropolitan Park, Pasay City, was sold at ₱856.4 million and recognized a gain on sale of ₱274.3 million included in "Profit from assets sold". This transaction has been presented and vetted through the RPTC and the valuation of the properties was based on the sales comparison approach which was used by the independent external appraisal firms to provide a reasonable basis for comparison. Other factors that were considered in the valuation were the location and shape of the properties, environmental issues, development controls such as the height restrictions, building coverage and floor area ratio restrictions, among others (Note 31).

11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consist of:

	2014	2013
Acquisition cost:		
FMIC	**₱11,751**	₱11,751
MBCL	**10,079**	8,658
PSBank	**3,626**	3,626
Circa	**837**	837

(Forward)

	2014	2013
ORIX Metro	**₱265**	₱265
MCC	**214**	214
MTI	**200**	200
MR USA	**158**	158
MRCI	**131**	131
MR Japan	**72**	41
MR Italia	**66**	66
MR UK	**31**	31
MRHL	**26**	26
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
	27,498	26,046
Allowance for impairment losses (Note 15)		
Circa	**(786)**	(733)
MTI	**(194)**	(185)
MRCI	**(124)**	(127)
MR USA	**(52)**	(53)
MR Italia	**(66)**	(66)
	(1,222)	(1,164)
Carrying value		
FMIC	**11,751**	11,751
MBCL	**10,079**	8,658
PSBank	**3,626**	3,626
Circa	**51**	104
ORIX Metro	**265**	265
MCC	**214**	214
MTI	**6**	15
MR USA	**106**	105
MRCI	**7**	4
MR Japan	**72**	41
MR Italia	**–**	–
MR UK	**31**	31
MRHL	**26**	26
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
	₱26,276	₱24,882

As of December 31, 2014 and 2013, the following subsidiaries have material non-controlling interests:

	Principal Activities	**Effective Percentage of Ownership of Non-Controlling Interest**
ORIX Metro	Leasing, Finance	**40.15%**
MCC	Credit Card Services	**40.00%**
PSBank	Banking	**24.02%**

The following table presents financial information of subsidiaries with material non-controlling interests as of December 31, 2014 and 2013.

	2014			2013		
	PSBank	**MCC**	**ORIX Metro**	PSBank	MCC	ORIX Metro
Statement of Financial Position						
Total assets	**₱145,664**	**₱49,900**	**₱22,900**	₱130,026	₱39,468	₱19,401
Total liabilities	**127,933**	**43,319**	**19,020**	113,763	33,352	16,239
Non-controlling interest	**4,259**	**2,633**	**0**	3,907	2,446	1,270
Statement of Income						
Gross income	**12,972**	**11,725**	**3,488**	15,025	9,983	2,972
Operating income	**10,569**	**10,623**	**3,098**	12,684	8,821	2,557
Net income	**2,319**	**2,547**	**761**	2,928	2,006	602
Net income attributable to NCI	**557**	**1,019**	**0**	704	802	242
Total comprehensive income	**2,188**	**2,510**	**739**	2,677	2,146	601
Statement of Cash Flows						
Net cash used in operating activities	**(2,112)**	**(3,123)**	**(958)**	(1,915)	(3,478)	(604)
Net cash provided by (used in) investing activities	**(149)**	**392**	**(800)**	16,327	(178)	(949)
Net cash provided by (used in) financing activities	**2,425**	**7,469**	**2,429**	(1,263)	4,240	1,939
Net increase in cash and cash equivalents	**164**	**4,738**	**671**	13,149	584	386
Cash and cash equivalents at beginning of year	**33,577**	**5,212**	**2,584**	20,428	4,628	2,198
Cash and cash equivalents at end of year	**33,741**	**9,950**	**3,255**	33,577	5,212	2,584

On August 15, 2014, the Parent Company infused an additional investment of RMB200.0 million or ₱1.4 billion to MBCL as approved by the BSP on March 12, 2014.

On January 31, 2013, the BSP approved the Parent Company's request to establish a remittance company in Yokohama, Japan with an initial capital infusion of USD2.5 million. The first tranche amounting to JPY100.0 million or USD1.0 million and the second tranche amounting to JPY75.0 million or USD0.7 million were contributed in May 2013 and in September 2014, respectively.

Investment in associates and a JV consists of:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Acquisition cost:				
SMFC* (30.39% owned)	**₱800**	₱800		
Northpine Land, Inc. (NLI) (20.00% owned)	**232**	232	**₱232**	₱232
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	**180**	180	**180**	180
Taal Land Inc. (TLI) (35.00% owned)	**178**	178	**178**	178
Cathay International Resources Corporation (CIRC) (20.35% owned in 2014; 34.73% owned in 2013)	**175**	175		
Philippine AXA Life Insurance Corporation (PALIC) (27.96% owned)	**172**	172		
LCMC (16.80% owned in 2013) (Note 8)	**–**	2,397		
Toyota Financial Services Philippines Corporation (TFSPC) (34.00% owned in 2013)	**–**	420	**–**	150
Charter Ping An Insurance Corporation (CPAIC) (33.07% owned in 2013)	**–**	60		
GBPC	**–**	–		
Others	**33**	33		
	1,770	4,647	**590**	740
Accumulated equity in net income (loss):				
Balance at beginning of year				
SMFC	**(135)**	(135)		
NLI	**99**	96		
SMBC Metro	**73**	69		
TLI	**(84)**	(84)		
CIRC	**9**	9		
PALIC	**671**	573		

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
LCMC	**(₱87)**	(₱58)		
TFSPC	**663**	487		
CPAIC	**331**	263		
GBPC	**–**	1,062		
Others	**(22)**	(22)		
	1,518	2,260		
Share in net income (loss)				
SMFC	**4**	–		
NLI	**22**	15		
SMBC Metro	**19**	22		
TLI	**–**	–		
CIRC	**26**	–		
PALIC	**343**	349		
LCMC	**(96)**	(29)		
TFSPC	**107**	176		
CPAIC	**7**	68		
GBPC	**–**	876		
Others	**11**	–		
	443	1,477		
Dividends				
NLI (Note 31)	**(5)**	(12)		
SMBC Metro (Note 31)	**(18)**	(18)		
PALIC	**(294)**	(251)		
	(317)	(281)		
Divestments/reclassification				
LCMC	**183**	–		
TFSPC	**(770)**	–		
CPAIC	**(338)**	–		
GBPC (Note 8)	–	(1,938)		
	(925)	(1,938)		
Balance at end of year				
SMFC	**(131)**	(135)		
NLI	**116**	99		
SMBC Metro	**74**	73		
TLI	**(84)**	(84)		
CIRC	**35**	9		
PALIC	**720**	671		
LCMC (Note 8)	**–**	(87)		
TFSPC	**–**	663		
CPAIC	**–**	331		
Others	**(11)**	(22)		
	719	1,518		
Equity in net unrealized gain (loss) on AFS investments				
SMBC Metro	**7**	12		
TLI	**(3)**	(3)		
PALIC	**260**	301		
LCMC	**–**	(59)		
TFSPC	**–**	(1)		
CPAIC	**–**	23		
	264	273		
Equity in net unrealized loss on remeasurement of retirement plan and translation adjustment and others				
SMFC	**(1)**	(2)		
SMBC Metro	**(1)**	–		
	(2)	(2)		
Allowance for impairment losses (Note 15)				
TLI	**(162)**	(162)	**(₱162)**	(₱162)
Carrying value				
SMFC	**668**	663		
NLI	**348**	331	**232**	232
SMBC Metro	**260**	265	**180**	180
TLI	**(71)**	(71)	**16**	16

(Forward)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
CIRC	**₱210**	₱184		
PALIC	**1,152**	1,144		
LCMC	**–**	2,251		
TFSPC	**–**	1,082	**₱–**	₱150
CPAIC	**–**	414		
GBPC	**–**	–		
Others	**22**	11		
	₱2,589	₱6,274	**₱428**	₱578

**Represents investment in a JV of the Group.*

As of December 31, 2014 and 2013, carrying amount of goodwill of the Group amounted to ₱5.2 billion. The goodwill of the Parent Company amounting to ₱1.2 billion was fully impaired in 2013 (Note 3).

Investment of FMIC in LCMC
As of December 31, 2013, FMIC holds 16.80% ownership interest and voting control in LCMC and has the ability to exercise significant influence through its nominated directors' active participation in the board and management sub-committee. FMIC did not avail of its entitlement on LCMC stock rights offering to its stockholders as disclosed by LCMC with the PSE on October 31, 2014. With this strategic decision, the Group has lost its significant influence and reclassified its investment in LCMC to AFS investments (Note 8).

Investment in TFSPC
In August 2014, the respective BODs of the Parent Company and PSBank on separate meetings, upon the endorsement of their respective RPTCs, have approved the sale of the Parent Company's 15.00% and PSBank's 25.00% ownerships in TFSPC to GT Capital, a stockholder with significant influence, for an aggregate price of ₱2.1 billion. This transaction has been presented and vetted through joint meetings held by the RPTCs of the Parent Company and PSBank. The amount was based on an independent valuation report which was subjected to a third party fairness opinion. The divestment of TFSPC shares was in line with their capital planning initiatives under the new Basel III regime. This transaction resulted in a gain of ₱0.9 billion for the Group and ₱0.6 billion for the Parent Company (Note 31).

Investment of FMIC in CPAIC
In January 2014, FMIC sold its 33.33% ownership in CPAIC to GT Capital at a consideration of ₱712.0 million which resulted in a gain of ₱313.9 million, included under "Gain on sale of investment in associates" (Note 31).

Investment of Parent Company in Toyota Motor Philippines Corporation (TMPC)
On October 22, 2012, the respective BODs of the Parent Company and GT Capital on separate meetings, upon endorsement of their respective RPTCs, have approved in principle the sale of the former's 30.00% ownership in TMPC to GT Capital at a price of ₱9.0 billion. This amount was arrived at after an independent valuation exercise and subjected to third party fairness opinions. The divestment of TMPC shares was undertaken by the Parent Company to enhance its regulatory capital position in preparation for the implementation of Basel III. Accordingly, the investment has been reclassified to Non-Current Assets Held for Sale and in December 2012, the Parent Company initially sold its 15.00% ownership and recognized a gain on sale of ₱3.4 billion and ₱4.2 billion for the Group and the Parent Company, respectively. The remaining 15.00% ownership was sold in January 2013 wherein the Group and the Parent Company recognized gain on sale of ₱3.4 billion and ₱4.2 billion, respectively (Note 31).

The following tables present financial information of significant associates and a JV as of and for the years ended:

	Statement of Financial Position		Statement of Income and Other Comprehensive Income				
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	Other Comprehensive Income	Total Comprehensive Income
December 31, 2014							
PALIC	**₱68,007**	**₱63,915**	**₱11,831**	**₱1,628**	**₱1,224**	**(₱145)**	**₱1,079**
CIRC	**2,489**	**1,889**	**347**	**188**	**40**	**–**	**40**
NLI	**2,133**	**525**	**331**	**141**	**99**	**–**	**99**
SMFC	**1,765**	**93**	**400**	**346**	**12**	**(3)**	**9**
SMBC Metro	**863**	**68**	**116**	**79**	**65**	**(19)**	**46**
TLI	**47**	**–**	**1**	**0**	**0**	**–**	**0**
December 31, 2013							
PALIC	54,950	50,893	5,596	1,388	1,184	(193)	991
TFSPC	29,576	26,850	1,931	611	437	–	437
LCMC	16,113	8,765	2,116	(290)	(326)	(261)	(587)
CPAIC	9,211	7,897	1,900	250	190	(70)	120
CIRC	2,240	1,680	577	1	–	–	0
NLI	1,953	416	255	113	79	1	80
SMFC	1,739	77	347	3	5	0	5
SMBC Metro	890	81	148	102	73	(3)	70
TLI	47	–	1	1	1	–	1

Major assets of significant associates and a JV include the following:

	2014	2013
SMFC		
Cash and cash equivalents	**₱449**	₱716
Receivables - net	**1,168**	848
NLI		
Cash and cash equivalents	**435**	455
Real estate properties	**965**	982
Receivables - net	**587**	399
SMBC Metro		
Cash and cash equivalents	**233**	230
AFS investments	**220**	194
Receivables - net	**404**	462
CIRC		
Receivables - net	**299**	–
Investment properties - net	**524**	249
PALIC		
Cash and cash equivalents	**3,719**	3,021
Loans and receivables - net	**781**	560
Financial assets at FVPL	**1,093**	1,038
AFS investments	**7,113**	6,305
Investment in unit-linked funds	**55,530**	43,323
Property and equipment	**214**	221
TLI		
Investments	**47**	46
LCMC		
Inventories		510
Investments and advances		813
Property, plant and equipment - net		7,362
TFSPC		
Cash and cash equivalents		4,138
Receivables - net		19,952

(Forward)

	2014	2013
CPAIC		
Receivables - net		₱1,609
Investments		1,298

Dividends declared by investee companies of the Parent Company follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2014						
Subsidiaries						
Cash Dividend						
FMIC	February 20, 2014	₱4.03	₱1,502	March 28, 2014	April 15, 2014	May 14, 2014
MCC	March 19, 2014	1.50	1,500	April 30, 2014	May 5, 2014	July 7, 2014
MCC	March 19, 2014	0.30	300	April 30, 2014	May 5, 2014	September 8, 2014
PSBank	October 30, 2014	0.75	180	November 27, 2014	Note 35e	Note 35e
PSBank	July 22, 2014	0.75	180	August 12, 2014	September 2, 2014	September 17, 2014
PSBank	April 28, 2014	0.75	180	July 1, 2014	July 1, 2014	July 16, 2014
PSBank	January 24, 2014	0.75	180	February 12, 2014	March 5, 2014	March 20, 2014
Stock Dividend						
ORIX Metro	October 29, 2014	100.00	379			Upon BSP approval
Associates						
Cash Dividend						
NLI	January 24, 2014	2.24	27	Not required	December 31, 2013	April 4, 2014
SMBC Metro	December 4, 2014	10.00	60	Not required	December 4, 2014	Note 35c
2013						
Subsidiaries						
Cash Dividend						
FMIC	August 23, 2013	8.06	3,003	October 8, 2013	September 30, 2013	October 10, 2013
FMIC	November 5, 2013	13.42	5,001	December 12, 2013	December 20, 2013	December 26, 2013
MCC	February 28, 2013	1.50	1,500	April 11, 2013	April 12, 2013	April 24, 2013
PSBank	October 22, 2013	3.00	721	November 12, 2013	November 29, 2013	December 16, 2013
PSBank	October 22, 2013	0.75	180	November 12, 2013	November 29, 2013	December 16, 2013
PSBank	July 18, 2013	0.75	180	August 8, 2013	September 4, 2013	September 19, 2013
PSBank	April 19, 2013	0.75	180	May 28, 2013	June 18, 2013	July 3, 2013
PSBank	January 22, 2013	0.75	180	February 8, 2013	March 5, 2013	March 20, 2013
MRSPL	July 5, 2013	SGD2.00	34	Not required	July 5, 2013	July 23, 2013
Stock Dividend						
ORIX Metro	October 23, 2013	₱100.00	253	January 14, 2014	October 23, 2013	January 15, 2014
Associates						
Cash Dividend						
NLI	December 10, 2012	4.89	60	Not required	March 22, 2013	April 2, 2013
SMBC Metro	December 9, 2013	10.00	60	Not required	December 9, 2013	January 15, 2014

