



FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

2013 Annual Report

50

YEARS
of putting you first

A low-angle photograph of three business professionals in a modern glass skyscraper. A man in a white shirt and dark tie on the left has his right arm raised in a fist. A woman in a dark blazer and skirt in the center has both arms raised. A man in a dark suit and light tie on the right has his left arm raised. They are all smiling and appear to be celebrating. The building's glass facade reflects the sky and other buildings. A 'Metrobank' sign is visible on the building's exterior.

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A low-angle photograph of three business professionals in professional attire (two women in black suits and one man in a light blue shirt and purple tie) celebrating with their arms raised in the air. They are standing in front of several modern, glass-clad skyscrapers that rise steeply into the sky. The scene is brightly lit, suggesting a sunny day, and the overall mood is one of triumph and achievement.

A fifty-year high

First Metro Investment Corporation celebrates its fiftieth year of existence, and what a half century it has been. After years of fostering the development of the country's capital markets as the investment banking arm of the Metrobank Group, we now find ourselves atop the industry. Unequaled in asset size, engaged year after year in the lion's share of all transactions in the capital markets and producing astounding income results—First Metro could not have come so far without its most important partner: You.

If First Metro has made a name for itself with its service excellence, its innovation and its leadership, this is a gratifying byproduct of putting you first. Mobilizing capital for our clients, both private corporations and government agencies, has put us on the relentless pursuit of excellence, excellence that redounds to your benefit. Our many awards and distinctions are testament to the esteem to which we hold you, our clients, our partners.

May the next fifty years bring this partnership to even greater heights.





Vision

First Metro Investment Corporation is the leading investment banking institution and the prime mover in the development of the Philippine capital markets. It will be a respected name in the Asian region.

Mission

Our core purpose is to provide investment banking and related financial solutions to enable our clients to achieve sustainable and optimal returns. We will adhere to the highest standards of integrity and efficiency.

In pursuit of our mission, we commit to:

Our People

We recognize and value their dignity and talents. We provide a professional work environment and career opportunities that reward hard work and performance with competitive compensation. We encourage our associates to achieve professional growth and financial security.

Our Shareholders

We shall optimize shareholders value through sustainable earnings while ensuring sound financial condition. We practice good corporate governance.

Our Country

We shall be a socially responsible corporate citizen committed to the economic upliftment of the Philippines and its people.

Our Values

- Integrity and Prudence
- Passion for Excellence
- Loyalty
- Teamwork
- Innovation
- Respect for the Individual

FIFTY YEARS OF HISTORY

FIFTY YEARS LATER, THE GOLD STANDARD

First Metro celebrates fifty years of fostering the development of the Philippine capital markets.

It all began inauspiciously on August 30, 1972. On that day, First Invest Development Corporation formally registered with the Securities and Exchange Commission. The company began operations as an investment house with quasi-banking functions in May 1974; in the same year, Metrobank gave it the name by which it remains known today: First Metro Investment Corporation.

In 2000, Metrobank bought a majority stake in Solidbank and decided to merge it with First Metro. The former Solidbank, incorporated on June 25, 1963, became the surviving entity but took on the name of the other company. It retained its quasi-banking license but gave up its license to engage in commercial banking.

Fifty years later, First Metro is the biggest and most profitable investment bank in the country.

Growing, diversifying

In 1991, First Metro started to diversify into other growth industries. It first entered insurance when it bought 28% of Philippine AXA Life Insurance and later joined the field of securities and equities through the acquisition of First Metro Securities Brokerage Corporation. Soon to be acquired were additional stakes in ORIX, First Metro International Investments Co., Inc. and PBC Capital. Then in 2002, First Metro diversified into power and hospitality by taking on Global Business Power Corporation and Cathay International Resources.

In 2003, the company became a licensed Government Securities Eligible Dealer (GSED) of the Bureau of the Treasury (BTr). Since then, it has consistently been honored by the BTr and the Department of Finance as one of the top ten GSEDs as well as one of the best-performing GSEDs in both primary and secondary markets. In 2005, the company entered the field of asset management and mutual funds when it partnered with the Catholic Educational Association of the Philippines (CEAP) and Marist Brothers Foundation to establish First Metro Asset Management, Inc.

In 2011, just when many industry players were plunged into the turbulence of the global markets, First Metro seized opportunities to play a larger role in the local one. Subsidiary First Metro Securities launched an online trading facility, FirstMetroSec, that provides both local and foreign retail equity investors online access to the PSE. First Metro also acquired its license to offer trust and other fiduciary services in the same year. Also, the company issued and listed its own corporate bond, the first investment

bank in the country to do so. It likewise opened its first Investors Center in Binondo, Manila, a one-stop investment hub offering direct access to First Metro's wide array of investment products. A second Investors Center opened in Cebu to reach out to potential investors from the country's southern provinces.

