Philippine Bank of Communications and Subsidiaries

Financial Statements
December 31, 2014 and 2013
And Years Ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

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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
Philippine Bank of Communications

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Philippine Bank of Communications and subsidiaries (the Group) and the parent company financial statements of Philippine Bank of Communications (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

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

Auditors' Responsibility

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

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

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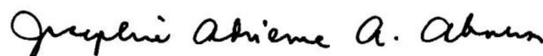
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2014 and 2013, and their financial performance and their 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 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 38 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of 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.



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PTR No. 4751251, January 5, 2015, Makati City

March 25, 2015

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31			
	2014	2013	**2014**	2013
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	**₱1,181,592**	₱740,012	**₱1,153,418**	₱740,012
Due from Bangko Sentral ng Pilipinas (Notes 20 and 21)	**12,522,613**	9,573,407	**12,463,067**	9,573,407
Due from Other Banks	**1,636,641**	661,308	**1,375,645**	661,308
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 9)	**832,604**	202,550	**832,604**	202,550
Financial Assets at Fair Value through Profit or Loss (Note 10)	**684,219**	104,909	**684,219**	104,909
Equity Securities at Fair Value through Other Comprehensive Income (Note 11)	**42,975**	–	**42,975**	–
Available-for-Sale Investments (Note 12)	–	20,090,082	–	20,090,082
Investment Securities at Amortized Cost (Note 13)	**13,270,864**	–	**13,256,310**	–
Loans and Receivables (Note 14)	**33,545,766**	24,997,424	**32,306,710**	24,997,424
Investments in Subsidiaries and an Associate (Note 8)	**11,645**	11,284	**854,841**	2,000
Property and Equipment (Note 15)				
At cost	**1,401,991**	1,329,540	**1,320,698**	1,329,540
At appraised value	**489,039**	417,029	**441,307**	417,029
Investment Properties (Note 16)				
Condominium units for lease	**3,959,178**	3,341,665	**3,959,178**	3,341,665
Foreclosed properties	**780,036**	482,554	**566,058**	482,554
Goodwill (Note 7)	**162,547**	–	–	–
Intangible Assets (Note 17)	**823,392**	333,533	**554,742**	333,533
Other Assets (Note 18)	**589,624**	313,358	**579,546**	313,358
TOTAL ASSETS	**₱71,934,726**	₱62,598,655	**₱70,391,318**	₱62,589,371
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 20 and 33)				
Demand	**₱9,221,026**	₱7,183,260	**₱9,450,291**	₱7,183,260
Savings	**4,228,369**	3,089,981	**3,487,510**	3,089,981
Time	**45,661,826**	37,007,256	**44,818,420**	37,007,256
	59,111,221	47,280,497	**57,756,221**	47,280,497
Bills Payable (Note 21)	**3,425,427**	9,458,241	**3,421,652**	9,458,241
Outstanding Acceptances	**25,620**	43,188	**25,620**	43,188
Manager's Checks	**211,130**	173,501	**211,130**	173,501
Accrued Interest, Taxes and Other Expenses (Note 22)	**531,803**	507,545	**521,673**	507,545
Income Tax Payable	**25,258**	–	**8,770**	–
Deferred Tax Liabilities (Note 32)	**746,556**	524,116	**621,893**	524,116
Other Liabilities (Note 23)	**636,272**	537,952	**600,824**	537,952
TOTAL LIABILITIES	**64,713,287**	58,525,040	**63,167,783**	58,525,040

(Forward)

	Consolidated		Parent Company	
	December 31			
	2014	2013	**2014**	2013
	(Amounts in Thousands)			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common stock (Note 25)	**₱7,489,114**	₱7,489,114	**₱7,489,114**	₱7,489,114
Subscribed common stock - net (Note 25)	**1,792,698**	–	**1,792,698**	–
Additional paid-in capital (Note 25)	**813,601**	813,601	**813,601**	813,601
Surplus reserves (Note 25)	**105,772**	105,772	**105,772**	105,772
Deficit (Note 25)	**(2,947,623)**	(3,076,034)	**(2,951,928)**	(3,085,318)
Net unrealized loss on available-for-sale investments (Note 12)	–	(1,219,413)	–	(1,219,413)
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 11)	**24,354**	–	**24,354**	–
Revaluation increment on land and condominium properties (Notes 15 and 16)	**247,743**	209,546	**247,743**	209,546
Cumulative translation adjustment	**(27,392)**	(11,611)	**(27,392)**	(11,611)
Remeasurement losses on defined benefit liability (Note 29)	**(271,352)**	(237,360)	**(270,427)**	(237,360)
	7,226,915	4,073,615	**7,223,535**	4,064,331
NON-CONTROLLING INTERESTS	**(5,476)**	–	–	–
TOTAL EQUITY	**7,221,439**	4,073,615	**7,223,535**	4,064,331
TOTAL LIABILITIES AND EQUITY	**₱71,934,726**	₱62,598,655	**₱70,391,318**	₱62,589,371

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands, Except Earnings per Share)					
INTEREST INCOME						
Loans and receivables (Notes 14 and 33)	**₱2,084,877**	₱1,275,529	₱1,100,749	**₱2,036,406**	₱1,275,529	₱1,100,749
Investment securities (Note 28)	**798,169**	1,256,063	1,295,874	**798,154**	1,256,063	1,295,874
Deposits with other banks	**27,368**	27,703	15,223	**27,397**	27,703	15,223
Interbank loans receivable and securities purchased under resale agreements (Note 9)	**21,715**	10,076	44,024	**21,715**	10,076	44,024
Others (Note 23)	**197,642**	774,557	684,016	**197,642**	774,557	684,016
	3,129,771	3,343,928	3,139,886	**3,081,314**	3,343,928	3,139,886
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 20 and 33)	**883,214**	689,479	784,564	**871,840**	689,479	784,564
Bills payable, borrowings and others (Note 21)	**300,315**	936,699	850,316	**299,919**	936,699	850,316
	1,183,529	1,626,178	1,634,880	**1,171,759**	1,626,178	1,634,880
NET INTEREST INCOME	**1,946,242**	1,717,750	1,505,006	**1,909,555**	1,717,750	1,505,006
Service charges, fees and commissions	**326,464**	215,477	153,588	**297,601**	215,477	153,588
Rent income (Notes 30 and 33)	**313,424**	256,294	295,759	**313,350**	256,294	295,759
Fair value gain (loss) from investment properties (Note 16)	**380,407**	248,914	(4,492)	**380,407**	248,914	(4,492)
Trading and securities gain - net (Note 28)	**61,699**	1,540,600	754,080	**61,699**	1,540,600	754,080
Foreign exchange gain (loss) - net	**31,805**	(17,767)	24,299	**31,805**	(17,767)	24,299
Gain (loss) on assets exchange - net (Note 16)	**(21,435)**	23,385	–	**(21,539)**	23,385	–
Income from trust operations (Notes 27 and 29)	**19,055**	22,481	15,386	**19,055**	22,481	15,386
Profit from assets sold (Note 16)	**9,019**	10,703	123,281	**8,865**	10,703	123,281
Miscellaneous	**22,289**	3,795	10,871	**19,631**	2,533	10,373
TOTAL OPERATING INCOME	**3,088,969**	4,021,632	2,877,778	**3,020,429**	4,020,370	2,877,280

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands, Except Earnings per Share)					
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 29 and 33)	**₱1,365,949**	₱1,080,179	₱707,756	**₱1,345,892**	₱1,080,179	₱707,756
Taxes and licenses (Note 32)	**380,124**	456,926	323,633	**375,008**	456,926	323,633
Occupancy and other equipment-related costs (Notes 30 and 33)	**210,472**	130,531	97,034	**207,097**	130,531	97,034
Depreciation and amortization (Note 15)	**198,045**	133,239	77,892	**192,927**	133,239	77,892
Reversal of credit and impairment losses - net (Note 19)	**(194,853)**	(402,675)	(1,265)	**(198,541)**	(402,675)	(1,265)
Insurance	**102,877**	38,594	61,903	**100,913**	38,594	61,903
Security, clerical, messengerial and janitorial services	**96,430**	60,220	53,354	**94,712**	60,220	53,354
Entertainment, amusement and recreation	**81,825**	67,665	22,867	**81,756**	67,665	22,867
Management and professional fees	**80,827**	172,824	105,078	**78,266**	172,824	105,078
Communications	**67,379**	45,268	36,945	**66,612**	45,268	36,945
Miscellaneous (Note 31)	**285,495**	208,931	117,640	**269,929**	208,931	117,640
TOTAL OPERATING EXPENSES	**2,674,570**	1,991,702	1,602,837	**2,614,571**	1,991,702	1,602,837
INCOME BEFORE INCOME TAX	**414,399**	2,029,930	1,274,941	**405,858**	2,028,668	1,274,443
PROVISION FOR INCOME TAX (Note 32)	**302,887**	397,046	290,159	**288,949**	397,046	290,159
NET INCOME	**₱111,512**	₱1,632,884	₱984,782	**₱116,909**	₱1,631,622	₱984,284
Attributable to:						
Equity holders of the Parent Company	**₱111,930**	₱1,632,884	₱984,782			
Non-controlling interests	**(418)**	–	–			
	₱111,512	₱1,632,884	₱984,782			
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 34)	**₱0.37**	₱5.87	₱3.54			
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 34)	**₱0.35**	₱5.87	₱3.54			

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	**₱111,512**	₱1,632,884	₱984,782	**₱116,909**	₱1,631,622	₱984,284
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR						
Items that may be reclassified to profit or loss in subsequent periods:						
Net movement in cumulative translation adjustment	**(15,781)**	(6,725)	17,767	**(15,781)**	(6,725)	17,767
Net unrealized gain (loss) on available-for-sale investments (Note 12)	**–**	(1,892,202)	(1,050,374)	**–**	(1,892,202)	(1,050,374)
	(15,781)	(1,898,927)	(1,032,607)	**(15,781)**	(1,898,927)	(1,032,607)
Items that may not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement losses on defined benefit liability (Note 29)	**(34,001)**	(33,800)	(49,960)	**(33,067)**	(33,800)	(49,960)
Net movement in revaluation increment on land and condominium properties (Notes 15 and 16)	**54,567**	32,367	19,469	**54,567**	32,367	19,469
Income tax effect of revaluation increment on land and condominium properties (Notes 15 and 16)	**(16,370)**	(9,710)	(5,841)	**(16,370)**	(9,710)	(5,841)
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 11)	**197**	–	–	**197**	–	–
	4,393	(11,143)	(36,332)	**5,327**	(11,143)	(36,332)
	(11,388)	(1,910,070)	(1,068,939)	**(10,454)**	(1,910,070)	(1,068,939)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	**₱100,124**	(₱277,186)	(₱84,157)	**₱106,455**	(₱278,448)	(₱84,655)
Attributable to:						
Equity holders of the Parent Company	**₱100,551**	(₱277,186)	(₱84,157)			
Non-controlling interests	**(427)**	–	–			
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱100,124**	(₱277,186)	(₱84,157)			

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

	Consolidated														
	Year Ended December 31, 2014														
	Equity Attributable to Equity Holders of the Parent Company														
	Preferred Stock	Common Stock (Note 25)	Subscribed Common Stock - net (Note 25)	Deposit for Future Subscription	Additional Paid-in Capital	Surplus Reserves (Note 25)	Deficit	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 13)	Unrealized Gain on Equity Securities at Fair Value Through Other Comprehensive Income (Note 11)	Revaluation Increment on Land and Condominium Properties (Note 16)	Cumulative Translation Adjustment	Remeasurement Losses on Defined Benefit Liability (Note 29)	Total	Non-Controlling Interests	Total Equity
	(Amounts in Thousands)														
Balances at January 1, 2014	**₱–**	**₱7,489,114**	**₱–**	**₱–**	**₱813,601**	**₱105,772**	**(₱3,076,034)**	**(₱1,219,413)**	**₱–**	**₱209,546**	**(₱11,611)**	**(₱237,360)**	**₱4,073,615**	**₱–**	**₱4,073,615**
Effect of early adoption of PFRS 9 (Note 2)	–	–	–	–	–	–	**16,481**	**1,219,413**	**24,157**	–	–	–	**1,260,051**	–	**1,260,051**
Effect of business combination	–	–	–	–	–	–	–	–	–	–	–	–	–	**(5,049)**	**(5,049)**
Subscription of common stock	–	–	**1,792,698**	–	–	–	–	–	–	–	–	–	**1,792,698**	–	**1,792,698**
Total comprehensive income (loss) for the year	–	–	–	–	–	–	**111,930**	–	**197**	**38,197**	**(15,781)**	**(33,992)**	**100,551**	**(427)**	**100,124**
Balances at December 31, 2014	**₱–**	**₱7,489,114**	**₱1,792,698**	**₱–**	**₱813,601**	**₱105,772**	**(₱2,947,623)**	**₱–**	**₱24,354**	**₱247,743**	**(₱27,392)**	**(₱271,352)**	**₱7,226,915**	**(₱5,476)**	**₱7,221,439**
Balances at January 1, 2013	₱3,000,000	₱5,259,897	₱–	₱3,552,598	₱476,012	₱105,772	(₱8,653,840)	₱672,789	₱–	₱186,889	(₱4,886)	(₱203,560)	₱4,391,671	₱–	₱4,391,671
Conversion of preferred stock to common stock	(3,000,000)	3,000,000	–	–	–	–	–	–	–	–	–	–	–	–	–
Reduction of par value of common stock	–	(3,944,922)	–	–	3,944,922	–	–	–	–	–	–	–	–	–	–
Issuance of additional common stock	–	3,174,139	–	(3,552,598)	337,589	–	–	–	–	–	–	–	(40,870)	–	(40,870)
Application of additional paid-in capital against deficit	–	–	–	–	(3,944,922)	–	3,944,922	–	–	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	–	–	1,632,884	(1,892,202)	–	22,657	(6,725)	(33,800)	(277,186)	–	(277,186)
Balances at December 31, 2013	₱–	₱7,489,114	₱–	₱–	₱813,601	₱105,772	(₱3,076,034)	(₱1,219,413)	₱–	₱209,546	(₱11,611)	(₱237,360)	₱4,073,615	₱–	₱4,073,615
Balances at January 1, 2012	₱3,000,000	₱5,259,897	₱–	₱2,373,033	₱476,012	₱105,772	(₱9,638,622)	₱1,723,163	₱–	₱173,261	(₱22,653)	(₱153,600)	₱3,296,263	₱–	₱3,296,263
Proceeds from deposit for future stock subscription	–	–	–	1,179,565	–	–	–	–	–	–	–	–	1,179,565	–	1,179,565
Total comprehensive income (loss) for the year	–	–	–	–	–	–	984,782	(1,050,374)	–	13,628	17,767	(49,960)	(84,157)	–	(84,157)
Balances at December 31, 2012	₱3,000,000	₱5,259,897	₱–	₱3,552,598	₱476,012	₱105,772	(₱8,653,840)	₱672,789	₱–	₱186,889	(₱4,886)	(₱203,560)	₱4,391,671	₱–	₱4,391,671

See accompanying Notes to Financial Statements.

Parent Company

Year Ended December 31, 2014

	Preferred Stock	**Common Stock** (Note 25)	**Deposit for Future Subscription**	**Additional Paid-in Capital**	**Surplus Reserves** (Note 25)	**Deficit**	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (Note 13)	**Unrealized Gain on Equity Securities at Fair Value Through Other Comprehensive Income** (Note 11)	**Revaluation Increment on Land and Condominium Properties** (Note 16)	**Cumulative Translation Adjustment**	**Remeasurement Losses on Defined Benefit Liability** (Note 29)	**Total Equity**
						(Amounts in Thousands)						
Balances at January 1, 2014	**₱–**	**₱7,489,114**	**₱–**	**₱813,601**	**₱105,772**	**(₱3,085,318)**	**(₱1,219,413)**	**₱–**	**₱209,546**	**(₱11,611)**	**(₱237,360)**	**₱4,064,331**
Effect of early adoption of PFRS 9 (Note 2)	–	–	–	–	–	**16,481**	**1,219,413**	**24,157**	–	–	–	**1,260,051**
Subscription of common stock	–	–	**1,792,698**	–	–	–	–	–	–	–	–	**1,792,698**
Total comprehensive income (loss) for the year	–	–	–	–	–	**116,909**	–	**197**	**38,197**	**(15,781)**	**(33,067)**	**106,455**
Balances at December 31, 2014	**₱–**	**₱7,489,114**	**₱1,792,698**	**₱813,601**	**₱105,772**	**(₱2,951,928)**	**₱–**	**₱24,354**	**₱247,743**	**(₱27,392)**	**(₱270,427)**	**₱7,223,535**
Balances at January 1, 2013	₱3,000,000	₱5,259,897	₱3,552,598	₱476,012	₱105,772	(₱8,661,862)	₱672,789	₱–	₱186,889	(₱4,886)	(₱203,560)	₱4,383,649
Conversion of preferred stock to common stock	(3,000,000)	3,000,000	–	–	–	–	–	–	–	–	–	–
Reduction of par value of common stock	–	(3,944,922)	–	3,944,922	–	–	–	–	–	–	–	–
Issuance of additional common stock	–	3,174,139	(3,552,598)	337,589	–	–	–	–	–	–	–	(40,870)
Application of additional paid-in capital against deficit	–	–	–	(3,944,922)	–	3,944,922	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	–	1,631,622	(1,892,202)	–	22,657	(6,725)	(33,800)	(278,448)
Balances at December 31, 2013	₱–	₱7,489,114	₱–	₱813,601	₱105,772	(₱3,085,318)	(₱1,219,413)	₱–	₱209,546	(₱11,611)	(₱237,360)	₱4,064,331
Balances at January 1, 2012	₱3,000,000	₱5,259,897	₱2,373,032	₱476,012	₱105,772	(₱9,646,146)	₱1,723,163	₱–	₱173,261	(₱22,653)	(₱153,600)	₱3,288,738
Proceeds from deposit for future stock subscription	–	–	1,179,566	–	–	–	–	–	–	–	–	1,179,566
Total comprehensive income (loss) for the year	–	–	–	–	–	984,284	(1,050,374)	–	13,628	17,767	(49,960)	(84,655)
Balances at December 31, 2012	₱3,000,000	₱5,259,897	₱3,552,598	₱476,012	₱105,772	(₱8,661,862)	₱672,789	₱–	₱186,889	(₱4,886)	(₱203,560)	₱4,383,649

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱414,399**	₱2,029,930	₱1,274,941	**₱405,858**	₱2,028,668	₱1,274,443
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:						
Gain from sale of available for sale investments (Notes 12 and 28)	–	(1,520,583)	(738,069)	–	(1,520,583)	(738,069)
Loss from sale of investment securities at amortized cost (Notes 13)	**258**	–	–	**258**	–	–
Accretion of interest on bills payable (Note 21)	**210,893**	802,373	706,659	**210,893**	802,373	706,659
Amortization of unearned income credited to interest income - others (Note 23)	**(197,642)**	(774,557)	(684,016)	**(197,642)**	(774,557)	(684,016)
Share in net income of associate (Note 8)	**(361)**	(1,262)	(498)	–	–	–
Accretion of interest on unquoted debt securities (Note 14)	**(262,937)**	(262,920)	(362,449)	**(262,937)**	(262,920)	(362,449)
Profits from assets sold or exchanged (Note 16)	**(9,019)**	(10,703)	(123,281)	**(8,865)**	(10,703)	(123,281)
Gain on assets exchanged (Note 16)	**21,435**	(23,385)	–	**21,539**	(23,385)	–
Depreciation and amortization (Note 15 and 17)	**198,045**	133,239	77,892	**192,927**	133,239	77,892
Fair value loss (gain) on investment properties (Note 16)	**(380,407)**	(248,913)	4,492	**(380,407)**	(248,913)	4,492
Provision for (reversal of) credit and impairment losses (Note 19)	**(194,853)**	(402,675)	(1,265)	**(198,541)**	(402,675)	(1,265)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at FVPL	**1,428,430**	(104,909)	–	**1,428,430**	(104,909)	–
Loans and receivables	**(7,352,754)**	(8,461,923)	(5,021,969)	**(7,112,505)**	(8,461,923)	(5,021,969)
Other assets	**(226,571)**	(169,105)	(58,839)	**(224,642)**	(169,105)	(58,839)
Increase (decrease) in the amounts of:						
Deposit liabilities	**10,281,808**	15,924,183	3,538,424	**10,475,724**	15,924,183	3,538,424
Manager's checks	**37,629**	106,451	33,250	**37,629**	106,451	33,250
Accrued interest, taxes and other expenses	**(9,743)**	63,356	(16,614)	**(18,939)**	63,356	(16,614)
Other liabilities	**260,134**	(2,217)	(55,008)	**260,514**	(2,217)	(55,008)
Net cash generated from (used in) operations	**4,218,744**	7,076,380	(1,426,350)	**4,629,294**	7,076,380	(1,426,350)
Income taxes paid (Note 32)	**(196,222)**	(302,412)	(291,498)	**(198,772)**	(302,412)	(291,498)
Net cash provided by (used in) operating activities	**4,022,522**	6,773,968	(1,717,848)	**4,430,522**	6,773,968	(1,717,848)
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in interbank loans receivable (Note 9)	**(44,769)**	(3,422)	2,590	**(44,769)**	(3,422)	2,590
Acquisitions of:						
Available-for-sale investments (Note 12)	–	(63,878,979)	(31,507,479)	–	(63,878,979)	(31,507,479)
Subsidiaries (Notes 7 and 8)	**(43,599)**	–	–	**(852,841)**	–	–
Additions to equity investments	–	–	–	–	–	–
Property and equipment (Note 15)	**(512,523)**	(409,340)	(205,371)	**(509,729)**	(409,340)	(205,371)
Chattel mortgage	**(19,978)**	–	–	**(19,978)**	–	–
Software cost (Note 17)	**(150,255)**	(301,659)	(56,561)	**(150,255)**	(301,659)	(56,561)
Investment properties (Notes 15 and 16)	**(1,133)**	(20,479)	(6,421)	**(1,133)**	(20,479)	(6,421)
Investment Securities at amortized cost	**(1,026,686)**	–	–	**(1,016,670)**	–	–
Proceeds from:						
Sale of available-for-sale investments	–	60,196,080	30,559,174	–	60,196,080	30,559,174
Proceeds of matured investment securities	**6,562,880**	–	–	**6,562,880**	–	–
Disposals of investment properties (Note 16)	**172,157**	62,379	177,000	**171,507**	62,379	177,000
Disposals of property and equipment (Note 15)	**₱24,720**	₱17,815	₱5,877	**₱23,551**	₱17,815	₱5,877

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
Disposal of chattel mortgage	**900**	–	5,000	**900**	–	5,000
Investment Securities at amortized cost	**496,837**	–	–	**496,836**	–	–
Net cash provided by (used in) investing activities	**5,458,551**	(4,337,605)	(1,026,191)	**4,660,299**	(4,337,605)	(1,026,191)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from shares subscription	**1,792,698**	–	1,179,566	**1,792,698**	–	1,179,566
Transaction cost on shares issuance		(40,869)			(40,869)	
Availments of:						
Bills payable	**25,647,949**	14,045,317	11,392,737	**25,647,949**	14,045,317	11,392,737
Outstanding acceptances	**1,248,917**	2,825,687	1,461,406	**1,248,917**	2,825,687	1,461,406
Marginal deposits	**7,602**	269,007	6,134	**(7,602)**	269,007	6,134
Settlements of:						
Bills payable	**(31,936,967)**	(13,212,961)	(11,631,731)	**(31,895,431)**	(13,212,961)	(11,631,731)
Outstanding acceptances	**(1,266,485)**	(2,814,821)	(1,486,089)	**(1,266,485)**	(2,814,821)	(1,486,089)
Marginal deposits	**(7,602)**	(270,252)	(4,890)	**7,602**	(270,252)	(4,890)
Net cash provided by (used in) financing activities	**(4,513,888)**	801,108	917,133	**(4,472,352)**	801,108	917,133
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**(15,781)**	(6,726)	17,767	**(15,781)**	(6,726)	17,767
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,951,404**	3,230,745	(1,809,139)	**4,602,688**	3,230,745	(1,809,139)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**740,012**	551,097	369,164	**740,012**	551,097	369,164
Due from Bangko Sentral ng Pilipinas	**9,573,407**	5,511,067	6,040,783	**9,573,408**	5,511,067	6,040,783
Due from other banks	**661,308**	887,143	514,812	**661,308**	887,143	514,812
Interbank loans receivable and securities purchased under resale agreements (Note 35)	**157,879**	952,555	2,786,242	**157,879**	952,555	2,786,242
	11,132,606	7,901,862	9,711,001	**11,132,607**	7,901,862	9,711,001
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**1,181,592**	740,012	551,097	**1,153,418**	740,012	551,097
Due from Bangko Sentral ng Pilipinas	**12,522,613**	9,573,408	5,511,067	**12,463,067**	9,573,408	5,511,067
Due from other banks	**1,636,641**	661,308	887,143	**1,375,646**	661,308	887,143
Interbank loans receivable and securities purchased under resale agreements (Note 35)	**743,164**	157,879	952,555	**743,164**	157,879	952,555
	₱16,084,010	₱11,132,607	₱7,901,862	**₱15,735,295**	₱11,132,607	₱7,901,862

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
Interest paid	**₱986,131**	₱809,982	₱927,303	**₱979,207**	₱809,982	₱927,303
Interest received	**3,026,918**	2,184,973	2,086,125	**2,996,212**	2,184,973	2,086,125

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine Bank of Communications (the "Parent Company") is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through a network of 76 local branches and 9 other banking offices. The Parent Company's principal place of business is at the PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City.

The Parent Company's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the Board of Directors (BOD) of the Parent Company approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Parent Company, which expired on August 23, 1989, for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation was approved by the SEC on November 23, 1988.

The Parent Company acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Parent Company's license to regular commercial banking.

On February 26, 2014, the BOD of the Parent Company approved the acquisitions of the Rural Bank of Nagcarlan, Inc. (RBNI) and Banco Dipolog, Inc. (BDI). The acquisitions were completed in 2014 and both RBNI and BDI were consolidated with the Parent Company from the time the latter gained control (see Note 7).

On May 9, 2014, the SEC approved the incorporation of the Parent Company's wholly-owned subsidiary, PBCOM Insurance Services Agency, Inc. (PISAI).

The Parent Company's subsidiaries and associate, which are all incorporated in the Philippines, are engaged in the following businesses:

	Effective Percentage of Ownership			
Entity	**2014**	2013	2012	Line of Business
Subsidiaries				
RBNI	**96.32%**	–	–	Rural Bank
BDI	**99.80%**	–	–	Rural Bank
PISAI	**100.00%**	–	–	Insurance Agent
Associate				
PBCom Finance Corporation (PBCom Finance)	**40.00%**	40.00%	40.00%	Financing Company

<u>Rehabilitation Plan</u>
On March 15, 2004, the Parent Company and its majority stockholders entered into a Financial Assistance Agreement (FAA) with the Philippine Deposit Insurance Corporation (PDIC) with the following salient provisions:

1. Fresh capital infusion from the existing major stockholders amounting to ₱3.00 billion;
2. Compliance at all times with a risk-based capital adequacy ratio (RBCAR) of at least 12.50%, with any shortfall thereof to be covered by additional capital infusion from the major stockholders (see Note 25);
3. Prohibition against the sale of, or lien or encumbrances on the controlling interest;
4. Sale of certain nonperforming assets (NPAs) to a Special Purpose Vehicle (SPV) and amortization of losses from such sale based on SPV guidelines, with the necessary modifications or amendments thereto;
5. Maximum direct loan from PDIC amounting to ₱7.64 billion payable at the end of ten (10) years with interest rate of 1.00% per annum;
6. Unless the loan is prepaid in accordance with the FAA, the major stockholders agree to absolutely divest, sell or transfer their controlling interest to a strategic third party investor; and
7. Prior approval from PDIC on the declaration, distribution, or payment of cash or stock dividends; effecting any profit sharing or distribution of bonuses to directors and officers of the Parent Company; transactions or activities not in accordance with the rehabilitation plan; and any single major capital expenditure.

On March 25, 2004, the BSP, through its Monetary Board, approved the revised Financial Recovery and Rehabilitation Program of the Parent Company subject to the following conditions, among others:

a. Infusion of the ₱3.00 billion fresh capital (as required under the FAA discussed above) within 30 days from the approval date of the rehabilitation plan; and
b. Existing appraisal increment reserve shall be allowed as part of unimpaired capital for purposes of computing the regulatory ratios.

On March 26, 2004, the major stockholders infused the ₱3.00 billion fresh capital to the Parent Company as advances for future stock subscriptions, awaiting the approval of the SEC on the amendment of the Parent Company's Articles of Incorporation covering the increase in the authorized capital stock of the Parent Company by the creation of new preferred shares. On April 1, 2006, the SEC approved the capital increase of the Parent Company from ₱14.50 billion to ₱17.50 billion.

Financial assistance
Proceeds from the PDIC loan amounting to ₱7.64 billion were used by the Parent Company to purchase government securities (GS Collateral), which were pledged to PDIC to secure such obligation (see Notes 12 and 21). The 12.375% interest income on these securities, net of all taxes and the corresponding 1.00% interest expense on the PDIC loan, represents PDIC's income support to the Parent Company. Any interest income in excess of 85.00% of the actual losses from the sale of NPAs to an SPV shall inure to PDIC's benefit. The actual loss on the sale of the NPAs amounting to ₱10.77 billion, which was charged on the year it was incurred, is the difference between the net book value of the NPAs and the proceeds from such sale. For regulatory purposes, the loss was allowed under the regulations issued by the BSP for banks and financial institutions availing the provisions of Republic Act No. 9182, *The Special Purpose Vehicle Act of 2002*, to be deferred and amortized to profit or loss over ten (10) years.

On September 29, 2011, the Parent Company requested for the substitution of the government securities currently being used as collateral for the ₱7.64 billion PDIC loan with other obligations of the Republic of the Philippines and/or other acceptable risk-free instruments. With the prevailing favorable market conditions, the existing GS Collateral provided a key opportunity for the Parent Company to counteract the income support deficiency amidst the full recognition of the SPV losses.

On January 5, 2012, the PDIC approved the Parent Company's request for the substitution of the government securities pledged as collateral for its ₱7.64 billion loan from PDIC, subject to the following conditions:

1. The existing government securities shall be replaced only with a similar type of government securities maturing not earlier than the March 2014 loan maturity but no later than 2020, with interest enough to (i) cover 20.00% final tax and 1.00% interest due to PDIC and (ii) provide continuing income support to the Parent Company up to March 2014 as originally intended under the 2004 FAA;
2. The substitution of the existing government securities shall be allowed in tranches with a minimum of ₱500.00 million per tranche and must be completed within a 4-month period reckoned from the 1st tranche of government securities substitution. Once the substitution of the entire ₱7.64 billion government securities have been completed, no further substitution shall be allowed by PDIC until the loan matures in March 2014;
3. The existing government securities or a portion thereof, shall be released only after the substitute government securities have been pledged to PDIC;
4. During the substitution period and until the settlement in full of the ₱7.64 billion loan from PDIC, the Parent Company commits to maintain a total market value of the government securities at ₱7.80 billion (see Notes 12 and 21);
5. A periodic determination of the market value of the collateral aspect shall be made on a monthly basis and every time a substitution is made and in cases of significant interest rate movement in the market;
6. In the event of shortfall or decrease in the market value of the substitute government securities, the Parent Company is bound to deliver additional collateral as may be acceptable to PDIC, to restore and maintain the market value of government securities collateral to at least ₱7.80 billion (see Note 12). PDIC may allow release of excess collateral upon written request of the Parent Company;
7. Any yield (including the gain as a result of the substitution) on the substitute government securities in excess of the cap of 85.00% of the actual SPV losses, shall inure to the benefit of PDIC, pursuant to the FAA;
8. In no case shall any portion of the PDIC income support, including the gain as a result of the substitution, be used to declare, distribute or pay cash or stock dividends, or effect any profit sharing or distribution of bonuses to directors and officers of the Parent Company.