Dividends declared by significant investee companies of FMIC follow:

Subsidiary/ Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2014						
Subsidiaries						
Cash Dividend						
PVDC*	March 12, 2014	₱0.21	₱1	Not required	March 26, 2014	June 19, 2014
PBCCIC**	June 19, 2014	33.33	100	Not required	June 23, 2014	June 30, 2014
PBCCIC**	August 18, 2014	33.33	100	Not required	August 29, 2014	September 15, 2014
FAMI	August 29, 2014	62.50	25	Not required	August 29, 2014	November 6, 2014
Associates						
Cash Dividend						
PALIC	October 23, 2014	104.30	1,043	Not required	October 23, 2014	November 26, 2014
Stock Dividend						
ORIX Metro	October 29, 2014	100.00				Upon BSP approval
2013						
Subsidiary						
Cash Dividend						
FAMI	July 12, 2013	85.00	20	Not required	July 12, 2013	October 22, 2013
Associates						
Cash Dividend						
PALIC	October 16, 2013	89.10	891	Not required	October 16, 2013	November 13, 2013
Stock Dividend						
PALIC	April 16, 2013	100.00	341	Not required	April 16, 2013	May 30, 2013
ORIX Metro	October 23, 2013	100.00	253	January 14, 2014	October 23, 2013	January 15, 2014

* Prima Venture Development Corporation
** PBC Capital Investment Corporation

12. **Investment Properties**

This account consists of foreclosed real estate properties and investments in real estate:

	Consolidated					
	2014			2013		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱12,316**	**₱5,083**	**₱17,399**	₱14,603	₱5,495	₱20,098
Additions	**447**	**770**	**1,217**	436	652	1,088
Disposals	**(3,733)**	**(1,184)**	**(4,917)**	(2,471)	(872)	(3,343)
Reclassification/others	**(14)**	**(2)**	**(16)**	(252)	(192)	(444)
Balance at end of year	**9,016**	**4,667**	**13,683**	12,316	5,083	17,399
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**1,784**	**1,784**	–	2,036	2,036
Depreciation and amortization	**–**	**166**	**166**	–	207	207
Disposals	**–**	**(428)**	**(428)**	–	(322)	(322)
Reclassification/others	**–**	**2**	**2**	–	(137)	(137)
Balance at end of year	**–**	**1,524**	**1,524**	–	1,784	1,784
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**2,287**	**203**	**2,490**	2,487	153	2,640
Provision for impairment loss	**2**	**27**	**29**	312	88	400
Disposals	**(360)**	**(5)**	**(365)**	(401)	(13)	(414)
Reclassification/others	**(33)**	**1**	**(32)**	(111)	(25)	(136)
Balance at end of year	**1,896**	**226**	**2,122**	2,287	203	2,490
Net book value at end of year	**₱7,120**	**₱2,917**	**₱10,037**	₱10,029	₱3,096	₱13,125

	Parent Company					
	2014			2013		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱9,808**	**₱3,061**	**₱12,869**	₱12,019	₱3,456	₱15,475
Additions	**142**	**196**	**338**	165	170	335
Disposals	**(3,404)**	**(875)**	**(4,279)**	(2,124)	(567)	(2,691)
Reclassification/others	**(14)**	**(2)**	**(16)**	(252)	2	(250)
Balance at end of year	**6,532**	**2,380**	**8,912**	9,808	3,061	12,869
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**1,449**	**1,449**	–	1,575	1,575
Depreciation and amortization	**–**	**93**	**93**	–	143	143
Disposals	**–**	**(370)**	**(370)**	–	(276)	(276)
Reclassification/others	**–**	**(2)**	**(2)**	–	7	7
Balance at end of year	**–**	**1,170**	**1,170**	–	1,449	1,449
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,847**	**69**	**1,916**	1,937	65	2,002
Provision for impairment loss	**–**	**–**	**–**	290	36	326
Disposals	**(356)**	**(5)**	**(361)**	(400)	(5)	(405)
Reclassification/others	**(43)**	**1**	**(42)**	20	(27)	(7)
Balance at end of year	**1,448**	**65**	**1,513**	1,847	69	1,916
Net book value at end of year	**₱5,084**	**₱1,145**	**₱6,229**	₱7,961	₱1,543	₱9,504

As of December 31, 2014 and 2013, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱1.2 billion and ₱1.0 billion, respectively, for the Group and ₱332.1 million and ₱271.1 million, respectively, for the Parent Company.

As of December 31, 2014 and 2013, aggregate market value of investment properties amounted to ₱15.8 billion and ₱22.9 billion, respectively, for the Group and ₱10.7 billion and ₱18.3 billion, respectively, for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱12.4 billion and ₱20.0 billion, respectively, for the Group and ₱10.6 billion and ₱18.1 billion, respectively, for the Parent Company.

Rental income on investment properties (included in 'Leasing income' in the statement of income) in 2014, 2013 and 2012 amounted to ₱87.9 million, ₱83.1 million and ₱96.1 million, respectively, for the Group and ₱34.5 million, ₱37.0 million and ₱30.4 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2014, 2013 and 2012 amounted to ₱4.3 million, ₱5.4 million and ₱28.5 million, respectively, for the Group and ₱2.3 million, ₱5.2 million and ₱27.2 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2014, 2013 and 2012 amounted to ₱274.0 million, ₱281.6 million and ₱288.1 million, respectively, for the Group and ₱195.0 million, ₱226.3 million and ₱227.7 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statement of income) in 2014, 2013 and 2012 amounted to ₱9.0 billion, ₱0.5 billion and ₱1.0 billion, respectively, for the Group and ₱8.9 billion, ₱0.4 billion and ₱1.0 billion, respectively, for the Parent Company (Note 31).

In January and October 2014, the BOD of the Parent Company, upon the endorsement of the RPTC, has approved the sale of real and other properties acquired (ROPA) to FLI, a related party, consisting of lots located at Bonifacio Global City at total price of ₱3.4 billion and ₱6.3 billion, respectively. The Parent Company recognized a gain on sale of ₱2.8 billion and ₱5.2 billion, respectively. These transactions have been presented and vetted through the RPTC. The valuations of the properties were based on sales comparison approach which was used by the independent external appraisal firms to provide a reasonable basis for comparison. Other factors that were considered in the valuations were the location and shape of the properties, environmental issues, development controls such as the height restrictions, building coverage and floor area ratio restrictions among others (Note 31).

Information about the fair value measurement of investment properties are presented in Note 5.

13. Long-term Leases

The Parent Company leases the premises occupied by some of its branches (about 41.93% and 44.62% of the branch sites in 2014 and 2013, respectively, are Parent Company-owned). Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%. As of December 31, 2014 and 2013, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2014, 2013 and 2012 amounted to ₱1.8 billion, ₱1.5 billion and ₱1.4 billion, respectively, for the Group and ₱922.9 million, ₱812.6 million and ₱751.3 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Within one year	**₱1,013**	₱520	**₱407**	₱344
After one year but not more than five years	**2,711**	1,793	**1,177**	985
More than five years	**1,022**	726	**269**	201
	₱4,746	₱3,039	**₱1,853**	₱1,530

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and ROPA and finance lease agreements over various items of machinery and equipment which are non-cancelable and have remaining non-cancelable lease terms between 1 and 20 years. In 2014, 2013 and 2012, leasing income amounted to ₱1.9 billion, ₱1.6 billion and ₱1.4 billion respectively, for the Group and ₱238.0 million, ₱243.2 million and ₱207.3 million, respectively, for the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Within one year	**₱1,058**	₱943	**₱144**	₱157
After one year but not more than five years	**977**	1,494	**145**	271
More than five years	**1**	33	**1**	33
	₱2,036	₱2,470	**₱290**	₱461

14. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Interoffice float items	**₱3,156**	₱1,127	**₱2,965**	₱1,061
Creditable withholding tax	**2,132**	1,428	**1,663**	1,028
Software costs - net	**1,302**	896	**736**	431
Residual value of leased assets	**832**	712	**–**	–
Assets held under joint operations	**544**	1,361	**544**	1,361
Prepaid expenses	**519**	365	**114**	47
Chattel properties acquired in foreclosure - net	**452**	552	**37**	28
Documentary and postage stamps on hand	**369**	166	**342**	139
Returned checks and other cash items	**272**	68	**189**	54
Retirement asset* (Note 27)	**13**	28	**13**	2
Investment in SPVs - net	**–**	–	**–**	–
Miscellaneous	**5,543**	3,065	**4,778**	2,420
	15,134	9,768	**11,381**	6,571
Less allowance for impairment losses (Note 15)	**1,921**	1,911	**1,874**	1,875
	₱13,213	₱7,857`	**₱9,507**	₱4,696

* Includes retirement asset of foreign branches.

Assets held under joint operations are parcels of land and former branch sites of the Parent Company with net realizable value of ₱0.5 billion and ₱1.4 billion as of December 31, 2014 and 2013, respectively, which were contributed to separate joint operations with FLI and Federal Land Orix Corporation (Notes 26 and 31).

Movements in software costs account follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Cost				
Balance at beginning of year	**₱2,141**	₱1,793	**₱1,153**	₱1,097
Additions	**726**	360	**458**	61
Others	**25**	(12)	**(9)**	(5)
Balance at end of year	**2,892**	2,141	**1,602**	1,153
Accumulated amortization				
Balance at beginning of year	**1,245**	961	**722**	583
Amortization	**330**	284	**146**	139
Others	**15**	–	**(2)**	–
Balance at end of year	**1,590**	1,245	**866**	722
Net book value at end of year	**₱1,302**	₱896	**₱736**	₱431

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Cost				
Balance at beginning of year	**₱676**	₱587	**₱45**	₱28
Additions	**1,420**	1,112	**41**	34
Disposals/others	**(1,527)**	(1,023)	**(29)**	(17)
Balance at end of year	**569**	676	**57**	45
Accumulated depreciation and amortization				
Balance at beginning of year	**112**	95	**12**	6
Depreciation and amortization	**140**	112	**10**	10
Disposals/others	**(147)**	(95)	**(5)**	(4)
Balance at end of year	**105**	112	**17**	12
Allowance for impairment losses (Note 15)				
Balance at beginning of year	**12**	13	**5**	3
Provision for impairment loss	**2**	4	–	3
Disposals	**(2)**	(5)	**(2)**	(1)
Balance at end of year	**12**	12	**3**	5
Net book value at end of year	**₱452**	₱552	**₱37**	₱28

Investment in SPVs represents subordinated notes issued by Cameron Granville 3 Asset Management, Inc. and LNC 3 Asset Management, Inc. with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the non-performing assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. As of December 31, 2014 and 2013, the estimated fair value of the subordinated notes, which is the present value of the estimated cash flows from such notes (derived from the sale of the underlying collaterals of the NPAs, net of the payment to senior notes by the SPV) amounted to nil, after deducting allowance for impairment losses of ₱8.8 billion.

Miscellaneous account includes payments to FLI, a related party, amounting to ₱3.3 billion and ₱1.1 billion as of December 31, 2014 and 2013, respectively, relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City (Note 31) and a receivable from a third party of ₱425.7 million pertaining to the final tax withheld on Poverty Eradication and Alleviation Certificates (PEACe) bonds which matured on October 18, 2011

(Note 30). Further, as of December 31, 2013, this account includes certificates of deposits totaling USD6.0 million (with peso equivalent of ₱266.4 million) that are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the FDIC and the OCC in New York. The pledged certificates of deposits as of December 31, 2013 matured in May 2014 and were invested in floating rate notes booked under AFS investments as part of the pledged securities (Note 8).

15. **Allowance for Credit and Impairment Losses**

Changes in the allowance for credit and impairment losses follow:

	Consolidated		**Parent Company**	
	December 31			
	2014	2013	**2014**	2013
Balance at beginning of year:				
Interbank loans and receivable (Note 7)	**₱2**	₱2	**₱–**	₱–
AFS investments (Note 8)				
Debt securities				
Government	–	–	–	–
Equity securities				
Quoted	**300**	305	**92**	90
Unquoted	**268**	268	**86**	86
Loans and receivables (Note 9)	**16,626**	15,726	**9,650**	8,233
Investments in subsidiaries (Note 11)	–	–	**1,164**	1,125
Investments in associates (Note 11)	**162**	162	**162**	162
Property and equipment (Note 10)	**2**	2	–	–
Investment properties (Note 12)	**2,490**	2,640	**1,916**	2,002
Other assets* (Note 14)	**10,780**	9,731	**10,737**	9,675
	30,630	28,836	**23,807**	21,373
Provisions for credit and impairment losses**	**4,849**	9,519	**7**	4,091
Reversal of allowance on assets sold/settled	**(612)**	(2,761)	**(600)**	(1,725)
Accounts written off/others	**(4,783)**	(4,964)	**(441)**	68
Balance at end of year:				
Interbank loans and receivable (Note 7)	**4**	2	–	–
AFS investments (Note 8)				
Debt securities				
Government	**3**	–	–	–
Equity securities				
Quoted	**313**	300	**81**	92
Unquoted	**213**	268	**81**	86
Investments in associates (Note 11)	**162**	162	**162**	162
Property and equipment (Note 10)	**26**	2	**24**	–
Loans and receivables (Note 9)	**16,450**	16,626	**8,955**	9,650
Investments in subsidiaries (Note 11)	–	–	**1,222**	1,164
Investment properties (Note 12)	**2,122**	2,490	**1,513**	1,916
Other assets* (Note 14)	**10,791**	10,780	**10,735**	10,737
	₱30,084	₱30,630	**₱22,773**	₱23,807

* Allowance for credit and impairment losses of other assets include allowance on investments in SPVs, chattel mortgage properties and miscellaneous assets.