Prime time for the prime mover

For the past fifty years, First Metro has played a vital role in the country's push toward economic development, both as prime mover of capital and driver of inclusive growth.

Since the launch of the BTR's Retail Treasury Bonds (RTB) in 2000, First Metro has worked with the Philippine government in its fundraising. The investment bank has raised P164.88 billion over 16 RTB issuances, demonstrating its formidable distribution capability, extensive understanding of the domestic capital markets and reliability as partner.

First Metro stands at the forefront of the Philippine capital markets as the investment bank of choice for prominent corporations and government agencies. It perennially engages in the lion's share of transactions in the domestic debt and equities markets; in 2013, it was involved in 60% of them. The investment house has many times completed landmark transactions for the likes of First Pacific Group, Ayala Group of Companies, SM Group, Aboitiz Group and San Miguel. It has also brought new names to the capital markets, such as Profriends, Pancake House, Puregold and Philippine Business Bank. In fact, First Metro was the sole domestic coordinator, bookrunner, lead manager and domestic lead underwriter for GT Capital Holdings, Inc.'s P21.57 billion IPO in 2012, the country's second largest IPO.

Beyond moving funds, First Metro also plays the role of advocate, vigorously promoting the country as the next investment destination in Asia. To this end, First Metro partnered with Metrobank to mount the first Philippine Investment Summit for Global Fund Managers in 2012. The event featured some of the country's foremost experts in economics and investment who explored core issues in the Philippine capital markets, examined investment opportunities, and sized up risks and challenges. In 2013, the company did one better, bringing world-renowned economist and strategist Nouriel Roubini to the country for the second Summit. Gathering members of foreign and domestic financial institutions, leading Philippine corporates, fund and asset managers, high net worth investors, and key capital markets players, the summit brought together over 800 participants.

First Metro's advocacy also includes capital markets awareness and investment literacy. Seeing a need for more reliable and relevant information on the capital markets, First Metro teamed up with the University of Asia and the Pacific in 2006 to form the FMIC-UA&P Capital Markets Research Center. The group releases The Market Call, a monthly update on market developments on both local and foreign fronts; The Bellwether, a fortnightly newsletter on equities research; and various industry research reports. In 2010, it launched the annual Stock X Challenge, an online intercollegiate stock trading competition held in partnership with the PSE and CEAP. The competition promotes stock market awareness and develops skills in portfolio management among college students, thereby nurturing future investors.

Beyond our borders into foreign shores

Since 2009, First Metro has started to envision itself as one of Asia's most respected investment banks and has considered its growth in Asia as essential to its future success.

The company has therefore set its foot in the region, forging partnerships and exploring opportunities in such emerging economies as Vietnam, Sri Lanka, and Myanmar and pushing deal-making forays into China. Cultivating strategic alliances in Singapore and Japan, such as the equity research collaboration between First Metro Securities and Singapore's DBS Vickers Securities (an agreement signed in 2012), allows First Metro to keep a staunch foothold in the region's more established financial centers. The company has also forged numerous alliances with some of Asia's top investment banks and securities houses, joining hands with them in corporate advisory work and syndicated financial transactions.

Ultimately, First Metro aims to build a stable regional business network, one that will open up opportunities for partners, both local and regional, to tap into a more diverse client base as well as other rich sources of capital.

1972

- First Invest Development Corporation is registered with the Securities and Exchange Commission



1974

- Metrobank renames the company First Metro Investment Corporation
- Quasi-banking functions are added



1991

- First Metro acquires 28% stake in Philippine AXA Life Insurance



1993

- First Metro acquires First Metro Securities Brokerage Corporation



1994-2001

- ATR Kim Eng Signing



- Second Annual Appreciation Cocktails for the Insurance Commission



- First Metro acquires PBC Capital
- Metrobank buys majority stake in Solidbank and subsequently decides to merge it with First Metro. The former Solidbank, incorporated on June 25, 1963, becomes the surviving entity and is renamed First Metro Investment Corporation
- The bank becomes the first publicly listed investment house in the country



- Moves its corporate headquarters to GT Tower International in Makati while maintaining its strategic presence in Binondo



- First Metro crafts its Mission Vision Values Statement



2002

- Acquires stakes in ORIX Metro Leasing & Finance Corp. and First Metro International Investments Co., Inc. (FMIC Hong Kong)
- Starts to diversify into other businesses such as power (Global Business Power), hospitality (Cathay Int'l Resources) and insurance (PhilCharter)



2003

- Becomes a licensed Government Securities Eligible Dealer of the Bureau of the Treasury for the domestic market; receives a plaque of excellence from the same entity as one among top-selling agents of the Retail Treasury Bonds offering



- Joins the PSE technical group on Real Estate Investment Trust (REIT), marking the start of campaigns for the legislation and establishment of such in the country
- Metrobank Initial Public Offering Ceremony