On November 14, 2012, the BOD of PDIC approved the request of the Parent Company for the extension of the substitution to December 31, 2013, to complete the GS Collateral substitution process.

For the years ended December 31, 2013 and 2012, total income received by the Parent Company, which includes the gain arising from the sale of GS Collateral, net of all taxes and the corresponding 1.00% interest expense on the PDIC loan, amounted to ₱6.14 billion and ₱5.28 billion, respectively. The total income received by the Parent Company from the income support is below 85.00% of the actual losses incurred from the sale of NPAs.

On March 26, 2014, the Parent Company exited the 10-year FAA with the settlement of the ₱7.64 billion PDIC loan that matured on that date.

Strategic third party investors
On July 26, 2011, pursuant to the FAA, the major shareholders of the Parent Company, namely the Chung, Luy, and Nubla Groups, signed a Memorandum of Agreement (MOA) with ISM Communications Corporation (the "ISM Group"), involving the sale of their entire stake in the Parent Company to the ISM Group and the commitment of the Chung and Nubla groups to reinvest the proceeds of the sale of their respective shares amounting to ₱2.80 billion in the Parent Company (see Note 25).

On October 31, 2011, the Monetary Board approved the ISM Group's acquisition of the controlling interest in the Parent Company.

On December 23, 2011, the ISM Group's acquisition of the Parent Company was successfully transacted through the Philippine Stock Exchange (PSE) via a special block sale.

On August 5, 2014, the Parent Company signed a subscription agreement with P.G. Holdings Inc. (PGH), for the latter's subscription of the Parent Company's 181,080,608 common shares at ₱33.00 per share. These shares will be issued out of the unissued portion of the Parent Company's authorized capital stock. On August 6, 2014, in compliance with banking law and regulations, the Parent Company and PGH submitted the subscription agreement to the BSP for its approval.

The subscription by PGH to new shares of the Parent Company amounting to ₱5.97 billion was approved by the BSP on September 23, 2014. The first installment of ₱1.79 billion was paid by PGH on September 25, 2014. Subsequently, on October 1, 2014, VFC Land Resources Inc. (VFC) bought 59.24 million shares at ₱33.00 per share from ISM Group. Both PGH and VFC are owned by Lucio Co, bringing his total stake in the Parent Company to 49.99% (see Note 25).

BSP Approvals
The BSP, in its Resolution No. 2088 dated December 14, 2012, approved the request of the Parent Company to book ₱1.92 billion revaluation increment resulting from the revaluation of PBCom Tower and allowed the Parent Company to include the revaluation increment as part of unimpaired and qualifying capital in computing for net worth and capital adequacy ratio. Out of the ₱1.92 billion revaluation increment, ₱1.57 billion was included in the carrying value of condominium units for lease included under 'Investment properties'. Deferred tax liability recognized and charged to the statement of income from the revaluation increment amounted to ₱470.95 million. The remaining revaluation increment of ₱359.29 million on condominium units included under 'Property and equipment' was not recognized in the financial statements because the Parent Company's accounting policy for property and equipment, except land, is to carry these assets at cost.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (collectively referred to herein as the "Group") as of December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, and of the Parent Company as of December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014.

As discussed in Note 1, the subsidiaries were acquired/incorporated only in 2014. Thus, this is the Group's first consolidated financial statements. The comparative financial statements presented pertain to the Parent Company's primary financial statements issued in those years. This is also the first time that the Parent Company is presenting Parent-only financial statements.

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), equity securities at fair value through other comprehensive income (FVTOCI), available-for-sale (AFS) investments and investment properties that are measured at fair value, and land classified as 'Property and equipment' that is measured at appraised value. The financial statements are presented in Philippine peso (PHP or ₱) and all values are rounded to the nearest thousand, unless otherwise stated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the 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 PHP, which is the Parent Company's presentation currency (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts and transactions.

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 functional currency of the Parent Company's subsidiaries is the PHP.

Statement of Compliance

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

Presentation of Financial Statements

The Group and the Parent Company present its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 24.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. Control is achieved when the Parent Company 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. Specifically, the Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company 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 agreements
- The Parent Company's voting rights and potential voting rights

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three (3) elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Parent Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

When a change in ownership interest in a subsidiary occurs, which results in loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related other comprehensive income (OCI) recorded in equity and recycle the same to the statement of income or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in the statement of income.

<u>Non-controlling Interests</u>
Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests 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 equity holders of the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the early adoption of PFRS 9, *Financial Instruments* (2010 version) and the following new and amended standards and interpretation, which became effective beginning January 1, 2014. Unless otherwise indicated, adoption of these new and amended standards and interpretation did not have any significant impact on the Group's financial position and financial performance.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standards (PAS) 27, *Separate Financial Statements*)
  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 FVTPL. The amendments must be applied retrospectively, subject to certain transition relief.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments resulted to additional disclosures relating to reversal of impairment losses on branch licenses (see Note 17).

- 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 and retrospective application is required.

- Philippine Interpretation of 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. Retrospective application is required for IFRIC 21.

- Annual Improvements to PFRSs (2010-2012 cycle)
  In the 2010-2012 annual improvements cycle, seven (7) amendments to six (6) 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.

- Annual Improvements to PFRSs (2011-2013 cycle)
  In the 2011-2013 annual improvements cycle, four (4) amendments to four (4) standards were issued, which included an amendment to PFRS 1, *First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements.

The impact on the financial statements of the Group's adoption of PFRS 9 (2010 version) is described below:

- PFRS 9, *Financial Instruments* (2010 Version)
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement* and applies to the classification and measurement of financial assets and financial liabilities as defined in PAS 39. 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 FVTPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVTPL. 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, 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. The remainder of the change in fair value is presented 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.

  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).

  The Monetary Board of BSP approved the guidelines governing the implementation and early adoption of PFRS 9 on December 23, 2010, and issued the implementing guidelines under BSP Circular Nos. 708, 733 and 761 on January 10, 2011, August 5, 2011 and July 20, 2012, respectively. The SEC also issued guidelines on the implementation of PFRS 9 on May 16, 2011 under SEC Memorandum Circular No. 3 Series of 2011 which was later revised on May 28, 2012.

  On July 30, 2014, the Parent Company's BOD approved the early adoption of PFRS 9 (2010 version) with initial application date of January 1, 2014. The Parent Company opted to adopt the said standard due to the following merits:

  - Fewer financial assets classification, with clearer, principles-based classification requirements that minimizes different interpretations and improves reporting comparability than PAS 39;
  - Emphasis on fair value reporting which is more relevant to investors, shareholders, and other financial reports users; and

- Gives greater emphasis to the relationship of the financial instruments acquired or originated to what the Parent Company looks to do as a business.

The Parent Company chose to apply the option not to restate comparative information, thereby resulting in the following impact:

- Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods.
- The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 (2010 version) and one applying PAS 39.
- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening Surplus (Deficit) or other component of equity, as appropriate.
- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

Presented below is the impact of the application of PFRS 9 (2010 version) as of January 1, 2014 on the Parent Company's financial instruments:

	Original Measurement Category under PAS 39	New Measurement Category under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Financial assets:				
Cash and other cash items	Loans and receivables	Financial assets at amortized cost	₱740,012	₱740,012
Due from BSP	Loans and receivables	Financial assets at amortized cost	9,573,408	9,573,408
Due from other banks	Loans and receivables	Financial assets at amortized cost	661,308	661,308
Interbank loans receivable and securities purchased under resale agreements	Loans and receivables	Financial assets at amortized cost	202,550	202,550
Loans and receivables	Loans and receivables	Financial assets at amortized cost	24,997,424	24,997,424
Held-for-trading (HFT) (Government securities)	Financial assets at FVPL	Financial assets at FVTPL	104,909	104,909
AFS investments:				
Government securities	AFS investments	Financial assets at FVTPL	2,007,740	2,007,740
	AFS investments	Financial assets at amortized cost	18,039,565	19,299,616
Equity securities	AFS investments	Financial assets at FVTOCI	42,777	42,777
Financial liabilities:				
Deposit liabilities	Financial liabilities at amortized cost	Financial liabilities at amortized cost	47,280,497	47,280,497
Bills payable	Financial liabilities at amortized cost	Financial liabilities at amortized cost	9,458,241	9,458,241
Outstanding acceptances	Financial liabilities at amortized cost	Financial liabilities at amortized cost	43,188	43,188
Manager's check	Financial liabilities at amortized cost	Financial liabilities at amortized cost	173,501	173,501
Accrued interest and other expenses	Financial liabilities at amortized cost	Financial liabilities at amortized cost	263,639	263,639
Other liabilities*	Financial liabilities at amortized cost	Financial liabilities at amortized cost	121,443	121,443

**Consists of Accounts payable and Due to the Treasurer of the Philippines*

In accordance with the transition provisions of PFRS 9 (2010 version), the classification of debt financial assets that the Parent Company held at the date of initial application (i.e., January 1, 2014) was based on the facts and circumstances of the business model in which the financial assets were held at that date and on their contractual cash flow characteristics.

The initial application of PFRS 9 (2010 version) has had an impact on the following financial instruments of the Parent Company:

a. The Parent Company's investments in debt instruments previously classified as AFS investments that met the criteria to be classified as at amortized cost under PFRS 9 were classified as investment securities at amortized cost, because the business model is to hold these instruments in order to collect contractual cash flows. The accumulated net unrealized loss on these securities as of January 1, 2014 amounting to ₱1.26 billion was reversed upon reclassification. Had the securities not been reclassified, fair value gain of ₱0.57 billion would have been recognized in OCI in the statement of comprehensive income in 2014.
b. Investments in debt instruments previously classified as AFS investments that did not meet the criteria to be classified as at amortized cost under PFRS 9 have been classified as financial assets at FVTPL. The accumulated net unrealized gain on these securities as of January 1, 2014 amounting to ₱9.31 million was adjusted to the opening 'Deficit' upon reclassification. Had the securities not been reclassified, fair value gain in 2014 amounting to ₱18.68 million would have been recognized in OCI in the statement of comprehensive income.
c. The Parent Company did not have any financial assets that were previously designated as at FVTPL but are no longer so designated. Neither did it designate any financial asset as at FVTPL on initial application of PFRS 9.
d. Investments in equity securities previously classified as AFS investments have been classified as equity securities at FVTOCI under PFRS 9 as these are not held for trading. The accumulated impairment loss previously charged to the statement of income amounting to ₱7.17 million as of January 1, 2014 was reclassified from the opening 'Deficit' to OCI. The reclassification had no impact on the Parent Company's profit or loss for the year ended December 31, 2014.
e. The Parent Company did not have any financial liabilities that were previously designated as at FVPL but are no longer so designated. Neither did it designate any financial liability as at FVTPL on initial application of PFRS 9. The adoption of PFRS 9 had no material impact on the Parent Company's financial liabilities. As of January 1, 2014, all of the Parent Company's financial liabilities are measured at amortized cost.

As a result of the adoption of PFRS 9 (2010 version), the following adjustments were made to the Parent Company's financial statements as of January 31, 2014:

	Amount
Net increase in financial assets	₱1,260,051
Net decrease in opening deficit	16,481
Net decrease in net unrealized losses on AFS investments	1,219,413
Net increase in net unrealized gains on equity securities at FVTOCI	24,157
Net increase in equity	1,260,051

Foreign Currency Translation

RBU

As at statement of financial position date, foreign currency-denominated monetary assets and monetary liabilities of the RBU are translated in PHP based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses, based on the spot rate at date of transactions. Foreign exchange differences arising from the restatement of foreign currency-denominated assets and foreign currency-denominated liabilities in the RBU are credited to or charged against the statement of income 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

As at statement of financial position date, the FCDU's assets and liabilities are translated into the Parent Company's presentation currency, PHP, at the PDS closing rate prevailing at the statement of financial position date, and income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'.

Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVTPL, derivatives, AFS investments and equity securities at FVOCI, and non-financial assets such as land under 'Property and equipment' and investment properties, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

External valuers are involved for the valuation of 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 fair value hierarchy as explained above.

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 securities purchased under resale agreements (SPURA) with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents as withdrawals can be made to meet the Group's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

SPURA
The Group enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Date of Recognition
The Group recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the instrument. 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. Settlement date accounting refers to:

a. The recognition of an asset on the day it is received by the Group; and
b. The derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Group.

Any change in fair value of unrecognized financial asset is recognized in the statement of income or in equity, depending on the classification of the financial asset. Loans and receivables are recognized when cash is advanced to the borrowers while financial liabilities are recognized when

cash is received by the Group.

Classification, Measurement, Reclassification and Impairment of Financial Assets (Upon Adoption of PFRS 9)

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are 'debt instruments'.

a. Financial Assets at Amortized Cost

   Financial assets are measured at amortized cost if both of the following conditions are met:

   - The asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
   - The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value, with the interest calculated recognized as 'Interest income' in the statement of income.

   The Group classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Loans and receivables', and 'Investment securities at amortized cost' as financial assets at amortized cost.

   The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As at January 1, 2014, the Group has not made such designation.

b. Financial Assets at FVTOCI

   At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instruments at FVTOCI. Designation at FVTOCI is not permitted if the investment in equity instrument is held for trading.

   A financial asset is held for trading if:

   - It has been acquired principally for the purpose of selling it in the near term; or
   - On initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
   - It is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

   Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in 'Unrealized gain (loss) on equity securities carried at FVTOCI' in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Unrealized gain on equity securities carried at FVTOCI' is not reclassified to statement of income, but is reclassified to 'Deficit'.

The Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 11).

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Group's right to receive the dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under 'Miscellaneous income'.

c. Financial Assets at FVTPL
Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity instrument that is not held for trading as at FVTOCI at initial recognition.

The Group's financial assets at FVTPL include government securities held for trading purposes.

As of January 1, 2014, the Group has not designated any debt instrument that meets the amortized cost criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized as 'Trading and securities gain (loss) - net' in the statement of income. Interest earned on these investments is reported as 'Interest income' in the statement of income while dividend income is reported under 'Miscellaneous income' in the statement of income when the right of payment has been established.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the PDS closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For financial assets designated as at FVTOCI, any foreign exchange component is recognized in OCI.

d. Derivative Instruments
The Parent Company uses derivative instruments such as currency forwards as a means for managing its foreign exchange exposures and its liquidity. Such derivative instruments are initially recorded at fair value and carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income.

The fair value of currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of PFRS 9 (e.g., financial liabilities and non-financial host contracts) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Otherwise, the hybrid

financial asset is classified in its entirety. The Group assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs reassessment only where there is a change to the contract that significantly modifies the contractual cash flows.

Reclassification of financial assets
The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify as follows:

- From amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- From FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows are solely payments of principal and interest on the principal outstanding.

Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted. A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Impairment of financial assets
The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence as a result of one or more events that had occurred after the initial recognition of the asset and that loss event 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 assets' carrying amount and the present value of 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 effective interest rate (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 flow that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, past-due status and term. Future cash flows on 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 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 year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the financial asset at amortized cost is reduced by the impairment loss (included under 'Reversal of credit and impairment losses - net' in the statement of income) directly for all financial assets at amortized cost with the exception of 'Loans and receivables', where the carrying amount is reduced through the use of an allowance account. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. The amount of impairment loss is recognized under 'Reversal of credit and impairment losses - net' in the statement of income. Interest income continues to be recognized based on the original EIR of the asset. 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 through the statement of income to the extent that the carrying amount of the financial asset at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues 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 'Reversal of credit and impairment losses - net' in the statement of income.

<u>Classification, Measurement, Reclassification and Impairment of Financial Assets (Prior to Adoption of PFRS 9)</u>
Classification and measurement of financial assets
The classification of financial assets at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. The Group categorizes its financial assets as: financial assets at FVTPL, differentiating those that are held-for-trading and those designated as such, loans and receivables, held-to-maturity (HTM) investments and AFS investments. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

a. HFT Investments
   Financial instruments held for trading include government debt securities and quoted equity securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair value; realized and unrealized gains and losses on these

instruments are recognized as ‘Trading and securities gain (loss) - net’ in the statement of income. Interest earned or incurred on financial instruments held for trading is reported under ‘Interest income’ in the statement of income.

b. Financial Assets Designated at FVTPL
Financial assets classified in this category are designated by management on initial recognition when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets designated at FVTPL are initially recognized in the statement of financial position at fair value. Changes in fair value of financial assets designated at FVTPL are recorded under ‘Trading and securities gain (loss) - net’ in the statement of income. Interest earned is recognized as ‘Interest income’ in the statement of income.

The Group has no financial assets designated at FVTPL as of December 31, 2013.

c. Derivative Instruments
The Parent Company uses derivative instruments such as currency forwards as a means for managing its foreign exchange exposures and its liquidity. Such derivative 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. Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income.

The fair value of currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

d. Embedded Derivatives
The Group assesses the existence of an embedded derivative when it first becomes a party to the contract and performs reassessment if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized at FVTPL.

The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significantly relative to the previously expected cash flows on the contract.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets or financial liabilities at FVTPL. Changes in fair values of embedded derivatives are included in the statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group has no outstanding embedded derivatives as of December 31, 2013.

e. HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and with fixed maturities for which the Group has the positive intention and ability to hold to maturity. If the Group were to sell more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as AFS investments. Furthermore, the Group would be prohibited from classifying any financial assets as HTM investments for the following two (2) years.

HTM investments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of these assets. After initial recognition, these investments are subsequently measured at amortized cost using the effective interest method, less any 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 the statement of income when HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Reversal of credit and impairment losses - net'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

f. Loans and Receivables

These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at FVTPL;
- Those that the Group, upon initial recognition, designates as AFS; and,
- Those for which the Group may not cover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of these assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees 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 'Reversal of credit and impairment losses - net' in the statement of income.

This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivables'.

g. AFS Investments

AFS investments are those which are designated as such or do not qualify to be classified as designated as financial assets at FVTPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include government securities, treasury notes and shares of stock.

AFS investments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of these assets. 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 from reported earnings and are reported as 'Net unrealized gain (loss) on AFS investments' under OCI in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain (loss) - net' in the statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a specific identification basis. Interest earned on holding AFS investments are reported as 'Interest income' using the EIR. Dividends earned on holding AFS investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. The losses arising from impairment of such investments are recognized as 'Reversal of credit and impairment losses - net' in the statement of income.

Reclassification of financial assets

The Group may reclassify, in certain circumstances, non-derivative financial assets out of the HFT investments category and into the AFS investments, loans and receivables or HTM investments categories. The Group may also reclassify, in certain circumstances, financial instruments out of the AFS investments to loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

The Group may reclassify a non-derivative trading asset out of HFT investments and into the loans and receivables category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity.

For a financial asset reclassified out of the AFS investments category to loans and receivables or HTM investments, any previous gain or loss on that asset that has been recognized in OCI is amortized to statement of income over the remaining life of the investment using the effective interest method. If the asset is subsequently determined to be impaired, the amount recorded in OCI is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis. The Group does not reclassify any financial instrument into the FVTPL category after initial recognition.

Impairment of financial assets
The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Financial Assets Carried at Amortized Cost
   For financial assets carried at amortized cost, which include HTM investments and loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The estimated future cash flows are discounted at the financial asset's original EIR.

   If a financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, 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 'Reversal of credit and impairment losses - net' in the statement of income.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, 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 in 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 unemployment rates, property prices, commodity 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.

b. AFS Investments

For AFS investments, 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.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from OCI 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 in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. 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, in subsequent year, the fair value of a debt instrument increases 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 statement of income.

c. 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 ‘Reversal of credit and impairment losses - net’ in the statement of income.

Financial Liabilities - Classification and Measurement

Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost

These liabilities are classified as such when 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.

These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the statement of financial position caption 'Deposit liabilities', 'Bills payable' and 'Other borrowed funds', which are not designated at FVTPL.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, when 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 has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

    a. The Group has transferred substantially all the risks and rewards of the asset; or
    b. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The transfer of risks and rewards is evaluated by comparing the Group's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Group has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale

price plus a lender's return). The Group has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred a fully proportionate share of the cash flows from a larger financial asset in an arrangement).

Whether the Group has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Offsetting of 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 legally enforceable right to offset the recognized amounts and there is an intention to either 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, therefore, the related assets and liabilities are presented gross in the statement of financial position.

Investments in Subsidiaries and an Associate
Subsidiaries
A subsidiary is an entity in which the Parent Company holds more than half of the issued share capital or controls more than 50% of the voting power, or exercises control over the operations and management of the subsidiary.

Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under the cost method of accounting. Dividends received are reported as dividend income when the right to receive the payment is established.

Associate
An associate is an entity in which the Parent Company 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.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Parent Company's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investments and is not amortized. The statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Parent Company recognizes its share of any changes and discloses thus, when applicable, in the statement of changes in equity. When the Parent Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations between the Parent Company and an associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Parent Company.

In the separate or parent company financial statements, investments in associates are carried at cost, less accumulated impairment in value. Dividends earned on these investments are recognized in the Parent Company's statement of income as declared by the respective BOD of the investees.

Upon loss of significant influence over the associate, the Parent Company 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 the statement of income.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and amortization and impairment in value. Land is stated at appraised value. The appraisal values were determined by professionally qualified and independent appraisers. The revaluation increment resulting from revaluation is credited to 'Revaluation increment on land and condominium properties' under OCI, net of deferred tax liability.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are charged against statement of income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Construction in progress is stated at cost and includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation on property and equipment is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets. Leasehold improvements are amortized over the EUL of the improvements or the terms of the related leases, whichever is shorter.

The EULs of components of property and equipment are as follows:

	Years
Condominium properties	50
Buildings and improvements	25
Furniture, fixtures and equipment	5
Leasehold improvements	1-5

The residual values, EULs and methods of depreciation and amortization of property and equipment are reviewed at each statement of financial position date and adjusted prospectively, if appropriate.

Fully depreciated property and equipment are retained in the accounts until these are no longer used and no further depreciation and amortization is charged to statement of income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition, the cost and the related accumulated depreciation and amortization and any impairment in value of the asset are removed from the accounts, and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is reflected as income or loss in the statement of income.

<u>Investment Properties</u>
Investment properties include real properties acquired in settlement of loans and receivables and investments in condominium units which are measured initially at cost, including certain transaction costs.

Real properties acquired through a nonmonetary asset exchange is measured initially at fair value unless:

a. The exchange lacks commercial substance; or
b. The fair value of neither the asset received nor the asset given up is reliably measurable.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects the prevailing market conditions at the statement of financial position date. Gains or losses resulting from changes in the fair values of investment properties are recognized in the statement of income under 'Fair value gain (loss) from investment properties' in the period in which they arise.

Transfers are made to investment property 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 property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property carried at fair value to owner-occupied property, the asset's deemed cost for subsequent accounting is its fair value at the date of change in use. For transfers from owner-occupied property to investment property under the fair value model, the related properties are accounted for under property and equipment up to the time of change in use. At that date, any difference between the carrying amount of the property and the fair value is to be treated in the same way as a revaluation and be recognized in OCI and accumulated in equity.

Under the revaluation model, after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.
Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or

losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Profit from assets sold'.

Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with changes in fair value recognized in the statement of income. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of income.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets, excluding goodwill and branch licenses, are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Intangible assets consist of goodwill, branch licenses and software costs.

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. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Branch licenses
These intangible assets were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Software costs
Costs related to software purchased by the Group for use in operations are recognized as 'Intangible assets' in the statement of financial position. Capitalized computer software costs are amortized on a straight-line basis over two (2) to five (5) years.

<u>Impairment of Non-financial Assets</u>
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 the recoverable amount.

Recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those other assets or groups of assets, in which case, the recoverable amount is assessed as part of the CGU to which it belongs.

When the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises, unless the asset is carried at a revalued amount, in which case, the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current statement of income, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is credited to the revaluation increment of the said asset.

The following criteria are also applied in assessing impairment of specific assets:

Property and equipment
The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and when the carrying values exceed the estimated recoverable amounts, the assets or CGUs are written down to their recoverable amounts.

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. When 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.

Branch licenses
Branch licenses are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate.

Software costs
Software costs are assessed for impairment whenever there is an indication that these assets may be impaired.

Government Loans with Low Interest Rates
Government loans with low interest rates are recognized initially at fair value and the difference between the fair value of the loan and the proceeds of the loan is considered a form of government grant (recorded under 'Unearned income') and is recognized as income over the period of the loan using the effective interest method.

Common Stock and Additional Paid-in Capital
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Additional-paid-in capital' in the statement of financial position. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Subscribed Common Stock
Subscribed common stock is recognized at subscribed amount net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock.

Subscription Receivable
Subscription receivable refers to the total amount of subscription to be received. The Parent Company accounted for the subscription receivable as a contra equity.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
Interest on financial instruments is recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the EIR, the Group estimates cash flows considering 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. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Service charges and penalties
Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Fees and commissions
Loan fees that are directly related to acquisition and origination of loans are included in the cost of the loan and are amortized using the effective interest method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where the Group does not have further obligation to perform under the syndication agreement.

Trading and securities gain (loss) - net
Trading and securities gain - net represents results arising from trading activities, including gains and losses from changes in fair value of financial assets at FVTPL and disposal of AFS investments.

Dividends
Dividends are recognized when the Group's right to receive the payments is established.

Rental
Rental income arising from leased premises is accounted for on a straight-line basis over the lease terms of ongoing leases.

Expense Recognition
An expense is recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest Expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate to.

Retirement Benefits
Defined benefit plans
The Parent Company, BDI and RBNI maintain separate defined benefit plans covering all of its officers and regular employees.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of financial position date reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related defined benefit liability. 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.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements, are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying the discount rate based on 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 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 OCI in the period in which they arise. Remeasurements are not reclassified to statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The 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 risks associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Defined contribution plans
The Parent Company also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan.

BDI also has another plan where it contributes an amount equal to 5.00% of the member's plan salary plus the contribution of the member as deducted from his plan salary.

Payments to the defined contribution plans are recognized as expenses when employees have rendered service in exchange for these contributions.

<u>Leases</u>
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 the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

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

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor
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 period in which they are earned.

<u>Income Taxes</u>
Current tax
Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the tax authority. 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.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all 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 assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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 taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions.

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

Current tax and deferred tax relating to items recognized directly in equity is recognized in OCI and not in the statement of income.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an ‘Interest expense’ in the statement of income.

Contingent Assets and Contingent Liabilities
Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements, unless the possibility of an outflow of assets embodying economic benefits is remote.

Earnings Per Share (EPS)
Basic EPS is computed by dividing the net income for the year 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, if any.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares.

As of December 31, 2014, the Parent Company has partially paid subscribed common stock which will cause dilution of earnings per share.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

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 are presented in Note 6. The Group's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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

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.

Future Changes in Accounting Policies
Standards issued but are not yet effective up to the date of issuance of the financial statements are listed below. This is a listing of standards and interpretation issued, which the Group reasonably expects to be applicable at a future date. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretation to have a significant impact on the financial statements.

Philippine Interpretation of 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 IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Effective January 1, 2015

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

Annual Improvements to PFRSs (2010-2012 cycle)
The *Annual Improvements to PFRSs (2010-2012 cycle)* are effective for annual periods beginning on or after January 1, 2015. These include:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

  - A performance condition must contain a service condition.
  - A performance target must be met while the counterparty is rendering service.
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
  - A performance condition may be a market or non-market condition.
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVTPL whether or not it falls within the scope of PFRS 9, *Financial Instruments*.

- 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 are applied retrospectively and clarify that:

  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The *Annual Improvements to PFRSs (2011-2013 cycle)* are effective for annual periods beginning on or after January 1, 2015. These include:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts.

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

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.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
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.

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. These 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.

- 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.

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.

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 the final version of PFRS 9 will have an effect on the Group's impairment methodology for its financial assets. The Group is currently assessing the impact of adopting this standard.

Standard issued by the IASB but not yet been adopted by the FRSC

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued by IASB in May 2014 and establishes a new 5-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Operating leases

- Group as Lessor
  The Group has entered into commercial property leases on its investment property portfolio. The Group has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by

the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

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

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, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The carrying values and corresponding fair values of financial assets and financial liabilities, as well as the manner in which fair values were determined, are discussed in more detail in Note 4.

Embedded derivatives (upon adoption of PFRS 9)
Where a host instrument is not a financial asset within the scope of PFRS 9, 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.

Embedded derivatives (prior to the adoption of PFRS 9)
Where a hybrid instrument is not classified as financial assets at FVTPL, the Group evaluates whether the embedded derivatives should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Business model test (upon adoption of PFRS 9)
The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers the following:

a. Sales or derecognition of debt instrument under any of the circumstance spelled out under paragraph 7, section 2 of BSP Circular No. 708, Series of 2011;
b. Sales made due to occurrence of events specific to the Group that severely curtails the Group's access to regular sources of liquidity other than the lending facilities of the BSP as lender of last resort in order to forestall the Group's having to default on obligations or entering into financial distress; and
c. Sales made due to occurrence of systemic events affecting the industry that severely curtails access to credit and funding other than the lending facilities of the BSP as lender of last resort in order to forestall the need for the Group to draw on the said emergency lending facilities.

Cash flow characteristics test (upon adoption of PFRS 9)
When the financial assets are held within a business model to collect its contractual cash flows, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 26).

Functional currency
PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Parent Company and its subsidiaries consider the following:

1. 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);
2. The currency in which funds from financing activities are generated; and
3. The currency in which receipts from operating activities are usually retained.

Fair value of investment properties
Fair values of investment properties are determined using valuation methodologies acceptable under PFRS and valuation standards. Management determines the applicable valuation model based on the related income generated from the asset.

Fair value measurement disclosures on investment properties are in Note 4.

Change in use of assets
PAS 40 requires management to use its judgment to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment. The Group assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Reclassifications from and to investment properties are discussed in Notes 15 and 16.

<u>Estimates</u>

Impairment of loans and receivables

The Group reviews its loans and receivables at each statement of financial position date to assess whether an allowance for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance 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 value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 14 and 19, respectively.

Impairment of AFS equity investments (prior to the adoption of PFRS 9)

The Group determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost.

The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more and 'prolonged' as greater than twelve (12) months. In addition, the Group evaluates among other factors, the normal volatility in share price and evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of AFS equity investments and related allowance for impairment losses are disclosed in Notes 12 and 19, respectively.

Impairment of AFS debt investments (prior to the adoption of PFRS 9)

The Group determines that AFS debt investments are impaired based on the same criteria as loans and receivables.

As of December 31, 2013, no impairment losses were recognized on AFS debt investments, which comprise bonds issued by the Philippine Government.

The carrying value of AFS debt investments is disclosed in Note 12.

Amortized cost of financial instruments

The determination of amortized cost on financial instruments includes estimating future payments or receipts from such financial instruments. The Group assesses annually whether new information warrants revisions to such estimates which will require adjusting the carrying amounts of financial instruments, except for reclassified financial assets, to reflect actual or revised estimates of cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original EIR. The adjustment is recognized in the statement of income as income or expense.

In 2012, the Group reassessed its estimates of the timing of settlement for its investments in MRT Bonds as a result of the rating upgrade for MRT III notes and payment of MRT notes tranches 2E and 2D based on expected maturity dates instead of the legal maturity dates, where actual payments made are two (2) years earlier than the original estimates.