** The amount presented excludes impairment loss on goodwill.

Below is the breakdown of provision for credit and impairment losses:

	Consolidated			Parent Company		
	December 31					
	2014	2013	2012	**2014**	2013	2012
Interbank loans and receivable (Note 7)	**₱2**	₱–	₱2	**₱–**	₱–	₱–
AFS investments	**(4)**	2	(32)	**–**	2	–
Loans and receivables	**4,820**	8,689	4,311	**7**	3,255	720
Investments in subsidiaries	**–**	–	–	**–**	79	–
Investment properties (Note 12)	**29**	400	340	**–**	326	57
Chattel properties acquired in foreclosure (Note 14)	**2**	4	4	**–**	3	–
Goodwill (Note 11)	**–**	1,203	–	**–**	1,203	–
Other assets	**–**	424	(147)	**–**	426	–
	₱4,849	₱10,722	₱4,478	**₱7**	₱5,294	₱777

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the non-collection or non-realization of its receivables and other risk assets.

A reconciliation of the allowance for credit losses by class of loans and receivables is as follows:

	Consolidated							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2014	**₱7,643**	**₱1,190**	**₱1,218**	**₱339**	**₱2,425**	**₱12,815**	**₱3,811**	**₱16,626**
Provisions during the year	**685**	**54**	**182**	**1**	**3,524**	**4,446**	**374**	**4,820**
Accounts written off	**(140)**	**(1)**	**(549)**	**(84)**	**(3,408)**	**(4,182)**	**(92)**	**(4,274)**
Reclassifications/reversals/ others	**(15)**	**(200)**	**–**	**(18)**	**(6)**	**(239)**	**(483)**	**(722)**
Balance at December 31, 2014	**₱8,173**	**₱1,043**	**₱851**	**₱238**	**₱2,535**	**₱12,840**	**₱3,610**	**₱16,450**
Individual impairment	**₱3,200**	**₱890**	**₱242**	**₱179**	**₱183**	**₱4,694**	**₱2,194**	**₱6,888**
Collective impairment	**4,973**	**153**	**609**	**59**	**2,352**	**8,146**	**1,416**	**9,562**
	₱8,173	**₱1,043**	**₱851**	**₱238**	**₱2,535**	**₱12,840**	**₱3,610**	**₱16,450**
Gross amount of loans individually determined to be impaired	**₱5,116**	**₱1,508**	**₱328**	**₱242**	**₱1,571**	**₱8,765**	**₱3,657**	**₱12,422**
Balance at January 1, 2013	₱6,169	₱700	₱736	₱338	₱3,262	₱11,205	₱4,521	₱15,726
Provisions during the year	3,410	493	1,364	–	3,144	8,411	278	8,689
Accounts written off	(42)	(3)	(621)	(3)	(3,889)	(4,558)	(37)	(4,595)
Reclassifications/reversals/ others	(1,894)	–	(261)	4	(92)	(2,243)	(951)	(3,194)
Balance at December 31, 2013	₱7,643	₱1,190	₱1,218	₱339	₱2,425	₱12,815	₱3,811	₱16,626
Individual impairment	₱2,919	₱1,075	₱618	₱279	₱168	₱5,059	₱2,363	₱7,422
Collective impairment	4,724	115	600	60	2,257	7,756	1,448	9,204
	₱7,643	₱1,190	₱1,218	₱339	₱2,425	₱12,815	₱3,811	₱16,626
Gross amount of loans individually determined to be impaired	₱6,502	₱1,491	₱619	₱413	₱1,193	₱10,218	₱4,015	₱14,233

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2014	**₱6,105**	**₱429**	**₱19**	**₱339**	**₱42**	**₱6,934**	**₱2,716**	**₱9,650**
Provisions during the year	**6**	**–**	**–**	**1**	**–**	**7**	**–**	**7**
Accounts written off	**(140)**	**(1)**	**(8)**	**(84)**	**(3)**	**(236)**	**(46)**	**(282)**
Reclassifications/reversals/ others	**(278)**	**–**	**–**	**(18)**	**–**	**(296)**	**(124)**	**(420)**
Balance at December 31, 2014	**₱5,693**	**₱428**	**₱11**	**₱238**	**₱39**	**₱6,409**	**₱2,546**	**₱8,955**
Individual impairment	**₱2,422**	**₱340**	**₱–**	**₱179**	**₱35**	**₱2,976**	**₱1,648**	**₱4,624**
Collective impairment	**3,271**	**88**	**11**	**59**	**4**	**3,433**	**898**	**4,331**
	₱5,693	**₱428**	**₱11**	**₱238**	**₱39**	**₱6,409**	**₱2,546**	**₱8,955**

(Forward)

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Gross amount of loans individually determined to be impaired	**₱3,871**	**₱487**	**₱–**	**₱242**	**₱41**	**₱4,641**	**₱2,884**	**₱7,525**
Balance at January 1, 2013	₱4,313	₱432	₱20	₱338	₱54	₱5,157	₱3,076	₱8,233
Provisions during the year	3,218	–	2	–	–	3,220	35	3,255
Accounts written off	(42)	(3)	(3)	(3)	(12)	(63)	(36)	(99)
Reclassifications/reversals/ others	(1,384)	–	–	4	–	(1,380)	(359)	(1,739)
Balance at December 31, 2013	₱6,105	₱429	₱19	₱339	₱42	₱6,934	₱2,716	₱9,650
Individual impairment	₱2,362	₱367	₱–	₱279	₱34	₱3,042	₱1,772	₱4,814
Collective impairment	3,743	62	19	60	8	3,892	944	4,836
	₱6,105	₱429	₱19	₱339	₱42	₱6,934	₱2,716	₱9,650
Gross amount of loans individually determined to be impaired	₱5,550	₱462	₱–	₱413	₱42	₱6,467	₱3,094	₱9,561

* Allowance for credit losses on other receivables include allowance on unquoted debt securities, accounts receivables, accrued interest receivable, sales contract receivable and deficiency judgment receivable.

Movements in the allowance for credit and impairment losses on AFS investments and other assets follow:

	Consolidated				Parent Company			
	AFS Investments				AFS Investments			
	Debt Securities	Equity Securities	Other Assets*	Total	Debt Securities	Equity Securities	Other Assets*	Total
Balance at January 1, 2014	**₱–**	**₱568**	**₱10,780**	**₱11,348**	**₱–**	**₱178**	**₱10,737**	**₱10,915**
Provisions for credit and impairment losses	**3**	**(7)**	**2**	**(2)**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**–**	**(68)**	**–**	**(68)**
Reclassifications/reversals/others	**–**	**(35)**	**9**	**(26)**	**–**	**52**	**(2)**	**50**
Balance at December 31, 2014	**₱3**	**₱526**	**₱10,791**	**₱11,320**	**₱–**	**₱162**	**₱10,735**	**₱10,897**
Balance at January 1, 2013	₱–	₱573	₱9,731	₱10,304	₱–	₱176	₱9,675	₱9,851
Provisions for credit and impairment losses	–	2	428	430	–	2	429	431
Disposals	–	–	–	–	–	(1)	–	(1)
Reclassifications/reversals/others	–	(7)	621	614	–	1	633	634
Balance at December 31, 2013	₱–	₱568	₱10,780	₱11,348	₱–	₱178	₱10,737	₱10,915

* Allowance for credit and impairment losses of other assets include allowance on investments in SPVs, chattel mortgage properties and miscellaneous assets.

16. Deposit Liabilities

Long-Term Negotiable Certificates of Deposit (LTNCD)

On September 18, 2014, the BSP approved the issuance of the Parent Company of up to ₱20.0 billion LTNCD and the subsequent amendment was also approved by the BSP on October 14, 2014. The Parent Company issued the first tranche amounting to ₱8.0 billion on October 24, 2014 at a rate of 4.00% per annum, payable quarterly, with a tenor of 5.5 years and maturing on April 24, 2020 while the second tranche amounting to ₱6.25 billion was issued on November 21, 2014 with a rate of 4.25% per annum, payable quarterly, with a tenor of 7 years and maturing on November 22, 2021. The minimum investment size for the LTNCD is ₱50.0 thousand with increments of ₱50.0 thousand thereafter.

Of the total interest-bearing deposit liabilities of the Group as of December 31, 2014 and 2013, 47.00% and 47.40%, respectively, are subject to periodic interest repricing. In 2014, 2013 and 2012, remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.59%, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 4.25% as of December 31, 2014 and from 0.00% to 3.50% in December 31, 2013 and 2012.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Demand	**₱443**	₱340	₱293	**₱285**	₱208	₱217
Savings	**881**	799	1,045	**805**	734	988
Time	**7,883**	6,417	7,418	**5,406**	4,033	4,474
LTNCD	**92**	–	–	**92**	–	–
	₱9,299	₱7,556	₱8,756	**₱6,588**	₱4,975	₱5,679

Reserve Requirement
Effective reserve week starting May 30, 2014, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to required reserves equivalent of 20.00% from the previous 18.00%. On the other hand, non-FCDU deposit liabilities of PSBank are subject to required reserves equivalent to 8.00% from the previous 6.00%. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP and any government securities which are previously used as compliance until they mature.

The Parent Company, PSBank, FMIC, MCC and ORIX Metro were in compliance with such regulations as of December 31, 2014 and 2013.

The total liquidity and statutory reserves (under Due from BSP accounts), as reported to the BSP, are as follows:

	Due from BSP	
	2014	2013
Parent Company	**₱157,759**	₱143,492
PSBank	**9,280**	7,133
MCC	**7,086**	4,408
FMIC	**5,340**	6,401
Orix Metro	**2,971**	2,239
	₱182,436	₱163,673

17. **Bills Payable and Securities Sold Under Repurchase Agreements**

This account consists of borrowings from:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Deposit substitutes	**₱52,046**	₱59,536	**₱–**	₱–
Local banks	**27,930**	21,767	**5,843**	5,327
Foreign banks	**17,675**	20,784	**16,254**	18,486
SSURA	**42,748**	25,117	**40,248**	22,180
	₱140,399	₱127,204	**₱62,345**	₱45,993

Interbank borrowings with foreign and local banks are mainly short-term borrowings. The Group’s peso borrowings are subject to annual fixed interest rates ranging from 0.20% to 5.88%, from 1.00% to 8.54% and from 1.00% to 8.12% in 2014, 2013 and 2012, respectively, while the Group’s foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.15% to 4.30%, from 0.16% to 2.63% and from 0.15% to 1.95% in 2014, 2013 and 2012, respectively.

Deposit substitutes pertain to borrowings from the public of FMIC, ORIX Metro and MCC.

The following are the carrying values of the investment securities pledged and transferred under SSURA transactions of the Group and the Parent Company:

	Consolidated			
	2014		2013	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Government debt securities (Note 8)				
HFT investments	**₱242**	**₱210**	₱3,314	₱2,974
AFS investments	**26,289**	**21,951**	17,916	14,303
HTM investments	**23,801**	**20,587**	6,712	7,270
	50,332	**42,748**	27,942	24,547
Unquoted debt securities (Note 9)				
Government	–	–	570	570
	₱50,332	**₱42,748**	₱28,512	₱25,117

	Parent Company			
	2014		2013	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Government debt securities (Note 8)				
HFT investments	**₱242**	**₱210**	₱3,314	₱2,974
AFS investments	**22,692**	**19,451**	12,574	11,936
HTM investments	**23,801**	**20,587**	6,712	7,270
	₱46,735	**₱40,248**	₱22,600	₱22,180

Interest expense on bills payable (included in the 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' in the statement of income) in 2014, 2013 and 2012 amounted to ₱2.1 billion, ₱2.3 billion and ₱3.3 billion, respectively, for the Group and ₱208.2 million, ₱109.6 million and ₱51.0 million, respectively, for the Parent Company.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Accrued interest (Note 31)	**₱1,865**	₱1,770	**₱1,053**	₱903
Accrued other expenses (Note 31)	**8,009**	6,737	**6,461**	5,099
	₱9,874	₱8,507	**₱7,514**	₱6,002

Accrued other expenses include accruals for compensation and fringe benefits, rentals, percentage and other taxes, professional fees, advertising and information technology expenses and other expenses.

19. **Bonds Payable**

This account represents scripless fixed rate corporation bonds issued by FMIC as follows:

Issue Date	Maturity Date	Interest Rate	Redemption Period	Face Value	Carrying Value 2014	2013
November 25, 2011	February 25, 2017	5.675%	after 4th year	₱5,000	**₱4,819**	₱4,823
August 10, 2012	November 10, 2017	5.50%	after 4th year	4,000	**3,820**	3,858
August 10, 2012	August 10, 2019	5.75%	after 5th year	3,000	**2,805**	2,962
				₱12,000	**₱11,444**	₱11,643

These bonds were issued in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any quarterly interest payment after the fourth or fifth anniversary of the issue date at 102.00% of its face value plus accrued interest. These are exempt securities pursuant to certain provisions of the Securities Regulation Code and are covered by deed of assignments on government securities held in trust by a collateral agent which shall have aggregate market value of 100.00% of the issued amount, otherwise, additional government securities shall be offered to increase and maintain the cover at 100.00%.

The carrying amount of government securities assigned as collateral classified under AFS investments amounted to ₱0.9 billion and ₱11.5 billion with market value of ₱0.9 billion and ₱12.7 billion as of December 31, 2014 and 2013, respectively, and under HTM investments amounted to ₱12.0 billion with market value of ₱11.7 billion as of December 31, 2014.

As of December 31, 2014 and 2013, FMIC has complied with the terms of the issuance.

Interest expense on bonds payable (included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others') in 2014, 2013 and 2012 amounted to ₱666.1 million, ₱665.9 million and ₱422.7 million, respectively.

20. **Subordinated Debts**

This account consists of the following Peso Notes:

	Maturity Date	**Face Value**	**Carrying Value 2014**	2013	**Market Value 2014**	2013
Parent Company						
2019	May 6, 2019	₱4,500	**₱–**	₱4,497	**₱–**	₱4,561
2024	June 27, 2024	16,000	**15,893**	–	**13,144**	–
2025	August 8, 2025	6,500	**6,451**	–	**6,543**	–
		27,000	**22,344**	4,497	**19,687**	4,561
PSBank – 2022	February 20, 2022	3,000	**2,975**	2,972	**3,452**	3,504
PSBank – 2024	August 23, 2024	3,000	**2,972**	–	**2,333**	–
MCC – 2023	December 20, 2023	1,170	**1,161**	1,159	**1,322**	1,328
		₱34,170	**₱29,452**	₱8,628	**₱26,794**	₱9,393

On April 15, 2013, the BOD of the Parent Company approved the issuance of Basel III - compliant Tier 2 capital notes up to USD500 million in one or more tranches, issued as part of the Parent Company's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP and to proactively manage its capital base for growth and refinancing of maturing capital securities. The issuance was approved by the BSP on July 26, 2013 and the amendment to the terms and conditions on January 30, 2014. Specifically, the BSP approved the issuance of up to USD500 million equivalent in either USD or PHP or combination in one or more tranches over the course of one (1) year.

Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank pari passu and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company. The Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP. These Peso Notes have a term of 5.25 and 11 years and are redeemable at the option of the Parent Company (but not the holders) on the call option date in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the call option date, upon prior approval of the BSP and at least 30-banking day prior written notice to the Noteholders of record, subject to the following conditions: (1) the capital adequacy of the Issuer is at least equal to the required minimum ratio; (2) the note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, upon prior approval of the BSP and at least a 30-banking day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption (the “Redemption Option Date”).

The Notes have a loss absorption feature which are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions as set out in “Terms and Conditions of the Notes - Loss Absorption Measure”, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 Ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (i) a Write-Down (as defined in “Terms and Conditions of the Notes”) of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer would become non-viable, or (iii) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer has become non-viable.

Each Noteholder may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the Peso Notes and to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off. These Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation (PDIC).

Specific terms of these Basel III - compliant Notes follow:

2024 Peso Notes - issued on March 27, 2014 at 100.00% of the principal amount of ₱16.0 billion

- Bear interest at 5.375% per annum from March 27, 2014 to but excluding June 27, 2019. Interest will be payable quarterly in arrears on March 27, June 27, September 27 and December 27 of each year, commencing on June 27, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread of 1.51% per annum and such interest will be payable commencing on June 27, 2019 up to and including June 27, 2024.

2025 Peso Notes - issued on August 8, 2014 at 100.00% of the principal amount of ₱6.5 billion

- Bear interest at 5.25% per annum from August 8, 2014 to but excluding August 8, 2020. Interest will be payable quarterly in arrears on February 8, May 8, August 8 and November 8 of each year, commencing on November 8, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at equivalent of the five-year PDST-R2 as of reset date plus a spread of 1.67% per annum and such interest will be payable commencing on August 8, 2020 up to and including August 8, 2025.

Specific terms of Notes issued under the old Capital Framework follow:

2019 Peso Notes - issued on May 6, 2009 at 100.00% of the principal amount of ₱4.5 billion

- Bear interest at 7.50% per annum from and including May 6, 2009 to but excluding May 6, 2014. Interest will be payable quarterly in arrears on August 6, November 6, February 6 and May 6, commencing August 6, 2009 up to and including May 6, 2014. Unless these are previously redeemed, the interest rate from and including May 6, 2014 to but excluding May 6, 2019 will be reset at the equivalent of the five-year PDST-F as of the Reset date multiplied by 80.00% plus a spread of 3.53% per annum. Interest will be payable quarterly in arrears on August 6, November 6, February 6 and May 6 of each year, commencing August 6, 2014 up to and including May 6, 2019.

On May 7, 2014, the Bank exercised the call option on its ₱4.5 billion 7.50% Lower Tier 2 Notes ahead of its original maturity on May 6, 2019. The redemption was approved by the BSP on March 13, 2014.

MCC

2023 Peso Notes - issued on December 20, 2013 at 100.00% of the principal amount of ₱1.2 billion

- Bear interest at 6.21% per annum payable quarterly in arrears every 20th of March, June, September and December each year, commencing on March 20, 2014.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on February 17, 2013.
- In case of insolvency or liquidation of MCC, the notes will be subordinated in the right of payment of principal and interest to all depositors and other creditors of MCC, except those creditors expressed to rank equally with, or behind holders of the notes.
- If a non-viability trigger event occurs, MCC shall immediately write down some or all of the notes in accordance with the BSP's determination.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2023 Notes, at a redemption price equal to the face value together with the accrued and unpaid interest based on the interest rate.

PSBank

2022 Peso Notes - issued on February 20, 2012 at 100.00% of the principal amount of ₱3.0 billion

- Bear interest at 5.75% per annum from and including February 20, 2012 but excluding February 20, 2017 which is payable quarterly in arrears every May 20, August 20, November 20 and February 20, commencing on February 20, 2012.
- Constitute direct, unconditional, and unsecured obligations of PSBank and claim in respect of the 2022 Notes shall be at all times pari passu and without any preference among themselves.

- Subject to satisfaction of certain regulatory approval requirements, PSBank may redeem all and not less than the entire outstanding 2022 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

2024 Peso Notes - issued on May 23, 2014 at 100.00% of the face value of ₱3.0 billion

- Bears interest at the rate 5.50% per annum for the first 5 years and 3 months. Interest will be payable quarterly in arrears on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread of 1.4438% per annum.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on April 14, 2014.
- May be redeemed by PSBank in full, but not in part, on the call option date upon prior approval of the BSP and subject to certain conditions.
- May be redeemed by PSBank in full, but not in part, upon the occurrence of a Tax Redemption or Regulatory Redemption Event prior to maturity by paying the Holders the following:
  a) In the case of a Tax Redemption Event, 100.00% of the face value of the Note plus accrued interest
  b) In the case of a Regulatory Redemption Event, 101.00% of the face value of the Note plus accrued interest.
- Have a loss absorption feature which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions.

As of December 31, 2014 and 2013, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2014, 2013 and 2012, interest expense on subordinated debt included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱1.3 billion, ₱0.9 billion and ₱1.5 billion (including amortization of debt issue cost and premium of ₱27.0 million, ₱24.3 million and ₱40.0 million), respectively, for the Group, and ₱0.9 billion, ₱0.7 billion and ₱1.3 billion (including amortization of debt issue cost and premium of ₱22.0 million, ₱19.7 million and ₱35.2 million), respectively, for the Parent Company.

21. **Other Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Bills purchased - contra (Note 9)	**₱26,386**	₱16,637	**₱26,303**	₱16,587
Non-equity non-controlling interests	**10,124**	10,369	**–**	–
Accounts payable (Note 31)	**8,973**	8,337	**4,356**	4,674
Marginal deposits	**4,580**	6,819	**130**	324
Retirement liability (Note 27)	**3,553**	4,830	**2,566**	4,162
Deposits on lease contracts	**1,171**	991	**–**	–
Deferred revenues	**1,073**	936	**98**	98
Other credits	**885**	680	**446**	382
Outstanding acceptances	**689**	1,001	**689**	1,001
Withholding taxes payable	**481**	412	**290**	270
Miscellaneous	**2,845**	3,068	**911**	1,362
	₱60,760	₱54,080	**₱35,789**	₱28,860

Deferred revenues include deferral and release of MCC's loyalty points program transactions and membership fees and dues.

Non-equity non-controlling interests arise when mutual funds are consolidated and where the Group holds less than 100.00% of the investment in these funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests in that the Group does not hold an equity stake in such funds.

As of December 31, 2014 and 2013, miscellaneous liabilities of the Group include dividends payable amounting to ₱241.1 million and ₱28.6 million, respectively, and notes payable amounting to ₱488.1 million.

22. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	Consolidated					
	2014			2013		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱34,943**	**₱–**	**₱34,943**	₱29,742	₱–	₱29,742
Due from BSP	**215,253**	**–**	**215,253**	166,774	–	166,774
Due from other banks	**38,200**	**–**	**38,200**	26,275	–	26,275
Interbank loans receivable and SPURA (Note 7)	**119,844**	**–**	**119,844**	122,013	–	122,013
Financial assets at FVPL (Note 8)	**45,935**	**–**	**45,935**	55,441	–	55,441
AFS investments (Note 8)	**12,531**	**195,709**	**208,240**	7,363	266,634	273,997
HTM investments (Note 8)	**150**	**128,926**	**129,076**	1,141	37,284	38,425
Loans and receivables (Note 9)						
Receivables from customers	**395,690**	**363,202**	**758,892**	308,961	302,258	611,219
Unquoted debt securities	**1,104**	**1,966**	**3,070**	2,111	3,243	5,354
Accrued interest receivable	**8,319**	**–**	**8,319**	8,414	–	8,414
Accounts receivable	**4,417**	**–**	**4,417**	3,821	–	3,821
Sales contract receivable	**162**	**310**	**472**	109	349	458
Other receivables	**505**	**–**	**505**	314	–	314
Other assets (Note 14)						
Interoffice float items	**3,156**	**–**	**3,156**	1,127	–	1,127
Returned checks and other cash items	**272**	**–**	**272**	68	–	68
Residual value of leased asset	**557**	**275**	**832**	–	712	712
Other investments	**–**	**3**	**3**	–	3	3
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Pledged certificate of time deposit	**–**	**–**	**–**	266	–	266
Miscellaneous assets	**–**	**426**	**426**	–	426	426
	889,895	**690,817**	**1,580,712**	742,797	610,909	1,353,706
Non-Financial Assets - at gross						
Property and equipment (Note 10)	**–**	**34,557**	**34,557**	–	32,978	32,978
Investments in associates (Note 11)	**–**	**2,751**	**2,751**	–	6,436	6,436
Investment properties (Note 12)	**–**	**13,683**	**13,683**	–	17,399	17,399
Deferred tax assets (Note 28)	**–**	**6,831**	**6,831**	–	7,190	7,190
Goodwill (Note 11)	**–**	**5,201**	**5,201**	–	5,206	5,206
Retirement asset (Note 27)	**–**	**13**	**13**	–	28	28
Assets held under joint operations (Note 14)	**–**	**544**	**544**	–	1,361	1,361
Accounts receivable (Note 9)	**–**	**2,884**	**2,884**	–	2,052	2,052
Other assets (Note 14)	**3,019**	**8,576**	**11,595**	1,960	5,186	7,146
	3,019	**75,040**	**78,059**	1,960	77,836	79,796
	₱892,914	**₱765,857**	**1,658,771**	₱744,757	₱688,745	1,433,502
Less:						
Unearned discounts and capitalized interest (Note 9)			**2,628**			3,942
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**21,519**			20,361
Allowance for credit and impairment losses (Note 15)			**30,084**			30,630
			₱1,604,540			₱1,378,569

(Forward)

	Consolidated					
	2014			2013		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities						
Demand	**₱187,285**	**₱–**	**₱187,285**	₱150,694	₱–	₱150,694
Savings	**406,767**	**–**	**406,767**	362,915	–	362,915
Time	**545,275**	**30,877**	**576,152**	475,521	27,138	502,659
LTNCD	**–**	**14,250**	**14,250**	–	–	–
	1,139,327	**45,127**	**1,184,454**	989,130	27,138	1,016,268
Bills payable and SSURA (Note 17)	**129,146**	**11,253**	**140,399**	114,199	13,005	127,204
Derivative liabilities	**3,071**	**–**	**3,071**	4,452	–	4,452
Manager's checks and demand drafts outstanding	**4,653**	**–**	**4,653**	3,927	–	3,927
Accrued interest and other expenses	**8,769**	**–**	**8,769**	7,326	–	7,326
Bonds payable (Note 19)	**–**	**11,444**	**11,444**	–	11,643	11,643
Subordinated debt (Note 20)	**–**	**29,452**	**29,452**	4,497	4,131	8,628
Other liabilities (Note 21)						
Bills purchased – contra	**26,386**	**–**	**26,386**	16,637	–	16,637
Accounts payable	**8,973**	**–**	**8,973**	8,337	–	8,337
Non-equity non-controlling interest	**10,124**	**–**	**10,124**	10,369	–	10,369
Marginal deposits	**4,580**	**–**	**4,580**	6,819	–	6,819
Outstanding acceptances	**689**	**–**	**689**	1,001	–	1,001
Deposits on lease contracts	**–**	**1,171**	**1,171**	–	991	991
Dividends payable	**104**	**–**	**104**	29	–	29
Miscellaneous	**–**	**488**	**488**	–	488	488
	1,335,822	**98,935**	**1,434,757**	1,166,723	57,396	1,224,119
Non-Financial Liabilities						
Retirement liability (Note 27)	**–**	**3,553**	**3,553**	–	4,830	4,830
Income taxes payable	**1,191**	**–**	**1,191**	676	–	676
Accrued interest and other expenses	**1,105**	**–**	**1,105**	1,181	–	1,181
Withholding taxes payable (Note 21)	**481**	**–**	**481**	412	–	412
Deferred tax and other liabilities (Notes 21 and 28)	**3,325**	**1,343**	**4,668**	3,473	1,173	4,646
	6,102	**4,896**	**10,998**	5,742	6,003	11,745
	₱1,341,924	**₱103,831**	**₱1,445,755**	₱1,172,465	₱63,399	₱1,235,864

	Parent Company					
	2014			2013		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱30,733**	**₱–**	**₱30,733**	₱26,532	₱–	₱26,532
Due from BSP	**174,259**	**–**	**174,259**	143,724	–	143,724
Due from other banks	**25,583**	**–**	**25,583**	8,947	–	8,947
Interbank loans receivable and SPURA (Note 7)	**108,441**	**–**	**108,441**	96,872	–	96,872
Financial assets at FVPL (Note 8)	**29,850**	**–**	**29,850**	36,140	–	36,140
AFS investments (Note 8)	**8,369**	**171,168**	**179,537**	4,249	222,872	227,121
HTM investments (Note 8)	**150**	**110,627**	**110,777**	1,141	37,217	38,358
Loans and receivables (Note 9)						
Receivables from customers	**325,158**	**260,631**	**585,789**	241,374	213,223	454,597
Unquoted debt securities	**426**	**194**	**620**	558	462	1,020
Accrued interest receivable	**6,705**	**–**	**6,705**	6,910	–	6,910
Accounts receivable	**2,878**	**–**	**2,878**	2,360	–	2,360
Sales contract receivable	**145**	**47**	**192**	80	76	156
Other receivables	**165**	**–**	**165**	30	–	30
Other assets (Note 14)						
Interoffice float items	**2,965**	**–**	**2,965**	1,061	–	1,061
Returned checks and other cash items	**189**	**–**	**189**	54	–	54
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Pledged certificate of time deposit	**–**	**–**	**–**	266	–	266
Miscellaneous assets	**–**	**426**	**426**	–	426	426
	724,873	**543,093**	**1,267,966**	579,155	474,276	1,053,431
Non-Financial Assets - at gross						
Property and equipment (Note 10)	**–**	**23,232**	**23,232**	–	22,872	22,872
Investment in subsidiaries (Note 11)	**–**	**27,498**	**27,498**	–	26,046	26,046
Investments in associates (Note 11)	**–**	**590**	**590**	–	740	740
Investment properties (Note 12)	**–**	**8,912**	**8,912**	–	12,869	12,869
Deferred tax assets (Note 28)		**5,273**	**5,273**	–	6,333	6,333
Goodwill (Note 11)	**–**	**–**	**–**	–	–	–
Retirement asset (Note 27)	**–**	**13**	**13**	–	2	2