2005

- Establishes First Metro Asset Management, Inc. signaling entry into the mutual funds business



2007

- iRemit Initial Public Offering



2006

- Partners with the University of Asia & the Pacific to form the FMIC-UA&P Capital Markets Research Center



- Asian Development Bank Bonds Signing Ceremony



- Publishes the first issue of The Market Call, a capital markets research report by First Metro and UA&P



2008

- Initiates "Bigay Liwanag," a community outreach project, which donates prescription glasses to public elementary students with impaired vision



2009

- First Metro ranks among the Top 11 Philippines' Best Companies and among the Best ASEAN 100 Companies based on Relative Wealth Added Index by New York-based management consulting firm Stern Stewart & Co.



2010

- Launches its very first stock trading tournament "Stock X Challenge," an intercollegiate stock trading competition conceived to support its advocacy on investment literacy and its mission to develop the Philippine capital markets



- Multi-currency Retail Treasury Bonds Signing



- Domestic Debt Consolidation Program Investors Briefing



2011

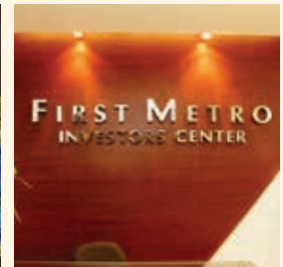
- March 15 - Partners with Global Business Power Corporation to develop renewable energy



- March 17 & Nov. 9 - First Metro Securities launches online trading facility in Cebu and FirstMetroSec v.2 and iPad App in Metro Manila



- May 20 & Nov. 18 - Inaugurates the First Metro Investors Center in Binondo and Cebu, respectively



- Sept. 13 - First Metro acquires Trust license from the Bangko Sentral ng Pilipinas, enabling the investment bank to offer trust and other fiduciary services

- Oct. 27 - Organizes the Philippine Investment Summit for Global Fund Managers to help increase interest in the Philippine capital markets and aggressively position the country as a strategic investment hub in the region



- Nov. 3 & Dec. 2 - Issues and lists its own P5 billion fixed rate corporate bonds, the first investment house bond issue to be listed on the Philippine Dealing and Exchange Corporation



- Metrobank Stock Rights Offer Listing Ceremony



2012

- April 20 - First Metro completes GT Capital Holdings, Inc.'s Initial Public Offering, the second largest IPO in Philippine history



- Sept. 14 - First Metro Securities and DBS Vickers Securities (Singapore) Pte., Ltd. sign an agreement for research collaboration



- Oct. 16 - First Metro hosts an investment conference in Ho Chi Minh City, Vietnam, the first by a Philippine investment bank



2013

- First Metro Securities brings Philippine companies to the DBS Vickers Pulse of Asia Conference in Singapore, first of a series of international roadshows with DBS Vickers as its partner
- Jan. 30 - First Metro brings to the Philippines world renowned economist Nouriel Roubini through the Philippine Investment Summit 2013



- June 25 - First Metro celebrates its 50th Anniversary



- Dec. 2 - First Metro lists First Metro Philippine Equity Exchange-Traded Fund on the PSE



OUR AWARDS AND DISTINCTIONS

HIGH WATER MARKS OF SERVICE EXCELLENCE

2013

- **Cesar E.A. Virata Award for Best Securities House (Investment House Category)** – PDS Group
- **Top Brokering Participant for Corporate Securities** – PDS Group
- **Top Corporate Securities Market Maker** – PDS Group
- **Top 5 Corporate Issue Manager/Arranger 2013** – PDS Group
- **Top 5 Fixed Income Brokering Participant 2013** – PDS Group
- **Top 5 Fixed Income Dealing Participant 2013** – PDS Group
- **Best Domestic Bond House** – *The Asset Triple A Country Awards*
- **Best Primary Bank for Corporate Bonds, Investors' Vote Philippines** – *The Asset Benchmark Research 2013*
- **One of the Best Performing Government Securities Eligible Dealers** – *Bureau of the Treasury*
- **Best Bond House in the Philippines** – *FinanceAsia*
- **Top 10 Best Managed Companies in the Philippines** – *FinanceAsia*
- **Top 10 Best Investor Relations in the Philippines** – *FinanceAsia*
- **Best Investment Bank Philippines 2013** – *Global Banking & Finance Review*
- **Best Equity House Philippines 2013** – *Global Banking & Finance Review*
- **Best Domestic Bond House Philippines 2013** – *Global Banking & Finance Review*