The change in estimates reflecting the revised timing of payment based on the actual payment pattern of earlier tranches of MRT notes had the effect of increasing the carrying value of the Group's investment in MRT amounting to $4.99 million (₱204.84 million) as of December 31, 2012 (see Note 14).

Impairment of non-financial assets

- Investments in Subsidiaries and an Associate and Property and Equipment
  The Parent Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investment in subsidiaries and an associate include the following:

  a. Deteriorating or poor financial condition;
  b. Recurring net losses; and
  c. Significant changes with an adverse effect on the subsidiary or associate have taken place during the period, or will take place in the near future, the technological, market, economic, or legal environment in which the subsidiary operates.

  The Group assesses impairment on its property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors that the Group considers important which could trigger an impairment review include the following:

  - Significant underperformance relative to expected historical or projected future operating results;
  - Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
  - Significant negative industry or economic trends.

  The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

  The carrying values of investments in subsidiaries and an associate and property and equipment and are disclosed in Notes 8 and 15, respectively.

- Intangible Assets
  The Group's management conducts an annual review for any impairment in value of its intangible assets. Intangible assets are written down for impairment where the recoverable amount is insufficient to support its carrying value.

  An impairment loss recognized in prior periods shall be reversed if, and 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 this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

The carrying value of intangible assets is disclosed in Note 17.

EULs of property and equipment and software costs
The Group reviews on an annual basis the EULs of property and equipment and software costs based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EULs of property and equipment and software costs would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The EULs of property and equipment and software cost are disclosed in Note 2.

Fair value determination of investment properties and revaluation of land
The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of income. In addition, it measures land at revalued amounts with changes in appraised value being recognized in OCI. The Group engages independent valuation specialists to determine fair and appraised values on a periodic basis.

For condominium units under 'Investment properties', the valuer used a valuation technique based on the income capitalization approach since these properties generate cash flows through rental income.

The fair value of condominium units is most sensitive to the capitalization rate. The key assumptions used to determine the fair value of condominium units are further discussed in Note 4.

Present value of defined benefit obligation
The cost of defined benefit plans, as well as the present value of the defined benefit obligation, is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates and future salary increase rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

In determining the appropriate discount rate, management considers the present value of cash flows (expected benefit payments) as of valuation date determined using the rates from the derived zero yield curve. The discount rate used is the single-weighted uniform discount rate, which when applied to the same cash flows, results in the same present value as of the valuation date. Future salary increase rates are based on expected future inflation rates.

The net defined benefit liability as of December 31, 2014 and 2013 is disclosed in Note 29.

Recognition of deferred tax assets
Deferred tax assets are recognized for unused tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the unused tax losses and temporary differences 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 recognized and unrecognized deferred tax assets are disclosed in Note 32.

4. Fair Value Measurement

The following table provides the fair value hierarchy of the Group's and the Parent Company's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	Consolidated				
	2014				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	**₱307,644**	**₱307,644**	**₱235,987**	**₱71,657**	**₱–**
Private bonds	**376,575**	**376,575**	**376,575**	–	–
Equity securities at FVTOCI	**31,668**	**31,668**	–	**31,668**	–
	715,887	**715,887**	**612,562**	**103,325**	–
Non-financial assets					
Investment properties:					
Foreclosed properties:					
Land	**452,571**	**452,571**	–	–	**452,571**
Building and improvements	**327,465**	**327,465**	–	–	**327,465**
Condominium units for lease	**3,959,178**	**3,959,178**	–	–	**3,959,178**
Land classified under Property and equipment	**489,039**	**489,039**	–	–	**489,039**
	5,228,253	**5,228,253**	–	–	**5,228,253**
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	**12,096,616**	**11,402,317**	**9,216,374**	**2,185,943**	–
Private bonds	**1,174,248**	**1,174,382**	**1,159,828**	–	**14,554**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**21,114,876**	**22,044,782**	–	–	**22,044,782**
Consumer loans	**6,794,468**	**8,116,299**	–	–	**8,116,299**
Unquoted debt securities	**4,638,689**	**5,586,182**	–	–	**5,586,182**
	45,818,897	**48,323,962**	**10,376,202**	**2,185,943**	**35,761,817**
	₱51,763,037	**₱54,268,102**	**₱10,988,764**	**₱2,289,268**	**₱40,990,070**
Liabilities for which fair values are disclosed					
Financial liabilities at amortized cost:					
Time deposits:	**₱45,661,827**	**₱45,626,482**	**₱–**	**₱–**	**₱45,626,482**
Bills payable:					
Banks and other financial institutions	–	–	–	–	–
	₱45,661,827	**₱45,626,482**	**₱–**	**₱–**	**₱45,626,482**

	Consolidated				
	2013				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Held-for-trading	₱104,909	₱104,909	₱104,909	₱–	₱–
AFS investments					
Government securities	20,047,305	20,047,305	8,879,880	11,167,425	–
Equity securities	31,470	31,470	–	31,470	–
	20,183,684	20,183,684	8,984,789	11,198,895	–
Non-financial assets					
Investment properties:					
Foreclosed properties:					
Land	366,226	366,226	–	–	366,226
Building and improvements	116,328	116,328	–	–	116,328

(Forward)

	Consolidated				
	2013				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Condominium units for lease	₱3,341,665	₱3,341,665	₱–	₱–	₱3,341,665
Land classified under Property and equipment	417,029	417,029	–	–	417,029
	4,241,248	4,241,248	–	–	4,241,248
Assets for which fair values are disclosed					
Loans and receivables:					
Receivables from customers:					
Corporate loans	16,246,830	16,541,077	–	–	16,541,077
Consumer loans	2,106,037	2,941,204	–	–	2,941,204
Unquoted debt securities	5,696,615	6,775,255	–	–	6,775,255
	24,049,482	26,257,536	–	–	26,257,536
	₱48,474,414	₱50,682,468	₱8,984,789	₱11,198,895	₱30,498,784
Liabilities for which fair values are disclosed					
Financial liabilities at amortized cost:					
Time deposits:	₱37,007,256	₱37,226,453	₱–	₱–	₱37,226,453
Bills payable:					
Banks and other financial institutions	7,439,150	7,652,200	–	–	7,652,200
	₱44,446,406	₱44,878,653	₱–	₱–	₱44,878,653

	Parent Company				
	2014				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in Active Market (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	**₱307,644**	**₱307,644**	**₱235,987**	**₱71,657**	**₱–**
Private bonds	**376,575**	**376,575**	**376,575**	**–**	**–**
Equity securities at FVTOCI	**31,668**	**31,668**	**–**	**31,668**	**–**
	715,887	**715,887**	**612,562**	**103,325**	**–**
Non-financial assets					
Investment properties:					
Foreclosed properties:					
Land	**259,185**	**259,185**	**–**	**–**	**259,185**
Building and improvements	**306,873**	**306,873**	**–**	**–**	**306,873**
Condominium units for lease	**3,959,178**	**3,959,178**	**–**	**–**	**3,959,178**
Land classified under Property and equipment	**441,307**	**441,307**	**–**	**–**	**441,307**
	4,966,543	**4,966,543**	**–**	**–**	**4,966,543**
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	**12,096,616**	**11,402,317**	**9,216,374**	**2,185,943**	**–**
Private bonds	**1,159,694**	**1,159,828**	**1,159,828**	**–**	**–**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**21,114,876**	**22,044,782**	**–**	**–**	**22,044,782**
Consumer loans	**5,589,667**	**6,911,498**	**–**	**–**	**6,911,498**
Unquoted debt securities	**4,638,689**	**5,586,182**	**–**	**–**	**5,586,182**
	44,599,542	**47,104,607**	**10,376,202**	**2,185,943**	**34,542,462**
	₱50,281,972	**₱52,787,037**	**₱10,988,764**	**₱2,289,268**	**₱39,509,005**
Liabilities for which fair values are disclosed					
Financial liabilities at amortized cost:					
Time deposits:	**₱44,818,420**	**₱44,783,076**	**₱–**	**₱–**	**₱44,783,076**
Bills payable:					
Banks and other financial institutions	**–**	**–**	**–**	**–**	**–**
	₱44,818,420	**₱44,783,076**	**₱–**	**₱–**	**₱44,783,076**

	Parent Company				
	2013				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Held-for-trading	₱104,909	₱104,909	₱104,909	₱–	₱–
AFS investments:					
Government securities:	20,047,305	20,047,305	8,879,880	11,167,425	–
Equity securities	31,470	31,470	–	31,470	–
	20,183,684	20,183,684	8,984,789	11,198,895	–
Non-financial assets					
Investment properties					
Foreclosed properties:					
Land	366,226	366,226	–	–	366,226
Building and improvements	116,328	116,328	–	–	116,328
Condominium units for lease	3,341,665	3,341,665	–	–	3,341,665
Land classified under Property and equipment	417,029	417,029	–	–	417,029
	4,241,248	4,241,248	–	–	4,241,248
Assets for which fair values are disclosed					
Loans and receivables:					
Receivables from customers:					
Corporate loans	16,246,830	16,541,077	–	–	16,541,077
Consumer loans	2,106,037	2,941,204	–	–	2,941,204
Unquoted debt securities	5,696,615	6,775,255	–	–	6,775,255
	24,049,482	26,257,536	–	–	26,257,536
	₱48,474,414	₱50,682,468	₱8,984,789	₱11,198,895	₱30,498,784
Liabilities for which fair values are disclosed					
Financial liabilities at amortized cost:					
Time deposits	₱37,007,256	₱37,226,453	₱–	₱–	₱37,226,453
Bills payable:					
Banks and other financial institutions	7,439,150	7,652,200	–	–	7,652,200
	₱44,446,406	₱44,878,653	₱–	₱–	₱44,878,653

As of December 31, 2014 and 2013, there were no financial instruments carried at fair value that were measured based on Level 3 inputs. Movements in the fair value measurement of nonfinancial assets categorized within Level 3 are discussed in Note 15 for Land and Note 16 for Investment properties.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers out of Level 3 fair value measurements in 2014 and 2013.

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities are as follows:

Investment Securities

Debt securities

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

Quoted equity securities

Fair values of club shares are based on quoted prices published in GG&A Club Shares. GG&A Club Shares is involved in trading and leasing proprietary and non-proprietary club shares.

Unquoted equity securities
Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of carrying at a reliable fair value. These are carried at cost less any allowance for impairment losses. Unquoted equity securities are not significant in relation to the Group's portfolio of financial instruments.

Loans and Receivables
Cash and other cash items, amounts due from BSP and other banks and interbank loans receivable and SPURA
The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits.

Receivables from customers
Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Unquoted debt securities classified as loans
Fair values are estimated based on the discounted cash flow methodology using the interpolated risk-free rates plus spread.

Accrued interest receivable and payable and Returned checks and other cash items (RCOCI)
Carrying amounts approximate fair values due to the short term nature of the accounts, with some items that are due and demandable.

Accounts receivable, sales contracts receivable and refundable security deposits
Quoted market prices are not available for these assets. They are not reported at fair value and are not significant in relation to the Group's total portfolio of financial instruments.

Derivative Assets/Liabilities
Currency forwards
Fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the statement of financial position date, taking into account the remaining term to maturity of the derivative assets/liabilities.

Nonfinancial Assets
Land, condominium units and buildings and improvements
Fair values are based on appraised values determined by professionally qualified and independent appraisers.

Financial Liabilities at Amortized Cost
Deposit liabilities
Fair values of time deposits are estimated based on the discounted cash flow methodology using the current incremental borrowing rates for similar types of borrowings. The carrying amount of demand and savings deposit liabilities approximate fair value considering that these are due and demandable.

Bills payable
Fair value is 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. Where the instrument has a relatively short maturity, the carrying amounts approximate fair values.

Outstanding acceptances, manager's checks, accrued other expenses, accounts payable and marginal deposits
Carrying amounts approximate fair values due to the short term nature of the accounts, with some items that are due and demandable.

Significant Unobservable Inputs
Quantitative information about the Group's and the Parent Company's fair value measurements using significant unobservable inputs (Level 3) follows:

Consolidated				
Description	**Fair Value at December 31, 2014**	**Valuation Technique(s)**	**Unobservable Input (s)**	**Range**
Investment properties (Note 16)				
Foreclosed properties				
Land	**₱452,571**	Market sales comparison approach	Price per square meter	**₱15 - ₱40,500**
Building and improvements	**327,465**	Market sales comparison approach	Price per square meter	**₱10 - ₱54,956**
Condominium units for lease	**3,959,178**	Income capitalization approach	Capitalization rate	**8.30%**
			Vacancy rate	**6.33%**
			Rental rates	**₱679 - ₱1,211**
Land classified under Property and equipment (Note 15)	**489,039**	Market sales comparison approach	Price per square meter	**₱16,000 - ₱100,000**

Parent Company				
Description	**Fair Value at December 31, 2014**	**Valuation Technique(s)**	**Unobservable Input (s)**	**Range**
Investment properties (Note 16)				
Foreclosed properties				
Land	**₱259,185**	Market sales comparison approach	Price per square meter	**₱15 - ₱40,500**
Building and improvements	**306,873**	Market sales comparison approach	Price per square meter	**₱300 - ₱54,956**
Condominium units for lease	**3,959,178**	Income capitalization approach	Capitalization rate	**8.30%**
			Vacancy rate	**6.33%**
			Rental rates	**₱679 - ₱1,211**
Land classified under Property and equipment (Note 15)	**441,307**	Market sales comparison approach	Price per square meter	**₱16,000 - ₱100,000**

Consolidated				
Description	**Fair value at December 31, 2013**	**Valuation Technique(s)**	**Unobservable Input (s)**	**Range**
Investment properties (Note 16)				
Foreclosed properties				
Land	₱366,226	Market sales comparison approach	Price per square meter	₱30 - ₱57,773
Building and improvements	116,328	Market sales comparison approach	Price per square meter	₱1,240 - ₱50,000
Condominium units for lease	3,341,665	Income capitalization approach	Capitalization rate	8.30%
			Vacancy rate	5.00%
			Rental rates	₱632 - ₱1,123
Land classified under Property and equipment (Note 15)	₱417,029	Market sales comparison approach	Price per square meter	₱13,500 - ₱172,566

Parent Company				
Description	**Fair Value at December 31, 2013**	**Valuation Technique(s)**	**Unobservable Input (s)**	**Range**
Investment properties (Note 16)				
Foreclosed properties				
Land	₱366,226	Market sales comparison approach	Price per square meter	₱30 - ₱57,773
Building and improvements	116,328	Market sales comparison approach	Price per square meter	₱1,240 - ₱50,000
Condominium units for lease	3,341,665	Income capitalization approach	Capitalization rate	8.30%
			Vacancy rate	5.00%
			Rental rates	₱632 - ₱1,123
Land classified under Property and equipment (Note 15)	₱417,029	Market sales comparison approach	Price per square meter	₱13,500 - ₱172,566

Investment properties are stated at fair value, which has been determined based on valuations made by professionally qualified appraisers accredited by BSP and SEC. The fair values of foreclosed assets were derived based on market sales comparison approach. Under this approach, recent transactions for similar properties in the same areas as the investment properties were considered, taking into account the economic conditions prevailing at the time the valuation were made. Prices of recent transactions are adjusted to account for differences in a property's size, shape, location, marketability and bargaining allowances. For depreciable properties, other inputs considered in the valuations will include the age and remaining useful life of the building.

On the other hand, the fair value of the condominium units for lease was determined using the income capitalization approach model, a valuation model in accordance with that recommended by the Philippine Valuation Standards. The income capitalization approach model is used since the properties generate revenue from rental income. Income capitalization approach is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step – either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate income factor. The rate of interest calculated represents the relationship between income and value observed in the market and is derived through comparable sales analysis. The income from a property, usually annual net operating income or pre-tax cash flow, is divided by its sale or equity price to obtain the income rate.

The valuation, therefore, is based on the following critical assumptions:

1. Rental rates are based on contracted rental rates as of December 31, 2014 and 2013. All other income and expenses are based on actual amounts earned/incurred in 2014 and 2013.
2. Capitalization rate (income rate) was based on market rent of similar properties which ranges from 8.07% to 9.96% in 2014 and from 7.74% to 10.09% in 2013.
3. The floor areas used in the valuation is the total leasable area.

There has been no change in the valuation techniques used from 2012 to 2014.

5. Financial Risk Management Objectives and Policies

Introduction

Risk is inherent in the Group's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed to the following risks from its financial instruments:

b. Credit risk
c. Liquidity risk
d. Market risk
   i. Interest rate risk
   ii. Foreign currency risk
   iii. Equity price risk

Risk management structure

The Group's risk management environment is characterized by a well-defined risk organizational structure, flow of risk information, risk-based audit coverage, and an established compliance system.

BOD

The BOD is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for identifying and controlling risks; there are, however, separate independent bodies responsible for managing and monitoring risks.

Risk Oversight Committee (ROC)

The ROC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Enterprise Risk Management Group (ERMG)

The ERMG is an independent unit within the Parent Company that directly reports to the ROC. It is the responsibility of the ERMG to identify, analyze and measure risks from the Parent Company's trading, lending, borrowing and other transactional activities. It also recommends control policies and procedures to mitigate risk in identified risk areas in Treasury, Credit, Trust and other areas of operations.

Risk control

The Risk Control function performs the important day-to-day monitoring of risk exposures of the Parent Company against approved limits and reporting of such exposures, and implementation of policies and control procedures.

Treasury segment

The Treasury Segment is responsible for managing the Parent Company's assets and liabilities. It is also primarily responsible for the management of the funding and liquidity risks of the Parent Company.

Internal Audit Group (IAG)
Risk management processes throughout the Group are audited by the IAG which examines both the adequacy of the procedures and the Group's compliance thereto. IAG discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems
The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information gathered from all the businesses is evaluated and processed in order to analyze, control and identify risks early. All significant information is presented to the BOD, the ROC, and the head of each business division. The report includes credit exposure to groups and industries, Value-at-Risk (VaR), liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis for prudential reporting and an annual basis for financial reporting.

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk arises from its lending and trading of securities and foreign exchange activities. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers as well as limits on large lines and industry concentrations. ERMG monitors exposures in relation to these limits.

Through the Group's Credit Management Group (CMG), the Group is able to continually manage credit-related risks in its risk asset portfolio through objective assessments/evaluations of credit proposals prior to presentation to the Credit Committee, ensuring the highest standards of credit due diligence and independence.

The Group obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. The Group's credit risk management process is guided by policies and procedures established by the CMG and approved by the BOD.

The Parent Company has an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The system covers companies with asset size of more than ₱15.00 million and with financial statements audited by SEC accredited auditors starting reporting year 2005. The Parent Company adopted the Bankers Association of the Philippines model which has been approved by the BSP under BSP Circular No. 439 as a minimum standard for an ICRRS. The system has two components, namely: a) Borrower Risk Rating System which provides an assessment of credit risk without considering the security arrangements and b) Facility Risk Factor which is an account rating taking into account the collateral and other credit risk mitigants. The rating scale consists of 14 grades, 10 of which fall under unclassified accounts and while the remaining four are classified accounts according to regulatory provisioning guidelines. The use of the 14 grade rating scale started in June 2013. Previously, the rating scale comprise of 10 grades only (six unclassified and four classified accounts).

The Group has in place a loan portfolio quality and credit process review that allows the Group to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Group's Credit Review Unit under the CMG.

Maximum exposure to credit risk
The table below provides the analysis of the maximum exposure of the Group's and the Parent Company's financial instruments to credit risk, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	Consolidated					
	2014			2013		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Receivables from customers:						
Corporate loans	**₱21,114,876**	**₱20,278,173**	**₱836,703**	₱16,246,830	₱16,015,564	₱231,266
Consumer loans	**6,794,468**	**3,574,686**	**3,219,782**	2,106,037	998,220	1,107,817
Total Credit Exposure	**₱27,909,344**	**₱23,852,859**	**₱4,056,485**	₱18,352,867	₱17,013,784	₱1,339,083

	Parent Company					
	2014			2013		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Receivables from customers:						
Corporate loans	**₱21,114,876**	**₱20,278,173**	**₱836,703**	₱16,246,830	₱16,015,564	₱231,266
Consumer loans	**5,589,667**	**2,467,688**	**3,121,979**	2,106,037	998,220	1,107,817
Total Credit Exposure	**₱26,704,543**	**₱22,745,861**	**₱3,958,682**	₱18,352,867	₱17,013,784	₱1,339,083

For sales contracts receivable, the fair value of collaterals and their corresponding financial effect on credit exposure are no longer disclosed since the system does not regularly monitor such information. The carrying value of these sales contracts receivable are disclosed in Note 14.

Risk concentrations by industry
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

Group exposures and risk concentrations to industries are monitored and reported in accordance with the Group's policies on group lending/inter-corporate earmarking and managing large exposure and credit risk concentrations.

Credit-related commitment risks
The Parent Company makes available to its customers guarantees that may require the Parent Company to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Parent Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Parent Company to similar risks to loans and are mitigated by the same control processes and policies.

The industry sector analysis of the maximum exposure of the Group to credit risk concentration follows (amounts in millions):

	Consolidated									
	December 31, 2014					December 31, 2013				
	Loans and receivables	**Loans and advances to banks***	**Investment securities**	**Others****	**Total**	Loans and receivables	Loans and advances to banks*	Investment securities	Others**	Total
Government	**₱2,023**	**₱12,523**	**₱12,404**	**₱–**	**₱26,950**	₱2,757	₱9,573	₱20,152	₱–	₱32,482
Wholesale and retail trade	**8,470**	–	–	**1,417**	**9,887**	6,357	–	–	1,463	7,820
Manufacturing	**5,916**	–	–	**761**	**6,677**	4,686	–	–	768	5,454
Construction and real estate	**4,784**	–	–	**134**	**4,918**	3,223	–	–	135	3,358
Banks and financial institutions	**2,763**	**2,469**	**11**	–	**5,243**	2,797	864	18	16	3,695
Transportation, storage, communication	**1,884**	–	**833**	–	**2,717**	1,340	–	–	67	1,407
Electricity, gas and water supply	**1,467**	–	–	–	**1,467**	1,509	–	–	–	1,509
Agriculture, hunting and forestry	**874**	–	–	**1**	**875**	482	–	–	–	482
Mining and quarrying	**375**	–	–	**33**	**408**	448	–	–	41	489
Others	**6,842**	–	**750**	**146**	**7,738**	3,320	–	32	59	3,411
	35,398	**14,992**	**13,998**	**2,492**	**66,880**	26,919	10,437	20,202	2,549	60,107
Less allowance for credit and impairment losses	**1,852**	–	–	–	**1,852**	1,922	–	7	–	1,929
	₱33,546	**₱14,992**	**₱13,998**	**₱2,492**	**₱65,028**	₱24,997	₱10,437	₱20,195	₱2,549	₱58,178

* *Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA*
** *Consist of RCOCI, refundable deposits and commitments and contingencies*

	Parent Company									
	December 31, 2014					December 31, 2013				
	Loans and receivables	**Loans and advances to banks***	**Investment securities**	**Others****	**Total**	Loans and receivables	Loans and advances to banks*	Investment securities	Others**	Total
Government	**₱2,011**	**₱12,463**	**₱12,404**	**₱–**	**₱26,878**	₱2,757	₱9,573	₱20,152	₱–	₱32,482
Wholesale and retail trade	**8,460**	–	–	**1,417**	**9,877**	6,357	–	–	1,463	7,820
Manufacturing	**5,916**	–	–	**761**	**6,677**	4,686	–	–	768	5,454
Construction and real estate	**4,765**	–	–	**134**	**4,899**	3,223	–	–	135	3,358
Banks and financial institutions	**2,760**	**2,208**	**11**	–	**4,979**	2,797	864	18	16	3,695
Transportation, storage, communication	**1,884**	–	**833**	–	**2,717**	1,340	–	–	67	1,407
Electricity, gas and water supply	**1,467**	–	–	–	**1,467**	1,509	–	–	–	1,509
Agriculture, hunting and forestry	**370**	–	–	**1**	**371**	482	–	–	–	482
Mining and quarrying	**375**	–	–	**33**	**408**	448	–	–	41	489
Others	**6,148**	–	**736**	**146**	**7,030**	3,320	–	32	59	3,411
	34,156	**14,671**	**13,984**	**2,492**	**65,303**	26,919	10,437	20,202	2,549	60,107
Less allowance for credit and impairment losses	**1,849**	–	–	–	**1,849**	1,922	–	7	–	1,929
	₱32,307	**₱14,671**	**₱13,984**	**₱2,492**	**₱63,454**	₱24,997	₱10,437	₱20,195	₱2,549	₱58,178

* *Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA*
** *Consist of RCOCI, refundable deposits and commitments and contingencies*

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions; cash or securities
- For commercial lending; deposit hold-out, mortgages over real estate properties, machineries, inventory and trade receivables
- For retail lending; mortgages over residential properties.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Collaterals obtained by the Group from settlement of loan and receivables in 2014 and 2013 and which remain outstanding as of December 31, 2014 and 2013 amounted to ₱115.88 million and ₱98.23 million, respectively (see Note 16).

The Group does not hold collateral on financial assets which it may sell or repledge in the absence of default by the owner of the collateral.

Credit quality per class of financial assets

Loans and Receivables
Description of the loan grades or Internal Credit Risk Rating used by the Group for corporate commercial loans follows:

Borrower's Risk Rating (BRR) Grade	Description
1	Excellent
2	Strong
3	Good
4	Fairly Good
5	Satisfactory
6	Fairly Satisfactory
7	Acceptable
8	Acceptable with care
9	Acceptable with caution
10	Watch List
11	Loans Especially Mentioned
12	Substandard
13	Doubtful
14	Loss

The grades are defined as follows:

Excellent - An obligor rated 1 has an excellent capacity to meet its financial commitments with minimal credit risk.

Strong - An obligor rated 2 has a strong capacity to meet its financial commitments with very low credit risk.

Good - An obligor rated 3 has a good capacity to meet its financial commitments with low credit risk.

Fairly Good - An obligor rated 4 differs from rated 3 obligor only to a small degree and has a fairly good capacity to meet its financial commitments with low credit risk.

Satisfactory - An obligor rated 5 has a satisfactory capacity to meet its financial commitments with moderate credit risk.

Fairly Satisfactory - An obligor rated 6 has a fairly satisfactory capacity to meet its financial commitments with moderate credit risk.

Acceptable - An obligor rated 7 has an acceptable capacity to meet its financial commitments with substantial credit risk.

Acceptable with Care - A credit, though acceptable, needs care in granting facilities. However, the borrower is still creditworthy.

Acceptable with Caution - A credit, though acceptable, needs significant caution to be exercised while granting facilities to the borrower. The borrower is still creditworthy but has problems that need to be addressed.

Watch List - Below standard. An obligor rated 10 is judged to be of poor credit standing and is subject to high default risk.

Loans Especially Mentioned - These are loans that have unlocated collateral folders and documents, not supported by board resolutions authorizing the borrowings, without credit investigation report or not supported by documents required under Subsection 4312Q.1 of the Manual of Regulations for Banks.

Substandard - Loans which involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics.

Doubtful - Loans which have existing facts, conditions, and values that make collection or liquidation in full highly improbable and in which substantial loss is probable.

Loss - Loans which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of the Group's loans and receivables from customers, which is based on the ICRRS grade, is grouped as follows:

High Grade (BRR 1 to 7)
Under this category, the borrower has the apparent ability to satisfy its obligations in full and therefore, no loss in ultimate collection is anticipated. These loans or portions thereof are secured by hold-outs on deposits/deposit substitute, margin deposits or government-supported securities, other readily marketable collateral or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

Standard Grade (BRR 8 to 10)
Under this category are accounts not considered adversely classified but require close supervision/monitoring due to some warning signals such as start-up business, substantial changes in the business affecting operation or management, three continuous years of substantial decline in income (exclusive of extraordinary income/losses).

Substandard Grade or Past-Due (BRR 11 to 14)
Under this category are loans which exhibit unfavorable record or unsatisfactory characteristics, or where existing facts, conditions and values, make collection or liquidation in full improbable. Positive and vigorous management action is required to avert or minimize loss.

Due from Bank, Interbank Receivables, Government Securities and Corporate Investments
The Group follows an internally developed risk rating system for local banks and external risk ratings [i.e. Standard and Poor's (S&P)] for foreign banks, government securities and corporate investments.

A description of the rating systems for local banks follows:

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

Standard Grade (Tier 2 to Tier 3)
These are accounts that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the financial instrument thus increase credit risk to the Group.

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

Tier 3 - Banks categorized under this tier may deteriorate to substandard within one year under very difficult market conditions. These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱3.00 billion to less than ₱4.50 billion and net income of ₱200.00 million to less than ₱400.00 million are included in this category.

Substandard Grade (Tier 4)
Tier 4 - These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱1.50 billion to less than ₱3.00 billion and net income of ₱70.00 million to less than ₱200.00 million are included in this category.

The following is the credit rating scale applicable for foreign banks, government securities, and corporate investment outlets (aligned with S&P ratings):

AAA - Obligor's capacity to meet its financial commitment is extremely strong.

AA - Obligor's capacity to meet its financial commitment is very strong. It differs from the highest-rated obligors at a minimal degree.

A - Obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors rated in higher-rated categories.

BBB and below:

BBB - Obligation rated 'BBB' has adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - Obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - Obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - Obligation is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC - Obligation is currently highly vulnerable to nonpayment.

C - Obligations are currently highly vulnerable to nonpayment, payment arrearages allowed by the terms of the documents, and subject of a bankruptcy petition or similar action which have not experienced a payment default.

Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

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

The tables below shows the credit quality by class of financial assets based on the credit rating system of the Group and the Parent Company.