(Forward)

	Parent Company					
	2014			2013		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Assets held under joint operations (Note 14)	**₱–**	**₱544**	**₱544**	₱–	₱1,361	₱1,361
Accounts receivable (Note 9)	**–**	**2,884**	**2,884**	–	2,052	2,052
Other assets (Note 14)	**2,119**	**6,011**	**8,130**	1,214	2,926	4,140
	2,119	**74,957**	**77,076**	1,214	75,201	76,415
	₱726,992	**₱618,050**	**1,345,042**	₱580,369	₱549,477	1,129,846
Less:						
Unearned discounts and capitalized interest (Note 9)			**284**			580
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**14,805**			14,759
Allowance for credit and impairment losses (Note 15)			**22,773**			23,807
			₱1,307,180			₱1,090,700
Financial Liabilities						
Deposit liabilities						
Demand	**₱169,851**	**₱–**	**₱169,851**	₱134,788	₱–	₱134,788
Savings	**390,509**	**–**	**390,509**	348,244	–	348,244
Time	**465,947**	**9,871**	**475,818**	398,497	9,225	407,722
LTNCD	**–**	**14,250**	**14,250**	–	–	–
	1,026,307	**24,121**	**1,050,428**	881,529	9,225	890,754
Bills payable and SSURA (Note 17)	**62,345**	**–**	**62,345**	45,993	–	45,993
Derivative liabilities	**3,054**	**–**	**3,054**	4,452	–	4,452
Manager's checks and demand drafts outstanding	**3,399**	**–**	**3,399**	2,816	–	2,816
Accrued interest and other expenses	**6,409**	**–**	**6,409**	4,934	–	4,934
Subordinated debt (Note 20)	**–**	**22,344**	**22,344**	4,497	–	4,497
Other liabilities (Note 21)						
Bills purchased – contra	**26,303**	**–**	**26,303**	16,587	–	16,587
Accounts payable	**4,356**	**–**	**4,356**	4,674	–	4,674
Marginal deposits	**130**	**–**	**130**	324	–	324
Outstanding acceptances	**689**	**–**	**689**	1,001	–	1,001
	1,132,992	**46,465**	**1,179,457**	966,807	9,225	976,032
Non-Financial Liabilities						
Retirement liability (Note 27)	**–**	**2,566**	**2,566**	–	4,162	4,162
Income taxes payable	**591**	**–**	**591**	267	–	267
Accrued interest and other expenses	**1,105**	**–**	**1,105**	1,068	–	1,068
Withholding taxes payable (Note 21)	**290**	**–**	**290**	270	–	270
Other liabilities (Note 21)	**1,009**	**446**	**1,455**	1,444	398	1,842
	2,995	**3,012**	**6,007**	3,049	4,560	7,609
	₱1,135,987	**₱49,477**	**₱1,185,464**	₱969,856	₱13,785	₱983,641

23. Capital Stock

This account consists of (amounts in millions, except par value and number of shares):

	Shares			Amount		
	2014	2013	2012	**2014**	2013	2012
Authorized						
Preferred stock – ₱20.00 par value	**1,000,000,000**	1,000,000,000	–			
Common stock – ₱20.00 par value	**4,000,000,000**	4,000,000,000	2,500,000,000			
Common stock issued and outstanding						
Balance at beginning of year	**2,744,801,066**	2,111,386,017	2,111,386,017	**₱54,896**	₱42,228	₱42,228
Issuance of stock dividends	**–**	633,415,049	–	**–**	12,668	–
Balance at end of year	**2,744,801,066**	2,744,801,066	2,111,386,017	**54,896**	54,896	42,228
HT1 Capital	**–**	–	–	**6,351**	6,351	6,351
	2,744,801,066	2,744,801,066	2,111,386,017	**₱61,247**	₱61,247	₱48,579

As of December 31, 2014, treasury shares totaling 391,320 represent shares of the Parent Company held by FMIC's mutual fund subsidiary.

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2014 and 2013, the Parent Company's share price closed at ₱83.00 and ₱75.55 a share, respectively.

On March 15, 2013, the BOD of the Bank approved (a) the amendment of the Articles of Incorporation (AOI) for the purpose of increasing the authorized capital stock and (b) the declaration of 30.00% stock dividend, which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2013. These were subsequently approved by the BSP on May 15, 2013 while the SEC approved the amended AOI on August 13, 2013.

Following this, the authorized capital stock of the Bank increased from ₱50.0 billion to ₱100.0 billion consisting of 4.0 billion Common Shares and 1.0 billion Preferred Shares, both with par value of ₱20 per share. Preferred Shares are non-voting except as provided by law; have preference over Common Shares in the distribution of dividends; subject to such terms and conditions as may be determined by the BOD and to the extent permitted by applicable law, may or may not be redeemable; and shall have such other features as may be determined by the BOD at the time of issuance. Further, the 30.00% stock dividend equivalent to 633.4 million common shares amounting to ₱12.7 billion represents at least the minimum 25.00% subscribed and paid-up capital for the increase in the authorized capital stock referred to above. As delegated by the BOD, the President fixed the record and payment dates on September 3 and 16, 2013, respectively. On September 10, 2013, the PSE approved the listing of additional 633,415,805 common shares and on September 16, 2013, the Bank issued the stock dividend and paid the cash equivalent of the related fractional shares.

HT1 Capital represents USD125.0 million, 9.00% non-cumulative step-up callable perpetual capital securities with liquidation preference of USD100,000 per capital security issued by the Parent Company on February 15, 2006 pursuant to a trust deed with The Bank of New York (Trustee) and listed with the Singapore Exchange Securities Trading Limited. The HT1 Capital is governed by English law except on certain clauses in the Trust Deed which are governed by Philippine law. Basic features of the HT1 Capital follow:

- Coupons - bear interest at 9.00% per annum payable semi-annually in arrear from (and including) February 15, 2006 to (but excluding) February 15, 2016, and thereafter at a rate, reset and payable quarterly in arrear, of 6.10% per annum above the then prevailing LIBOR for three-month USD deposits. Under certain conditions, the Parent Company is not obliged to make any coupon payment if the BOD of the Parent Company, in its absolute discretion, elects not to make any coupon payment in whole or in part.

- Coupon Payment Dates - payable on February 15 and August 15 in each year, commencing on August 15, 2006 (in respect of the period from (and including) February 15, 2006 to (but excluding) August 15, 2006 and ending on February 15, 2016 (first optional redemption date); thereafter coupon amounts will be payable (subject to adjustment for days which are not business days) on February 15, May 15, August 15 and November 15 in each year commencing on May 15, 2016.

- Dividend and Capital Stopper - in the event that any coupon payment is not made, the Parent Company: (a) will not declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on any junior share capital or any parity securities; or (b) will not redeem, purchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities. Such dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity unless and until payment is made to the holders in an amount equal to the unpaid amount, if any, of coupon payments in respect of coupon periods in the 12 months including and immediately preceding the date such coupon payment was due, and the BSP does not otherwise object.

- Redemption
  - may be redeemed at the option of the Parent Company (but not the holders) under optional redemption, tax event call, and regulatory event call, subject to limitation of the terms of the issuance.
  - may not be redeemed (i) for so long as the dividend and capital stopper is in force; and (ii) without the prior written approval of the BSP which, as of February 8, 2006, is subject to the following conditions: (a) the Parent Company's capital adequacy must be at least equal to the BSP's minimum capital ratio; and (b) the HT1 Capital are simultaneously replaced with the issue of new capital which is neither smaller in size nor lower in quality than the original issue.

The HT1 Capital is unsecured and subordinated to the claims of senior creditors. In the event of the dissolution or winding-up of the Parent Company, holders will be entitled, subject to satisfaction of certain conditions and applicable law, to receive a liquidation distribution equivalent to the liquidation preference. Also, the HT1 Capital is not treated as deposit and is not guaranteed or insured by the Parent Company or any of its related parties or the PDIC and these may not be used as collateral for any loan availments. The Parent Company or any of its subsidiaries may not at any time purchase HT1 Capital except as permitted under optional redemption, tax event call, and regulatory event call as described in the terms of issuance. The HT1 Capital is sold to non-U.S. persons outside the United States pursuant to Regulation under the U.S. Securities Act of 1933, as amended, and represented by a global certificate registered in the name of a nominee of, and deposited with, a common depository for Euroclear and Clearstream.

The Parent Company paid the semi-annual coupon amounting to USD5.6 million from 2006 to 2014 after obtaining their respective BSP approvals. Details of approvals and payments from 2012 to 2014 are as follows:

Date of BSP Approval	Date Paid
August 1, 2014	August 15, 2014
February 10, 2014	February 15, 2014
August 12, 2013	August 15, 2013
February 6, 2013	February 15, 2013
August 12, 2012	August 15, 2012
February 1, 2012	February 15, 2012

Details of the Parent Company's cash dividend distributions from 2012 to 2014 follow:

Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record date	Payment date
March 26, 2014	₱1.00	₱2,745	April 15, 2014	May 7, 2014	May 16, 2014
January 23, 2013	1.00	2,111	February 8, 2013	March 8, 2013	April 3, 2013
January 25, 2012	1.00	2,111	February 13, 2012	March 5, 2012	March 26, 2012

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

24. **Surplus Reserves**

This account consists of:

	2014	2013
Reserve for trust business	**₱976**	₱862
Reserve for self-insurance	**395**	373
	₱1,371	₱1,235

In compliance with existing BSP regulations, 10.00% of the Parent Company's income from trust business is appropriated to surplus reserves. This yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Parent Company's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

25. **Miscellaneous Income and Expenses**

In 2014, 2013 and 2012, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱748.5 million, ₱648.8 million and ₱138.9 million, respectively, for the Group and ₱53.6 million, ₱61.2 million and ₱121.9 million, respectively, for the Parent Company and recovery on charged-off assets amounting to ₱562.6 million, ₱455.4 million and ₱390.4 million, respectively, for the Group and ₱10.5 million, ₱27.9 million and ₱46.2 million, respectively, for the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Insurance	**₱2,317**	₱1,672	₱1,480	**₱1,823**	₱1,333	₱1,180
Security, messengerial and janitorial	**2,016**	1,800	1,630	**1,628**	1,408	1,304
Advertising	**738**	725	580	**66**	91	105
Litigation (Note 12)	**678**	705	776	**395**	450	542
Information technology	**644**	718	639	**451**	576	577
Repairs and maintenance	**580**	409	451	**265**	249	253
Communication	**567**	528	474	**43**	69	96
Management and professional fees	**548**	460	465	**298**	272	255
Stationery and supplies used	**536**	487	404	**338**	308	248
Supervision fees	**507**	448	333	**424**	362	263
Transportation and travel	**442**	489	447	**307**	369	342
Entertainment, amusement and representation (EAR) (Note 28)	**320**	236	238	**284**	198	188
Others	**1,396**	1,424	1,253	**658**	477	611
	₱11,289	₱10,101	₱9,170	**₱6,980**	₱6,162	₱5,964

26. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and securities purchased under agreements to resell considered as cash and cash equivalents follow:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Interbank loans receivable and SPURA	**₱119,839**	₱122,011	₱23,392	**₱108,441**	₱96,872	₱15,046
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(7,651)**	(4,836)	(4,344)	**(7,651)**	(4,836)	(4,344)
	₱112,188	₱117,175	₱19,048	**₱100,790**	₱92,036	₱10,702

Significant non-cash transactions of the Group and the Parent Company include foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; reclassification of investment in LCMC with carrying value of ₱2.2 billion to AFS investments as discussed in Note 11; and reclassification of assets held under joint operations amounting to ₱0.5 million to investment properties in 2014. Further, as discussed in Note 8, in 2013, investment of FMIC in GBPC and HTM investments of PSBank and FMIC were reclassified to AFS investments.

In 2012, in addition to the reclassification of investment in associate as discussed in Note 31, the Parent Company also reclassified its land covered by a completed agreement from assets held under joint operations (under 'Other assets') to investments properties amounting to ₱1.2 billion; and rescinded its sales contract receivable amounting to ₱693.0 million.

27. Retirement Plan and Other Employee Benefits

The Parent Company and most of its subsidiaries have funded non-contributory defined benefit retirement plan covering all their respective permanent and full-time employees. Benefits are based on the employee's years of service and final plan salary.

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

Under the existing regulatory framework, Republic Act (RA) 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Parent Company and most of its subsidiaries meet the minimum retirement benefit specified under RA 7641.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries are shown below:

	Parent Company	**FMIC**	**PSBank**	**MCC**	**ORIX Metro**
As of January 1, 2014					
Average remaining working life	**8 years**	**7 to 8 years**	**9 years**	**10 years**	**15 to 26 years**
Discount rate	**4.33%**	**4.51% to 5.59%**	**4.86%**	**4.85%**	**4.07% to 6.50%**
Future salary increases	**8.00%**	**10.00%**	**9.00%**	**8.00%**	**7.00% to 8.00%**
As of January 1, 2013					
Average remaining working life	9 years	6 to 8 years	9 years	10 years	20 to 25 years
Discount rate	5.00%	5.23% to 5.50%	5.45%	5.89%	8.64%
Future salary increases	8.00%	10.00%	8.00%	8.00%	7.00%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the year over which the obligation is to be settled.