2012

- **Best Equity House in the Philippines** – *FinanceAsia*
- **Best Domestic Bond House** – *The Asset Triple A Country Awards*
- **Philippines Capital Markets Deal of the Year: P21.567 billion GT Capital IPO** – *IFR Asia Awards*
- **Deal of the Year: P323.4 billion Domestic Debt Consolidation Program for the Republic of the Philippines**
– *The Banker Deals of the Year 2012 for SSA (Sovereign, Supras and Agencies) Bonds category in Asia Pacific*
- **Cesar E.A. Virata Award for Best Securities House (Investment House Category)** – PDS Group
- **Top Brokering Participant for Corporate Securities** – PDS Group
- **Top Corporate Securities Market Maker** – PDS Group
- **Top 5 Corporate Issue Manager/Arranger 2012** – PDS Group
- **Top 5 Fixed Income Brokering Participant 2012** – PDS Group
- **Top 5 Fixed Income Dealing Participant 2012** – PDS Group

2011

- **Gold Awardee in the 2011 ICD Corporate Governance Scorecard for Publicly Listed Companies** – *The Institute of Corporate Directors*
- **Best Bond House in the Philippines** – *FinanceAsia*
- **Best Domestic Bond House** – *The Asset Triple A Country Awards*
- **Cesar E.A. Virata Award for Best Securities House 2011 (Investment House Category)** – PDS Group
- **Top 5 Fixed Income Dealing Participant 2011** – PDS Group
- **Top 5 Fixed Income Brokering Participant 2011** – PDS Group
- **Innovative Listed Corporate Bond Issue of the Year (First Covered Bond Listed)** – PDS Group
- **Top 5 Corporate Issue Manager/Arranger 2011** – PDS Group
- **Top 5 Corporate Securities Market Maker 2011** – PDS Group

2010

- **Silver Awardee in the 2010 ICD Corporate Governance Scorecard for Publicly Listed Companies** – *The Institute of Corporate Directors*
- **Best Domestic Bond House** – *The Asset Triple A Country Awards*
- **Top Five Fixed Income Dealing Participant 2010** – *PDS Group*
- **Top Five Fixed Income Brokering Participant 2010** – *PDS Group*

2009

- **Top 100 ASEAN Companies** – *Stern Stewart & Co.*
- **Best Bond House in the Philippines** – *FinanceAsia*
- **Best Domestic Bond House** – *The Asset Triple A Country Awards*
- **Best Deal, Philippines: San Miguel Brewery P38.8 billion Bond** – *The Asset Triple A Country Awards*
- **Domestic Bond Deal of the Year and Philippines Capital Markets Deal of the Year: San Miguel Brewery P38.8 billion Bond** – *IFR Asia Awards*
- **Top Five Fixed Income Dealing Participant 2009** – *PDS Group*

2008

- **Top Ten Best Performing GSED: P70 billion Retail Treasury Bonds Tranche 10** – *Bureau of the Treasury*

2007

- **Top Ten Best Performing GSED: P77.7 billion Retail Treasury Bonds Tranche 9** – *Bureau of the Treasury*
- **The Philippine Capital Markets Deal of the Year: Metrobank P8.5 billion Lower Tier 2 Notes** – *IFR Asia Awards*

2006

- **Best Deal, Philippines: Ayala Corporation P5.8 billion Perpetual Hybrid** – *The Asset Triple A Country Awards*
- **The Philippine Capital Markets Deal of the Year: Ayala Corporation P5.8 billion Perpetual Hybrid** – *IFR Asia Awards*
- **Best Bond House in the Philippines** – *FinanceAsia*

2005

- **Best Domestic Investment Bank** – *The Asset Triple A Country Awards*
- **Best Investment Bank** – *FinanceAsia*
- **Best Bond House in the Philippines** – *FinanceAsia*

2004

- **Best Domestic Bond House** – *The Asset Triple A Country Awards*

2003

- **Plaque for Excellence for Retail Treasury Bonds 4** – *Bureau of the Treasury*