Consolidated

	2014						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Due from BSP	₱–	₱–	₱–	₱12,522,613	₱–	₱–	₱12,522,613
Due from other banks	64,745	353,116	56,861	–	–	–	474,722
	64,745	353,116	56,861	12,522,613	–	–	12,997,335
Loans and receivables:							
Receivables from customers*:							
Corporate	19,609,625	1,293,693	323,140	–	42,832	1,036,609	22,305,899
Consumer	4,825,369	1,129,871	357,517	–	597,880	–	6,910,637
Unquoted debt securities	3,082,597	–	–	1,556,092	–	–	4,638,689
Accounts receivable	–	130,993	6,331	432,615	–	75,899	645,838
Accrued interest receivable	273,830	12,815	1,752	111,179	9,019	270,209	678,804
Sales contracts receivable	–	182,662	–		23,747	11,887	218,296
RCOCI	–	–	–	21,673	–	–	21,673
Refundable security deposits	–	–	–	35,836	–	–	35,836
	27,791,421	2,750,034	688,740	2,157,395	673,478	1,394,604	35,455,672
Total	₱27,856,166	₱3,103,150	₱745,601	₱14,680,008	₱673,478	₱1,394,604	₱48,453,007

**At gross amount but net of unearned discounts*

	AA	A	BBB and Below	Total
Due from other banks	₱104,303	₱1,045,261	₱12,355	₱1,161,919
Interbank loans receivable	394,740	148,424	289,440	832,604
Financial assets at FVTPL				
Government securities	–	–	307,644	307,644
Private bonds	–	–	376,575	376,575
Investment securities at amortized cost				
Government securities	–	–	12,096,616	12,096,616
Private bonds	–	–	1,174,248	1,174,248
Equity securities at FVTOCI				
Quoted	–	–	31,668	31,668
Unquoted	–	–	11,307	11,307
	₱499,043	₱1,193,685	₱14,299,853	₱15,992,581

Parent Company

	2014						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Due from BSP	₱–	₱–	₱–	₱12,463,067	₱–	₱–	₱12,463,067
Due from other banks	64,745	92,120	56,862	–	–	–	213,727
	64,745	92,120	56,862	12,463,067	–	–	12,676,794
Loans and receivables:							
Receivables from customers*:							
Corporate	19,609,625	1,293,693	323,140	–	42,832	1,036,609	22,305,899
Consumer	4,825,369	–	282,587	–	597,880	–	5,705,836
Unquoted debt securities	3,082,597		–	1,556,092	–	–	4,638,689
Accounts receivable	–	129,698	9,220	424,011	–	75,899	638,828
Accrued interest receivable	273,830	3,187	534	105,238	9,019	270,209	662,017
Sales contracts receivable	–	175,266	–		16,996	11,887	204,149
RCOCI	–		–	21,673	–	–	21,673
Refundable security deposits	–		–	35,836	–	–	35,836
	27,791,421	1,601,844	615,481	2,142,850	666,727	1,394,604	34,212,927
Total	₱27,856,166	₱1,693,964	₱672,343	₱14,605,917	₱666,727	₱1,394,604	₱46,889,721

**At gross amount but net of unearned discounts*

	AA	**A**	**BBB and Below**	**Total**
Due from other banks	**₱104,303**	**₱1,045,261**	**₱12,355**	**₱1,161,919**
Interbank loans receivable	**394,740**	**148,424**	**289,440**	**832,604**
Financial assets at FVTPL				
Government securities	**–**	**–**	**307,644**	**307,644**
Private bonds	**–**	**–**	**376,575**	**376,575**
Investment securities at amortized cost				
Government securities	**–**	**–**	**12,096,616**	**12,096,616**
Private bonds	**–**	**–**	**1,159,694**	**1,159,694**
Equity securities at FVTOCI				
Quoted	**–**	**–**	**31,668**	**31,668**
Unquoted	**–**	**–**	**11,307**	**11,307**
	₱499,043	**₱1,193,685**	**₱14,285,299**	**₱15,978,027**

Consolidated							
2013							
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Due from BSP	₱–	₱–	₱–	₱9,573,407	₱–	₱–	₱9,573,407
Due from other banks	60,178	28,544	13,698	–	–	–	102,420
	60,178	28,544	13,698	9,573,407	–	–	9,675,827
Loans and receivables:							
Receivables from customers*:							
Corporate	9,190,432	6,874,392	71,328	–	154,831	1,162,900	17,453,883
Consumer	–	2,027,969	–	–	101,498	14,383	2,143,850
Unquoted debt securities	3,297,000	–	–	2,399,615	–	–	5,696,615
Accounts receivable	–	42,914	1,564	425,675	–	93,438	563,591
Accrued interest receivable	–	167,248	–	293,544	–	491,831	952,623
Sales contracts receivable	–	79,067	–	–	18,074	11,888	109,029
RCOCI	–	–	–	6,158	–	–	6,158
Refundable security deposits	–	–	–	25,200	–	–	25,200
	12,487,432	9,191,590	72,892	3,150,192	274,403	1,774,440	26,950,949
Total	₱12,547,610	₱9,220,134	₱86,590	₱12,723,599	₱274,403	₱1,774,440	₱36,626,776

**At gross amount but net of unearned discounts*

	AA	A	BBB and below	Total
Due from other banks	₱92,034	₱466,597	₱257	₱558,888
Interbank loans receivable	44,671	157,879	–	202,550
Financial assets at FVTPL:				
Government securities	–	–	104,909	104,909
AFS investments:				
Government securities	–	–	20,047,305	20,047,305
Equity securities:				
Quoted	–	–	31,470	31,470
Unquoted	–	–	11,307	11,307
	₱136,705	₱624,476	₱20,195,248	₱20,956,429

Parent Company							
	2013						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Due from BSP	₱–	₱–	₱–	₱9,573,407	₱–	₱–	₱9,573,407
Due from other banks	60,178	28,544	13,698	–	–	–	102,420
	60,178	28,544	13,698	9,573,407	–	–	9,675,827
Loans and receivables:							
Receivables from customers*:							
Corporate	9,190,432	6,874,392	71,328	–	154,831	1,162,900	17,453,883
Consumer	–	2,027,969	–	–	101,498	14,383	2,143,850
Unquoted debt securities	3,297,000	–	–	2,399,615	–	–	5,696,615
Accounts receivable	–	42,914	1,564	425,675	–	93,438	563,591
Accrued interest receivable	–	167,248	–	293,544	–	491,831	952,623
Sales contracts receivable	–	79,067	–	–	18,074	11,888	109,029
RCOCI	–	–	–	6,158	–	–	6,158
Refundable security deposits	–	–	–	25,200	–	–	25,200
	12,487,432	9,191,590	72,892	3,150,192	274,403	1,774,440	26,950,949
Total	₱12,547,610	₱9,220,134	₱86,590	₱12,723,599	₱274,403	₱1,774,440	₱36,626,776

***At gross amount but net of unearned discounts*

	AA	A	BBB and Below	Total
Due from other banks	₱92,034	₱466,597	₱257	₱558,888
Interbank loans receivable	44,671	157,879	–	202,550
Financial assets at FVTPL				
Government securities	–	–	104,909	104,909
AFS investments				
Government securities	–	–	20,047,305	20,047,305
Equity securities				
Quoted	–	–	31,470	31,470
Unquoted	–	–	11,307	11,307
	₱136,705	₱624,476	₱20,195,248	₱20,956,429

As of December 31, 2014 and 2013, restructured loans by the Group which are neither past due nor impaired are as follows:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Receivable from customers:				
Corporate	**₱51,122**	₱68,450	**₱51,122**	₱68,450
Consumer	**532**	378	**441**	378

Impaired loans and receivables and investment securities

Impaired loans and receivables and investment securities are those for which the Group determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory note and securities agreements.

Aging analysis of past due but not impaired loans per class of financial assets
Aging analysis of past due but not impaired financial assets are shown below:

	Consolidated					
	December 31, 2014					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Greater than 1 Year**	**Total**
Receivable from customer:						
Corporate loans	**₱42,832**	**₱–**	**₱–**	**₱–**	**₱–**	**₱42,832**
Consumer loans	**394,195**	**203,685**	**–**	**–**	**–**	**597,880**
Accrued interest receivable	**3,943**	**5,001**	**75**	**–**	**–**	**9,019**
Sales contract receivable	**6,295**	**7,103**	**3,598**	**–**	**6,751**	**23,747**
	₱447,265	**₱215,789**	**₱3,673**	**–**	**₱6,751**	**₱673,478**

	Parent Company					
	December 31, 2014					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Greater than 1 Year**	**Total**
Receivable from customer:						
Corporate loans	**₱42,832**	**₱–**	**₱–**	**₱–**	**₱–**	**₱42,832**
Consumer loans	**394,195**	**203,685**	**–**	**–**	**–**	**597,880**
Accrued interest receivable	**3,943**	**5,001**	**75**	**–**	**–**	**9,019**
Sales contract receivable	**6,295**	**7,103**	**3,598**	**–**	**–**	**16,996**
	₱447,265	**₱215,789**	**₱3,673**	**₱–**	**₱–**	**₱666,727**

	Consolidated					
	December 31, 2013					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivable from customer:						
Corporate loans	₱124,203	₱26,878	₱–	₱–	₱3,750	₱154,831
Consumer loans	67,938	27,968	5,592	–	–	101,498
Sales contract receivable	5,897	–	2,686	–	9,491	18,074
	₱198,038	₱54,846	₱8,278	₱–	₱13,241	₱274,403

	Parent Company					
	December 31, 2013					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivable from customer:						
Corporate loans	₱124,203	₱26,878	₱–	₱–	₱3,750	₱154,831
Consumer loans	67,938	27,968	5,592	–	–	101,498
Sales contract receivable	5,897	–	2,686	–	9,491	18,074
	₱198,038	₱54,846	₱8,278	₱–	₱13,241	₱274,403

Liquidity Risk and Funding Management
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. In addition, the Group makes use of a monthly system generated Liquidity Gap Report in analyzing its liquidity position where the difference between the Group's maturing assets and liabilities is captured. A Maximum Cumulative Outflow limit is likewise established to control the liquidity gap for each currency. The Asset and Liability Committee (ALCO) meets twice every month to discuss among others the liquidity state of the Group.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the BSP equal to 20.00% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The most important of these is to maintain limits on the ratio of spot liquidity position-to-deposit liabilities and liquid assets-to-deposit liabilities, set to reflect market conditions. Spot Liquidity Position or simply Spot Position represents the amount of cash readily available for funding assets and liabilities. Liquid assets consists of cash and cash equivalents, due from other banks, due from BSP, interbank call loans receivables and investments in debt securities.

Analysis of financial instruments by remaining contractual maturities
The tables below summarize the maturity profile of the Group's and the Parent Company's financial instruments as of December 31, 2014 and 2013, based on undiscounted contractual payments except for financial assets at FVTPL. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group and the Parent Company expect that many customers will not request repayment on the earliest date the Group and the Parent Company could be required to pay and the table does not reflect the expected cash flows indicated by the Group's and the Parent Company's deposit retention history (amounts in millions):

	Consolidated					
	December 31, 2014					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 years*	Total
Financial assets						
Financial assets at FVTPL	**₱–**	**₱684**	**₱–**	**₱–**	**₱–**	**₱684**
Investment securities at amortized cost:						
Government securities	–	**308**	**531**	**891**	**19,272**	**21,002**
Private bonds	–	**32**	**39**	**63**	**1,510**	**1,644**
Loans and receivables:						
Due from BSP	**12,523**	–	–	–	–	**12,523**
Due from other banks	–	**1,518**	**119**	–	–	**1,637**
Interbank loans receivable and SPURA	–	**833**	–	–	–	**833**
Receivables from customers:						
Corporate	**1,424**	**11,254**	**5,674**	**1,508**	**3,672**	**23,532**
Consumer	**156**	**39**	**780**	**1,582**	**8,572**	**11,129**
Total financial assets	**₱14,103**	**₱14,668**	**₱7,143**	**₱4,044**	**₱33,026**	**₱72,984**

	Consolidated					
	December 31, 2014					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 years***	**Total**
Financial liabilities						
Deposit liabilities:						
Demand	**₱9,221**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,221**
Savings	**4,228**	**–**	**–**	**–**	**–**	**4,228**
Time	**90**	**24,803**	**16,689**	**1,043**	**3,680**	**46,305**
Bills payable:						
Private firms and individuals	**–**	**3,107**	**2**	**–**	**–**	**3,109**
Banks and other financial instutions		**317**				**317**
Outstanding acceptances	**26**	**–**	**–**	**–**	**–**	**26**
Manager's checks	**211**	**–**	**–**	**–**	**–**	**211**
Accrued interest payable	**2**	**72**	**17**	**–**	**–**	**91**
Accrued other expense	**190**	**–**	**–**	**–**	**–**	**190**
Other liabilities:						
Accounts payable	**230**	**–**	**–**	**–**	**–**	**230**
Refundable security deposits		**6**	**17**	**21**	**44**	**88**
Due to the Treasurer of the Philippines	**–**	**18**	**–**	**–**	**–**	**18**
Total financial liabilities	**₱14,198**	**₱28,323**	**₱16,725**	**₱1,064**	**₱3,724**	**₱64,034**

**Including non-performing loans and receivables*

	Consolidated					
	December 31, 2013					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱105	₱–	₱–	₱–	₱–	₱105
AFS investments:						
Government securities	–	7,320	538	1,387	29,773	39,018
Loans and receivables:						
Due from BSP	9,573	–	–	–	–	9,573
Due from other banks	661	–	–	–	–	661
Interbank loans receivable and SPURA	158	45	–	–	–	203
Receivables from customers:						
Corporate	–	9,606	3,724	1,060	4,283	18,673
Consumer	–	4	88	562	2,926	3,580
Other assets:						
Derivatives						
Gross contractual receivable	–	6	–	–	–	6
Gross contractual payable	–	(6)	–	–	–	(6)
Total financial assets	₱10,497	₱16,975	₱4,350	₱3,009	₱36,982	₱71,813
Financial liabilities						
Deposit liabilities:						
Demand	₱7,183	₱–	₱–	₱–	₱–	₱7,183
Savings	3,090	–	–	–	–	3,090
Time	2,152	31,816	303	1	2,941	37,213
Bills payable:						
PDIC	–	7,658	–	–	–	7,658

(Forward)

	Consolidated					
	December 31, 2013					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Banks and other financial institutions	₱–	₱459	₱–	₱–	₱–	₱459
Private firms and individuals	–	1,581	25	–	–	1,606
Outstanding acceptances	43	–	–	–	–	43
Manager's checks	174	–	–	–	–	174
Accrued interest payable	59	35	–	–	–	94
Accrued other expense	169	–	–	–	–	169
Other liabilities:						
Accounts payable	103	–	–	–	–	103
Refundable security deposits	–	6	20	56	–	82
Due to the Treasurer of the Philippines	–	19	–	–	–	19
Total financial liabilities	₱12,973	₱41,574	₱348	₱57	₱2,941	₱57,893

**Including non-performing loans and receivables*

	Parent Company					
	December 31, 2014					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial assets						
Financial assets at FVTPL	**₱–**	**₱684**	**₱–**	**₱–**	**₱–**	**₱684**
Investment securities at amortized cost:						
Government securities	**–**	**308**	**531**	**891**	**19,272**	**21,002**
Private bonds	**–**	**32**	**39**	**63**	**1,510**	**1,644**
Loans and receivables:						
Due from BSP	**12,463**	**–**	**–**	**–**	**–**	**12,463**
Due from other banks	**–**	**1,376**	**–**	**–**	**–**	**1,376**
Interbank loans receivable and SPURA	**–**	**833**	**–**	**–**	**–**	**833**
Receivables from customers:						
Corporate	**1,424**	**11,254**	**5,674**	**1,508**	**3,672**	**23,532**
Consumer	**156**	**13**	**355**	**1,471**	**7,084**	**9,079**
Total financial assets	**₱14,043**	**₱14,500**	**₱6,599**	**₱3,933**	**₱31,538**	**₱70,613**
Financial liabilities						
Deposit liabilities:						
Demand	**₱9,450**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,450**
Savings	**3,488**	**–**	**–**	**–**	**–**	**3,488**
Time	**90**	**24,546**	**16,368**	**1,012**	**3,289**	**45,305**
Bills payable:						
Private firms and individuals	**–**	**3,106**	**2**	**–**	**–**	**3,108**
Banks and other financial instutions		**314**				**314**
Outstanding acceptances	**26**	**–**	**–**	**–**	**–**	**26**
Manager's checks	**211**	**–**	**–**	**–**	**–**	**211**
Accrued interest payable	**1**	**69**	**14**	**1**	**1**	**86**
Accrued other expense	**189**	**–**	**–**	**–**	**–**	**189**
Other liabilities:						
Accounts payable	**221** –	–	–	–		**221**
Refundable security deposits		**6**	**17**	**21**	**44**	**88**
Due to the Treasurer of the Philippines	**–**	**18**	**–**	**–**	**–**	**18**
Total financial liabilities	**₱13,676**	**₱28,059**	**₱16,401**	**₱1,034**	**₱3,334**	**₱62,504**

**Including non-performing loans and receivables*

	Parent Company					
	December 31, 2013					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱105	₱–	₱–	₱–	₱–	₱105
AFS investments:						
Government securities	–	7,320	538	1,387	29,773	39,018
Loans and receivables:						
Due from BSP	9,573	–	–	–	–	9,573
Due from other banks	661	–	–	–	–	661
Interbank loans receivable and SPURA	158	45	–	–	–	203
Receivables from customers:						
Corporate	–	9,606	3,724	1,060	4,283	18,673
Consumer	–	4	88	562	2,926	3,580
Other assets:						
Derivatives:						
Gross contractual receivable	–	6	–	–	–	6
Gross contractual payable	–	(6)	–	–	–	(6)
Total financial assets	₱10,497	₱16,975	₱4,350	₱3,009	₱36,982	₱71,813
Financial liabilities						
Deposit liabilities:						
Demand	₱7,183	₱–	₱–	₱–	₱–	₱7,183
Savings	3,090	–	–	–	–	3,090
Time	2,152	31,816	303	1	2,941	37,213
Bills payable:						
PDIC	–	7,658	–	–	–	7,658
Banks and other financial institutions	–	194	–	–	–	194
Private firms and individuals	–	1,581	25	–	–	1,606
Outstanding acceptances	43	–	–	–	–	43
Manager's checks	174	–	–	–	–	174
Accrued interest payable	59	35	–	–	–	94
Accrued other expense	169	–	–	–	–	169
Other liabilities:						
Accounts payable	103	–	–	–	–	103
Refundable security deposits	–	6	20	57	–	83
Due to the Treasurer of the Philippines	–	19	–	–	–	19
Total financial liabilities	₱12,973	₱41,309	₱348	₱58	₱2,941	₱57,629

**Including non-performing loans and receivables*

The table below shows the contractual expiry of the Group's and the Parent Company's commitments and contingent liabilities as of December 31, 2014 and 2013 (amounts in millions):

	Consolidated				
	December 31, 2014				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Beyond 1 Year**	**Total**
Unused Commercial LC:					
Standby LC	**₱28**	**₱547**	**₱549**	**₱–**	**₱1,124**
Sight LC outstanding	**463**	**53**	**–**	**–**	**516**
Usance LC outstanding	**95**	**49**	**1**	**–**	**145**
Outstanding shipping guarantees	**–**	**–**	**596**	**–**	**596**
	₱586	**₱649**	**₱1,146**	**₱–**	**₱2,381**

	Consolidated				
	December 31, 2013				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
Unused Commercial LC:					
Standby LC	₱71	₱137	₱948	₱–	₱1,156
Sight LC outstanding	18	189	117	–	324
Usance LC outstanding	4	522	11	–	537
Outstanding shipping guarantees	–	–	500	–	500
	₱93	₱848	₱1,576	₱–	₱2,517

	Parent Company				
	December 31, 2014				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Beyond 1 Year**	**Total**
Unused Commercial LC:					
Standby LC	**₱28**	**₱547**	**₱549**	**₱–**	**₱1,124**
Sight LC outstanding	**463**	**53**	**–**	**–**	**516**
Usance LC outstanding	**95**	**49**	**1**	**–**	**145**
Outstanding shipping guarantees	**–**	**–**	**596**	**–**	**596**
	₱586	**₱649**	**₱1,146**	**₱–**	**₱2,381**

	Parent Company				
	December 31, 2013				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
Unused Commercial LC:					
Standby LC	₱71	₱137	₱948	₱–	₱1,156
Sight LC outstanding	18	189	117	–	324
Usance LC outstanding	4	522	11	–	537
Outstanding shipping guarantees	–	–	500	–	500
	₱93	₱848	₱1,576	₱–	₱2,517

The table below shows the different credit risk exposures of the Group by risk weight applied in accordance with BSP Circular No. 538:

	Consolidated						
	December 31, 2014						
	Net	**Risk Weights[(b)]**					
	Exposures[(a)]	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets[(c)]	**₱71,391**	**₱24,524**	**₱699**	**₱5,759**	**₱–**	**₱39,681**	**₱729**
Credit risk weighted on-balance sheet assets (d = b x c)	**43,793**	–	**140**	**2,880**	–	**39,681**	**1,093**
Off-balance sheet assets[(e)]	**8,572**	**6,158**	**1,290**	–	–	**1,124**	–
Credit risk weighted off-balance sheet assets (f = b x e)	**1,382**	–	**258**	–	–	**1,124**	–
Total Credit Risk Weighted Assets[(d + f)]	**₱45,175**	**₱–**	**₱398**	**₱2,880**	**₱–**	**₱40,805**	**₱1,093**

(a) Net of specific provisions

	Consolidated						
	December 31, 2013						
	Net	Risk Weights[(b)]					
	Exposures[(a)]	0%	20%	50%	75%	100%	150%
On-balance sheet assets[(c)]	₱65,630	₱29,896	₱137	₱3,603	₱–	₱31,602	₱392
Credit risk weighted on-balance sheet assets (d = b x c)	34,019	–	27	1,802	–	31,602	588
Off-balance sheet assets[(e)]	8,559	5,953	1,450	–	–	1,156	–
Credit risk weighted off-balance sheet assets (f = b x e)	1,446	–	290	–	–	1,156	–
Total Credit Risk Weighted Assets[(d + f)]	₱35,465	₱–	₱317	₱1,802	₱–	₱32,758	₱588

(a) Net of specific provisions

	Parent Company						
	December 31, 2014						
	Net	**Risk Weights[(b)]**					
	Exposures[(a)]	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets[(c)]	**₱69,177**	**₱24,404**	**₱699**	**₱5,759**	**₱–**	**₱37,411**	**₱904**
Credit risk weighted on-balance sheet assets (d = b x c)	**41,787**	–	**140**	**2,880**	–	**37,411**	**1,356**
Off-balance sheet assets[(e)]	**8,572**	**6,158**	**1,290**	–	–	**1,124**	–
Credit risk weighted off-balance sheet assets (f = b x e)	**1,382**	–	**258**	–	–	**1,124**	–
Total Credit Risk Weighted Assets[(d + f)]	**₱43,169**	**₱–**	**₱398**	**₱2,880**	**₱–**	**₱38,535**	**₱1,356**

(a) Net of specific provisions

	Parent Company						
	December 31, 2013						
	Net	Risk Weights[b]					
	Exposures[a]	0%	20%	50%	75%	100%	150%
On-balance sheet assets[c]	₱65,630	₱29,896	₱137	₱3,603	₱–	₱31,602	₱392
Credit risk weighted on-balance sheet assets (d = b x c)	34,019	–	27	1,802	–	31,602	588
Off-balance sheet assets[e]	8,559	5,953	1,450	–	–	1,156	–
Credit risk weighted off-balance sheet assets (f = b x e)	1,446	–	290	–	–	1,156	–
Total Credit Risk Weighted Assets[d + f]	₱35,465	₱–	₱317	₱1,802	₱–	₱32,758	₱588

(a) Net of specific provisions

Market Risk Management

Market risk is the risk 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, commodity prices, equity prices and other market changes. The Group's market risk originates from the Parent Company's holdings of foreign exchange instruments, debt securities, equity securities and derivatives.

VaR

Value-at-Risk (VaR) is a statistical estimate of potential loss given prevailing market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, a given "confidence level" over a specified time horizon. VaR is used to alert senior management whenever the potential for losses in the Parent Company's portfolios exceeds the VaR limit. This allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with the Parent Company's risk philosophy and appetite.

In April 2014, the Parent Company commenced using Bloomberg's Portfolio VaR (PORT) module in its VaR computation. Bloomberg's PORT is run on a Parametric VaR model whose data set contains 1 year of historical prices and a daily update of its variance/covariance matrix. In accordance with BSP standards, the Parent Company uses a 99.00% confidence level and a 10-day defeasance period. This means, that statistically, the Parent Company's losses on trading operations will exceed VaR on at least 1 out of 100 trading business days.

The Market & Liquidity Risk Officer runs VaR on a daily basis, monitors the VaR against the Board approved VaR limit and submits Daily VaR Reports to concerned division/group/segment heads.

To verify the validity of the VaR model used, the Market & Liquidity Risk Manager through quarterly back testing procedure performed by Treasury Operations Division examines how frequently actual daily losses exceeds the daily VaR. Backtesting results are reviewed by the Chief Risk Officer. Exceptions, if any, are reported to the ROC and the BOD.

There were none and 33 recorded exemptions and in the USD ROP VaR limit and Peso government securities VaR limit for 2014 and 2013, respectively.

Since VaR is designed to describe risk in normal market conditions (i.e. 99.00% of the time), it may not capture potential losses in the extreme that occur following movements outside the prevailing market trend. Stress testing is done to address extreme market conditions.

Starting February 2014, changes were made in the VaR computation for USD ROPs to take into account foreign exchange rate risk between US dollar and Peso.

A summary of the VaR position of USD ROP exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate and Foreign Exchange		Interest Rate
	USD ROP from February to December 2014 (in Peso MM)	**USD ROP for January 2014 (In USD MM)**	USD ROP 2013 (In USD MM)
31 December	**128.66**		2.42
Average Daily	**116.45**	**2.22**	1.90
Highest	**151.15**	**2.45**	2.83
Lowest	**84.42**	**1.95**	1.22

A summary of the VaR position of Peso government securites exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate	
	Peso GS 2014 (In Peso MM)	Peso GS 2013 (In Peso MM)
31 December	**404.05**	550.78
Average Daily	**495.42**	435.95
Highest	**679.09**	636.36
Lowest	**370.44**	187.59

Stress testing

The Parent Company likewise performs stress testing on its FX trading position and on its outstanding investment portfolios. Stress testing is a technique used to determine the impact on earnings of above position/portfolios from conditions or scenarios deemed “extreme” but plausible. Stress testing is used to inform senior management as to where vulnerabilities in the Parent Company’s portfolio actually lie.

This helps the Parent Company evaluate its tolerance for risks and understand the combinations of risks that can produce large losses.

Unlike VaR, which reflects price behavior in everyday markets, stress tests simulate portfolio performance during abnormal market periods. Accordingly, they provide information about risks falling outside those typically captured by the VaR framework. Hence, losses resulting from stress tests are larger than the losses predicted by the VaR model.

The Parent Company’s Market & Liquidity Risk Manager performs the stress testing of traded securities using uniform set of market stress shocks as prescribed by the BSP under their Uniform Stress Testing Program for Banks. The stress testing is conducted quarterly and its results are reported to the ROC and BOD.

To identify possible episodes of stress in the domestic financial market, Market & Liquidity Risk Management Unit employs the Citi Early Warning Signal Risk Index – Philippines that measure stress in economic and financial variables with a view of predicting weakness in local currencies.

A reading above 0.5 means that stress is above average and a reading below 0.5 means that stress is below average. The risk index level is reported monthly to ALCO and quarterly to ROC.

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in the interest rates will affect future cash flows or the fair value of financial instruments. The Group follows a prudent policy on managing its assets and liabilities so as to ensure that the exposure to fluctuations in interest rates is kept within acceptable limits.

A substantial proportion of the total loan portfolio is for a term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating-rate basis. As of December 31, 2014 and 2013, 57.09% and 79.07%, respectively, of the Group's total loan portfolio comprised floating rate loans which are repriced periodically by reference to the transfer pool rate which reflects the Group's internal cost of funds. As a result of these factors, the Group's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Group, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers. Interest is paid on substantial portion of demand accounts which constituted 16.36% and 15.19% respectively of total deposits of the Group as of December 31, 2014 and 2013, respectively, and pays a variable interest rate of 0.13% to 1.00% and fixed rate of 0.13%. Rates on savings accounts and time deposit accounts, which constituted 6.04% and 77.60%, respectively, of total deposits as of December 31, 2013 and 6.54% and 78.27%, respectively, of total deposits as of December 31, 2013 are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special savings accounts are usually priced by reference to rates applicable to prevailing rates on Philippine Treasury Bills and other money market instruments or, in the case of foreign currency deposits, Singapore Interbank Offer Rate and other benchmark dollar deposit rates in the Asian and international money markets with similar maturities.

The following table provides for the average EIR by period of maturity or repricing of the Group as of December 31, 2014 and 2013:

	2014			2013		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	**0.930%**	–	–	0.44%	–	–
Interbank loans	**1.333%**	–	–	3.50%	–	–
Loans and receivables	**47.87%**	**27.97%**	**24.13%**	7.97%	8.10%	10.97%
Liabilities						
Deposit liabilities	**2.611%**	**1.937%**	**4.147%**	2.83%	2.63%	4.04%
Bills payable	**1.05%**	**5.12%**		3.25%	–	–
Foreign currency-denominated assets						
Due from banks	**0.01%**	–	–	0.27%	–	–
Interbank loans	**0.33%**	**0.20%**	–	0.26%	–	–
Loans and receivables	**1.67%**	**1.60%**	**2.17%**	5.79%	5.98%	6.50%
Liabilities						
Deposit liabilities	**0.21%**	**0.41%**	–	1.62%	1.81%	1.56%
Bills payable	**0.33%**	–	–	–	–	–

The following table provides for the average EIR by period of maturity or repricing of the Parent Company as of December 31, 2014 and 2013:

	2014			2013		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	**0.260%**	–	–	0.44%	–	–
Interbank loans	**4.00%**	–	–	3.50%	–	–
Loans and receivables	**6.30%**	**23.57%**	**28.78%**	7.97%	8.10%	10.97%
Liabilities						
Deposit liabilities	**0.530%**	**1.120%**	**3.490%**	2.83%	2.63%	4.04%
Bills payable	**2.09%**	**3.13%**	–	3.25%	–	–
Foreign currency-denominated assets						
Due from banks	**0.037%**	–	–	0.27%	–	–
Interbank loans	**1.00%**	**0.61%**	–	0.26%	–	–
Loans and receivables	**5.00%**	**4.80%**	**6.50%**	5.79%	5.98%	6.50%
Liabilities						
Deposit liabilities	**0.64%**	**1.22%**	–	1.62%	1.81%	1.56%
Bills payable	**1.00%**	–	–	–	–	–

The Group also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Group's interest-related income and expenses.

The method by which the Group measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rate analysis. This analysis provides the Group with a measure of the impact of changes in interest rates on the actual portfolio i.e., the risk exposure of future accounting income. The repricing gap is calculated by distributing the financial assets and financial liabilities into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest sensitive) assets and repricing (interest sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

The following tables set forth the asset-liability gap position of the Group and the Parent Company as of December 31, 2014 and 2013 (amounts in millions):

	Consolidated					
	December 31, 2014					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from BSP	**₱12,523**	**₱–**	**₱–**	**₱–**	**₱–**	**₱12,523**
Due from other banks	**1,454**	**64**	**119**	**–**	**–**	**1,637**
Interbank loan receivables	**833**	**–**	**–**	**–**	**–**	**833**
Financial assets at FVTPL	**684**	**–**	**–**	**–**	**–**	**684**
Investment securities at amortized cost	**–**	**–**	**15**	**263**	**12,993**	**13,271**
Loans and receivables	**3,004**	**5,864**	**6,066**	**2,804**	**16,117**	**33,855**
Total assets	**18,498**	**5,928**	**6,200**	**3,067**	**29,110**	**62,803**
Liabilities						
Deposit liabilities	**36,718**	**14,835**	**3,431**	**1,037**	**3,090**	**59,111**
Bills payable	**2,468**	**947**	**10**	**–**	**–**	**3,425**
Total liabilities	**39,186**	**15,782**	**3,441**	**1,037**	**3,090**	**62,536**
Asset-liability gap	**(₱20,688)**	**(₱9,854)**	**₱2,759**	**₱2,030**	**₱26,020**	**₱267**

	Consolidated					
	December 31, 2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from BSP	₱9,573	₱–	₱–	₱–	₱–	₱9,573
Due from other banks	661	–	–	–	–	661
Interbank loan receivables	203	–	–	–	–	203
Financial assets at FVTPL	–	–	–	–	105	105
AFS investments	62	7,157	–	–	12,828	20,047
Loans and receivables	2,443	5,787	3,688	1,326	12,050	25,294
Total assets	12,942	12,944	3,688	1,326	24,983	55,883
Liabilities						
Deposit liabilities	25,793	9,896	983	–	10,608	47,280
Bills payable	1,310	8,122	26	–	–	9,458
Total liabilities	27,103	18,018	1,009	–	10,608	56,738
Asset-liability gap	(₱14,161)	(₱5,074)	₱2,679	₱1,326	₱14,375	(₱855)

	Parent Company December 31, 2014					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from BSP	**₱12,463**	**₱–**	**₱–**	**₱–**	**₱–**	**₱12,463**
Due from other banks	**1,376**	**–**	**–**	**–**	**–**	**1,376**
Interbank loan receivables	**833**	**–**	**–**	**–**	**–**	**833**
Financial assets at FVTPL	**684**	**–**	**–**	**–**	**–**	**684**
Investment securities at amortized cost	**–**	**–**	**–**	**263**	**12,993**	**13,256**
Loans and receivables	**2,999**	**5,844**	**5,632**	**2,697**	**15,478**	**32,650**
Total assets	**18,355**	**5,844**	**5,632**	**2,960**	**28,471**	**61,262**
Liabilities						
Deposit liabilities	**35,857**	**14,573**	**3,105**	**1,005**	**3,216**	**57,756**
Bills payable	**2,468**	**947**	**7**	**–**	**–**	**3,422**
Total liabilities	**38,325**	**15,520**	**3,112**	**1,005**	**3,216**	**61,178**
Asset-liability gap	**(₱19,970)**	**(₱9,676)**	**₱2,520**	**₱1,955**	**₱25,255**	**₱84**

	Parent Company December 31, 2013					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from BSP	₱9,573	₱–	₱–	₱–	₱–	₱9,573
Due from other banks	661	–	–	–	–	661
Interbank loan receivables	203	–	–	–	–	203
Financial assets at FVTPL	–	–	–	–	105	105
AFS investments	62	7,157	–	–	12,828	20,047
Loans and receivables	2,443	5,787	3,688	1,326	12,050	25,294
Total assets	12,942	12,944	3,688	1,326	24,983	55,883
Liabilities						
Deposit liabilities	25,793	9,896	983	–	10,608	47,280
Bills payable	1,310	8,122	26	–	–	9,458
Total liabilities	27,103	18,018	1,009	–	10,608	56,738
Asset-liability gap	(₱14,161)	(₱5,074)	₱2,679	₱1,326	₱14,375	(₱855)

The following table demonstrates the sensitivity of the cumulative net position of risk-sensitive assets and risk-sensitive liabilities to a reasonable change in interest rates, with all other variables held constant, on the Group's statements of income.