Discount rates used in computing for the present value of the DBO of the Parent Company and significant subsidiaries as of December 31, 2014 and 2013 follow:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2014	**4.32%**	**4.42% to 4.65%**	**4.55%**	**4.80%**	**4.92% to 5.50%**
2013	4.33%	4.51% to 5.59%	4.86%	4.85%	4.07% to 6.50%

Net retirement liability (asset) included in the statement of financial position follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Retirement asset (Note 14)	**₱–**	(₱26)	**₱–**	₱–
Retirement liability (Note 21)	**3,553**	4,830	**2,566**	4,162
Net retirement liability	**₱3,553**	₱4,804	**₱2,566**	₱4,162

The fair value of plan assets by each classes as at the end of the reporting period are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Due from BSP	**₱523**	₱115	**₱257**	₱538
Deposit in banks	**63**	697	**21**	12
	586	812	**278**	550
FVPL - equity securities	**15**	1,429	**–**	–
AFS investments - net				
Debt instruments				
Private	**454**	327	**434**	304
Government	**7,576**	5,683	**7,014**	5,303
	8,030	6,010	**7,448**	5,607
Equity securities				
Quoted	**2,500**	778	**1,933**	1,415
Unquoted	**213**	200	**13**	13
	2,713	978	**1,946**	1,428
Investment funds	**161**	25	**20**	–
Total AFS investments	**10,904**	7,013	**9,414**	7,035
Loans and discounts - net	**–**	58	**–**	58
Other receivables - net	**148**	93	**142**	62
Total assets	**₱11,653**	₱9,405	**₱9,834**	₱7,705

Changes in net defined benefit liability of funded funds in 2014 are as follows:

Consolidated	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
January 1, 2014	**₱14,209**	**(₱9,405)**	**₱4,804**
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	**1,201**	**–**	**1,201**
Past service cost	**3**	**–**	**3**
Net interest	**610**	**(448)**	**162**
Sub-total	**1,814**	**(448)**	**1,366**
Benefits paid	**(611)**	**611**	**–**

(Forward)

Consolidated	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	**₱–**	**(₱287)**	**(₱287)**
Actuarial changes arising from experience adjustments	**(245)**	**–**	**(245)**
Actuarial changes arising from changes in financial/demographic assumptions	**39**	**9**	**48**
Sub-total	**(206)**	**(278)**	**(484)**
Contributions paid	**–**	**(2,133)**	**(2,133)**
December 31, 2014	**₱15,206**	**(₱11,653)**	**₱3,553**

Parent Company	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability (asset)**
January 1, 2014	**₱11,867**	**(₱7,705)**	**₱4,162**
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	**917**	–	**917**
Net interest	**497**	**(362)**	**135**
Sub-total	**1,414**	**(362)**	**1,052**
Benefits paid	**(504)**	**504**	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	**(479)**	**(479)**
Actuarial changes arising from experience adjustments	**(387)**	–	**(387)**
Actuarial changes arising from changes in financial/demographic assumptions	**10**	–	**10**
Sub-total	**(377)**	**(479)**	**(856)**
Contributions paid	–	**(1,792)**	**(1,792)**
December 31, 2014	**₱12,400**	**(₱9,834)**	**₱2,566**

Changes in net defined benefit liability of funded funds in 2013 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2013	₱11,725	(₱7,458)	₱4,267
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	1,006	–	1,006
Past service cost	25	–	25
Net interest	580	(411)	169
Sub-total	1,611	(411)	1,200
Benefits paid	(662)	662	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	(130)	(130)
Actuarial changes arising from experience adjustments	573	(119)	454
Actuarial changes arising from changes in financial/demographic assumptions	962	(5)	957
Sub-total	1,535	(254)	1,281
Contributions paid	–	(1,944)	(1,944)
December 31, 2013	₱14,209	(₱9,405)	₱4,804

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2013	₱9,954	(₱6,063)	₱3,891
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	791	–	791
Net interest	482	(333)	149
Sub-total	1,273	(333)	940
Benefits paid	(542)	542	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	(125)	(125)
Actuarial changes arising from experience adjustments	563	–	563
Actuarial changes arising from changes in financial/demographic assumptions	619	–	619
Sub-total	1,182	(125)	1,057
Contributions paid	–	(1,726)	(1,726)
December 31, 2013	₱11,867	(₱7,705)	₱4,162

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of December 31, 2014 and 2013, assuming all other assumptions were held constant:

	Parent Company	**FMIC**	**PSBank**	**MCC**	**Orix Metro**
As of December 31, 2014					
Discount rate					
-50 basis points (bps)	**₱–**	**₱–**	**₱–**	**₱–**	**₱29**
+100 bps	**11,491**	**335**	**1,509**	**507**	**174**
-100 bps	**13,437**	**399**	**1,854**	**658**	**196**
Salary increase rate					
+75 bps	–	–	–	–	**28**
+100 bps	**13,190**	**395**	**1,843**	**645**	**194**
-100 bps	**11,681**	**338**	**1,515**	**515**	**152**
-125 bps	–	–	–	–	**23**
Turnover rate					
+200 bps	–	**355**	**1,543**	**524**	
- 200 bps	–	**376**	**1,822**	**638**	
+300 bps	**11,932**	–	–	–	
- 300 bps	**12,948**	–	–	–	
As of December 31, 2013					
Discount rate					
+100 bps	10,960	281	1,366	365	
-100 bps	12,905	334	1,693	468	
Salary increase rate					
+100 bps	12,646	331	1,681	451	
-100 bps	11,159	283	1,373	378	
Turnover rate					
+100 bps	11,396	–	1,448	–	
-100 bps	12,418	–	1,587	–	
+200 bps	–	298	–	374	
-200 bps	–	314	–	457	

The Group expects to contribute to the defined benefit retirement plans the required funding for normal cost in 2015.

The average duration of the DBO of the Parent Company as of December 31, 2014 and 2013 are 12.39 years and 12.54 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Parent Company	FMIC	PSBank	MCC	Orix Metro
As of December 31, 2014					
Less than 1 year	**₱926**	**₱31**	**₱124**	**₱7**	**₱12**
More than 1 year to 5 years	**5,770**	**228**	**586**	**140**	**–**
More than 5 years to 10 years	**9,928**	**231**	**1,259**	**238**	**74**
More than 10 years to 15 years	**7,962**	**368**	**1,913**	**722**	**–**
More than 15 years to 20 years	**5,580**	**358**	**1,794**	**1,366**	**–**
More than 20 years	**6,527**	**527**	**3,451**	**1,732**	**–**
As of December 31, 2013					
Less than 1 year	680	13	119	9	21
More than 1 year to 5 years	5,251	368	495	109	13
More than 5 years to 10 years	9,768	431	1,142	237	67
More than 10 years to 15 years	8,820	706	1,879	578	139
More than 15 years to 20 years	5,206	499	1,945	762	203
More than 20 years	6,408	575	3,813	1,314	2,035

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2014 and 2013 amounted to ₱193.1 million and ₱180.4 million, respectively.

As of December 31, 2014 and 2013, the retirement fund of the Parent Company's employees amounting to ₱9.8 billion and ₱7.7 billion, respectively, is being managed by the Parent Company's Trust Banking Group, which has a Trust Committee, that is mandated to approve, the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee. The Trust Banking Group of the Parent Company manages the plan based on the mandate as defined in the trust agreement. Directors' fees and bonuses of the Parent Company in 2014, 2013 and 2012 amounted to ₱49.3 million, ₱48.9 million and ₱61.8 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱5.7 billion, ₱5.0 billion and ₱5.4 billion, respectively.

28. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30.00% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO.

The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

Foreign Branches	Tax Rates
USA - New York Branch	20.00% income tax; Business taxes - 0.01% (New York State) and 0.26% (New York City)
Japan - Tokyo and Osaka Branches	28.05% income tax; Various rates for business taxes - income tax, local business, sheet value and sheet capital allocations
Korea - Seoul and Pusan Branches	20.00% income tax; 0.50% education tax
Taiwan - Taipei Branch	17.00% income tax; 5.00% gross business receipts tax; 5.00% VAT

The provision for income tax consists of:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Current:						
Final tax	**₱3,607**	₱2,546	₱2,014	**₱2,919**	₱1,906	₱1,220
RCIT*	**2,392**	1,377	2,331	**692**	115	751
MCIT	**4**	266	13	**4**	244	–
	6,003	4,189	4,358	**3,615**	2,265	1,971
Deferred*	**456**	2,559	(502)	**740**	1,381	(211)
	₱6,459	₱6,748	₱3,856	**₱4,355**	₱3,646	₱1,760

* Includes income taxes of foreign subsidiaries.

Components of net deferred tax assets of the Group and the Parent Company follow:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱4,824**	₱4,428	**₱3,505**	₱3,688
Retirement liability	**1,050**	1,454	**789**	1,257
Unamortized past service cost	**696**	541	**675**	526
Accumulated depreciation of investment properties	**392**	464	**319**	401
Deferred membership/awards	**245**	101	–	–
Accrued expenses	**165**	129	**132**	129
Unrealized foreign exchange loss - net	**153**	–	**153**	–
Unearned rental income	**56**	10	**9**	10
Unrealized loss on AFS investments	**34**	93	**34**	93
NOLCO	–	1,263	–	1,263
MCIT	–	244	–	244
Others	**60**	263	**46**	26
	7,675	8,990	**5,662**	7,637
Deferred tax liability on:				
Unrealized gain on initial measurement of investment properties	**578**	618	**294**	371
Unrealized gain on financial assets at FVPL	**95**	927	**95**	927
Unrealized foreign exchange gain - net	**16**	20	–	6
Unrealized gain on AFS investments (Note 8)	–	99	–	–
Others	**155**	136	–	–
	844	1,800	**389**	1,304
Net deferred tax assets	**₱6,831**	₱7,190	**₱5,273**	₱6,333

Components of net deferred tax liabilities of the Group follow:

	2014	2013
Deferred tax asset on:		
Retirement liability	**₱31**	₱–
Unamortized past service cost	**4**	6
Allowance for credit and impairment losses	**–**	75
Accumulated depreciation of investment properties	**–**	4
Others	**117**	2
	152	87
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**381**	340
Unrealized gain on financial assets at FVPL	**20**	12
Retirement asset	**–**	8
Others	**208**	206
	609	566
Net deferred tax liabilities	**₱457**	₱479

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following temporary differences:

	Consolidated		Parent Company	
	2014	2013	2014	2013
Allowance for credit and impairment losses	**₱8,867**	₱13,494	**₱8,857**	₱9,283
NOLCO	**1,111**	346	**119**	291
MCIT	**7**	30	**7**	3
Others	**96**	204	**–**	–

The Group believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

There are no income tax consequences attaching to the payment of dividends by the Group to the shareholders of the Group.

Details of the excess MCIT credits follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2011	₱129	₱129	₱–	2014	₱108	₱108	₱–	2014
2012	13	13	–	2015	–	–	–	
2013	269	266	3	2016	247	244	3	2016
2014	4	–	4	2017	4	–	4	2017
	₱415	₱408	₱7		₱359	₱352	₱7	

Details of the NOLCO follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used	Balance	Expiry Year
2011	₱70	₱70	₱–	2014	₱–	₱–	₱–	
2012	461	172	289	2015	291	172	119	2015
2013	3,875	3,510	365	2016	3,510	3,510	–	2016
2014	457	–	457	2017	–	–	–	
	₱4,863	₱3,752	₱1,111		₱3,801	₱3,682	₱119	

A reconciliation of the statutory income tax rates and the effective income tax rates follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effect of:						
Tax-paid and tax-exempt income	**(15.90)**	(27.66)	(23.22)	**(11.92)**	(30.37)	(22.25)
Non-deductible interest expense	**6.73**	7.83	10.23	**3.82**	2.75	3.66
Non-recognition of deferred tax asset	**(0.99)**	6.77	3.45	**(1.57)**	7.98	2.13
FCDU income	**(0.91)**	(0.74)	(1.81)	**(1.46)**	(1.08)	(2.34)
Others - net	**2.92**	5.64	(0.94)	**0.84**	8.63	2.44
Effective income tax rate	**21.85%**	21.84%	17.71%	**19.71%**	17.91%	13.64%

29. Trust Operations

Properties held by the Parent Company and certain subsidiaries in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not resources of the Parent Company and its subsidiaries (Note 30).

In compliance with current banking regulations relative to the Parent Company and certain subsidiaries' trust functions, government securities with the following total face values are deposited with the BSP.

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
HFT investments	**₱19**	₱7	**₱–**	₱–
AFS investments	**4,599**	5,170	**4,559**	5,130
HTM investments	**67,659**	–	**67,659**	–
	₱72,277	₱5,177	**₱72,218**	₱5,130

30. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Trust Banking Group accounts (Note 29)	**₱336,860**	₱324,839	**₱333,215**	₱323,174
Commitments				
Credit card lines	**85,553**	69,595	**–**	–
Undrawn - facilities to lend	**19,001**	1,835	**19,001**	1,835
Unused commercial letters of credit	**37,980**	32,641	**36,971**	31,254
Bank guaranty with indemnity agreement	**7,669**	6,777	**7,669**	6,777
Credit line certificate with bank commission	**4,082**	5,206	**4,082**	5,206
Late deposits/payments received	**1,535**	2,082	**1,464**	2,018
Inward bills for collection	**985**	903	**977**	885
Outstanding shipside bonds/airway bills	**776**	936	**776**	936
Outward bills for collection	**612**	443	**612**	443
Confirmed export letters of credits	**335**	72	**69**	70
Outstanding guarantees	**57**	78	**57**	78
Others	**9,659**	12,360	**460**	340
	₱505,104	₱457,767	**₱405,353**	₱373,016

On October 17, 2011, a consortium of eight banks including the Parent Company filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the ROP, Bureau of Internal Revenue (BIR) and its Commissioner, the Department of Finance and its Secretary and the Bureau of Treasury (BTr) and the National Treasurer, asking the Court to annul BIR Ruling No. 370-2011 which imposes a 20-percent final withholding tax on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe Bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20-percent final withholding tax be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. However, to date, the respondents have not complied with the said TRO, i.e., they have not credited the banks' escrow accounts with the amount corresponding to the questioned 20-percent final tax. The case is still pending resolution with the SC.

Several suits and claims relating to the Group's lending operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities and are classified as entities with significant influence, subsidiaries, associates, other related parties and key personnel (Notes 2 and 11).

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectibility and did not present other unfavorable conditions.

The Parent Company has a Related Party Transactions Committee (RPTC) which is created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTC discloses all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD. Currently, RPTC composed of four (4) independent directors (including the Committee's Chairman); the head of Internal Audit Group; and the Compliance Officer (as the Committee Secretary) and meets monthly or as the need arises. RPTC's review of the proposed related party transactions considers the following: (a) identity of the parties involved in the transaction or relationship; (b) terms of the transaction or relationship and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances; (c) business purpose, timing, rationale and benefits of the transaction or relationship; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; and (j) extent that such transaction or relationship would present an improper conflict of interest. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, except in order to provide material information on the related party transaction to RPTC.

Major subsidiaries, which include FMIC, PSBank, MCC and MBCL, have their own respective RPTCs which assist their respective BODs in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that their corporate or business resources are not misappropriated or misapplied.

In the ordinary course of business, the Group has loan transactions with investees and with certain DOSRI based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Parent Company, PSBank, FMIC and ORIX Metro.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Total outstanding DOSRI accounts	**₱5,636**	₱6,438	**₱4,876**	₱5,628
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%	**0.00%**	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.74%**	1.05%	**0.83%**	1.24%
Percent of DOSRI accounts to total loans	**0.74%**	1.05%	**0.83%**	1.24%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**20.54%**	12.55%	**18.41%**	8.44%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	1.31%	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	1.31%	**0.00%**	0.00%

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2014 and 2013, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, and the unsecured portion did not exceed 5.00% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 3.73% and 2.89%, respectively, of the Parent Company's net worth.