2002

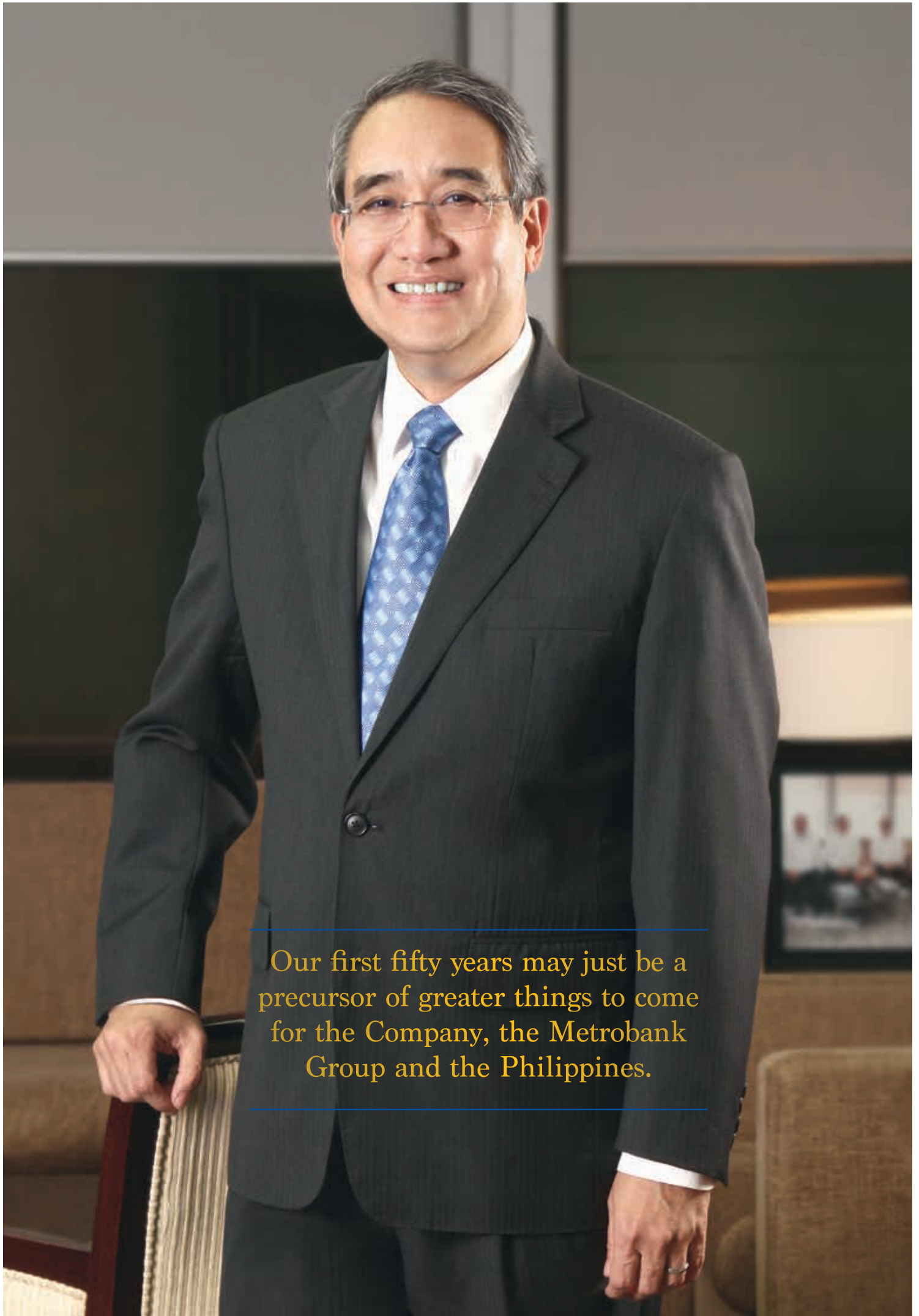
- **Best Domestic Investment Bank** – *The Asset Triple A Country Awards*

2001

- **Most Outstanding Underwriter and Selling Agent for Retail Treasury Bonds** – *Bureau of the Treasury*

2000

- **Most Innovative Deal-Progress Bonds** – *Finance Intelligence Asia*



Our first fifty years may just be a precursor of greater things to come for the Company, the Metrobank Group and the Philippines.

MESSAGE FROM THE CHAIRMAN

AN ASTOUNDING START THAT MAY GET EVEN BETTER

In our fifty years of existence, we have seen some dramatic changes, many of them for the better.

The nation now knows the kind of financial stability it has not had in a long time, perhaps ever. Our international reserves exceed foreign debt, thanks to the continuing surge in remittances from our overseas workers and to the flourishing of the business process outsourcing industry. Foreign currency is now free to come and go, yet that old albatross, the shortage of dollars, is a thing of the past. Interest rates have fallen for years. The peso, with newfound stability, no longer needs propping up. Inflation is well under control. The government needs to borrow less from abroad, and it pays less interest on its domestic debt.

These positive trends are reflected in broad national economic indicators: after three and a half decades (since the mid-1980s) of lethargy, the economy grew by 6.8% in 2012 and 7.2% last year. GDP growth in 2014 may even be higher. The recent upgrades from international credit rating agencies confirm what we already know: the economy has undergone no less than a sea change.

The transformation has been good for the capital markets. The national savings rate as a percentage of GDP is up from decades past and now surpasses the world average. Capital flows, always directed outward, have reversed. Local banks have never been as solid and reliable. Bond terms used to top out at five years; now twenty-year notes are common. Deals maxed out before at five billion pesos; they regularly reach twenty billion these days. In short, funds are now plentiful, in pesos, long term.

But more importantly, we are respected, a quality that goes beyond the numbers. Our contribution to capital market development is widely known and acknowledged.