	2014			
(Amounts in millions)	**Changes in Interest Rates (in Basis Points)**			
Changes in interest rates (in basis points)	+50	-50	+100	-100
Change in annualized net interest income	**(₱133.49)**	**₱133.49**	**(₱266.99)**	**₱266.99**

	2013			
(Amounts in millions)	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	+50	-50	+100	-100
Change in annualized net interest income	(₱32.64)	₱32.64	(₱65.28)	₱65.28

The following table sets forth the estimated change in the Group's other comprehensive income due to a reasonably possible change in the market prices of quoted bonds classified under AFS investments, brought about by movement in the interest rate curve as of December 31, 2013:

	2013			
	Change in Interest Rates (in Basis Points)			
(Amounts in millions)	+50	+10	-10	-50
Change in equity	(₱685.61)	(₱141.60)	₱143.92	₱739.46

The table below shows the different market risk-weighted assets using the standardized approach in accordance with BSP Circular No. 538:

	Consolidated		**Parent Company**	
Type of Market Risk Exposure	**2014**	2013	**2014**	2013
Interest rate exposures	**₱895,447**	₱73,187	**₱895,447**	₱73,187
Foreign exchange exposures	**21,911**	35,807	**21,911**	35,807
	₱917,358	₱108,994	**₱917,358**	₱108,994

Foreign Currency Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency-deposits in the Parent Company's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs.

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

The ERMG uses VaR, FX Sensitivity Testing, and FX Stress Testing to measure risk inherent to the Parent Company's foreign currency net exposures. In assessing the foreign currency risk, the Parent Company employs a pre-defined key risk indicator under Market Risk Assessment Matrix to determine the level of risk (e.g., Low Risk, Moderate Risk, High Risk) the results of which are reported to the ROC on a quarterly basis.

The table summarizes the Group's exposure to foreign exchange risk as of December 31, 2014 and 2013. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	2014			2013		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
Loans and receivables:						
Due from other banks	**₱175,804**	**₱10,060**	**₱185,864**	₱145,212	₱21,754	₱166,966
Corporate loans	**503,264**	**10,329**	**513,593**	462,991	–	462,991
Accrued interest receivable	**1,094**	**–**	**1,094**	1,251	–	1,251
Accounts receivable	**1**	**–**	**1**	1	–	1
Other assets	**3,574**	**117**	**3,691**	68	132	200
Total assets	**683,737**	**20,506**	**704,243**	609,523	21,886	631,409
Liabilities						
Deposit liabilities:						
Savings	**–**	**–**	**–**	–	2,291	2,291
Time	**–**	**–**	**–**	–	5,607	5,607
Bills payable	**313,040**	**–**	**313,040**	–	–	–
Outstanding acceptances	**15,290**	**10,329**	**25,619**	43,189	–	43,189
Other liabilities:						
Others	**394**	**–**	**394**	33	–	33
Total liabilities	**328,724**	**10,329**	**339,053**	43,222	7,898	51,120
Net exposure	**₱355,013**	**₱10,177**	**₱365,190**	₱566,301	₱13,988	₱580,289

**Includes Euro, Australian Dollar, Japanese Yen, Swiss Franc, Canadian Dollar, Singapore Dollar*

The table below indicates the exposure of the Group to USD on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonable possible movement of the base currency rate against the USD, with all other variables held constant on the statement of income and statement of comprehensive income. A negative amount in the table reflects a potential net reduction in income or comprehensive income, while a positive amount reflects a potential net increase. The Group's exposure in currencies other than USD is minimal.

	2014			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	**+3.00%**	**-3.00%**	**+4.00%**	**-4.00%**
Change in annualized net income	**₱1,415**	**(₱1,415)**	**₱1,886**	**(₱1,886)**

	2013			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱1,074	(₱1,074)	₱1,432	(₱1,432)

A negative amount reflects a potential net reduction in statement of income while a positive amount reflects net potential increase. As of December 31, 2014 and 2013, there is no impact on the Group's OCI other than those already affecting profit and loss.

Equity Price Risk Management

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Parent Company holds a minimal amount of equity securities, hence any changes to equity prices are deemed to not significantly affect its financial performance.

Operational Risk
The Group uses the Basic Indicator Approach in computing Operational Risk in accordance with BSP Circular No. 538 (amounts in millions):

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Average Gross Income (Previous 3 Years)	**₱2,181**	₱2,006	**₱2,181**	₱2,006
Capital Charge (Average Gross Income times 18.75%[(a)])	**409**	376	**409**	376
Risk Weighted Asset (Capital Charge times 10)	**₱4,087**	₱3,761	**₱4,087**	₱3,761

(a) Equivalent to adjusted capital charge of 15% of 125% to be consistent with required minimum Capital Adequacy Ratio of 10%

6. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. In June 2013, the Group effected in its quarterly reporting the change in its business segments which resulted from organizational changes introduced by the new management and shareholders to ensure focused delivery of products and services to potential and existing customers. The Group's business segments are as follows:

Prosperity Banking - principally handling individual customers' deposits, and providing overdrafts and fund transfer facilities (formerly under Consumer Banking);

Enterprise Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers (formerly under Corporate Banking);

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 wholesale banking.

Convenience Banking - principally providing consumer type loans, i.e. Mortgage, Auto and Personal Loans (formerly under Consumer Banking); and

Trust Group - principally engaging in trust and other fiduciary business and performing investment management services and also functions as Trustee or Investment Manager.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross interest income and expense. Included under Treasury is the income support earned by the Group from the FAA.

No revenue from transactions with a single external customer or counterparty amounted to 10.00% or more of the Group's total revenue in 2014, 2013, and 2012.

For management purposes, business segment information provided to the Chief Operating Decision Maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. The CODM is the Group's BOD.

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments as of and for the years ended December 31, 2014, 2013 and 2012:

	Consolidated								
	2014								
	Prosperity Banking Segment	**Enterprise Banking Segment**	**Treasury Segment**	**Convenience Banking Segment**	**Trust Group**	**Unallocated**	**RAP**	**RAP-PFRS Adjustments**	**Total**
Revenue									
Total revenue	**₱746,110**	**₱562,334**	**₱358,878**	**₱683,885**	**₱2,472**	**₱539,003**	**₱2,892,682**	**(₱558,277)**	**₱2,334,405**
Other operating income	**17,095**	**11,865**	**(1,051)**	**7,781**	**7,768**	**408,561**	**452,019**	**302,545**	**754,564**
Total operating income	**763,205**	**574,199**	**357,827**	**691,666**	**10,240**	**947,564**	**3,344,701**	**(255,732)**	**3,088,969**
Compensation and fringe benefits	**390,607**	**131,469**	**25,414**	**138,645**	**48,689**	**642,824**	**1,377,648**	**(11,699)**	**1,365,949**
Taxes and licenses	**149,402**	**72,125**	**77,077**	**31,759**	**692**	**53,587**	**384,642**	**(4,518)**	**380,124**
Occupancy and other equipment-related costs	**122,672**	**1,151**	**438**	**6,097**	**707**	**79,407**	**210,472**	**–**	**210,472**
Depreciation and amortization	**66,946**	**6,544**	**2,113**	**15,029**	**3,002**	**200,354**	**293,988**	**(95,943)**	**198,045**
Provision for (reversal of) credit and impairment losses	**–**	**1,521**	**–**	**6,222**	**–**	**(149,391)**	**(141,648)**	**(53,205)**	**(194,853)**
Other operating expenses	**241,311**	**48,336**	**36,945**	**170,422**	**10,364**	**291,785**	**799,163**	**(84,330)**	**714,833**
Net operating income (loss)	**(₱207,733)**	**₱313,053**	**₱ 215,840**	**₱323,492**	**(₱53,214)**	**(₱171,002)**	**₱420,436**	**(₱6,037)**	**₱414,399**
Segment results									
Net interest income	**₱696,922**	**₱354,779**	**₱212,005**	**₱602,881**	**₱2,472**	**₱384,333**	**₱2,253,392**	**(₱307,150)**	**₱1,946,242**
Trading and securities gain - net	**–**	**–**	**146,840**	**–**	**–**	**173,889**	**320,729**	**(259,030)**	**61,699**
Rent income	**–**	**–**	**–**	**75**	**–**	**313,349**	**313,424**	**–**	**313,424**
Service charges, fees, and commissions	**49,188**	**207,555**	**33**	**80,929**	**–**	**(19,219)**	**318,486**	**7,978**	**326,464**
Foreign exchange gain (loss) - net	**3,107**	**6,207**	**(3,590)**	**–**	**(4)**	**26,085**	**31,805**	**–**	**31,805**
Profits from asset sold	**–**	**–**	**–**	**154**	**–**	**48,148**	**48,302**	**(39,283)**	**9,019**
Income from trust operations	**5,905**	**2,831**	**2,539**	**–**	**7,772**	**8**	**19,055**	**–**	**19,055**
Fair value gain from investment properties	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**380,407**	**380,407**
Gains (loss) on assets exchange	**–**	**–**	**–**	**104**	**–**	**–**	**104**	**(21,539)**	**(21,435)**
Miscellaneous	**8,083**	**2,827**	**–**	**7,523**	**–**	**20,971**	**39,404**	**(17,115)**	**22,289**
Total operating income	**763,205**	**574,199**	**357,827**	**691,666**	**10,240**	**947,564**	**3,344,701**	**(255,732)**	**3,088,969**
Compensation and fringe benefits	**390,607**	**131,469**	**25,414**	**138,645**	**48,689**	**642,824**	**1,377,648**	**(11,699)**	**1,365,949**
Taxes and licenses	**149,402**	**72,125**	**77,077**	**31,759**	**692**	**53,587**	**384,642**	**(4,518)**	**380,124**
Occupancy and other equipment-related costs	**122,672**	**1,151**	**438**	**6,097**	**707**	**79,407**	**210,472**	**–**	**210,472**
Depreciation and amortization	**66,946**	**6,544**	**2,113**	**15,029**	**3,002**	**200,354**	**293,988**	**(95,943)**	**198,045**
Provision for (reversal of) credit and impairment losses	**–**	**1,521**	**–**	**6,222**	**–**	**(149,391)**	**(141,648)**	**(53,205)**	**(194,853)**
Other operating expenses	**241,311**	**48,336**	**36,945**	**170,422**	**10,364**	**291,785**	**799,163**	**(84,330)**	**714,833**
Total operating expense	**970,938**	**261,146**	**141,987**	**368,174**	**63,454**	**1,118,566**	**2,924,265**	**(249,695)**	**2,674,570**
Segment profit (loss)	**(207,733)**	**313,053**	**215,840**	**323,492**	**(53,214)**	**(171,002)**	**420,436**	**(6,037)**	**414,399**
Provision for income tax	**19**	**3,027**	**137,904**	**12,921**		**58,651**	**212,522**	**90,365**	**302,887**
Non-controlling interest in net income of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(418)**	**(418)**	**–**	**(418)**
Net income (loss)	**(₱207,752)**	**₱310,026**	**₱77,936**	**₱310,571**	**(₱53,214)**	**(₱229,235)**	**₱208,332**	**(₱96,402)**	**₱111,930**
Segment assets									
Property and equipment	**₱585,045**	**₱–**	**₱–**	**₱129,025**	**₱**	**₱1,415,492**	**₱2,129,562**	**(₱238,532)**	**₱1,891,030**
Investment properties	**–**	**–**	**–**	**213,978**		**3,825,139**	**4,039,117**	**700,097**	**4,739,214**
Unallocated assets	**10,278,710**	**23,992,485**	**22,108,821**	**6,424,372**	**75,573**	**4,439,845**	**67,319,806**	**(2,015,324)**	**65,304,482**
Total segment assets	**₱10,863,755**	**₱23,992,485**	**₱22,108,821**	**₱6,767,375**	**₱75,573**	**₱9,680,476**	**73,488,485**	**(1,553,759)**	**71,934,726**
Total segment liabilities	**₱53,025,721**	**₱25,619**	**₱8,288,211**	**₱1,555,423**	**₱167,808**	**₱2,207,461**	**₱65,270,243**	**(₱556,956)**	**₱64,713,287**

	Consolidated								
	2013								
	Prosperity Banking Segment	Enterprise Banking Segment	Treasury Segment	Convenience Banking Segment	Trust Group	Unallocated	RAP	RAP-PFRS Adjustments	Total
Revenue									
Total revenue	₱501,660	₱424,623	₱1,935,044	₱133,979	₱2,690	₱751,380	₱3,749,376	(₱275,549)	₱3,473,827
Other operating income	16,827	7,183	(2,312)	354	14,529	261,950	298,531	249,274	547,805
Total operating income	518,487	431,806	1,932,732	134,333	17,219	1,013,330	4,047,907	(26,275)	4,021,632
Compensation and fringe benefits	271,696	83,826	18,785	70,605	21,429	638,094	1,104,435	(24,256)	1,080,179
Taxes and licenses	124,760	54,409	201,270	217	1,595	86,564	468,815	(11,889)	456,926
Occupancy and other equipment-related costs	105,148	835	229	3,232	292	20,795	130,531	–	130,531
Depreciation and amortization	55,185	5,020	2,065	4,142	1,335	163,737	231,484	(98,245)	133,239
Provision for (reversal of) credit and impairment losses	–	–	–	54	–	–	54	(402,729)	(402,675)
Other operating expenses	136,904	35,626	54,419	41,690	11,165	252,610	532,414	61,088	593,502
Net operating income (loss)	(₱175,206)	₱252,090	₱1,655,964	₱14,393	(₱18,597)	(₱148,470)	₱1,580,174	₱449,756	₱2,029,930

(Forward)

	Consolidated								
	2013								
	Prosperity Banking Segment	Enterprise Banking Segment	Treasury Segment	Convenience Banking Segment	Trust Group	Unallocated	RAP	RAP-PFRS Adjustments	Total
Segment results									
Net interest income	₱448,221	₱277,866	₱385,336	₱125,484	₱2,690	₱748,939	₱1,988,536	(₱270,786)	₱1,717,750
Trading and securities gain - net	–	–	1,549,625	–	–	(4,262)	1,545,363	(4,763)	1,540,600
Rent income	–	–	–	–	–	256,294	256,294	–	256,294
Service charges, fees, and commissions	53,439	146,757	83	8,495	–	6,703	215,477	–	215,477
Foreign exchange gain (loss) - net	3,519	4,296	(2,341)	–	(12)	(23,229)	(17,767)	–	(17,767)
Profits from asset sold	72	–	–	–	–	32,393	32,465	(21,762)	10,703
Income from trust operations	5,502	2,438	–	–	14,541	–	22,481	–	22,481
Fair value gain from investment properties	–	–	–	–	–	–	–	248,914	248,914
Gains (loss) on assets exchange	–	–	–	–	–	–	–	23,385	23,385
Miscellaneous	7,734	449	29	354	–	(3,508)	5,058	(1,263)	3,795
Total operating income	518,487	431,806	1,932,732	134,333	17,219	1,013,330	4,047,907	(26,275)	4,021,632
Compensation and fringe benefits	271,696	83,826	18,785	70,605	21,429	638,094	1,104,435	(24,256)	1,080,179
Taxes and licenses	124,760	54,409	201,270	217	1,595	86,564	468,815	(11,889)	456,926
Occupancy and other equipment-related costs	105,148	835	229	3,232	292	20,795	130,531	–	130,531
Depreciation and amortization	55,185	5,020	2,065	4,142	1,335	163,737	231,484	(98,245)	133,239
Provision for (reversal of) credit and impairment losses	–	–	–	54	–	–	54	(402,729)	(402,675)
Other operating expenses	136,904	35,626	54,419	41,690	11,165	252,610	532,414	61,088	593,502
Total operating expense	693,693	179,716	276,768	119,940	35,816	1,161,800	2,467,733	(476,031)	1,991,702
Segment profit (loss)	(175,206)	252,090	1,655,964	14,393	(18,597)	(148,470)	1,580,174	449,756	2,029,930
Provision for income tax	–	5,969	85,322	–	–	226,743	318,034	79,012	397,046
Non-controlling interest in net income of subsidiaries	–	–	–	–	–	–	–	–	–
Net income (loss)	(₱175,206)	₱246,121	₱1,570,642	₱14,393	(₱18,597)	(₱375,213)	₱1,262,140	₱370,744	₱1,632,884
Segment assets									
Equity investment									
Property and equipment	₱288,629	₱–	₱–	₱–	₱–	₱1,788,557	₱2,077,186	(₱330,617)	₱1,746,569
Investment properties	–	–	–	–	–	3,126,568	3,126,568	697,651	3,824,219
Unallocated assets	7,796,020	19,041,379	19,309,388	2,007,431	80,126	11,563,951	59,798,295	(2,770,428)	57,027,867
Total segment assets	₱8,084,649	₱19,041,379	₱19,309,388	₱2,007,431	₱80,126	₱16,479,076	₱65,002,049	(₱2,403,394)	₱62,598,655
Total segment liabilities	₱44,485,826	₱43,189	₱5,034,349	₱–	₱–	₱10,691,159	₱60,254,523	(₱1,729,483)	₱58,525,040

	Consolidated								
	2012								
	Prosperity Banking Segment	Enterprise Banking Segment	Treasury Segment	Convenience Banking Segment	Trust Group	Unallocated	RAP	RAP-PFRS Adjustments	Total
Revenue									
Total revenue	₱363,702	₱255,329	₱704,025	₱1,039	₱4,480	₱1,057,767	₱2,386,342	₱26,332	₱2,412,674
Other operating income	15,993	10,234	12,653	–	11,289	458,391	508,560	(43,456)	465,104
Total operating income	379,695	265,563	716,678	1,039	15,769	1,516,158	2,894,902	(17,124)	2,877,778
Compensation and fringe benefits	228,831	44,111	17,644	11,746	12,480	422,654	737,466	(29,710)	707,756
Taxes and licenses	82,518	35,213	143,250	40	1,100	69,855	331,976	(8,343)	323,633
Occupancy and other equipment-related costs	102,296	2,648	1,475	407	1,071	(10,178)	97,719	(685)	97,034
Depreciation and amortization	38,901	3,155	1,241	1,198	447	88,108	133,050	(55,158)	77,892
Reversal of credit and impairment losses	–	–	–	–	–	–	–	(1,265)	(1,265)
Other operating expenses	151,285	12,392	41,023	4,047	6,432	210,605	425,784	(27,997)	397,787
Net operating income (loss)	(₱224,136)	₱168,044	₱512,045	(₱16,399)	(₱5,761)	₱735,114	₱1,168,907	₱106,034	₱1,274,941
Segment results									
Net interest income	₱322,756	₱153,628	₱232,523	₱775	₱4,480	₱770,992	₱1,485,154	₱19,852	₱1,505,006
Trading and securities gain - net	–	–	471,464	–	–	276,136	747,600	6,480	754,080
Rent income	–	–	–	–	–	303,852	303,852	(8,093)	295,759
Service charges, fees, and commissions	40,946	101,701	38	264	–	10,639	153,588	–	153,588
Foreign exchange gain (loss) - net	1,956	8,826	12,643	–	8	866	24,299	–	24,299
Profits from asset sold	–	–	–	–	–	154,186	154,186	(30,905)	123,281
Income from trust operations	3,606	499	–	–	11,281	–	15,386	–	15,386
Fair value loss from investment properties	–	–	–	–	–	–	–	(4,492)	(4,492)
Miscellaneous	10,431	909	10	–	–	(513)	10,837	34	10,871
Total operating income	379,695	265,563	716,678	1,039	15,769	1,516,158	2,894,902	(17,124)	2,877,778
Compensation and fringe benefits	228,831	44,111	17,644	11,746	12,480	422,654	737,466	(29,710)	707,756
Taxes and licenses	82,518	35,213	143,250	40	1,100	69,855	331,976	(8,343)	323,633
Occupancy and other equipment-related costs	102,296	2,648	1,475	407	1,071	(10,178)	97,719	(685)	97,034

(Forward)

	Consolidated								
	2012								
	Prosperity Banking Segment	Enterprise Banking Segment	Treasury Segment	Convenience Banking Segment	Trust Group	Unallocated	RAP	RAP-PFRS Adjustments	Total
Depreciation and amortization	₱38,901	₱3,155	₱1,241	₱1,198	₱447	₱88,108	₱133,050	(₱55,158)	₱77,892
Provision for (reversal of) credit and impairment losses	–	–	–	–	–	–	–	(1,265)	(1,265)
Other operating expenses	151,285	12,392	41,023	4,047	6,432	210,605	425,784	(27,997)	397,787
Total operating expense	603,831	97,519	204,633	17,438	21,530	781,044	1,725,995	(123,158)	1,602,837
Segment profit (loss)	(224,136)	168,044	512,045	(16,399)	(5,761)	735,114	1,168,907	106,034	1,274,941
Provision for income tax	–	2,371	84,801	–	1,065	203,179	291,416	(1,257)	290,159
Non-controlling interest in net income of subsidiaries	–	–	–	–	–	–	–	–	–
Net income (loss)	(₱224,136)	₱165,673	₱427,244	(₱16,399)	(₱6,826)	₱531,935	₱877,491	₱107,291	₱984,782
Segment assets									
Property and equipment	₱253,296	₱–	₱–	₱–	₱–	₱1,633,518	₱1,886,814	(₱548,985)	₱1,337,829
Unallocated assets	4,829,316	11,746,281	15,782,865	54,183	102,577	13,794,839	46,310,061	(1,816,723)	44,493,338
Total segment assets	₱5,082,612	₱11,746,281	₱15,782,865	₱54,183	₱102,577	₱15,428,357	₱48,196,875	(₱2,365,708)	₱45,831,167
Total segment liabilities	₱30,293,550	₱32,945	₱2,376,645	₱–	₱–	₱9,718,024	₱42,421,164	(₱981,667)	₱41,439,497

Net operating gain after tax reported to the CODM, which is based on RAP, amounted to ₱208.33 million, ₱1.26 billion, ₱877.49 million in 2014, 2013 and 2012 respectively. The difference based on RAP and PFRS primarily represents the accounting treatment for investment properties and related transactions.

7. Business Combinations

Acquisition of Rural Bank of Nagcarlan, Inc. (RBNI)

On March 11, 2014, the Parent Company entered into a Memorandum of Agreement (MOA) and Share Purchase Agreement (SPA) with the shareholders of RBNI to acquire the latter's outstanding shares. RBNI was registered with the SEC on May 31, 1962, and was authorized by the BSP to engage in rural banking business on June 2, 1962.

On July 28, 2014, the BSP approved the Parent Company's request to acquire the outstanding shares of RBNI. On the same date, BSP granted branch licenses directly to the Parent Company as incentive for the acquisition.

On August 5, 2014, the Parent Company satisfactorily complied with the BSP's condition to infuse additional capital in RBNI by investing ₱300.00 million. This was recognized by RBNI as a liability as it is still applying for increase in authorized capital stock to be able to issue the corresponding shares.

Accordingly, on September 1, 2014, the Parent Company obtained control of RBNI through the purchase of 96.32% of the outstanding capital stock of RBNI for ₱48.30 million. The acquisition provides the Parent Company the opportunity to expand its branch network and increase its presence in the consumer and small-medium entities sector.

The Parent Company has elected to measure the non-controlling interest in the acquiree at their proportionate share of the acquiree's net identifiable assets.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed as of the acquisition date:

	Amount
Assets	
Cash and other cash items	₱358,785*
Loans and receivables	97,663
Property and equipment (Note 15)	11,139
Investment properties (Note 16)	198,170
Other assets	1,156
	666,913
Liabilities	
Deposit liabilities	463,028
Other liabilities	360,135*
	823,163
Net liabilities assumed	(₱156,250)

**Includes the ₱300.00 million capital infusion of the Parent Company.*

As of September 1, 2014, the gross contractual amounts of and estimated contractual amounts not expected to be collected from the acquired receivables amounted to ₱384.66 million and ₱282.53 million, respectively. The estimated amounts not expected to be collected are considered in the determination of the fair value of the receivables.

The fair values as of September 1, 2014 are provisional as the Parent Company is still finalizing the values of loans and receivables and investment properties.

In addition to the above identifiable assets and liabilities, the Parent Company recognized the fair value of branch licenses acquired as a result of the business combination amounting to ₱262.90 million and the related deferred tax liability of ₱78.87 million.

Goodwill from acquisition is computed as follows:

Consideration transferred	₱48,297
Add: Fair value of net liabilities assumed	156,250
Less:	
Proportionate interest of non-controlling interest	(5,750)
Branch licenses granted, net of deferred tax liability	(184,030)
	₱14,767

The goodwill arising from the acquisition can be attributed mainly to expected synergies and increase in geographical presence and customer base.

From the date of acquisition to December 31, 2014, the total operating income and net loss of RBNI consolidated to the Group amounted to ₱1.75 million and ₱11.16 million, respectively.

Had the acquisition occurred at the beginning of the year, the Group’s total operating income would have increased by ₱62.94 million while income before tax would have increased by ₱32.40 million for the year ended December 31, 2014.

Cash flows on acquisition follows:

Consideration transferred	₱48,297
Capital infusion	300,000
Net cash acquired with the subsidiary*	(358,785)
Net cash inflow	(₱10,488)

**Includes Cash and other cash items, Due from BSP and Due from other banks.*

Acquisition of Banco Dipolog, Inc. (BDI)
On April 25, 2014, the Parent Company entered into a MOA with the shareholders of BDI to acquire at least 90% of the outstanding ordinary shares of the latter. BDI was registered with SEC on October 8, 1957, and is primarily engaged in rural banking business.

The BSP approved the Parent Company's request to acquire the outstanding shares of BDI on September 9, 2014.

On September 18, 2014, the Parent Company entered into a SPA with the shareholders of BDI and obtained control of the latter. However, for convenience, the Parent Company designated October 1, 2014 as the acquisition date. The acquisition allowed the Parent Company to hold 99.80% equity interest in BDI.

The acquisition provides the Parent Company the opportunity to expand its branch network and increase its presence in the consumer and small-medium entities sector.

The Parent Company has elected to measure the non-controlling interest in the acquiree at their proportionate share of the acquiree's net identifiable assets.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed as of the acquisition date:

	Amount
Assets	
Cash and other cash items	₱440,457
Loans and receivables	909,268
Property and equipment (Note 15)	120,792
Investment properties (Note 16)	16,415
Software cost	5,925
Other assets	7,293
	1,500,150
Liabilities	
Deposit liabilities, bills and notes payable	1,135,080
Other liabilities	17,606
	1,152,686
Net assets acquired	₱347,464

As of October 1, 2014, the gross contractual amounts of and estimated contractual amounts not expected to be collected from the acquired receivables amounted to ₱1.00 billion and ₱103.60 million, respectively. The estimated amounts not expected to be collected are considered in the determination of the fair value of the receivables.

The fair values as of October 1, 2014 are provisional as the Parent Company is still finalizing the values of loans and receivables, property and equipment, and investment properties.

Goodwill from acquisition is computed as follows:

Consideration transferred	₱494,544
Add: Proportionate interest of non-controlling interest	700
Less: Fair value of net assets acquired	(347,464)
	₱147,780

The goodwill arising from the acquisition can be attributed mainly to expected synergies and increase in geographical presence and customer base.

From the date of acquisition to December 31, 2014, the total operating income and net income of BDI consolidated to the Group amounted to ₱62.08 million and ₱2.23 million, respectively.

Had the acquisition occurred at the beginning of the year, the Group's total operating income would have increased by ₱148.64 million while income before tax would have decreased by ₱12.02 million for the year ended December 31, 2014.

Cash flows on acquisition follows:

Consideration transferred	₱494,544
Net cash acquired with the subsidiary*	(440,457)
Net cash outflow	₱54,087

**Includes Cash and other cash items, Due from BSP and Due from other banks.*

Prior to the acquisition of the Parent Company, BDI was in the process of consolidating with another rural bank in Zamboanga, the Rural Bank of Kabasalan Inc. (RBKI). RBKI is 99.99%-owned by the Saguin family members, who are also the majority owners of BDI. The stockholders of RBKI approved the merger between RBKI and BDI on September 9, 2014, after the latter signed the MOA with the Parent Company. Further, the RBKI stockholders confirmed in writing that they had given up their interests in RBKI in favor of the Parent Company and that the payment they received from PBCom covers both the payment for shares in BDI and RBKI. Thus, the final purchase price of ₱498.99 million is allocated between BDI and RBKI based on the fair values of their net assets. Since the acquisition of RBKI is still subject to regulatory approvals, the consideration paid pertaining to RBKI will be treated as deposit for future acquisition, presented under 'Miscellaneous assets'.

8. Investments in Subsidiaries and an Associate

This account consists of investments in:

	% of	Consolidated		Parent Company	
	Ownership	**2014**	2013	**2014**	2013
Subsidiaries:					
RBNI	96.32	**₱–**	₱–	**₱348,297**	₱–
BDI	99.80	**–**	–	**494,544**	–
PISAI	100.00	**–**	–	**10,000**	–
		–	–	**852,841**	–
Associate - PBCom Finance					
Acquisition cost	40	**2,000**	2,000	**2,000**	2,000
Accumulated equity in net income (losses)					
Balance at January 1		**9,284**	8,022	**–**	–
Share in net income*		**361**	1,262	**–**	–
Balance at December 31		**9,645**	9,284	**–**	–
		11,645	11,284	**2,000**	2,000
		₱11,645	₱11,284	**₱854,841**	₱2,000

**Included under Miscellaneous income*

As discussed in Note 7, the Parent Company acquired 96.32% and 99.80% of the outstanding shares of RBNI and BDI on September 1, 2014 and October 1, 2014, respectively.

RBNI
The investment cost amounting to ₱348.30 million includes the consideration for the acquisition amounting to ₱48.30 million and the capital infusion made by the Parent Company amounting to ₱300.00 million as required by the BSP.

BDI
The investment cost amounting to ₱494.54 million represents the consideration for the acquisition.