Further, BSP issued Circular No. 654 allows a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2014 and 2013, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.50% of such net worth.

Total interest income on the DOSRI loans in 2014, 2013 and 2012 amounted to ₱117.0 million, ₱275.5 million and ₱629.0 million, respectively, for the Group and ₱56.5 million, ₱184.0 million and ₱469.1 million, respectively, for the Parent Company.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

	Consolidated	
	December 31, 2014	
Category	**Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	**₱402**	Secured - ₱280.0 million and unsecured - ₱122.4 million, no impairment Short-term lending with interest rate of 3.25% subject to regular repricing with maturity terms from 31 days to 91 days (Note 9)
Deposit liabilities*	**349**	With annual fixed rates ranging from 0.00% to 1.00% including time deposits with maturity terms from 14 days to 29 days (Note 16)
Amount/Volume:		
Receivables from customers	**(303)**	Generally similar to terms and conditions above
Deposit liabilities	**118**	Generally similar to terms and conditions above
Interest income	**10**	Interest income on receivables from customers
Foreign exchange gain - net	**0**	Net gain from foreign exchange transactions
Trading and securities gain - net	**218**	Gain on sale of FMIC's 19.25% ownership in TMBC and 9.00% ownership in TCI
Provision for credit and impairment losses	**(7)**	Reversal of related allowance for credit and impairment losses on TCI shares sold
Gain on sale of investment in associates	**1,225**	Gain on sale of FMIC's 33.33% ownership in CPAIC and Parent Company's 15.00% and PSBank's 25.00% ownership in TFSPC (Note 11)
Interest expense	**1**	Interest expense on deposit liabilities
Securities transactions		
Sales	**55**	Outright sale of FMIC's AFS investments in TMBC and TCI
Foreign currency		
Sell	**2**	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱1,763**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.40% to 1.56% with maturity terms from 30 days to 390 days, no impairment
Receivables from customers*	**2,847**	Unsecured with no impairment With annual fixed rates ranging from 3.00% to 5.59% and maturity terms from 8 days to 5 years (Note 9)
Accounts receivable	**286**	Outstanding information technology fees and remittance receivable, non-interest bearing

(Forward)

	Consolidated	
	December 31, 2014	
Category	**Amount**	**Terms and Conditions/Nature**
Deposit liabilities*	**₱5,332**	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 7 days to 270 days (Note 16)
Bills payable*	**2,792**	Peso and foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 11 days to 360 days (Note 17)
Bonds payable*	**510**	Issued by FMIC with interest rates ranging from 5.50% to 5.75% with maturity terms from 2 years to 5 years
Treasury stock	**30**	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Amount/Volume:		
Interbank loans receivable	**(119)**	Generally similar to terms and conditions above
Receivables from customers	**1,786**	Generally similar to terms and conditions above
Deposit liabilities	**1,426**	Generally similar to terms and conditions above
Bills payable	**2,157**	Generally similar to terms and conditions above
Bonds payable	**201**	Generally similar to terms and conditions above
Interest income	**88**	Income on receivables from customers (Note 9) and interbank loans receivables
Service charges, fees and commissions	**82**	Income from transactional fees
Trading and securities gain - net	**4**	Income from securities transactions
Foreign exchange gain - net	**144**	Net gain from foreign exchange transactions
Leasing income	**65**	Income from leasing agreements with various lease terms
Dividend income	**3,118**	Dividend income from PSBank, FMIC and MCC (Note 11)
Miscellaneous income	**326**	Information technology fees and over-the-counter charges on cardholder payments
Interest expense	**71**	Interest expense on deposit liabilities, bills payable and bonds payable
Miscellaneous expense	**59**	Merchant discount
Securities transactions		
Purchases	**48,747**	Outright purchases of HFT securities and AFS investments
Sales	**39,366**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**26,884**	Outright purchases of foreign currency
Sell	**15,217**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Deposit liabilities*	**₱1,714**	With annual fixed interest rates ranging from 0.00% to 2.50% including time deposits with maturity terms from 7 days to 182 days (Note 16)
Bills payable*	**1**	Peso-denominated borrowings subject to annual fixed interest rate of 0.63% with maturity term of 91 days (Note 17)
Amount/Volume:		
Receivables from customers	**(129)**	Non-interest bearing domestic bills purchased (Note 9)
Deposit liabilities	**(793)**	Generally similar to terms and conditions above (Note 16)
Bills payable	**1**	Generally similar to terms and conditions above (Note 17)
Bonds payable	**(10)**	Issued by FMIC subject to annual fixed interest rate of 5.68% and maturity term of 5 years
Foreign exchange gain - net	**10**	Net gain from foreign exchange transactions
Leasing income	**17**	Income from leasing agreements with various lease terms
Dividend income	**23**	Dividend income from NLI and SMBC Metro (Note 11)
Interest expense	**4**	Interest expense on deposit liabilities and bills payable
Securities transactions		
Outright purchases	**1,600**	Outright purchases of HFT securities and AFS investments
Outright sales	**721**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**368**	Outright purchases of foreign currency
Sell	**390**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱12,018**	Secured - ₱11.3 billion and unsecured - ₱754.2 million, no impairment With annual fixed rates ranging from 3.25% to 10.37% and maturity terms from 180 days to 12 years (Note 9)

(Forward)

Category	Consolidated December 31, 2014 Amount	Terms and Conditions/Nature
Assets held under joint operations	**₱544**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	**3,322**	Payments to FLI on the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City (Note 14)
Deposit liabilities*	**23,220**	With annual fixed rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 days to 365 days (Note 16)
Bills payable*	**3,493**	Peso-denominated borrowings subject to annual fixed interest rates ranging from 0.01% to 5.54% with maturity terms from 15 days to 5 years (Note 17)
Amount/Volume:		
Receivables from customers	**(2,116)**	Generally similar to terms and conditions above
Deposit liabilities	**8,046**	Generally similar to terms and conditions above
Bills payable	**(3,521)**	Generally similar to terms and conditions above
Interest income	**923**	Interest income on receivables from customers (Note 9)
Foreign exchange loss - net	**(31)**	Net loss from foreign exchange transactions
Leasing income	**17**	Income from leasing agreements with various lease terms
Profit from assets sold	**8,328**	Gain on sale of the Parent Company's bank-owned and investment properties to FLI (Notes 10 and 12)
Interest expense	**132**	Interest expense on deposit liabilities (Note 16) and bills payable (Note 17)
Contingent		
Unused commercial LCs	**3**	LC transactions with various terms
Others	**1**	Include outstanding shipside bonds/airway bills and outstanding guarantees
Securities transactions		
Outright purchases	**311**	Outright purchases of HFT securities and AFS investments
Outright sales	**239**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**1,569**	Outright purchases of foreign currency
Sell	**54,216**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers*	**₱90**	Secured - ₱65.6 million and unsecured - ₱24.7 million, no impairment, with annual fixed rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities*	**108**	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	**23**	Generally similar to terms and conditions above
Deposit liabilities	**(35)**	Generally similar to terms and conditions above
Interest income	**6**	Interest income on receivables from customers

Category	Consolidated December 31, 2013 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	₱705	Secured - ₱580.0 million and unsecured - ₱125.0 million, no impairment Short-term lending with interest rates ranging from 2.60% to 3.70% subject to regular repricing with maturity terms from 33 days to 98 days (Note 9)
Deposit liabilities*	231	With annual fixed rates ranging from 0.00% to 0.50% (Note 16)
Amount/Volume:		
Receivables from customers	(2,548)	Generally similar to terms and conditions above
Deposit liabilities	173	Generally similar to terms and conditions above
Interest income	5	Interest income on receivables from customers
Gain on sale of non-current asset held for sale	3,440	Gain on sale of 15.00% ownership in TMPC (Note 11)
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱1,882	Foreign currency-denominated lending with annual fixed interest rates ranging from 1.13% to 1.62% and maturity terms from 7 days to 372 days, no impairment

(Forward)

Category	Consolidated December 31, 2013 Amount	Terms and Conditions/Nature
Receivables from customers*	₱1,061	Unsecured with no impairment With annual fixed rates ranging from 3.70% to 5.59% and maturity terms from 7 days to 5 years (Note 9)
Accounts receivable	322	Outstanding information technology fees and remittance receivable, non-interest bearing
Deposit liabilities*	3,906	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 1 day to 360 days (Note 16)
Bills payable	635	Short-term foreign currency-denominated borrowings subject to annual fixed interest rate of 0.19% and maturity term of 34 days (Note 17)
Bonds payable	309	Issued by FMIC with interest rates ranging from 5.50% to 5.75% and maturity terms from 5 years to 7 years
Accounts payable	94	Unpaid various transactional charges, non-interest bearing
Amount/Volume:		
Interbank loans receivable	(6,933)	Generally similar to terms and conditions above
Receivables from customers	(293)	Generally similar to terms and conditions above
Bills payable	34	Generally similar to terms and conditions above
Deposit liabilities	(208)	Generally similar to terms and conditions above
Interest income	130	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	14	Income on transactional fees
Trading and securities gain - net	4,635	Income from securities transactions
Foreign exchange gain - net	190	Net gain from foreign exchange transactions
Leasing income	35	Income from leasing agreements with various lease terms
Dividend income	9,971	Dividend income from PSBank, MCC, FMIC and MRSPL (Note 11)
Miscellaneous income	301	Information technology fees
Interest expense	46	Interest expense on deposit liabilities and bills payable
Securities transactions		
Purchases	293,797	Outright purchases of HFT securities and AFS investments
Sales	172,597	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	50,198	Outright purchases of foreign currency
Sell	42,666	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivables from customers	₱129	Non-interest bearing domestic bills purchased (Note 9)
Deposit liabilities*	2,507	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 1 day to 358 days (Note 16)
Bonds payable	10	Issued by FMIC subject to annual fixed interest rate of 5.68% and maturity term of 5 years
Amount/Volume:		
Receivables from customers	64	Generally similar to terms and conditions above
Deposit liabilities	(58)	Generally similar to terms and conditions above
Trading and securities gain - net	396	Net gain from securities transactions
Foreign exchange gain - net	3	Net gain from foreign exchange transactions
Leasing income	20	Income from leasing agreements with various lease terms
Dividend income	29	Dividend income from NLI and SMBC Metro (Note 11)
Interest expense	18	Interest expense on deposit liabilities
Outstanding derivatives	118	Forward exchange bought with various terms
Securities transactions		
Outright purchases	590	Outright purchases of HFT securities and AFS investments
Outright sales	802	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	154	Outright purchases of foreign currency
Sell	293	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱14,134	Secured - ₱13.5 billion and unsecured - ₱588.0 million, no impairment With annual fixed rates ranging from 1.50% to 10.37% and maturity terms from 7 days to 12 years (Note 9)
Assets held under joint operations	1,361	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	1,069	Payment to FLI relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City (Note 14)

(Forward)

Category	Consolidated December 31, 2013 Amount	Terms and Conditions/Nature
Deposit liabilities*	₱15,174	With annual fixed rates ranging from 0.00% to 2.00% including time deposits with maturity terms from 6 days to 360 days (Note 16)
Bills payable	7,014	Foreign currency-denominated borrowings with annual fixed interest rates ranging from 0.26% to 2.00% and maturity terms from 40 days to 49 days and peso-denominated borrowings with annual fixed interest rates ranging from 0.01% to 1.75% and maturity terms from 15 days to 5 years (Note 17)
Amount/Volume:		
Receivables from customers	(4,187)	Generally similar to terms and conditions above
Bills payable	4,093	Generally similar to terms and conditions above
Deposit liabilities	11,852	Generally similar to terms and conditions above
Interest income	1,035	Interest income on receivables from customers
Foreign exchange loss - net	(60)	Net loss from foreign exchange transactions
Leasing income	14	Income from leasing agreements with various lease terms
Profit from assets sold	217	Net gain from sale of investment properties
Gain on sale of investment in an associate	7,388	Gain on sale of FMIC's 40.00% ownership in GBPC (Note 8)
Interest expense	127	Interest expense on deposit liabilities and bills payable
Contingent		
Unused commercial LCs	33	LC transactions with various terms
Others	6	Include outstanding shipside bonds/airway bills and outstanding guarantees
Foreign currency		
Buy	1,267	Outright purchases of foreign currency
Sell	42,472	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱67	Secured - ₱54.0 million and unsecured - ₱13.0 million, no impairment, with annual fixed rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities	143	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	(17)	Generally similar to terms and conditions above
Deposit liabilities	32	Generally similar to terms and conditions above
Interest income	1	Interest income on receivables from customers
Profit from assets sold	7	Net gain from sale of investment property

Category	**Parent Company December 31, 2014 Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	**₱402**	Secured - ₱280.0 million and unsecured - ₱122.4 million, no impairment Short-term lending with interest rate of 3.25% subject to regular repricing with maturity terms from 31 days to 91 days (Note 9)
Deposit liabilities	**349**	With annual fixed rates ranging from 0.00% to 1.00% including time deposits with maturity terms from 14 days to 29 days (Note 16)
Amount/Volume:		
Receivables from customers	**(303)**	Generally similar to terms and conditions above
Deposit liabilities	**118**	Generally similar to terms and conditions above
Interest income	**10**	Income on receivables from customers
Foreign exchange gain - net	**0**	Net gain from foreign exchange transactions
Gain on sale of investment in associate	**638**	Gain on sale of 15.00% ownership in TFSPC (Note 11)
Interest expense	**1**	Interest expense on deposit liabilities
Foreign currency		
Sell	**2**	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱1,763**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.40% to 1.56% with maturity terms from 30 days to 390 days, no impairment
Receivables from customers*	**2,847**	Unsecured with no impairment With annual fixed rates ranging from 3.00% to 5.59% and maturity terms from 8 days to 5 years (Note 9)

(Forward)