The leader that dominates

It is in this context that we view First Metro's performance. As a prime mover in the development of the nation's capital markets, we focus our contribution to the national economy through the efficient mobilization of funds. We help our partners, both private companies as well as the government, raise funds to power their growth, to the ultimate benefit of the larger economy.

We are now the nation's leading, and dominant, investment bank. The numbers confirm it. Last year we participated in three-fifths of all peso-denominated issuances in the capital market, raising nearly P400 billion for our state and corporate partners. But more importantly, we are respected, a quality that goes beyond the numbers. Our contribution to capital market development is widely known and acknowledged.

The qualities that build success

To my mind, these accomplishments are the result of three decisive qualities of First Metro:

The first is vision. We knew what we wanted to be—the leading investment banking institution and the prime mover in the development of the Philippine capital markets—and we set about making it happen. And the dream has been realized. Our cash dividends in 2013 of P8 billion amount to five times the capital we had fifteen years ago. Our stockholders' equity of P18.9 billion stands at roughly ten times our original capital. Our financial results for 2013 are historic, not only from our company's point of view, but also in the context of the Philippine investment banking industry. For starters, net income at P11.54 billion grew 253%, or more than three and a half times, from a year before. Recognition has also poured in. We were awarded for the fifth consecutive year as the Best Domestic Bond House in the Philippines by The Asset in its annual Triple A Country Awards. FinanceAsia Magazine also recognized us as the Best Domestic Bond House in its 2013 Country Awards for Achievement. Regionally, we have taken a step forward by being included as one of only eleven Filipino companies which were cited in the Stern Stewart Best ASEAN 100 Companies based on Relative Wealth Added Index.

But no matter how audacious our vision is, all is for naught without execution. Each detail and every task, big or small, in making the dream come true needs to be attended to. Day in day out, people up and down the corporate ladder dedicate themselves to the many things that add up to excellence.

We have been blessed to have a parent company known as the hardest working bank in the country: Metrobank. We have inherited its culture and work ethic and zealously guarded and fostered them. Our success is an integral part of Metrobank's banking franchise, which last year marked its first half-century of banking excellence. Our parent company taught us that, ultimately, this work is about people. This is why we have developed and fostered a culture that values continuous training, learning and innovation.

Finally, our success is a product of good corporate governance and financial transparency. These are ingrained in the set of values that we embraced many years ago when we first spelled out our vision. They are buzzwords now, but back then, they were simply known as honesty and integrity. Only through good corporate governance (i.e., honesty) can vision be shared by all stakeholders. Only through transparency (i.e., integrity) can financial and corporate results be measured appropriately, so that all can be guided toward a common bottom line.





Looking forward, the great challenge before us is regional integration. From our position of local industry leader, we now take on the role of a regional player.


Looking forward to the challenges ahead

Looking forward, the great challenge before us is regional integration. From our position of local industry leader, we now take on the role of a regional player. A regional market more open and with lower barriers is a great opportunity for us, but it is also a serious threat. The region features banks several times our size, with longer histories. Also, we must move from being a peso house to being a multi-currency institution. And we must learn to deal with the many cultures we will encounter, knowing full well that no one solution or business model fits all.

In an industry where creativity rules, we need to be at the cutting edge in developing not just new products but new competencies as well, which means we must invest ever more deeply in our people. We have begun taking steps in these directions, exploring and forming strategic partnerships and linkages in other countries, but much more needs to be done.

The local front too brings its own concerns. The full extent of the damage wrought by recent calamities that struck the country—in Bohol, Zamboanga and Eastern Visayas—has yet to be known. Our FDI position remains weak compared to our ASEAN neighbors. Infrastructure bottlenecks hamper growth in crucial industries such as tourism; only now is the government stepping up its spending. New, more stringent financial regulations take effect this year.

And yet, the prospects of investment banking, more than at any time in the past, have never been better. Low interest rates, a stable currency, a strong fiscal position, liberalized foreign-exchange rules, an investment grade sovereign rating, closer regional integration—these all point to accelerated growth in our domestic capital markets. Now more than ever, our work will be critical to the nation's economic development. There are opportunities to grab and challenges to meet along the way, and First Metro Investment Corporation is in just the right place to succeed. Our first fifty years may just be a precursor of greater things to come for the Company, the Metrobank Group and the Philippines.


FRANCISCO C. SEBASTIAN



The year 2013 may have been one for the books,
but our story isn't over. The years to come may
be our best chapters yet.

A YEAR THAT WAS ONE FOR THE BOOKS

More than half a decade has gone by since the 2008 financial crisis rocked the globe, but it still casts a long shadow. True, improvement is taking place. The Eurozone has finally snapped out of its recession, its members posting positive GDP growth rates again. The United States continues its steady recovery. The growth of China and of a few other large emerging economies is either proceeding smoothly apace or accelerating. Yet many developed economies still have to shake off the effects of the crisis, and some emerging economies remain in the mire. The world economy grew only 2.4% in 2013, according to the World Bank. Expectations for 2014 and 2015 are slightly higher, at 3.2% and 3.4%.