PISAI
As discussed in Note 1, the SEC approved the incorporation of PISAI on May 9, 2014. The investment cost of ₱10.00 million represents the initial equity investment as approved by the BSP on May 2, 2014.

9. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

Interbank loans receivable of the Group and the Parent Company is comprised of Peso-denominated and USD-denominated loans amounting to ₱200.00 million and ₱632.60 million ($14.15 million), respectively, as of December 31, 2014. As of December 31, 2013, interbank loans receivable is comprised of USD-denominated loans amounting to ₱202.55 million ($4.56 million).

As of December 31, 2014 and 2013, there is no outstanding SPURA.

Interest income on interbank loans receivable and SPURA follows:

	2014	2013	2012
SPURA	**₱15,486**	₱9,378	₱43,449
Interbank loans receivable	**6,229**	698	575
	₱21,715	₱10,076	₱44,024

Interbank loans receivable bears nominal annual interest rates ranging from 2.09% to 4.00% in 2014, from 0.50% to 1.15% in 2013, and from 0.10% to 0.40% in 2012, while SPURA bears nominal annual interest rates ranging from 3.50% to 4.00% in 2014, from 3.50% in 2013, and from 3.50% to 4.41% in 2012.

The Parent Company is not permitted to sell or repledge the related collateral on SPURA in the absence of default by the counterparty.

10. Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL of the Group and the Parent Company consist of:

	2014	2013
Government securities	**₱307,644**	₱104,909
Private bonds	**376,575**	–
	₱684,219	₱104,909

As of December 31, 2014 and 2013, financial assets at FVTPL include net unrealized losses amounting to ₱6.82 million and ₱10.46 million, respectively. Net fair value gain or loss on financial assets at FVTPL is included in 'Trading and securities gain - net' in the statements of income (see Note 28).

11. Equity Securities at Fair Value through Other Comprehensive Income

As of December 31, 2014, the Group's and the Parent Company's equity securities measured at FVTOCI consists of the following:

Quoted equity securities	₱31,668
Unquoted equity securities	11,307
	₱42,975

The Parent Company has designated the above equity investments as at FVTOCI because they are held for long-term strategic purpose rather than for trading.

For 2014, no dividends were recognized on these equity investments and no cumulative gain or loss was transferred within equity.

The movements in net unrealized gain on equity securities recognized in OCI follow:

Balance at January 1, 2014, as previously reported	₱–
Effect of initial application of PFRS 9 (Note 2)	24,157
Balance at January 1, 2014, as restated	24,157
Unrealized gains for the year	197
Balance at December 31, 2014	₱24,354

12. **Available-for-Sale Investments**

As of December 31, 2013, the Parent Company's AFS investments consist of the following:

Quoted:	
Government securities (Notes 21 and 27)	₱20,047,305
Equity securities	31,470
	20,078,775
Unquoted:	
Equity securities at cost	18,477
Less allowance for impairment losses (Note 19)	7,170
	11,307
	₱20,090,082

As of December 31, 2013, government securities with face amount and fair value of ₱7.70 billion and ₱7.90 billion, respectively, are pledged as collateral to PDIC to secure the ₱7.64 billion loans under the FAA (see Note 1). On March 26, 2014, the Parent Company exited the 10-year FAA with the settlement of the PDIC loan which matured on that date.

As of December 31, 2013, net unrealized loss on AFS investments amounted to ₱1.22 billion, with movements as follows:

Balance at January 1	₱672,789
Changes in fair value of AFS investments	(371,619)
Securities gains from sale of AFS investments taken to profit or loss (Note 28)	(1,520,583)
Balance at December 31	(1,219,413)

13. **Investment Securities at Amortized Cost**

As of December 31, 2014, the Group’s and the Parent Company’s investment securities at amortized cost consist of the following:

	Consolidated	Parent Company
Government securities	₱12,096,616	₱12,096,616
Private bonds	1,174,248	1,159,694
	₱13,270,864	₱13,256,310

As of December 31, 2014, investment securities at amortized cost is comprised of the Group's and the Parent Company's Peso-denominated securities amounting to ₱10.21 billion and ₱10.20 billion, respectively, and the Parent Company's USD-denominated securities amounting to ₱3.06 billion ($68.36 million).

In July and October 2014, the Parent Company disposed Peso-denominated government securities with aggregate face amount of ₱500.00 million from a hold-to-collect portfolio, which resulted in a loss of ₱0.26 million. The purpose for the disposals is to fund the lending requirements of the Parent Company. As the resulting loss is not material to the financial statements, it is not presented as a separate line item in the statement of income.

14. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Receivables from customers:				
Corporate loans	**₱22,489,018**	₱17,477,437	**₱22,489,018**	₱17,477,437
Consumer loans	**6,811,089**	2,143,850	**5,551,894**	2,143,850
	29,300,107	19,621,287	**28,040,912**	19,621,287
Unearned discounts and capitalized interest	**(83,571)**	(23,554)	**(29,177)**	(23,554)
	29,216,536	19,597,733	**28,011,735**	19,597,733
Unquoted debt securities	**4,638,689**	5,696,615	**4,638,689**	5,696,615
Accrued interest receivable	**678,804**	952,623	**662,017**	952,623
Accounts receivable	**645,838**	563,591	**638,828**	563,591
Sales contracts receivable	**218,296**	109,029	**204,150**	109,029
	35,398,163	26,919,591	**34,155,419**	26,919,591
Less allowance for credit losses (Note 19)	**(1,852,397)**	(1,922,167)	**(1,848,709)**	(1,922,167)
	₱33,545,766	₱24,997,424	**₱32,306,710**	₱24,997,424

BSP Reporting

Information on the concentration of credit as to industry before taking into account the allowance for credit losses follows:

	Consolidated				Parent Company			
	2014		2013		**2014**		2013	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Wholesale and retail trade	**₱8,437,598**	**28.88**	₱6,345,555	32.38	**₱8,432,493**	**30.10**	₱6,345,555	32.38
Manufacturing	**5,265,524**	**18.02**	4,022,305	20.52	**5,265,524**	**18.80**	4,022,305	20.52
Private households with employed persons	**4,134,881**	**14.15**	1,627,331	8.31	**4,134,881**	**14.77**	1,627,331	8.31
Real estate, renting and business activities	**3,669,557**	**12.56**	2,097,601	10.70	**3,668,706**	**13.10**	2,097,601	10.70
Transport, storage and communication	**1,870,467**	**6.40**	1,334,560	6.81	**1,870,467**	**6.68**	1,334,560	6.81
Construction	**1,686,784**	**5.77**	985,457	5.03	**1,686,784**	**6.02**	985,457	5.03
Financial intermediaries	**1,588,630**	**5.44**	1,645,643	8.40	**1,588,630**	**5.67**	1,645,643	8.40
Mining and quarrying	**591,356**	**2.02**	447,580	2.28	**373,932**	**1.33**	447,580	2.28
Agriculture, hunting and forestry	**373,932**	**1.29**	481,643	2.46	**362,443**	**1.29**	481,643	2.46
Others	**1,597,807**	**5.47**	610,058	3.11	**627,875**	**2.24**	610,058	3.11
	₱29,216,536	**100.00**	₱19,597,733	100.00	**₱28,011,735**	**100.00**	₱19,597,733	100.00

The information (gross of unearned discounts and capitalized interest) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2014		2013		2014		2013	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Loans secured by:								
Real estate	**₱2,824,224**	**9.64**	₱1,220,218	6.22	**₱2,680,761**	**9.56**	₱1,220,218	6.22
Chattel	**1,388,756**	**4.74**	784,156	4.00	**1,388,756**	**4.95**	784,156	4.00
Deposit hold-out	**670,542**	**2.29**	942,980	4.80	**670,542**	**2.39**	942,980	4.80
Securities and others	**265,962**	**0.91**	47,265	0.24	**264,927**	**0.95**	47,265	0.24
Secured	**5,149,484**	**17.58**	2,994,619	15.26	**5,004,986**	**17.85**	2,994,619	15.26
Unsecured loans	**24,150,623**	**82.42**	16,626,668	84.74	**23,035,926**	**82.15**	16,626,668	84.74
	₱29,300,107	**100.00**	₱19,621,287	100.00	**₱28,040,912**	**100.00**	₱19,621,287	100.00

Non-performing Loans (NPLs) classified as secured and unsecured as reported to the BSP follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Secured	**₱190,224**	₱116,277	**₱108,409**	₱116,277
Unsecured	**1,759,013**	1,124,707	**1,478,343**	1,124,707
	₱1,949,237	₱1,240,984	**₱1,586,752**	₱1,240,984

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

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Effective January 1, 2013, the exclusion of NPLs classified as loss but are fully covered by allowance was removed by the BSP through Circular No. 772. Previous banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As of December 31, 2014 and 2013, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱414.91 million for 2014 and ₱117.90 million for 2013 which the Group reported to the BSP are net of specific allowance amounting to ₱1.53 billion and ₱1.12 billion, respectively. Gross and net NPL ratios of the Group are 6.57% and 1.40%, respectively, for 2014 and 6.36% and 0.60%, respectively, for 2013.

Unquoted Debt Securities
As of December 31, 2014 and 2013, unquoted debt securities of the Parent Company consist of the following:

	2014	2013
Investments in:		
Fixed-Rate Corporate Notes	**₱3,082,597**	₱3,297,000
Metro Rail Transit (MRT) bonds	**1,556,092**	2,399,615
	₱4,638,689	₱5,696,615

In 2012, the Parent Company changed its estimate of the timing of collection of its investment in MRT bonds based on the expected settlement dates. The change in estimate resulted in acceleration of the accretion of discount on and increased the carrying value of the MRT bonds. The effect of the change in estimate amounting to $4.99 million (₱204.84 million) was credited to income in accordance with PAS 39. Under PAS 39, if an entity revises its estimates of receipts, the entity shall adjust the carrying amount of the financial asset to reflect actual and revised estimated cash flows. The entity is required to recalculate the carrying amount by computing the present value of the revised estimated future cash flows at the original effective interest rate. The adjustment is recognized in profit or loss.

As of December 31, 2014 and 2013, unquoted debt instruments include corporate notes with par value of ₱3.08 billion and ₱3.30 billion, respectively, which contain embedded prepayment options that allow the issuers to redeem these notes prior to the notes' respective maturities. The notes have original maturities ranging from 7 to 10 years. The Parent Company assessed that these options are clearly and closely related to the host note instruments, since their redemption price approximate the notes' amortized cost on redemption dates. Accordingly, these prepayment options were not accounted for separately from the host note instruments.

Accounts Receivable
Included in Accounts receivable is the tax withheld by the Bureau of Treasury (BTr) from the face value of the PEACe bonds upon their maturity. The receivable from BTr constitutes 44.43% and 50.36% of the total carrying amount of the Parent Company's accounts receivable as of December 31, 2014 and 2013, respectively. The Parent Company's investments in PEACe bonds with a total face value of ₱3.00 billion matured on October 18, 2011.

The allowance for credit losses provided for the investments in PEACe bonds as of December 31, 2014 and 2013 is ₱53.39 million.

Upon investing until the PEACe bonds matured, the Parent Company treated these PEACe bonds as tax-exempt investments in accordance with Bureau of Internal Revenue (BIR) Ruling 020-2001, which the BIR has issued in 2001 to address the taxation of interest income from such bonds. Under BIR Ruling 020-2001, PEACe bonds were not considered to be a "public" borrowing having been issued to less than 20 investors, thus the bonds are not considered as "deposit substitutes" by virtue of Section 22Y of the 1997 Tax Code. Accordingly, interest income realized from the issuance of PEACe bonds was not subjected to the 20.00% final withholding tax (FWT).

However, on October 7, 2011, the BIR issued Ruling No. 370-2011 citing that the PEACe bonds are in the nature of deposit substitutes, thus the interest income on such bonds is subject to the 20.00% FWT. The decision under BIR Ruling No. 370-2011 was based on Rulings Delegated Authority-491-04 and Ruling No. 008-05 which the BIR issued on September 13, 2004 and July 28, 2005, respectively.

Due to BIR Ruling No. 370-2011, which imposes the withholding of the 20.00% FWT, the Parent Company and seven other investor banks filed a case against the Government, the BIR, the BIR Commissioner, the Department of Finance (DoF), the Secretary of Finance, the BTr and the National Treasurer (collectively the 'Respondents') with the following prayers:

a. Annul BIR Ruling 370-2011 and related BIR rulings of the same tenor and import, for being unconstitutional; and
b. Prohibit the Respondents from imposing the 20.00% FWT or collecting it from the investor banks and/or the Respondents, particularly the BTr, to pay the full amount of the PEACe bonds in full upon maturity.

On October 18, 2011, the Supreme Court (SC) issued a temporary restraining order (TRO) in favor of the investor banks which ordered the following:

a. The Government to remit the full payment for the PEACe bonds to the banks; and
b. The banks to deposit in an escrow account an amount equivalent to the 20.00% FWT.

However, the BTr did not observe the TRO claiming that it was received only a day after withholding of the FWT was made. On November 8, 2011, the investor banks filed a Manifestation with Urgent Ex Parte Motion to the SC to direct the Government to comply with the TRO.

On November 2, 2011, the BIR filed its comments on the petition filed by the investor banks to the SC. On December 1, 2011, the investor banks filed its replies in response to the BIR comments. The banks filed a Manifestation with Urgent Reiterative Motion to Direct Respondents to comply with the TRO dated November 27, 2012 to which the Public Respondents filed their Comment dated April 11, 2013. On June 5, 2013, the banks filed a Motion for Leave to File and Admit Attached Reply.

As discussed in more detail in Note 2, the Parent Company considers several factors in determining whether a financial asset is impaired, including the present value of the expected future cash flows discounted at the asset's original effective rate. As of December 31, 2014 and 2013, the Parent Company, in consultation with its legal counsel has determined that the unpaid portion of the PEACe bonds is collectible.

On January 13, 2015, the SC has ordered the BTr to return to the holders of the PEACe bonds the 20.00% percent final withholding tax. However, the government may file a motion for reconsideration on the decision made by the SC.

The SC states the PEACe bonds are not deposittutes subject to the 20.00% final tax, therefore, the Bureau of Treasury (BTr) should immediately return to the investors the 20.00% final tax it withheld and deducted from the redemption value of the bond when it matured in 2011.

The SC anchored its decision on the fact that, upon origination, the bond was issued to only one buyer/lender, the CODE-NGO, and not to 20 or more lenders (the 20-lender rule) which is a requirement for a debt instrument to become a public borrowing making the instrument a deposit substitute subject to the 20.00 final tax.

Interest Income
Interest income on loans and receivables consists of interest income on:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Receivables from customers:						
Corporate	**₱1,010,251**	₱725,063	₱586,141	**₱1,010,251**	₱725,063	₱586,141
Consumer	**638,229**	136,136	4,930	**589,758**	136,136	4,930
Unquoted debt securities	**425,819**	403,144	498,716	**425,819**	403,144	498,716
Others	**10,578**	11,186	10,962	**10,578**	11,186	10,962
	₱2,084,877	₱1,275,529	₱1,100,749	**₱2,036,406**	₱1,275,529	₱1,100,749

Of the total receivables from customers of the Group as of December 31, 2014, 2013 and 2012, 54.63%, 79.07% and 85.68%, respectively, are subject to periodic interest repricing. The remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 1.63% to 35.90% in 2014, from 1.38% to 34.90% in 2013, and from 4.00% to 15.00% in 2012, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 4.25% to 9.82% in 2014, from 3.70% to 9.82% in 2013, and from 4.00% to 9.25% in 2012.

Unquoted debt securities have effective interest rates ranging from 5.50% to 11.90% in 2014, from 5.25% to 11.90% in 2013, and from 3.75% to 11.90% in 2012. Sales contracts receivable bears interest rates ranging from 5.55% to 14.50% in 2014, from 5.55% to 24.00% in 2013, and from 7.00% to 24.00% in 2012.

15. Property and Equipment

The composition of and movements in property and equipment of the Group carried at cost follow:

	Consolidated					
	2014					
	Condominium Properties (Note 16)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱873,008	₱319,721	₱779,937	₱41,690	₱161,494	₱2,175,850
Additions arising from business combinations (Note 7)	–	46,067	24,666	13,466	–	84,199
Additions	2,553	60	172,801	3,006	334,103	512,523
Disposals	–	(175)	(42,877)	–	–	(43,052)
Transfers	(330,610)	83,295	72,883	166,284	(353,713)	(361,861)
Amortization	–	–	–	(21,315)	–	(21,315)
Balance at December 31	544,951	448,968	1,007,410	203,131	141,884	2,346,344
Accumulated depreciation						
Balance at January 1	128,076	243,655	474,579	–	–	846,310
Depreciation	23,585	10,300	108,790	–	–	142,675
Disposals	–	(210)	(21,637)	–	–	(21,847)
Transfers	(22,785)	–	–	–	–	(22,785)
Balance at December 31	128,876	253,745	561,732	–	–	944,353
Net book value	₱416,075	₱195,223	₱445,678	₱203,131	₱141,884	₱1,401,991

	Consolidated					
	2013					
	Condominium Properties (Note 16)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱773,469	₱303,389	₱657,976	₱29,152	₱–	₱1,763,986
Additions	11,687	16,332	191,855	27,971	161,494	409,339
Disposals	–	–	(69,894)	–	–	(69,894)
Transfers	87,852	–	–	–	–	87,852
Amortization	–	–	–	(15,433)	–	(15,433)
Balance at December 31	873,008	319,721	779,937	41,690	161,494	2,175,850
Accumulated depreciation						
Balance at January 1	106,651	234,333	460,145	–	–	801,129
Depreciation	21,425	9,322	66,513	–	–	97,260
Disposals	–	–	(52,079)	–	–	(52,079)
Balance at December 31	128,076	243,655	474,579	–	–	846,310
Accumulated impairment (Note 19)						
Balance at January 1	–	–	2,695	–	–	2,695
Reversals	–	–	(2,695)	–	–	(2,695)
Balance at December 31	–	–	–	–	–	–
Net book value	₱744,932	₱76,066	₱305,358	₱41,690	₱161,494	₱1,329,540

	Parent Company					
	2014					
	Condominium Properties (Note 16)	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Total**
Cost						
Balance at January 1	**₱873,008**	**₱319,721**	**₱779,937**	**₱41,690**	**₱161,494**	**₱2,175,850**
Additions	**2,553**	**60**	**170,006**	**3,006**	**334,104**	**509,729**
Disposals	**–**	**(174)**	**(38,466)**	**–**	**–**	**(38,640)**
Transfers	**(330,610)**	**83,295**	**72,884**	**166,284**	**(353,715)**	**(361,862)**
Amortization	**–**	–	**–**	**(20,506)**	**–**	**(20,506)**
Balance at December 31	**544,951**	**402,902**	**984,361**	**190,474**	**141,883**	**2,264,571**
Accumulated depreciation						
Balance at January 1	**128,076**	**243,655**	**474,579**	**–**	**–**	**846,310**
Depreciation	**23,585**	**9,238**	**106,018**	**–**	**–**	**138,841**
Disposals	**–**	**(210)**	**(18,283)**	**–**	**–**	**(18,493)**
Transfers	**(22,785)**	**–**	**–**	**–**	**–**	**(22,785)**
Balance at December 31	**128,876**	**252,683**	**562,314**	**–**	**–**	**943,873**
Net book value	**₱416,075**	**₱150,219**	**₱422,047**	**₱190,474**	**₱141,883**	**₱1,320,698**

	Parent Company					
	2013					
	Condominium Properties (Note 16)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱773,469	₱303,389	₱657,976	₱29,152	₱–	₱1,763,986
Additions	11,687	16,332	191,855	27,971	161,494	409,339
Disposals	–	–	(69,894)	–	–	(69,894)
Transfers	87,852	–	–	–	–	87,852
Amortization	–	–	–	(15,433)	–	(15,433)
Balance at December 31	873,008	319,721	779,937	41,690	161,494	2,175,850
Accumulated depreciation						
Balance at January 1	106,651	234,333	460,145	–	–	801,129
Depreciation	21,425	9,322	66,513	–	–	97,260
Disposals	–	–	(52,079)	–	–	(52,079)
Balance at December 31	128,076	243,655	474,579	–	–	846,310
Accumulated impairment (Note 19)						
Balance at January 1	–	–	2,695	–	–	2,695
Reversals	–	–	(2,695)	–	–	(2,695)
Balance at December 31	–	–	–	–	–	–
Net book value	₱744,932	₱76,066	₱305,358	₱41,690	₱161,494	₱1,329,540

In September 2014, management decided to lease out the entire 15th and 18th floors of PBCom Tower, which were previously used as bank premises. Upon transfer, the fair value of the property amounting to ₱369.37 million was recognized in 'Investment property' (see Note 16). The difference of ₱30.29 million between the fair value (₱369.37 million) and the net carrying amount of the property (₱339.08 million) was recognized as a revaluation increment, net of tax.

The condominium properties and buildings have fair values of ₱846.93 million and ₱206.25 million, respectively, as of December 31, 2014, and ₱992.63 million and ₱223.84 million, respectively, as of December 31, 2013.

Details of land carried at appraised value are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Cost				
Balance at January 1	**₱117,678**	₱117,678	**₱117,678**	₱117,678
Additions arising from business combinations (Note 7)	**47,732**	–	–	–
Balance at December 31	**165,410**	117,678	**117,678**	117,678
Appraisal increment				
Balance at January 1	**299,351**	266,984	**299,351**	266,984
Additions	**33,978**	52,164	**33,978**	52,164
Reversals	**(9,700)**	(19,797)	**(9,700)**	(19,797)
Balance at December 31	**323,629**	299,351	**323,629**	299,351
	₱489,039	₱417,029	**₱441,307**	₱417,029

Depreciation and Amortization

Details of this account are as follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Property and equipment	**₱163,990**	₱112,693	₱70,924	**₱159,347**	₱112,693	₱70,924
Software costs (Note 17)	**31,621**	20,546	6,968	**31,146**	20,546	6,968
Chattel mortgage	**2,434**	–	–	**2,434**	–	–
	₱198,045	₱133,239	₱77,892	**₱192,927**	₱133,239	₱77,892

16. **Investment Properties**

The composition of and movements in this account follow:

	Consolidated			
	2014			
	Foreclosed Properties			
	Land	**Building and Improvements**	**Total**	**Condominium Units for Lease**
Balance at January 1	**₱366,226**	**₱116,328**	**₱482,554**	**₱3,341,665**
Additions arising from business combinations (Note 7)	**193,580**	**21,005**	**214,585**	**–**
Additions	**5,647**	**110,235**	**115,882**	**1,133**
Disposals	**(157,244)**	**(9,134)**	**(166,378)**	**–**
Transfers (Note 15)	**–**	**–**	**–**	**369,366**
Net gain from fair value adjustments	**44,362**	**89,031**	**133,393**	**247,014**
Balance at December 31	**₱452,571**	**₱327,465**	**₱780,036**	**₱3,959,178**

	Consolidated			
	2013			
	Foreclosed Properties			
	Land	Building and Improvements	Total	Condominium Units for Lease
Balance at January 1	₱277,268	₱98,545	₱375,813	₱3,220,308
Additions	94,480	3,754	98,234	20,479
Disposals	(37,352)	(14,325)	(51,677)	–
Transfers (Note 15)	–	–	–	(87,852)
Net gain from fair value adjustments	31,830	28,354	60,184	188,730
Balance at December 31	₱366,226	₱116,328	₱482,554	₱3,341,665

	Parent Company			
	2014			
	Foreclosed Properties			
	Land	**Building and Improvements**	**Total**	**Condominium Units for Lease**
Balance at January 1	**₱366,226**	**₱116,328**	**₱482,554**	**₱3,341,665**
Additions	**5,647**	**110,235**	**115,882**	**1,133**
Disposals	**(157,050)**	**(8,721)**	**(165,771)**	**–**
Transfers (Note 15)	**–**	**–**	**–**	**369,366**
Net gain from fair value adjustments	**44,362**	**89,031**	**133,393**	**247,014**
Balance at December 31	**₱259,185**	**₱306,873**	**₱566,058**	**₱3,959,178**

	Parent Company			
	2013			
	Foreclosed Properties			
	Land	Building and Improvements	Total	Condominium Units for Lease
Balance at January 1	₱277,268	₱98,545	₱375,813	₱3,220,308
Additions	94,480	3,754	98,234	20,479
Disposals	(37,352)	(14,325)	(51,677)	–
Transfers (Note 15)	–	–	–	(87,852)
Net gain from fair value adjustments	31,830	28,354	60,184	188,730
Balance at December 31	₱366,226	₱116,328	₱482,554	₱3,341,665

Condominium units for lease represents the contributed cost of developing the Parent Company's Ayala Avenue property, originally consisting of land and fully depreciated building, into a 52-storey building named PBCom Tower under a joint development agreement with Filinvest Asia Corporation (Filinvest Asia).

The agreement provided for equal sharing of the cost of the project and, correspondingly, of the net usable area of the building, which was converted into a condominium property. Under the agreement, the Parent Company's share in such cost included its land along Ayala Avenue, which was given an appraised value of ₱900.00 million in 1995. The related appraisal increment was closed to surplus, net of applicable deferred tax liability, upon completion of the project in 2000.

In November 2007, by virtue of condominiumization, various CCTs under the name of the Parent Company were derived from TCT No. 134599 where the declaration of restrictions and scope of coverage were annotated on October 23, 2007.

In November 2012, management, for administrative purposes and operational efficiencies, decided to use half of the 15th floor and the entire 18th floor of PBCom Tower to house the Parent Company's employees working in the Binondo and Makati Offices. In June 2013, management decided to use the other half of the 15th floor for the same purpose. Accordingly, the carrying values of these units were reclassified to property and equipment as of December 31, 2013. In September 2014, management decided to use the entire15th and 18th floors as areas available for lease of tenants. In October 2014, the units were reclassified to investment properties at their fair values (see Note 15).

As of December 31, 2014 and 2013, about 84.47% and 76.60%, respectively, of the usable area that the Parent Company acquired from the PBCom Tower project is held for lease, with the balance used for the Parent Company's operations. Accordingly, the cost allocable to the areas available for lease is carried as investment properties, while the remaining balance is carried as condominium properties and included in 'Property and equipment' at cost (see Note 15).

The Parent Company recognized rental income (included under 'Rent income' in the statements of income) amounting to ₱301.43 million, ₱248.35 million, and ₱287.78 million in 2014, 2013 and 2012, respectively, on condominium properties leased out under operating leases.

The Parent Company recorded gain (loss) from foreclosure of loan collaterals, presented as 'Gain (loss) on assets exchange' in the statements of income, amounting to (₱21.54 million), ₱23.39 million and nil in 2014, 2013, and 2012, respectively.

In 2014, 2013 and 2012, gain recognized by the Parent Company from the disposal of certain foreclosed assets amounted to ₱5.74 million, ₱10.70 million, and ₱123.80 million, respectively. This is included under ‘Profit from assets sold’ in the statements of income.

Direct operating expenses (included under various operating expenses) arising from investment properties that generated rental income amounted to ₱77.84 million, ₱84.12 million, and ₱21.69 million in 2014, 2013, and 2012, respectively.

Direct operating expenses (included under various operating expenses) arising from investment properties that did not generate rental income amounted to ₱54.72 million ₱15.58 million, and ₱31.81 million in 2014, 2013, and 2012, respectively.

The BSP, based on BSP Circular No. 494, requires that foreclosed assets be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for probable losses plus transaction costs incurred upon acquisition. Had the foreclosed assets been booked based on BSP Circular No. 494 and had the condominium units for lease been accounted for using the cost model, investment properties as of December 31, 2014 and 2013 would have been ₱3.02 billion and ₱3.38 billion, respectively. Net income in 2014, 2013 and 2012 would have decreased by ₱369.20 million, ₱61.40 million and ₱29.50 million, respectively.

17. Intangible Assets

This account consists of:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Branch licenses	**₱365,300**	₱102,100	**₱102,100**	₱102,100
Software costs	**458,092**	333,533	**452,642**	333,533
	823,392	435,633	**554,742**	435,633
Allowance for impairment losses (Note 19)	–	102,100	–	102,100
	₱823,392	₱333,533	**₱554,742**	₱333,533

Branch Licenses

Branch licenses of the Group represent the nineteen (19) branch licenses acquired by the Parent Company from the acquisition of Consumer Savings Bank (CSB) in 2001, which amounted to ₱102.10 million, and branch licenses acquired by the Parent Company from the acquisition of RBNI and BDI in 2014, which amounted to ₱262.90 million and ₱0.30 million, respectively (see Note 7).

In previous years, the branch licenses arising from the CSB acquisition have been provided with full allowance as these branches have been reporting negative results. In 2014, the Parent Company reassessed the need for the allowance considering the improvement in the results of operations of the branches. Based on the assessed recoverable amount of the licenses, which aggregated ₱1.29 billion, a reversal of the full allowance for impairment losses was recognized for the 19 branches. The recoverable amount was based on value-in-use calculations that use Level 3 inputs as described below.

Key assumptions used in value in use calculations
The recoverable amount of the branch licenses have been determined based on value in use calculations using cash flow projections based on financial budgets approved by the management covering a five-year period.

Discount rate
Discount rate of 13% reflects the current market assessment of the risk specific to the CGU, which is the specific branch.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

Software
The movements of software costs follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Balance at January 1	**₱333,533**	₱52,420	**₱333,533**	₱52,420
Additions arising from business combinations (Note 7)	**5,925**	–	–	–
Additions during the year	**150,255**	301,659	**150,255**	301,659
	489,713	354,079	**483,788**	354,079
Amortization during the year (Note 15)	**(31,621)**	(20,546)	**(31,146)**	(20,546)
Balance at December 31	**₱458,092**	₱333,533	**₱452,642**	₱333,533

18. Other Assets

The Group and the Parent Company have the following other assets:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Receivable from BIR	**₱283,811**	₱283,811	**₱283,811**	₱283,811
Nostro floats	**206,414**	206,414	**206,414**	206,414
Tax credits	**171,145**	113,425	**171,145**	113,425
Prepaid expenses	**72,071**	51,358	**68,316**	51,358
Returned Checks and Other Cash Items (RCOCI)	**21,673**	6,158	**21,673**	6,158
Interoffice float items-net	–	47,822	–	47,822
Miscellaneous	**328,021**	123,047	**321,698**	123,047
	1,083,135	832,035	**1,073,057**	832,035
Less allowance for impairment losses (Note 19)	**493,511**	518,677	**493,511**	518,677
	₱589,624	₱313,358	**₱579,546**	₱313,358

Miscellaneous
As of December 31, 2014 and 2013, Sundry debits amounting to ₱109.59 million and ₱36.84 million, respectively, are recorded under 'Miscellaneous'.

Refundable security deposits recorded under 'Miscellaneous' amounted to ₱35.84 million and ₱25.20 million as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, Documentary stamps on hand amounting to ₱36.45 million and ₱23.49 million, respectively, are recorded under 'Miscellaneous'.

19. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Balance at January 1:				
AFS investments (Note 12)	**₱7,170**	₱7,022	**₱7,170**	₱7,022
Loans and receivables (Note 14)	**1,922,167**	2,332,481	**1,922,167**	2,332,481
Property and equipment (Note 15)	–	9,689	**–**	9,689
Intangible assets (Note 17)	**102,100**	102,100	**102,100**	102,100
Other assets (Note 18)	**518,677**	555,675	**518,677**	555,675
	2,550,114	3,006,967	**2,550,114**	3,006,967
Reversal of credit and impairment losses	**(194,853)**	(402,675)	**(198,541)**	(402,675)
Revaluation of FCDU loans	**283**	1,874	**283**	1,874
Reversal of allowance on AFS investments due to PFRS 9 adoption	**(7,170)**	–	**(7,170)**	–
Accounts written off and others	**(2,466)**	(56,052)	**(2,466)**	(56,052)
	(204,206)	(456,853)	**(207,894)**	(456,853)
Balance at December 31:				
AFS investments (Note 12)	–	7,170	–	7,170
Loans and receivables (Note 14)	**1,852,397**	1,922,167	**1,848,709**	1,922,167
Intangible assets (Note 17)	–	102,100	–	102,100
Other assets (Note 18)	**493,511**	518,677	**493,511**	518,677
	₱2,345,908	₱2,550,114	**₱2,342,220**	₱2,550,114

Below is the breakdown of provisions for (reversals of) credit and impairment losses:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
AFS investments	**₱–**	₱–	₱941	**₱–**	₱–	₱941
Loans and receivables	**(67,576)**	(389,935)	–	**(71,264)**	(389,935)	–
Property and equipment	–	(6,994)	(2,586)	–	(6,994)	(2,586)
Intangible assets	**(102,100)**	–	–	**(102,100)**	–	–
Other assets	**(25,177)**	(5,746)	380	**(25,177)**	(5,746)	380
	(₱194,853)	(₱402,675)	(₱1,265)	**(₱198,541)**	(₱402,675)	(₱1,265)

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 noncollection or nonrealization of its receivables and other risk assets. A reconciliation of the allowance for credit losses by class of loans and receivables follows:

	Consolidated			
	2014			
	Corporate	**Consumer**	**Others***	**Total**
Balance at Januay 1	**₱1,207,053**	**₱37,814**	**₱677,300**	**₱1,922,167**
Revaluation	**564**	**–**	**(171)**	**393**
Provisions (reversal) during the year	**(16,594)**	**80,942**	**(131,924)**	**(67,576)**
Others**	**–**	**(2,587)**	**–**	**(2,587)**
Balance at December 31	**₱1,191,023**	**₱116,169**	**₱545,205**	**₱1,852,397**
Individual impairment	**₱912,404**	**₱–**	**₱357,995**	**₱1,270,399**
Collective impairment	**278,619**	**116,169**	**187,210**	**581,998**
	₱1,191,023	**₱116,169**	**₱545,205**	**₱1,852,397**
Gross amount of loans individually determined to be impaired	**₱1,036,609**	**₱–**	**₱357,995**	**₱1,394,604**

**This includes allowance for credit losses on unquoted debt securities, accrued interest receivable, accounts receivable and sales contracts receivables.*
***This includes transfers and write-offs.*

	Consolidated			
	2013			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,662,444	₱6,069	₱663,968	₱2,332,481
Revaluation	1,874	–	–	1,874
Provisions (reversal) during the year	(421,680)	31,745	–	(389,935)
Others**	(35,585)	–	13,332	(22,253)
Balance at December 31	₱1,207,053	₱37,814	₱677,300	₱1,922,167
Individual impairment	₱828,563	–	₱489,462	₱1,318,025
Collective impairment	378,490	37,814	187,838	604,142
	₱1,207,053	₱37,814	₱677,300	₱1,922,167
Gross amount of loans individually determined to be impaired	₱1,162,900	₱14,383	₱597,157	₱1,774,440

**This includes allowance for credit losses on unquoted debt securities, accrued interest receivable, accounts receivable and sales contracts receivables.*
***This includes transfers and write-offs.*

	Parent Company			
	2014			
	Corporate	**Consumer**	**Others***	**Total**
Balance at January 1	**₱1,207,053**	**₱37,814**	**₱677,300**	**₱1,922,167**
Revaluation	**564**	**–**	**(172)**	**392**
Provisions (reversal) during the year	**(16,594)**	**77,254**	**(131,924)**	**(71,264)**
Others**	**–**	**(2,586)**	**–**	**(2,586)**
Balance at December 31	**₱1,191,023**	**₱112,480**	**₱545,204**	**₱1,848,709**
Individual impairment	**₱912,404**	**₱–**	**₱357,995**	**₱1,270,399**
Collective impairment	**278,619**	**112,482**	**187,209**	**578,310**
	₱1,191,023	**₱112,482**	**₱545,204**	**₱1,848,709**
Gross amount of loans individually determined to be impaired	**₱1,036,609**	**₱–**	**₱357,995**	**₱1,394,604**

**This includes allowance for credit losses on unquoted debt securities, accrued interest receivable, accounts receivable and sales contracts receivables.*
***This includes transfers and write-offs.*

	Parent Company			
	2013			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,662,444	₱6,069	₱663,968	₱2,332,481
Revaluation	1,874	–	–	1,874
Provisions (reversal) during the year	(421,680)	31,745	–	(389,935)
Others**	(35,585)	–	13,332	(22,253)
Balance at December 31	₱1,207,053	₱37,814	₱677,300	₱1,922,167
Individual impairment	₱828,563	–	₱489,462	₱1,318,025
Collective impairment	378,490	37,814	187,838	604,142
	₱1,207,053	₱37,814	₱677,300	₱1,922,167
Gross amount of loans individually determined to be impaired	₱1,162,900	₱14,383	₱597,157	₱1,774,440

**This includes allowance for credit losses on unquoted debt securities, accrued interest receivable, accounts receivable and sales contracts receivables.*
***This includes transfers and write-offs.*

20. **Deposit Liabilities**

On March 29, 2012, BSP Circular No. 753 was issued providing unification of the statutory and liquidity reserve requirements, non-remuneration of the unified reserve requirement, exclusion of cash in vault and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

On March 27 and May 8, 2014, the Monetary Board of BSP issued Circular No. 830 and Circular 832, respectively, increasing the statutory and liquidity reserve requirement from 18% to 20%. As of December 31, 2014 and 2013, the Group is in compliance with the above regulations.

As of December 31, 2014 and 2013, Due from BSP amounting to ₱9.79 billion and ₱8.23 billion, respectively, were set aside as reserves for deposit liabilities.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Demand	**₱36,002**	₱32,299	₱46,215	**₱36,002**	₱32,299	₱46,215
Savings	**10,558**	8,387	15,006	**8,006**	8,387	15,006
Time	**836,654**	648,793	723,343	**827,832**	648,793	723,343
	₱883,214	₱689,479	₱784,564	**₱871,840**	₱689,479	₱784,564

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.13% to 3.50%, from 0.13% to 3.50%, and from 0.50% to 4.00% in 2014, 2013 and 2012, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 1.50%, from 0.25% to 2.00%, and from 0.13% to 2.25% in 2014, 2013 and 2012, respectively.

21. **Bills Payable**

This account consists of borrowings from:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Private firms and individuals	**₱3,108,612**	₱1,605,681	**₱3,108,612**	₱1,605,681
Banks and other financial institutions	**316,815**	7,852,560	**313,040**	7,852,560
	₱3,425,427	₱9,458,241	**₱3,421,652**	₱9,458,241

As of December 31, 2013, borrowings from banks and other financial institutions include the PDIC loan with principal amount of ₱7.64 billion, which is fully secured by government securities (see Note 1). The fair values of the government securities used as collateral for the PDIC loan amounted to ₱7.90 billion as of December 31, 2013. The borrowing from PDIC was measured initially at fair value and has amortized cost of ₱7.44 billion as of December 31, 2013. As of December 31, 2013, the related unamortized day 1 gain on the PDIC loan, which is presented as "Unearned income" under Other liabilities, amounted to ₱197.64 million (see Note 23). On March 26, 2014, the Parent Company exited the 10-year FAA with the PDIC by settling its loan (see Note 1).

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
PDIC loan	**₱210,893**	₱802,373	₱706,660	**₱210,893**	₱802,373	₱706,660
Borrowed funds	**77,685**	120,458	130,645	**77,327**	120,458	130,645
Net interest cost on defined benefit liability (Note 29)	**11,737**	13,868	13,011	**11,699**	13,868	13,011
	₱300,315	₱936,699	₱850,316	**₱299,919**	₱936,699	₱850,316

Dollar interbank borrowings amounted to ₱313.04 million and ₱413.41 million as of December 31, 2014 and 2013, respectively. Dollar interbank borrowings are subject to annual floating interest rates averaging 1.10% in 2014, 0.92% in 2013, and 1.12% in 2012. As of December 31, 2013, the dollar interbank borrowings of the Group are collateralized by ROP bonds classified under AFS investments with fair value of ₱557.61 million. There are no collateralized interbank borrowings as of December 31, 2014.

The Parent Company has not availed of peso and dollar rediscounting facilities in 2014 and 2013. Further, it has no peso interbank borrowings as of December 31, 2014 and 2013.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 30 to 90 days and bear annual interest rates ranging from 0.50% to 3.31%, from 0.92% to 2.31%, and from 2.50% to 4.00% in 2014, 2013 and 2012, respectively.

As of December 31, 2014 and 2013, Due from BSP amounting to ₱678.00 million and ₱286.37 million, respectively were set aside as reserves for deposit substitutes.

22. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Financial liabilities				
Accrued interest payable	**₱90,936**	₱94,436	**₱86,092**	₱94,436
Accrued other expenses	**190,440**	169,203	**188,732**	169,203
	281,376	263,639	**274,824**	263,639
Non-financial liabilities				
Retirement liability (Note 29)	**232,171**	216,648	**229,255**	216,648
Accrued taxes and licenses	**18,256**	27,258	**17,594**	27,258
	250,427	243,906	**246,849**	243,906
	₱531,803	₱507,545	**₱521,673**	₱507,545

23. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Financial liabilities				
Accounts payable	**₱230,184**	₱102,849	**₱220,867**	₱102,849
Refundable security deposits	**88,270**	82,573	**88,270**	82,573
Due to the Treasurer of the Philippines	**18,095**	18,594	**18,095**	18,594
	336,549	204,016	**327,232**	204,016
Non-financial liabilities				
Interoffice float items-net	**130,061**	–	**130,061**	–
Deferred credits	**87,956**	77,797	**87,808**	77,797
Withholding taxes payable	**42,778**	35,938	**42,778**	35,938
Unearned income	**–**	197,642	**–**	197,642
Miscellaneous	**38,928**	22,559	**12,945**	22,559
	299,723	333,936	**273,592**	333,936
	₱636,272	₱537,952	**₱600,824**	₱537,952

Unearned income primarily pertains to the difference between the principal amount and the initial value of the FAA loan granted by PDIC (see Notes 1 and 21). Unearned income is amortized over the term of the financial assistance using the effective interest method and the amortization is shown under 'Interest income - others' in the statements of income. In 2014, 2013 and 2012, amortization of unearned income amounted to ₱197.64 million, ₱774.56 million and ₱684.02 million, respectively.

Miscellaneous liabilities of the Parent Company include marginal deposits, cash letters of credit, and deposit liabilities classified as dormant.

24. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	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	**₱1,181,592**	**₱–**	**₱1,181,592**	₱740,012	₱–	₱740,012
Due from BSP	**12,522,613**	–	**12,522,613**	9,573,408	–	9,573,408
Due from other banks	**1,636,641**	–	**1,636,641**	661,308	–	661,308
Interbank loans receivable and SPURA (Note 9)	**832,604**		**832,604**	202,550	–	202,550
Financial assets at FVPL (Note 10)	**684,219**	–	**684,219**	104,909	–	104,909
AFS investments (Note 12)	–	–	–	7,218,621	12,878,630	20,097,251
Equity securities at FVOCI	**42,975**	–	**42,975**	–	–	–
Investment securities at amortized cost (Note 13)	**14,554**	**13,256,310**	**13,270,864**	–	–	–
Loans and receivables (Note 14)						
Receivables from Customers	**19,069,250**	**10,230,857**	**29,300,107**	11,917,626	7,703,661	19,621,287
Unquoted debt securities	–	**4,638,689**	**4,638,689**	1,011,556	4,685,059	5,696,615
Accounts receivable	**221,388**	**424,450**	**645,838**	65,715	497,876	563,591
Accrued interest receivable	**511,641**	**167,163**	**678,804**	420,386	532,237	952,623
Sales contract receivable	**30,045**	**188,251**	**218,296**	12,096	96,933	109,029
Other assets (Note 18)						
Refundable deposits	–	**35,836**	**35,836**	–	25,200	25,200
RCOCI	**21,673**	–	**21,673**	6,159	–	6,159
	36,769,195	**28,941,556**	**65,710,751**	31,934,346	26,419,596	58,353,942
Non-financial Assets – at gross						
Investment in subsidiaries and an associate (Note 8)	–	**11,645**	**11,645**	–	–	–
Property and equipment (Note 15)	–	**2,835,383**	**2,835,383**	–	2,592,879	2,592,879
Investment properties (Note 16)						
Condominium units for lease	–	**3,959,178**	**3,959,178**	–	3,341,665	3,341,665
Foreclosed assets	–	**780,036**	**780,036**	–	482,554	482,554
Goodwill	–	**162,547**	**162,547**	–	–	–
Intangible assets	–	**823,392**	**823,392**	–	–	–
Other assets (Note 18)	–	**1,025,626**	**1,025,626**	–	1,247,594	1,247,594
	–	**9,597,807**	**9,597,807**	–	7,664,692	7,664,692
	₱36,769,195	**₱38,539,363**	**75,308,558**	₱31,934,346	₱34,084,288	66,018,634
Less:						
Unearned interest and discounts (Note 14)			**(83,571)**			(23,554)
Accumulated depreciation and amortization (Notes 15 and 16)			**(944,353)**			(846,311)
Allowance for credit and impairment losses (Note 19)			**(2,345,908)**			(2,550,114)
Total			**₱71,934,726**			₱62,598,655
Financial Liabilities						
Deposit liabilities						
Demand	**₱9,221,026**	**₱–**	**₱9,221,026**	₱7,183,261	₱–	₱7,183,261
Savings	**4,181,703**	**46,666**	**4,228,369**	3,089,981	–	3,089,981
Time	**41,428,179**	**4,233,647**	**45,661,826**	34,186,236	2,821,020	37,007,256
(Forward)						

	Consolidated					
	2014			2013		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Bills payable	**₱3,425,427**	**₱–**	**₱3,425,427**	₱9,458,241	₱–	₱9,458,241
Outstanding acceptances	**25,620**	**–**	**25,620**	43,189	–	43,189
Manager's checks	**211,130**	**–**	**211,130**	173,501	–	173,501
Accrued interest payable (Note 22)	**90,936**	**–**	**90,936**	94,436	–	94,436
Accrued other expenses (Note 22)	**190,440**	**–**	**190,440**	169,203	–	169,203
Income tax payable	**25,258**	**–**	**25,258**			
Other liabilities (Note 23)						
Refundable security deposits	**22,992**	**65,278**	**88,270**	27,125	55,448	82,573
Accounts payable	**230,184**	**–**	**230,184**	102,848	–	102,848
Due to the Treasurer of the Philippines	**18,095**	**–**	**18,095**	18,594	–	18,594
	59,070,990	**4,345,591**	**63,416,581**	54,546,615	2,876,468	57,423,083
Non-financial Liability						
Deferred tax liabilities (Note 29)	**–**	**746,555**	**746,555**	–	524,116	524,116
Retirement liability (Note 22)	**–**	**232,171**	**232,171**	–	216,648	216,648
Accrued taxes and licenses (Note 22)	**18,256**	**–**	**18,256**	27,258	–	27,258
Other liabilities (Note 23)						
Interoffice float items-net	**–**	**130,061**	**130,061**			
Deferred credits	**–**	**87,956**	**87,956**	–	77,797	77,797
Withholding taxes payable	**42,778**	**–**	**42,778**			
Unearned income	**–**	**–**	**–**	–	197,642	197,642
Miscellaneous	**8,503**	**30,426**	**38,929**	–	58,497	58,496
	69,537	**1,227,169**	**1,296,706**	27,258	1,074,700	1,101,957
	₱59,140,527	**₱5,572,760**	**₱64,713,287**	₱54,573,873	₱3,951,168	₱58,525,040

	Parent					
	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	**₱1,153,418**	**₱–**	**₱1,153,418**	₱740,012	₱–	₱740,012
Due from BSP	**12,463,067**	**–**	**12,463,067**	9,573,408	–	9,573,408
Due from other banks	**1,375,645**	**–**	**1,375,645**	661,308	–	661,308
Interbank loans receivable and SPURA (Note 9)	**832,604**	**–**	**832,604**	202,550	–	202,550
Financial assets at FVPL (Note 10)	**684,219**	**–**	**684,219**	104,909	–	104,909
AFS investments (Note 12)	**–**	**–**	**–**	7,218,621	12,878,630	20,097,251
Equity securities at FVOCI	**42,975**	**–**	**42,975**	–	–	–
Investment securities at amortized cost (Note 13)	**–**	**13,256,310**	**13,256,310**	–	–	–
Loans and receivables (Note 14)						
Receivables from Customers	**18,619,234**	**9,421,678**	**28,040,912**	11,917,626	7,703,661	19,621,287
Unquoted debt securities	**–**	**4,638,689**	**4,638,689**	1,011,556	4,685,059	5,696,615
Accounts receivable	**213,153**	**425,675**	**638,828**	65,715	497,876	563,591
Accrued interest receivable	**493,700**	**168,317**	**662,017**	420,386	532,237	952,623
Sales contract receivable	**29,435**	**174,715**	**204,150**	12,096	96,933	109,029
Other assets (Note 18)						
Refundable deposits	**–**	**35,836**	**35,836**	–	25,200	25,200
RCOCI	**21,673**	**–**	**21,673**	6,159	–	6,159
	35,929,123	**28,121,220**	**64,050,343**	31,934,346	26,419,596	58,353,942
Non-financial Assets - at gross						
Investment in subsidiaries and an associate (Note 8)		**854,841**	**854,841**			

(Forward)

	Parent					
	2014			2013		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Property and equipment (Note 15)	**₱–**	**₱2,705,878**	**₱2,705,878**	₱–	₱2,592,879	₱2,592,879
Investment properties (Note 16)						
Condominium units for lease	–	**3,959,178**	**3,959,178**	–	3,341,665	3,341,665
Foreclosed assets	–	**566,058**	**566,058**	–	482,554	482,554
Intangible assets	–	**554,742**	**554,742**			
Other assets (Note 18)	–	**1,015,548**	**1,015,548**	–	1,247,594	1,247,594
	–	**9,646,245**	**9,646,245**	–	7,664,692	7,664,692
	₱35,929,123	**₱37,777,465**	73,706,588	₱31,934,346	₱34,084,288	66,018,634
Less:						
Unearned interest and discounts (Note 14)			**(29,177)**			(23,554)
Accumulated depreciation and amortization (Notes 15 and 16)			**(943,873)**			(846,311)
Allowance for credit and impairment losses (Note 19)			**(2,342,220)**			(2,550,114)
Total			**₱70,391,318**			₱62,598,655
Financial Liabilities						
Deposit liabilities						
Demand	**₱9,450,291**	**₱–**	**₱9,450,291**	₱7,183,261	₱–	₱7,183,261
Savings	**3,487,510**	–	**3,487,510**	3,089,981	–	3,089,981
Time	**40,955,434**	**3,862,986**	**44,818,420**	34,186,236	2,821,020	37,007,256
Bills payable	**3,421,652**	–	**3,421,652**	9,458,241	–	9,458,241
Outstanding acceptances	**25,620**	–	**25,620**	43,189	–	43,189
Manager's checks	**211,130**	–	**211,130**	173,501	–	173,501
Accrued interest payable (Note 22)	**86,092**	–	**86,092**	94,436	–	94,436
Accrued other expenses (Note 22)	**188,732**	–	**188,732**	169,203	–	169,203
Other liabilities (Note 23)						
Refundable security deposits	**22,992**	**65,278**	**88,270**	27,125	55,448	82,573
Accounts payable	**220,867**	–	**220,867**	102,848	–	102,848
Due to the Treasurer of the Philippines	**18,095**	–	**18,095**	18,594	–	18,594
	58,088,415	**3,928,264**	**62,016,679**	54,546,615	2,876,468	57,423,083
Non-financial Liability						
Deferred tax liabilities (Note 29)	–	**621,893**	**621,893**	–	524,116	524,116
Retirement liability (Note 22)	–	**229,255**	**229,255**	–	216,648	216,648
Accrued taxes and licenses (Note 22)	**17,594**	–	**17,594**	27,258	–	27,258
Income tax payable	**8,770**	–	**8,770**	–	–	–
Other liabilities (Note 23)						
Interoffice float items-net	–	**130,061**	**130,061**	–	–	–
Deferred credits	–	**87,808**	**87,808**	–	77,797	77,797
Withholding taxes payable	**42,778**	**–**	**42,778**	35,938	–	35,938
Unearned income	–	–	–	–	197,642	197,642
Miscellaneous	**–**	**12,945**	**12,945**	–	22,559	22,559
	69,142	**1,081,962**	**1,151,104**	63,196	1,038,762	1,101,958
	₱58,157,557	**₱5,010,226**	**₱63,167,783**	₱54,573,873	₱3,951,168	₱58,525,040

25. **Equity**

Capital Stock
Capital stock consists of:

	Shares		Amount	
	2014	2013	**2014**	2013
Preferred - ₱25 par value				
Authorized	–	–	–	–
Issued and outstanding				
Balance at January 1	–	120,000	**₱–**	₱3,000,000
Conversion of preferred to common shares	–	(120,000)	–	(3,000,000)
Balance at December 31	–	–	**₱–**	₱–
Common - ₱25 par value*				
Authorized	**760,000**	760,000	–	–
Issued and outstanding				
Balance at January 1	**299,565**	52,599	**₱7,489,114**	₱5,259,897
Conversion of preferred shares to common shares	–	120,000	–	3,000,000
Reduction in par value of common shares	–	–	–	(3,944,922)
Common shares issued during the year	–	126,966	–	3,174,139
Balance at December 31	**299,565**	299,565	**₱7,489,114**	₱7,489,114

* Par value per share is ₱100 prior to quasi-reorganization.

The Parent Company became listed in the Philippine Stock Exchange (PSE), formerly The Manila Stock Exchange, on May 12, 1988. After its listing to the PSE, there was no succeeding offer/selling to the public of the Parent Company's shares.

Subsequently, the SEC approved the increase in the capital stock of the Parent Company. The summarized information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
November 23, 1988	Common Class A	7,000,000	100
	Common Class B	3,000,000	100
June 3, 1993	Common Class A	14,000,000	100
	Common Class B	6,000,000	100
September 11, 1997	Common	65,000,000	100
April 6, 2001	Common	145,000,000	100
March 31, 2006	Common	145,000,000	100
	Preferred	120,000,000	25
March 11, 2013	Common	760,000,000	25

As reported by the Parent Company's transfer agent, AB Stock Transfers Corporation, the total number of shareholders is 409 and 415 as of December 31, 2014 and 2013, respectively.

Preferred shares are non-redeemable, nonconvertible and have the same voting rights, dividend rights, and other rights as the holder of common shares.

Quasi-reorganization

On January 18, 2012, the BOD in its regular meeting approved the quasi-reorganization and increase in authorized capital stock of the Parent Company. The quasi-reorganization will reduce the par value of the Parent Company's 145.00 million authorized common shares from ₱100.00 to ₱25.00 and that the 120.00 million authorized preferred shares with par value of ₱25.00 will be declassified and converted to common shares with par value of ₱25.00. Further, the authorized capital stock will be increased to ₱19.00 billion divided into 760.00 million shares with par value of ₱25.00.

On March 28, 2012, the shareholders of the Parent Company representing at least two thirds (2/3) of the outstanding capital stock ratified the said quasi-reorganization and increase in authorized capital stock.

On December 19, 2012, the Parent Company applied for the said quasi-reorganization and increase in authorized capital stock with the BSP and SEC, respectively. On February 8, 2013, the BSP issued a Certicate of Authority to enable the Parent Company to register its Amended Articles of Incorporation and Amended By-Laws with the SEC.

On March 8, 2013, the Parent Company obtained the SEC's approval for the increase in its authorized capital stock.

The Parent Company incurred costs of ₱40.87 million for the approval/registration of the increase in its authorized capital stock with the SEC and documentary stamp taxes for issuance of new shares.

On December 3, 2013, the Parent Company received the "No Objection" Notice from the BSP relative to its application with the SEC for equity restructuring.

On December 11, 2013, the Bank received from the SEC the Certificate of Approval of Equity Restructuring which allowed the Bank to effect the partial wipe out of Deficit as of December 31, 2012 of ₱8.66 billion against APIC of ₱3.94 billion. However, any remaining APIC balance shall not be used to wipe out losses that may be incurred in the future without prior approval of the SEC.

Deposit for Future Stock Subscription

On December 27, 2011, the Chung and Nubla Groups entered into a subscription agreement where the two shareholders subscribed to the new common shares of the Parent Company at ₱27.88 per share. Cash received from the subscription amounting to ₱2.37 billion was shown under the Deposit for future stock subscription account in the equity section of the statement of financial position. To effect the subscription on the new common stock at the agreed price per share, the Bank implemented a quasi-reorganization and increase in authorized capital stock. The ratification of the Amendment of Article VII of the Articles of Incorporation in relation to the quasi-reorganization and increase in authorized capital stock was approved by the Bank's BOD on January 18, 2012 and was approved by the stockholders on March 28, 2012.

In March 2012, additional cash subscription payments of ₱155.55 million and ₱252.29 million were made by the Nubla and Chung Groups, respectively. On April 4, 2012, the Bank's stockholder, the ISM Group also made cash subscription payments amounting to ₱22.71 million. On May 31, 2012 and October 4, 2012, LFM Properties Group deposited the amount of ₱719.01 million and ₱30.00 million, respectively, as subscription payments. On March 11, 2013, in accordance with the subscription agreements of the above stockholder and investors of the Bank, the deposits for future subscription were exchanged for 126.97 million shares.

Subscribed Common Stock
This pertains to the subscription of PGH to 181,080,608 new shares of the Parent Company in 2014 (see Note 1). Details of the account follow:

Subscribed common stock	₱5,975,660
Subscription receivable	(4,182,962)
	₱1,792,698

Surplus Reserves
As of December 31, 2014 and 2013, surplus reserves consist of reserve for trust business, and self-insurance amounting to ₱105.77 million.

In compliance with BSP regulations, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock. Surplus reserve for self-insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Deficit
As of December 31, 2014 and 2013, deficit in the statements of financial position includes fair value gain on investment properties amounting to ₱968.26 million and ₱587.85 million, respectively, which are not available for dividend declaration. The fair value gain on investment properties will form part of retained earnings available for dividend declaration when the properties are sold and the gain is realized.

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

Capital Management
The primary objectives of the Parent Company's capital management are to ensure that the Parent Company complies with regulatory capital requirements and that the Parent Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

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

The Parent Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Parent Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Bank for International Settlements rules/ratios") and adopted by the BSP in supervising the Group. The Parent Company had complied in full with all its regulatory capital requirements.

<u>Regulatory Qualifying Capital</u>
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Group's "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition to the required RBCAR of at least 12.50% under the FAA, the RBCAR of the Group expressed as a percentage of qualifying capital to risk weighted assets, should not be less than 10.00%. Qualifying capital and risk weighted assets are computed based on BSP regulations.

The BSP, under BSP Circular No. 538 dated August 4, 2006, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

Below is a summary of risk weights and selected exposure types:

Risk Weight	Exposure/Asset Type*
0.00%	Cash on hand; claims collateralized by securities issued by the national government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation.
20.00%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise (SME) and microfinance loans portfolio; non-performing housing loans fully secured by first mortgage
100.00%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred income tax)
150.00%	All non-performing loans (except non-performing housing loans fully secured by first mortgage) and all non-performing debt securities

*Not all inclusive

The Parent Company's RBCAR as reported to BSP as of December 31, 2014 and 2013 are shown in the table below (amounts in millions):

	Consolidated		Parent Company	
	2014*	2013**	**2014***	2013**
Paid-up common stock	**₱8,847**	₱7,489	**₱8,847**	₱7,489
Paid-up perpetual and non-cumulative preferred stock	–	–	**–**	–
Deposit for common stock subscription	–	–	**–**	–
Additional paid-in capital	**1,248**	814	**1,248**	814
Retained earnings	**(3,644)**	(4,927)	**(3,646)**	(4,927)
Net unrealized gains or losses on AFS-FVOCI	**24**	–	**24**	-
Undivided profits	**190**	1,262	**213**	1,262
Cumulative foreign currency translation	**(11)**	23	**(11)**	23
Minority interest in subsidiary banks	–	–	**–**	–
Core Tier 1 Capital	**6,654**	4,661	**6,675**	4,661
Deductions from Core tier 1 Capital	–	–	**–**	–
50% of significant minority investment in financial allied undertaking	–	6	**–**	6
Goodwill	**263**	–	**71**	–
Other intangible asset	**334**	–	**71**	–
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings	–	–	**727**	–
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	**13**	–	**13**	–
Significant minority investments	**12**	–	**12**	–
Net Tier 1 Capital	**6,032**	4,655	**5,781**	4,655
Appraisal increment reserve	**1,553**	1,539	**1,553**	1,539
General loan loss provision	**399**	175	**390**	175
Tier 2 Capital	**1,952**	1,714	**1,943**	1,714
Deductions from tier 2 Capital	–	6	**–**	6
Net Tier 2 Capital	**1,952**	1,708	**1,943**	1,708
Total Qualifying Capital	**7,984**	6,363	**7,724**	6,363
Credit risk-weighted assets	**45,175**	35,464	**43,168**	35,464
Market risk-weighted assets	**917**	109	**917**	109
Operational risk-weighted assets	**4,087**	3,761	**4,087**	3,761
Total Risk Weighted Assets	**₱50,179**	₱39,334	**₱48,172**	₱39,334
Tier 1 Capital Ratio	**12.02%**	11.83%	**12.00%**	11.83%
Total Capital Ratio	**15.91%**	16.18%	**16.03%**	16.18%
Capital Requirements				
Credit Risk	**₱4,518**	₱3,546	**₱4,317**	₱3,546
Market Risk	**92**	11	**92**	11
Operational Risk	**409**	376	**409**	376
Total Capital Requirements	**₱5,019**	₱3,933	**₱4,818**	₱3,933

*Basel III
** Basel II

The regulatory qualifying capital of the Parent Company consists of Tier 1 (core) capital, which comprises paid-up common and preferred stock, surplus including current year profit and surplus reserves less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI) and deferred income tax and significant minority investments and other financial allied undertakings. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes appraisal increment reserves on PBCom Tower (see Note 1), as authorized by the monetary board of BSP, and general loan loss provision. As of March 26, 2014, date of maturity and full payment of FAA to PDIC and as of December 31, 2013 the Group is in compliance with the required RBCAR under the FAA of at least 12.50%.

Appraisal increment reserves included in Tier 2 capital which pertain to PBCom Tower amounted to ₱1.55 billion in 2014 and ₱1.53 billion in 2013.

Internal Capital Adequacy Assessment Process (ICAAP)
The ICAAP methodology of the Parent Company was based on the minimum regulatory capital requirement under BSP Circular No. 639 which involved, first, an assessment of whether the risks covered by the Framework are fully captured; and second, an assessment of other risks the Parent Company is exposed to which are not fully captured and covered under the Framework, and an assessment of whether and how much capital to allocate against these other risks. The ICAAP Document was presented by the Parent Company to the BSP on March 31, 2015.

The ICAAP, which included the discussion on the 2014 Holistic Risk Appetite and Components as well as the ranges of capital that the Parent Company should sustain to support the five year Business Plan under going-concern and stress scenarios, was deliberated upon by the ICAAP Steering Committee, ROC and endorsed to the BOD for approval.

Basel III
On January 15, 2013, the BSP issued Circular No. 781on Basel III Implementing Guidelines on Minimum Capital Requirements, which provided that 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 went into effect on January 1, 2014.