	Parent Company	
	December 31, 2014	
Category	**Amount**	**Terms and Conditions/Nature**
Accounts receivable	**₱284**	Outstanding information technology fees and remittance receivable, non-interest bearing
Deposit liabilities	**5,243**	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 7 days to 270 days (Note 16)
Bills payable*	**2,441**	Peso and foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 11 days to 360 days (Note 17)
Amount/Volume:		
Interbank loans receivable	**(119)**	Generally similar to terms and conditions above
Receivables from customers	**1,786**	Generally similar to terms and conditions above
Deposit liabilities	**1,440**	Generally similar to terms and conditions above
Bills payable	**1,806**	Generally similar to terms and conditions above
Interest income	**83**	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**23**	Income from transactional fees
Trading and securities loss - net	**(10)**	Net loss from securities transactions
Foreign exchange gain - net	**144**	Net gain from foreign exchange transactions
Leasing income	**30**	Income from leasing agreements with various lease terms
Dividend income	**3,118**	Dividend income from PSBank, FMIC and MCC (Note 11)
Miscellaneous income	**326**	Information technology fees and over-the-counter charges for cardholder payments
Interest expense	**44**	Interest expense on deposit liabilities, bills payable and interbank loans payable
Securities transactions		
Purchases	**37,093**	Outright purchases of HFT securities and AFS investments
Sales	**28,545**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**26,884**	Outright purchases of foreign currency
Sell	**15,217**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Deposit liabilities*	**₱1,634**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 7 days to 182 days (Note 16)
Amount/Volume:		
Receivables from customers	**(129)**	Non-interest bearing domestic bills purchased (Note 9)
Deposit liabilities	**(617)**	Generally similar to terms and conditions above
Foreign exchange gain - net	**9**	Net gain from foreign exchange transactions
Leasing income	**7**	Income from leasing agreements with various lease terms
Dividend income	**23**	Dividend income from NLI and SMBC Metro (Note 11)
Interest expense	**2**	Interest expense on deposit liabilities
Securities transactions		
Outright purchases	**1,600**	Outright purchases of HFT securities and AFS investments
Outright sales	**721**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**268**	Outright purchases of foreign currency
Sell	**390**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱11,187**	Secured - ₱10.5 billion and unsecured - ₱682.7 million, no impairment With annual fixed rates ranging from 3.25% to 10.37% and maturity terms from 180 days to 12 years (Note 9)
Assets held under joint operations	**544**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	**3,322**	Payments to FLI relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City (Note 14)
Deposit liabilities*	**17,447**	With annual fixed rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 days to 365 days (Note 16)
Amount/Volume:		
Receivables from customers	**(1,831)**	Generally similar to terms and conditions above
Deposit liabilities	**5,764**	Generally similar to terms and conditions above
Interest income	**836**	Interest income on receivables from customers
Foreign exchange loss - net	**(31)**	Net loss from foreign exchange transactions

(Forward)

	Parent Company	
	December 31, 2014	
Category	**Amount**	**Terms and Conditions/Nature**
Leasing income	**₱17**	Income from leasing agreements with various lease terms
Profit from assets sold	**8,328**	Gain on sale of Parent Company's bank-owned and investment properties to FLI (Notes 10 and 12)
Interest expense	**5**	Interest expense on deposit liabilities
Contingent		
Unused commercial LCs	**3**	LC transactions with various terms
Others	**1**	Include outstanding shipside bonds/airway bills and outstanding guarantees
Foreign currency		
Buy	**1,569**	Outright purchases of foreign currency
Sell	**54,216**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers*	**₱62**	Secured - ₱49.2 million and unsecured - ₱13.0 million, no impairment, with annual fixed rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities*	**108**	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	**(5)**	Generally similar to terms and conditions above
Deposit liabilities	**(35)**	Generally similar to terms and conditions above
Interest income	**4**	Interest income on receivables from customers

	Parent Company	
	December 31, 2013	
Category	Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	₱705	Secured - ₱580.0 million and unsecured - ₱125.0 million, no impairment Short-term lending with interest rates ranging from 2.60% to 3.70% subject to regular repricing with maturity terms from 33 days to 98 days (Note 9)
Deposit liabilities	231	With annual fixed rates ranging from 0.00% to 0.50% (Note 16)
Amount/Volume:		
Receivables from customers	(2,548)	Generally similar to terms and conditions above
Gain on sale of non-current asset held for sale	4,201	Gain on sale of 15.00% ownership in TMPC (Note 11)
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱1,882	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.13% to 1.62% with maturity terms from 7 days to 372 days, no impairment
Receivables from customers*	1,061	Unsecured with no impairment With annual fixed rates ranging from 3.70% to 5.59% and maturity terms from 7 days to 5 years (Note 9)
Accounts receivable	321	Outstanding information technology fees and remittance receivable, non-interest bearing
Deposit liabilities*	3,803	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 1 day to 360 days (Note 16)
Bills payable	635	Short-term foreign currency-denominated borrowings subject to annual fixed interest rate of 0.19% and maturity term of 34 days (Note 17)
Accounts payable	94	Unpaid various transactional charges, non-interest bearing
Amount/Volume:		
Interbank loans receivable	(6,433)	Generally similar to terms and conditions above
Receivables from customers	(243)	Generally similar to terms and conditions above
Bills payable	49	Generally similar to terms and conditions above
Deposit liabilities	426	Generally similar to terms and conditions above
Interest income	127	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	14	Income on transactional fees
Trading and securities gain - net	1,133	Income from securities transactions

(Forward)

Category	Parent Company December 31, 2013 Amount	Terms and Conditions/Nature
Foreign exchange gain - net	₱190	Net gain from foreign exchange transactions
Leasing income	29	Income from leasing agreements with various lease terms
Dividend income	9,972	Dividend income from PSBank, MCC, FMIC and MRSPL (Note 11)
Miscellaneous income	301	Information technology fees
Interest expense	24	Interest expense on deposit liabilities and bills payable
Securities transactions		
Purchases	212,602	Outright purchases of HFT securities and AFS investments
Sales	86,283	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	50,198	Outright purchases of foreign currency
Sell	42,666	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivables from customers	₱129	Non-interest bearing domestic bills purchased (Note 9)
Deposit liabilities*	2,251	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 1 day to 358 days (Note 16)
Amount/Volume:		
Receivables from customers	64	Generally similar to terms and conditions above
Deposit liabilities	400	Generally similar to terms and conditions above
Trading and securities loss - net	(15)	Net loss from securities transactions
Foreign exchange gain - net	3	Net gain from foreign exchange transactions
Leasing income	11	Income from leasing agreements with various lease terms
Dividend income	29	Dividend income from NLI and SMBC Metro (Note 11)
Outstanding derivatives	118	Forward exchange bought with various terms
Securities transactions		
Outright purchases	84	Outright purchases of HFT securities and AFS investments
Outright sales	79	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	154	Outright purchases of foreign currency
Sell	293	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱13,018	Secured - ₱12.5 billion and unsecured - ₱509.0 million, no impairment With annual fixed rates ranging from 2.50% to 10.37% and maturity terms from 7 days to 12 years (Note 9)
Assets held under joint operations	1,361	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	1,068	Payment to FLI relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City (Note 14)
Deposit liabilities*	11,683	With annual fixed rates ranging from 0.00% to 2.00% including time deposits with maturity terms from 6 days to 360 days (Note 16)
Amount/Volume:		
Receivables from customers	(1,812)	Generally similar to terms and conditions above
Deposit liabilities	8,853	Generally similar to terms and conditions above
Interest income	930	Interest income on receivables from customers
Foreign exchange loss - net	(59)	Net loss from foreign exchange transactions
Leasing income	12	Income from leasing agreements with various lease terms
Profit from assets sold	217	Net gain from sale of investment properties
Interest expense	1	Interest expense on deposit liabilities
Contingent		
Unused commercial LCs	33	LC transactions with various terms
Others	6	Include outstanding shipside bonds/ airway bills and outstanding guarantees
Foreign currency		
Buy	1,267	Outright purchases of foreign currency
Sell	42,472	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱67	Secured - ₱54.0 million and unsecured - ₱13.0 million, no impairment, with annual fixed rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)

(Forward)

	Parent Company	
	December 31, 2013	
Category	Amount	Terms and Conditions/Nature
Deposit liabilities	₱143	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	(1)	Generally similar to terms and conditions above
Deposit liabilities	32	Generally similar to terms and conditions above
Interest income	1	Interest income on receivables from customers
Profit from assets sold	7	Net gain from sale of investment properties

*including accrued interest

As of December 31, 2014 and 2013, government bonds (classified under AFS investments) with total face value of ₱50.0 million are pledged by PSBank to the Parent Company to secure its payroll account with the Parent Company. Also, the Parent Company has assigned to PSBank government securities (classified under AFS investments) with total face value of ₱3.0 billion to secure PSBank deposits to the Parent Company.

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group and the Parent Company. Together with the sale of investment properties, borrowings, contingent accounts including derivative transactions, outright purchases and sales of HFT securities and AFS investments, foreign currency buy and sell, leasing of office premises, securing of insurance coverage on loans and property risk, and other management services rendered, these are conducted in the normal course of business and at arm's-length transactions. The amounts and related volumes and changes are presented in the summary above. Terms of receivables from customers, deposit liabilities and borrowings are disclosed in Notes 9, 16 and 17, respectively, while other related party transactions above have been referred to their respective note disclosures.

The compensation of the key management personnel of the Group and the Parent Company follows:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Short-term employee benefits	**₱2,091**	₱1,866	₱1,546	**₱1,418**	₱1,282	₱1,040
Post-employment benefits	**125**	142	91	**69**	68	61
	₱2,216	₱2,008	₱1,637	**₱1,487**	₱1,350	₱1,101

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Certain trustees of the plans are either officers or directors of the Parent Company and/or the subsidiaries. Income earned by the Parent Company from such services amounted to ₱41.6 million, ₱40.4 million and ₱32.2 million in 2014, 2013 and 2012, respectively. As of December 31, 2014 and 2013, the Parent Company sold securities totaling ₱872.8 million and ₱2.8 billion, respectively, to its related party retirement plans and recognized net trading gain of ₱0.1 million and ₱3.7 million, respectively. The Parent Company also purchased securities totaling ₱396.9 million and ₱1.3 billion as of December 31, 2014 and 2013, respectively. Further, as of December 31, 2014 and 2013, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱137.2 million and ₱56.3 million, respectively. Interest expense on deposit liabilities amounted to ₱0.8 million, ₱2.5 million and ₱9.8 million in 2014, 2013 and 2012, respectively.

As of December 31, 2014 and 2013, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱819.8 million and ₱874.7 million, respectively, with unrealized trading gains of ₱309.9 million and ₱445.5 million, respectively. As of December 31, 2014 and 2013, the related party retirement plans also hold investments in mutual funds and trust funds of various companies within the Group amounting to ₱142.5 million and ₱28.2 million, respectively, with unrealized trading gains of ₱6.5 million and ₱4.7 million, respectively. As of December 31, 2014 and 2013, dividend income recognized from these securities amounted to ₱10.5 million and ₱33.4 million, respectively, and realized trading gains amounting to ₱16.2 million and ₱54.2 million, respectively.

32. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

	2014	2013	2012
a. Net income attributable to equity holders of the Parent Company	**₱20,113**	₱22,488	₱15,399
b. Share of hybrid capital securities holders	**(499)**	(475)	(476)
c. Net income attributable to common shareholders	**19,614**	22,013	14,923
d. Weighted average number of outstanding common shares of the Parent Company, including effect of stock dividend issued in 2013 (Note 23)	**2,742**	2,745	2,745
e. Basic/diluted earnings per share (c/d)	**₱7.15**	₱8.02	₱5.44

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Return on average equity	**14.11%**	17.80%	13.64%	**15.51%**	16.38%	11.92%
Return on average assets	**1.35%**	1.85%	1.53%	**1.48%**	1.77%	1.46%
Net interest margin on average earning assets	**3.73%**	3.90%	3.62%	**2.99%**	3.17%	2.92%

33. Foreign Exchange

PDS closing rates as of December 31 and PDSWAR for the year ended December 31 are as follows:

	2014	2013	2012
PDS Closing	**₱44.72**	₱44.40	₱41.05
PDSWAR	**44.39**	42.43	42.24

34. Other Matters

The Group has no significant matters to report in 2014 on the following:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.
b. Explanatory comments about the seasonality or cyclicality of operations.
c. Issuances, repurchases and repayments of debt and equity securities except for the exercise of the call option on the 2019 Peso Notes by the Parent Company and the issuances of the 2024

and 2025 Peso Notes by the Parent Company and the 2024 Peso Notes by PSBank as discussed in Note 20.

d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the sale of ROPA to FLI (Note 12), issuances of LTNCD (Note 16) and the payments of cash dividend and semi-annual coupons on the HT1 Capital as discussed in Note 23.
e. Effect of changes in the composition of the Group, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except for the sale of certain investee companies as discussed in Note 11.

35. Subsequent Events

a. On January 21, 2015, the Parent Company's BOD approved the Stock Rights Offer which is expected to increase its CET1 by up to ₱32.0 billion. This shall be subject to receipt of regulatory approvals as well as market and other conditions.

b. On January 22, 2015, the BOD of PSBank declared a 7.50% regular cash dividend for the fourth quarter of 2014 amounting to ₱180.2 million equivalent to ₱0.75 per share, payable to all stockholders as of a record date to be fixed by the President after approval by the BSP.

c. On January 23, 2015, SMBC Metro paid 10.00% cash dividends amounting to ₱60.0 million to its stockholders of record as of December 4, 2014 which was approved by its BOD on same date (Note 11).

d. On January 27, 2015, the BOD of the Parent Company declared a 5.00% cash dividend amounting to ₱2.7 billion, equivalent to ₱1.00 per share, payable to all stockholders as of a record date to be fixed upon the approval by the BSP.

e. On January 30, 2015, PSBank paid 7.50% regular cash dividend amounting to ₱180.2 million equivalent to ₱0.75 per share, payable to all stockholders of record as of January 12, 2015, as approved by its BOD and the BSP on October 30, 2014 and November 27, 2014, respectively (Note 11).

f. On February 9, 2015, the BSP approved the semi-annual coupon payment on HT1 Capital amounting to USD5.6 million which the Parent Company paid on February 17, 2015.

36. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on February 25, 2015.

37. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010**

Supplementary Information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on January 24, 2014, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2013. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2014, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues

Services/operations	₱19,195
Non-operating and taxable other income:	
Profit from assets sold	₱9,815
Service charges, fees and commissions	3,265
Income from trust operations	1,139
Trading and securities loss	(325)
Others	586
	₱14,480

Expenses

Cost of services:	
Compensation and fringe benefits	₱4,479
Others	4,705
	₱9,184
Itemized deductions:	
Compensation and fringe benefits	₱5,829
Taxes and licenses	3,916
Security, messengerial and janitorial	1,506
Rent	843
Depreciation	758
Communication, light and water	486
Information technology	411
Transportation and travel	284
Bad debts	281
Management and professional fees	268
EAR	262
Repairs and maintenance	245
Others	6,729
	₱21,818

Supplementary Information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2014 included under 'Taxes and licenses' account in the statement of income:

GRT	₱2,214
DST	1,915
Local taxes	111
Real estate tax	79
Capital gains tax	64
Others	30
	₱4,413

Details of total withholding taxes remitted for the taxable year December 31, 2014 follow:

Taxes withheld on compensation	₱2,031
Final withholding taxes	1,574
Expanded withholding taxes	195
	₱3,800