Against this somber backdrop, the Philippines shone brightly. The national economy outdid its 2012 GDP growth rate, already a robust 6.8%, with a sparkling rate of 7.2% in 2013 (in the region, only China's was higher). This, despite the mild downturn in the fourth quarter resulting from the Bohol earthquake, the Zamboanga siege and the onslaught of Typhoon Yolanda (Haiyan to the world). Economist Nouriel Roubini, in an investment forum organized by First Metro earlier in the year, hailed the country as "an economic success story" owing to its strong economic fundamentals, fiscal reforms and business-friendly policy environment.

Fitch, Standard & Poor's and Moody's all gave their thumbs-up, stamping government debt with the investment-grade seal of approval. The three international credit rating firms explained their upgrades by pointing specifically to the economy's growth in the face of a sluggish world economy, improved fiscal position, current account healthily in surplus, sensible economic policies and better governance, especially efforts to curb corruption.

Our success stems from our understanding of the needs of Philippine companies through the three core areas of our business: Financial Markets, Investment Banking and Investment Advisory. Each of these segments played a key role in making 2013 one for the books.

Phenomenal at 50

If the national economy's performance was striking, that of First Metro was astounding. In the company's fiftieth year, consolidated net income hit P11.54 billion, or an amazing three and a half times its 2012 figure of P3.27 billion. Return on equity was a phenomenal 68.34%. These results may go down in the history books as the highest income levels ever reached by an investment bank in the country. Yet again, the majority of transactions in the capital markets were ours: we participated in 60%, or three-fifths, of them, a sure sign of our dominant position.

Our success stems from our understanding of the needs of Philippine companies through the three core areas of our business: Financial Markets, Investment Banking and Investment Advisory. Each of these segments played a key role in making 2013 one for the books.

The Financial Markets Group alone pulled in P4.29 billion, a vast P3.07 billion increase over last year's P1.22 billion. The surge was driven by interest income from fixed income securities, trading gains from the sale of government securities, distribution fee income and brokering fees.

The investment bank of choice

The Investment Banking Group made fee income of P479 million, up 37% from P349 million in 2012, a result that reflects this reality: First Metro has become and remains, after all these years, the investment bank of choice for the country's most prominent corporations. In 2013, a clutch of remarkable deals accounted for the bulk of this revenue, including these:

- the P2.375 billion top-up placement of Megawide Construction Corporation
- the P3.19 billion IPO of Philippine Business Bank
- the P17 billion and P9 billion corporate notes facility of Beacon Electric Asset Holdings, Inc.
- the P10 billion fixed rate bonds of GT Capital Holdings, Inc.
- the P24 billion project loan facility of Therma South, Inc. (Aboitiz Power)
- the P7 billion project loan facility of Toledo Power Company

The government, too, remains a steadfast partner. As we have done since 2000, First Metro participated in the Bureau of the Treasury's fundraising effort, playing the role of issue manager in its P150 billion ten-year Retail Treasury Bonds.

Strategic Finance accounted for net income of P257 million in 2013, P79 million or 44% higher than last year's P178 million.

The Investment Advisory Group, for its part, took in P107 million in trading gains and dividends from investment in stocks, a drop of P177 million or 62% from last year's P284 million.

Non-operating income represents gains from the sale of the 40% stake in Global Business Power Corporation to ORIX Corporation of Japan and Meralco PowerGen Corporation. Net earnings from subsidiaries and affiliates totaled P1.44 billion.

By the year's end, First Metro's assets stood at P82.8 billion. Capital funds reached P18.9 billion, or 27% over the 2012 figure of P14.9 billion. Our capital adequacy ratio stayed in the pink of health at 23.13% under Basel III.

Today the nation, tomorrow the region

If our first fifty years ended spectacularly, the next chapter in our story begins with a challenge: how to transform the company from dominant local player to regional leader. It is a challenge we are rising to.

Since 2009, when First Metro envisioned itself as one of Asia's most respected investment banks, the company has been strengthening its presence in the region. We have our feet planted firmly in the region's financial centers, cultivating strategic partnerships with some of Asia's top investment banks and securities houses in Singapore and Japan. We have also organized and led exploratory missions to Sri Lanka, Myanmar and Vietnam in a bid to gain footholds in these emerging economies while continuing to boost deal-making forays into China.



We are building a stable regional network, one that will open up a more diverse client base as well as alternative sources of capital for businesses both here and abroad. Today, First Metro is better prepared than ever for the coming of tighter integration among ASEAN economies in 2015. The looming change poses a threat, yes, but it also offers vast opportunities. We will be there to grab them.