The Circular defines in greater detail, the quality capital a bank must maintain to cover its risks. These include:

- Tier One capital that comprises the Group's and theParent Company's core capital resources that are immediately available to sustain the financial stability of the group. Components of tier one capital include:

    - Core-Equity Tier One or CET-1 includes paid-in shares of common stock, retained earnings and accumulated other comprehensive income. CET-1 must be the predominant form of Tier One Capital. CET-1 absorbs all deductions to capital mandated by regulation. These deductions include capital invested in affiliates, net deferred tax assets, intangible assets and goodwill items.
    - Alternative Tier One or AT-1 includes other equity type claims on a bank's balance sheet that are sufficiently subordinate to the claims of depositors and senior creditors and whose cash flow distributions are not committed and cancellable at the option of the bank.

- Tier Two capital that include auxiliary items that supplement Tier One Capital in sustaining the financial stability of the bank. These include the general loan loss provision and appraisal increment reserves on investment property. The Group reported ₱1.90 billion in Total Tier Two capital on a consolidated basis based on the standards of Basel III and following the adjustments to adopt PFRS 9 representing 24.00% of total qualified capital resources.

Banks must maintain CET-1 capital equivalent to 6.00%, Total Tier One capital equivalent to 7.5 percent and Total capital equivalent to 10 percent of regulatory risk weighted assets at all times.

At the end of 2014, the Group and the Parent Company reported ratios in excess of the regulatory requirements.

26. Commitments and Contingent Liabilities

In the normal course of operations, the Parent Company has various outstanding commitments and contingent liabilities such as guarantees, forward exchange contracts, and commitments to extend credit, which are not presented in the accompanying financial statements. The Parent Company does not anticipate any material losses as a result of these transactions.

The following is a summary of the Group's and the Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Trust department accounts	**₱5,930,414**	₱5,200,111	**₱5,930,414**	₱5,200,111
Standby LC	**1,123,767**	1,155,845	**1,123,767**	1,155,845
Spot exchange:				
Bought	**134,259**	676,675	**134,259**	676,675
Sold	**134,160**	676,597	**134,160**	676,597
Usance LC outstanding	**144,901**	537,026	**144,901**	537,026
Outstanding shipping guarantees	**596,145**	500,478	**596,145**	500,478
Sight LC outstanding	**516,252**	323,916	**516,252**	323,916
Deficiency claims receivable	**27,498**	27,498	**27,498**	27,498
Outward bills for collection	**26,312**	24,103	**26,312**	24,103
Currency forwards:				
Bought	**–**	6,073	**–**	6,073
Sold	**–**	6,112	**–**	6,112
Inward bills for collection	**46,921**	5,542	**46,921**	5,542
Items held for safekeeping	**411**	17	**411**	17
Items held as collateral	**5**	3	**5**	3
Other contingencies	**32,330**	105,416	**32,330**	105,416

In 2007, the Parent Company availed of the tax amnesty program under RA No. 9480 to settle outstanding tax assessments. Under RA No. 9480, taxpayers who availed of the tax amnesty program shall be immune from payment of taxes, including interests and surcharges and any civil, criminal or administrative penalties arising from failure to pay any and all internal revenue taxes for taxable year 2005 and prior years.

The Parent Company has several loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums that would have a material effect on the financial statements.

The Parent Company is a defendant in legal actions arising from its normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Group's and the Parent Company's financial statements.

Derivative Financial Instruments

As of December 31, 2013, the Parent Company has outstanding sell US dollar currency forwards with aggregate notional amount of US$0.14 million, terms ranging from 7 to 10 days, and weighted average forward rate of ₱44.40. There are no outstanding forward contracts as of December 31, 2014.

In 2014, 2013 and 2012, realized gain (loss) on currency forwards recorded under 'Trading and securities gain - others' in the statements of income amounted to (₱0.25 million), (₱0.64 million) and ₱6.78 million, respectively (see Note 28).

In 2014, 2013 and 2012, unrealized gain on currency forwards recorded under 'Trading and securities gain - others' in the statements of income amounted to nil, (₱0.06 million) and ₱2.15 million, respectively (see Note 28).

27. **Trust Operations**

Securities and other properties (other than deposits) held by the Parent Company for its customers in its fiduciary or agency capacity are not included in the statements of financial position since these are not assets of the Parent Company. Total assets held by the Parent Company's trust department amounted to ₱5.93 billion and ₱5.20 billion as of December 31, 2014 and 2013, respectively (see Note 26).

As of December 31, 2014 and 2013, government securities (included under investment securities at amortized cost in 2014 and in AFS investments in 2013) owned by the Parent Company with total face value of ₱70.00 million and ₱100.00 million, respectively, are deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions.

Income from the Parent Company's trust operations shown under 'Income from Trust Operations' in the statements of income amounted to ₱19.06 million, ₱22.48 million and ₱15.39 million in 2014, 2013 and 2012, respectively.

28. **Income on Investment Securities**

Interest income on investment securities follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Investment securities at amortized cost	**₱774,727**	₱–	₱–	**₱774,712**	₱–	₱–
Financial assets at FVTPL	**23,442**	8,046	70	**23,442**	8,046	70
Available-for-sale investments	–	1,248,017	1,295,804	–	1,248,017	1,295,804
	₱798,169	₱1,256,063	₱1,295,874	**₱798,154**	₱1,256,063	₱1,295,874

In 2014, 2013 and 2012, the Parent Company's peso-denominated investment securities earned annual interest rates ranging from 0.01% to 12.37%, 1.63% to 10.75% and 4.75% to 12.38%, respectively, while dollar-denominated investment securities earned annual interest rates ranging from 3.19% to 8.41%, 3.37% to 8.41%, and 5.00% to 9.50%, respectively.

The Group's and the Parent Company's trading and securities gain - net follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Financial assets at FVTPL	**₱61,957**	₱20,715	₱7,078	**₱61,953**	₱20,715	₱7,078
AFS investments	–	1,520,583	738,069	–	1,520,583	738,069
Others	**(258)**	(698)	8,933	**(254)**	(698)	8,933
	₱61,699	₱1,540,600	₱754,080	**₱61,699**	₱1,540,600	₱754,080

29. **Employee Benefits**

The existing regulatory framework, RA No. 7641, *the Retirement Pay Law* requires companies with at least ten (10) employees to pay retirement benefits 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.

Defined Benefit Plans

Parent Company

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its officers and regular employees. The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost and unfunded actuarial accrued liability. The retirement plan provides a retirement benefit based on applicable percentage of salary (100%-150%) depending on the number of years of service (minimum of five years), a fraction of a month being considered as one whole month. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust and Wealth Management Group under the supervision of the Retirement Board.

BDI
BDI has a funded, noncontributory defined benefit retirement plan (Fund A) covering substantially all of its officers and regular employees. The benefits are based on employee age, years of service and final compensation. The retirement plan provides retirement benefits equal to 100% of the final regular monthly salary for every year of service. BDI's retirement plan is in the form of a trust administered by a local bank.

RBNI
RBNI has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on employee age, years of service and final compensation. The retirement plan provides retirement benefits equal to 50% of the final monthly salary for every year of service. RBNI's retirement plan is in the form of a trust administered by a local bank.

The latest actuarial valuation studies of the defined benefit retirement plans of the Group were made as of December 31, 2014.

The following table shows the actuarial valuation results for the Group and the Parent Company as of December 31, 2014 and 2013:

	2014		2013	
	Fair Value of Plan Assets	**Present Value of Obligation**	Fair Value of Plan Assets	Present Value of Obligation
Parent Company	**₱343,281**	**₱572,536**	₱289,202	₱505,850
BDI	**5,001**	**4,978**	–	–
RBNI	**9,160**	**12,076**	–	–
	₱357,442	**₱589,590**	₱289,202	₱505,850

The amounts relating to the defined benefit retirement plans are presented in the statements of financial position as follows:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Retirement asset*	**(₱23)**	₱–	**₱–**	₱–
Retirement liability (Note 22)	**232,171**	216,648	**229,255**	216,648
Net retirement liability	**₱232,148**	₱216,648	**₱229,255**	₱216,648

* Included in miscellaneous assets

Changes in the present value of the defined benefit obligations as of December 31, 2014 and 2013 recognized in the statements of financial position follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Balance at January 1	**₱505,850**	₱502,006	**₱505,850**	₱502,006
Additions arising from business combinations	**15,450**	–	–	–
Current service cost	**66,417**	49,431	**66,045**	49,431
Interest cost	**27,570**	29,116	**27,316**	29,116
Past service cost	–	2,685	–	2,685
Remeasurement losses (gains):				
Actuarial losses (gains) arising from deviations of experience from assumptions	**(20,557)**	34,344	**(20,482)**	34,344
Actuarial losses (gains) arising from changes in financial assumptions	**37,356**	(27,827)	**36,303**	(27,827)
Actuarial losses arising from changes in demographic assumptions	–	2,783	–	2,783
Benefits paid	**(42,496)**	(86,688)	**(42,496)**	(86,688)
Balance at December 31	**₱589,590**	₱505,850	**₱572,536**	₱505,850

Changes in the fair value of the plan assets are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Balance at January 1	**₱289,202**	₱262,900	**₱289,202**	₱262,900
Additions arising from business combination (Note 7)	**13,901**	–	–	–
Contributions	**98,204**	111,886	**98,204**	111,886
Interest income	**15,833**	15,248	**15,617**	15,248
Return on plan assets (excluding interest income)	**(17,202)**	(24,500)	**(17,246)**	(24,500)
Benefits paid	**(42,496)**	(76,332)	**(42,496)**	(76,332)
Balance at December 31	**₱357,442**	₱289,202	**₱343,281**	₱289,202

The fair values of plan assets by class as at the end of the reporting periods are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Cash and cash equivalents	**₱61,545**	₱40,341	**₱58,543**	₱40,341
Debt instruments:				
Philippine government	**105,005**	84,809	**93,877**	84,809
Holding firms	**63,035**	–	**63,035**	–
Financial intermediaries	**19,738**	74,550	**19,738**	74,550
Real estate	**10,310**	10,000	**10,310**	10,000
Power, electricity and water distribution	**13,652**	15,000	**13,652**	15,000
Equity instruments:				
Holding firms	**17,050**	–	**17,050**	–
Financial intermediaries	**9,876**	6,163	**9,876**	6,163
Transportation, storage and Communication	**7,279**	–	**7,279**	–
Real estate	**8,361**	12,408	**8,361**	12,408
Manufacturing	**–**	29,687	**–**	29,687
Food, beverage and tobacco	**30,564**	–	**30,564**	–
Power, electricity and water distribution	**3,561**	2,462	**3,561**	2,462
Wholesale and retail trade	**5,385**	11,145	**5,385**	11,145
Mining and quarrying	**43**	–	**43**	–
Others	**2,038**	2,637	**2,007**	2,637
Fair value of plan assets	**₱357,442**	₱289,202	**₱343,281**	₱289,202

The Group's plan assets are carried at fair value, except for certain investments which are carried at amortized cost since they have been acquired to match the obligations of the Parent Company's retirement plan and have a constant rate of return to maturity. All other equity and debt instruments have quoted prices in an active market. The fair values of other assets and liabilities, which include amounts due from BSP and other banks and loans and other receivables, approximate their carrying amounts due to the relatively short-term maturities of these assets. The plan assets are diversified investments and are not exposed to concentration risk.

The Group and the Parent Company expect to contribute ₱130.66 million and ₱128.10 million, respectively, to the defined retirement benefit plans in 2015.

The cost of defined benefit retirement plans as well as the present value of the benefit obligations are determined using actuarial valuations, which involve making various assumptions. The principal assumptions used are shown below:

	Parent Company		BDI		RBNI	
	2014	2013	**2014**	2013	**2014**	2013
Discount rate:						
At January 1	**5.40%**	5.80%	**6.20%**	6.20%	**4.80%**	5.60%
At December 31	**4.80%**	5.40%	**4.70%**	6.20%	**4.60%**	4.80%
Future salary increase rate	**7.00%**	7.00%	**5.00%**	5.00%	**5.00%**	5.00%
Average remaining working life	**13**	13	**15**	15	**12**	12

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

	Increase (Decrease) in Defined Benefit Obligation			
	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Increase in discount rate of 0.50%	**(₱31,427)**	(₱26,315)	**(₱30,510)**	(₱26,315)
Decrease in discount rate of 0.50%	**34,309**	28,603	**33,296**	28,603
Increase in salary increase rate of 0.50%	**31,102**	25,542	**30,155**	25,542
Decrease in salary increase rate of 0.50%	**(28,839)**	(23,806)	**(27,973)**	(23,806)

The amounts of defined benefit cost included in the statements of other comprehensive income as ‘Remeasurement of defined benefit liability’ follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Actuarial losses on benefit obligation	**₱16,799**	₱9,300	**₱15,821**	₱9,300
Return on plan assets (excluding interest income)	**17,202**	24,500	**17,246**	24,500
Remeasurement losses in OCI	**₱34,001**	₱33,800	**₱33,067**	₱33,800

The amounts of retirement cost included in the statements of income follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Current service cost*	**₱66,417**	₱49,431	**₱66,045**	₱49,431
Net interest expense**	**11,737**	13,868	**11,699**	13,868
Past service cost*	**–**	2,685	**–**	2,685
Retirement cost	**₱78,154**	₱65,984	**₱77,744**	₱65,984

*Included under compensation and fringe benefits in the statements of income
**Included under net interest income in the statements of income

Collective Bargaining Agreement (CBA)
On April 12, 2013, the Parent Company signed the revised collective bargaining agreement with the Philippine Bank of Communications Employees’ Association to amend the CBA that expired on December 31, 2012.

The amended CBA shall take effect on January 1, 2013 and shall continue to be in full force and effect for three (3) years or until December 31, 2015.

Defined Contribution Plans
Parent Company
The Parent Company employs a provident fund scheme where the Parent Company and its covered employees shall contribute 11% and 5% of the employees’ basic monthly salary, respectively. Contributions are maintained under the Provident Fund account administered by the Parent Company’s Trust and Wealth Management Group under the supervision of the Retirement Board.

As approved by the Parent Company's BOD on November 27, 2013, new officers hired after December 31, 2013, except those whose terms of employment have been negotiated prior to December 1, 2013 are no longer eligible for inclusion in the Parent Company's provident fund.

BDI
In addition to its defined benefit plan (Fund A), BDI employs a contributory fund (Fund B) where BDI and its covered employees shall both contribute 5% of the employees' regular monthly salary.

30. Long-term Leases

The Group leases certain premises occupied by most of its branches. The lease contracts are for periods ranging from one to twenty years and 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% - 10.00%.

Rent expense charged by the Group to current operations (included in 'Occupancy and other equipment-related costs' in the statements of income) amounted to ₱148.61 million, ₱95.11 million, and ₱51.76 million in 2014, 2013 and 2012, respectively. For the years ended December 31, 2014, 2013 and 2012, total rentals charged to operations by the Parent Company amounted to ₱147.09 million, ₱95.11 million, and ₱51.76 million, respectively.

Future minimum rentals payable under noncancellable operating leases are as follows:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Within one year	**₱117,322**	₱90,427	**₱115,054**	₱90,427
Beyond one year but not more than five years	**255,214**	201,447	**243,434**	201,447
Beyond five years	**3,372**	–	**3,060**	–
	₱375,908	₱291,874	**₱361,548**	₱291,874

The Parent Company has also entered into commercial property leases on its investment properties. These noncancellable leases have remaining noncancellable lease terms of between one to five years. The Parent Company recognized rent income, included under 'Rent income' in the statements of income, amounting to ₱301.43 million, ₱248.35 million, and ₱287.78 million in 2014, 2013 and 2012, respectively.

Future minimum rentals receivable under noncancellable operating leases follow:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Within one year	**₱376,886**	₱286,178	**₱376,586**	₱286,178
Beyond one year but not more than five years	**656,179**	570,323	**655,654**	570,323
Beyond five years	**273**	902	**273**	902
	₱1,033,338	₱857,403	**₱1,032,513**	₱857,403

31. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Information technology	**₱58,517**	₱32,437	₱9,390	**₱56,425**	₱32,437	₱9,390
Advertising	**35,587**	13,382	3,745	**34,975**	13,382	3,745
Transaction dues	**27,553**	20,810	17,693	**27,547**	20,810	17,693
Stationery and supplies	**20,896**	17,809	14,244	**20,853**	17,809	14,244
Fines, penalties and other charges	**20,680**	14,494	3,814	**20,383**	14,494	3,814
Fuel and lubricants	**19,920**	11,066	2,442	**19,121**	11,066	2,442
Travel	**19,171**	13,254	8,529	**16,851**	13,254	8,529
Litigation and assets acquired - related expenses	**14,672**	12,557	14,682	**14,218**	12,557	14,682
Freight	**7,262**	4,104	2,380	**7,251**	4,104	2,380
Brokerage fees	**4,550**	15,510	11,336	**4,550**	15,510	11,336
Others	**56,687**	53,508	29,385	**47,755**	53,508	29,385
	₱285,495	₱208,931	₱117,640	**₱269,929**	₱208,931	₱117,640

Others include account maintenance charges, contractual services, and Philippine Dealing Exchange Corp. transaction fees.

32. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are subject to percentage and other taxes (presented as Taxes and licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes. Income taxes include corporate income tax, as discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as Provision for income tax in the statements of income.

Republic Act (RA) No. 9397, *An Act Amending National Internal Revenue Code*, provides that the Regular Corporate Income Tax (RCIT) rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

An MCIT of 2.00% of modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.
FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.50% final tax. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (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.

In 2011, the BIR issued Revenue Regulation 14-2011, which prescribes the proper allocation of costs and expenses among the income earnings of financial institutions for income tax reporting. Only costs and expenses attributable to the operations of the RBU can be claimed as deduction to arrive at the taxable income of the RBU subject to the RCIT. All costs and expenses pertaining to the FCDU/EFCDU are excluded from the RBU's taxable income. Within the RBU, common costs and expenses should be allocated among taxable income, tax-paid income and tax-exempt income using the specific identification or the allocation method.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Current:						
Final	**₱179,650**	₱300,947	₱291,197	**₱179,649**	₱300,947	₱291,197
MCIT	**27,722**	14,097	310	**27,722**	14,097	310
RCIT	**14,108**	313	–	**171**	313	–
	221,480	315,357	291,507	**207,542**	315,357	291,507
Deferred	**81,407**	81,689	(1,348)	**81,407**	81,689	(1,348)
Effective income tax	**₱302,887**	₱397,046	₱290,159	**₱288,949**	₱397,046	₱290,159

Components of 'Deferred tax liabilities - net' are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Deferred tax liability on:				
Fair value gain on condominium units for lease	**₱571,008**	₱444,348	**₱571,008**	₱444,348
Revaluation increment credited to surplus free	**410,207**	461,457	**410,207**	461,457
Revaluation increment on land	**106,176**	89,806	**106,176**	89,806
Branch licenses acquired from business combination	**78,870**	–		–
Excess of fair value over carrying value of the net asset acquired from business combination	**45,793**	–	–	–
Unrealized foreign exchange gain	**6,959**	–	**6,959**	–
Unamortized transaction cost on bills payable	–	962	–	962
	1,219,013	996,573	**1,094,350**	996,573
Deferred tax assets on allowance for credit and impairment losses	**(472,457)**	(472,457)	**(472,457)**	(472,457)
	₱746,556	₱524,116	**₱621,893**	₱524,116

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. The Group considers projected future taxable income, reversal of temporary differences, and tax planning strategies in making the assessment based on the historical income and projections of future taxable income.

The Group believes that portion of the deferred tax assets may not be realized in the future. Accordingly, the Group did not set up deferred tax assets on the following NOLCO and temporary differences:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Allowance for credit and impairment losses	**₱430,748**	₱513,980	**₱430,748**	₱513,980
NOLCO	**355,235**	467,452	**355,235**	467,452
Retirement liability	**232,171**	216,648	**229,254**	216,648
Provision for year-end expenses	**131,988**	115,301	**131,988**	115,301
Unamortized past service cost	**53,397**	60,731	**53,397**	60,731
Advance rental income	**9,703**	34,842	**9,703**	34,842
Fair value loss on investment properties	**29,666**	34,050	**29,666**	34,050
Unrealized foreign exchange loss	–	24,973	–	24,973
Excess of MCIT over RCIT	**41,819**	14,097	**41,819**	14,097
	₱1,284,727	₱1,482,074	**₱1,281,810**	₱1,482,074

Details of the Group and Parent Company's NOLCO are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2010	₱480,842	₱429,025	₱51,817	₱–	2013
2011	279,999	–	279,999	–	2014
2012	187,453	–	–	187,453	2015
2014	167,782	–	–	167,782	2017
	₱1,116,076	₱429,025	₱331,816	₱355,235	

Details of the Group and Parent Company's MCIT are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2013	₱14,097	₱–	₱–	₱14,097	2016
2014	27,722	–	–	27,722	2017
	₱41,819	₱–	₱–	₱41,819	

A reconciliation between the statutory income tax and the effective income tax follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Statutory income tax	**₱124,320**	₱608,979	₱382,482	**₱121,757**	₱608,600	₱382,333
Tax effect of:						
Nondeductible expenses and others	**316,287**	829,658	241,710	**305,680**	829,658	241,710
Nontaxable income	**(35,506)**	(637,731)	(211,318)	**(35,506)**	(637,352)	(211,169)
Interest income subjected to final tax	**(54,278)**	(73,536)	(103,971)	**(54,171)**	(73,536)	(103,971)
FCDU income before income tax	**(8,137)**	(68,269)	(94,908)	**(8,137)**	(68,269)	(94,908)
Changes on unrecognized deferred tax assets	**(39,799)**	(262,055)	76,164	**(40,674)**	(262,055)	76,164
Effective income tax	**₱302,887**	₱397,046	₱290,159	**₱288,949**	₱397,046	₱290,159

33. 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. The Parent Company's related parties include key management personnel, close family members of key management personnel, affiliates (i.e. entities which are controlled, significantly influenced by or for which significant voting power is held by the Parent Company or key management personnel or their close family members and retirement plan for the benefit of the Group's employees).

The Parent Company has business relationships with certain 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 collectability or present other unfavorable conditions.

Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has a business relationship with its defined benefit and contribution plans pursuant to which it provides trust and management services to the plans. Any investments made in the retirement plans are approved by the Parent Company's Retirement Board. The Parent Company's Retirement Board is comprised of senior officers of the Parent Company. Income earned by the Parent Company (presented as 'Income from trust operations' in the statements of income) from such services amounted to₱4.39 million in 2014, ₱4.18 million in 2013 and ₱4.56 million in 2012. Total deposits maintained by the related party retirement plans with the Parent Company amounted to ₱5.39 million and ₱37.50 million as of December 31, 2014 and 2013, respectively.

Key Management Personnel

Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the Parent Company, directly or indirectly. The Parent Company considers the members of the Senior Management Team to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	2014	2013	2012
Short-term benefits	**₱160,244**	₱136,532	₱64,008
Post-employment benefits	**51,912**	40,885	5,906
	₱212,156	₱177,417	₱69,914

Details on significant related party transactions of the Parent Company follow:

	December 31, 2014		
Category	Volume	Outstanding Balance	Nature, Terms and Conditions
Significant investors:			
Deposit liabilities	**₱21,877,339**	**₱21,897,479**	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.00%.
Interest expense	**10,081**	−	
Rent expense	**7,251**	−	Branch office leased for five years ending on December 18, 2016, with 5% annual escalation.
Rent income	**3,713**	−	Five-year lease, subject for pre-termination with average escalation rate of 7.5%
Affiliate:			
Deposit	**1,794**	**11,703**	Demand, savings and time deposit accounts with annual interest rates ranging from 0.13% to 2.00%.
Interest expense	**20**	−	
Rent income	**123**	−	10-year lease that expired on July 31, 2013, fixed rental rate during the entire term of the contract, renewed in August 2013 for another 10 years.
Subsidiaries:			
Deposit liabilities	−	**263,937**	Demand and savings deposit accounts with annual interest rate of 0.13%
Interest expense	**1,197**	−	
Interest income	**(54)**	−	Demand, savings and time deposits with a subsidiary closed as of Dec 31, 2014
Key management personnel:			
Deposit liabilities	**551,930**	**623,983**	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Interest expense	**7,319**	−	
Loans	**328**	**1,781**	Personal loans with average interest rate of 32.90% and average term of 3 years.
Interest income	**101**	−	
Provident Fund:			
Deposit liabilities	**(20,350)**	**5,370**	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%.
Interest expense	**539**	−	
Trust Fee	**2,780**	−	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	**(11,759)**	**23**	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%.
Interest expense	**197**	−	
Trust Fee	**1,607**	−	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2013		
Significant investors:			
Deposit liabilities	₱73,823	₱140	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.00%.
Interest expense	2,611	–	
Rent expense	1,806	–	Branch office leased for five years ending on December 18, 2016, with 5% annual escalation.
Rent income	1,033	–	Five-year lease, subject for pre-termination with average escalation rate of 7.5%
Affiliate:			
Deposit liabilities	3,677	9,909	Demand, savings and time deposit accounts with annual interest rates ranging from 0.13% to 2.00%.
Interest expense	207	–	
Rent income	85	–	10-year lease that expired on July 31, 2013, fixed rental rate during the entire term of the contract, renewed in August 2013 for another 10 years..
Key management personnel:			
Deposit liabilities	55,493	72,053	Savings and time deposit accounts with annual interests rates ranging from 0.13% to 3.50%.
Interest expense	411	–	
Loans	150	145	Personal loans with average interest rate of 32.90% and average term of 3 years.
Interest income	11	2	
Provident Fund:			
Deposit liabilities	(57,613)	25,720	Savings and time deposit accounts with annual interests rates ranging from 0.13% to 3.25%.
Interest expense	616	–	
Trust Fee	2,839	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	26,581)	11,782	Savings and time deposit accounts with annual interests rates ranging from 0.13% to 3.25%.
Interest expense	213	15	
Trust Fee	1,337	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2012		
Significant investors:			
Deposit	(₱22,083)	₱66,154	Savings and time deposit accounts with annual interest rates ranging from 0.25% to 1.50%.
Interest expense	272	–	
Rent expense	2,098	–	Five-year lease, ending on December 18, 2016, with 5% annual escalation.
Affiliate:			
Deposit	4,327	6,232	Demand deposit account with annual interest rates ranging from 0.50% to 1.00%.
Interest expense	119	–	
Rent income	60	–	10-year lease that expired on July 31, 2013, fixed rental rate during the entire term of the contract, renewed in August 2013 for another 10 years.
Key management personnel:			
Deposit	16,561	16,561	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Provident Fund:			
Deposit	11,641	83,333	Savings and time deposit accounts with annual interest rates ranging from 0.50% to 4.50%.
Interest expense	949	–	
Trust Fee	3,099	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit	22,010	38,363	Savings and time deposit accounts with annual interest rates ranging from 0.50% to 4.50%.
Interest expense	404	54	
Trust Fee	1,463	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

Other Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. The Parent Company has not recorded any impairment losses relating to amounts owed by related parties.

Regulatory Reporting
As required by BSP, the Parent Company discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). 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 Parent Company. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated		Parent	
	2014	2013	**2014**	2013
Total outstanding DOSRI loans	**₱30,343**	₱220,983	**₱26,373**	₱220,983
Total outstanding DOSRI loans granted under regulations existing prior to Circular No. 423	**30,343**	20,983	**26,373**	20,983
New DOSRI loans granted under Circular No. 423	**–**	200,000,000	**–**	200,000,000
Total outstanding non-DOSRI loans prior to Circular No. 423	**29,300,569**	19,256,318	**27,711,636**	19,256,318
Percent of DOSRI loans to total loans	**0.10%**	1.13%	**0.10%**	1.13%
Percent of unsecured DOSRI loans to total DOSRI loans	**55.33%**	5.16%	**63.66%**	5.16%
Percent of past due DOSRI loans to total DOSRI loans	**14.10%**	0.03%	**1.17%**	0.03%
Percent of nonperforming DOSRI loans to total DOSRI loans	**13.81%**	0.03%	**1.17%**	0.03%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation 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 of December 31, 2014 and 2013, the Parent Company is in compliance with these requirements.

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit

accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

34. **Financial Performance**

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

	2014	2013	2012
Net income attributable to equity holders of the Parent Company	**₱111,930**	₱1,632,884	₱984,782
Basic:			
Weighted average number of common shares outstanding (Note 25)	**299,565**	278,404	278,404
Net income attributable to Parent Company common shareholders per share - basic	**0.37**	5.87	3.54
Diluted:			
Shares used in the computation of basic net income per share	**299,565**	278,404	278,404
Dilutive effect of subscribed shares	**18,022**	–	–
Shares used in the computation of dilutive net income per share	**317,587**	278,404	278,404
Net income attributable to Parent Company common shareholders per share - diluted	**₱0.35**	₱5.87	₱3.54

* Weighted average number of outstanding common shares in 2013 was recomputed after giving effect to the quasi-reorganization on March 8, 2013 (see Note 25).

As of December 31, 2013 and 2012, there are no outstanding dilutive potential common shares.

Before consideration of quasi-reorganization, the EPS of the Parent Company amounted to ₱5.71 in 2012.

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

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Return on average equity	**1.76%**	38.58%	25.62%	**1.84%**	38.58%	25.62%
Return on average assets	**0.16%**	3.01%	2.26%	**0.17%**	3.01%	2.26%
Net interest margin	**3.99%**	4.34%	4.77%	**3.98%**	4.34%	4.77%

35. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents as of December 31, 2014, 2013 and 2012 follow:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Interbank loans receivables and SPURA shown under statements of cashflows	**₱743,164**	₱157,879	₱952,555	**₱743,164**	₱157,879	₱952,555
Interbank loans receivables and SPURA not considered as cash and cash equivalents	**89,440**	44,671	41,249	**89,440**	44,671	41,249
	₱832,604	₱202,550	₱993,804	**₱832,604**	₱202,550	₱993,804

The following is a summary of noncash activities:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Noncash operating activities:						
Additions to loans and receivable from disposal of investment properties (Note 16)	₱–	₱–	₱10,594	₱–	₱–	₱10,594
Additions to investment properties from settlement of loans (Note 16)	**115,882**	98,233	–	**115,882**	98,233	–
Noncash investing activities:						
Increase in land due to revaluation (Note 15)	**24,278**	32,367	19,469	**24,278**	32,367	19,469
Changes in fair value of AFS investments (Note 12)	–	(371,619)	(312,305)	–	(371,619)	(312,305)
Transfer to property and equipment from investment properties (Notes 15 and 16)	**(339,077)**	(87,852)	(252,520)	**(339,077)**	(87,852)	(252,520)

36. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, require the Parent Company to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

December 31, 2013						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Financial liabilities						
Bills payable	₱7,852,560,353	₱–	₱7,852,560,353	₱8,459,097,099	₱–	₱–

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

There are no offsetting arrangements covered by the above disclosure requirements as of December 31, 2014.

37. Approval for Release of the Financial Statements

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

38. Supplementary Information Under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the details of percentage and other taxes paid or accrued by the Parent Company in 2014.

Gross receipts tax	₱183,141
Documentary stamp tax	167,660
Local taxes	18,201
Fringe benefit tax	4,866
Others	1,140
	₱375,008

Withholding Taxes

Details of total remittances in 2014 and outstanding balance of withholding taxes as of December 31, 2014 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes	₱192,227	₱19,838
Withholding taxes on compensation and benefits	238,103	16,497
Expanded withholding taxes	72,121	6,443
	₱502,451	₱42,778

Tax Assessments and Cases

As of December 31, 2014, the Group has outstanding cases filed in courts for various claims for tax refund amounting to ₱283.81 million reported under ‘Other assets’ in the statement of financial position.