Our story continues

The year 2013 was so good for us that it will be difficult to repeat. A new year is a new challenge, but we are confident that the company will remain strong and business will continue to flourish.



We expect good things of the Philippine economy in 2014. With such sound economic fundamentals, growth will continue. On the external front, the global economy should continue recovering, what with the US finding its legs and Europe starting to leave its recession behind. Emerging markets will stabilize or even pick up speed.

Our first fifty years may be history, and 2013 may have been one for the books, but our story isn't over. The years to come may be our best chapters yet.

ROBERTO JUANCHITO T. DISPO

If our first fifty years ended spectacularly, the next chapter in our story begins with a challenge: how to transform the company from dominant local player to regional leader. It is a challenge we are rising to.

OPERATIONAL HIGHLIGHTS

PHENOMENAL AT 50

If the national economy's performance in 2013 was striking,
First Metro's was astounding.

Astounding

Consolidated net income skyrocketed to P11.54 billion, three and a half times its 2012 figure. Return on equity hit 68.34%.

The lion's share

We asserted our dominant position, participating in 60%, or three-fifths, of all transactions in the capital markets.

Treasure chest

The Financial Markets Group alone pulled in P4.29 billion, a vast P3.07 billion increase over last year. The surge was driven by interest income from fixed income securities, trading gains from the sale of government securities, distribution fee income and brokering fees.

The chosen one

First Metro remains the country's investment bank of choice. It continues to dominate the Philippine bond market, participating in 94% of total issuances while raising P219.5 billion for the year.

Rolling in the fees

The Investment Banking Group made fee income of P479 million, up 37% from 2012. Strategic Finance pulled in P257 million, 44% higher than last year.

The state's steady partner

First Metro again helped the Bureau of the Treasury raise funds, playing issue manager of its P150 billion ten-year Retail Treasury Bonds.

A weak market, a drop in investments

The Investment Advisory Group took in P107 million in trading gains and dividends from investment in stocks, P177 million lower than last year. The drop results largely from the market's lackluster performance in 2013. First Metro's yield was at 2.3%, better than the PSE's 1.3%.

Making the sale

Non-operating income was at P7.96 billion thanks to the sale of the 40% stake in Global Business Power Corporation. Net earnings from subsidiaries and affiliates totaled P1.44 billion.

A hale and hearty bank

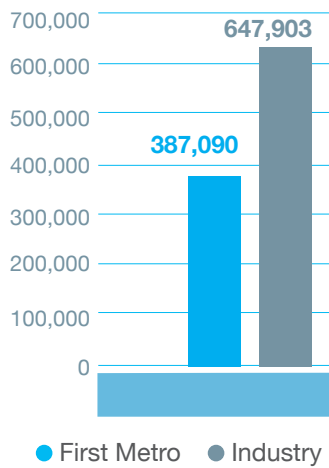
By the year's end, First Metro's assets stood at P82.8 billion, capital funds reached P18.9 billion (27% over 2012), and the capital adequacy ratio was a healthy 23.13% under Basel III.

FINANCIAL HIGHLIGHTS <i>(In Thousand Philippine Pesos)</i>	2013	2012*	2011*
Total Assets	82,773,149	87,588,187	81,388,360
Total Liabilities	63,823,368	72,688,510	70,090,709
Stockholders' Equity	18,949,781	14,899,677	11,297,651
CAR	50.29%	25.47%	18.99%
Gross Revenues	14,313,720	4,249,454	3,856,342
Net Income			
Consolidated	11,536,244	3,274,728	2,191,496
Parent	12,270,453	3,275,672	1,495,011
Return on Average Equity			
Consolidated	68.34%	25.04%	20.68%
Parent	90.90%	35.34%	20.24%

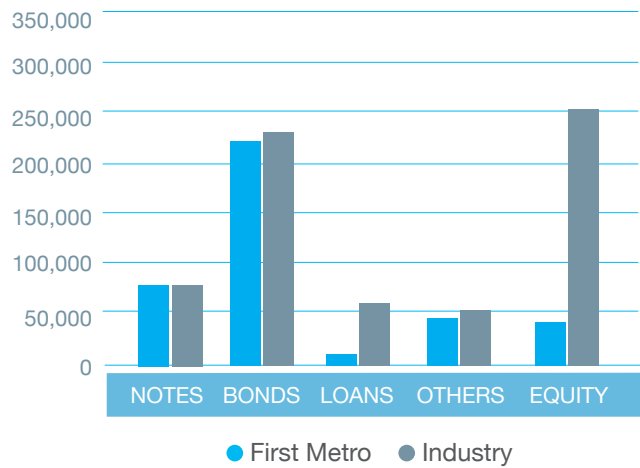
* Restated

2013 PHILIPPINE DEBT & EQUITY CAPITAL MARKETS

FIRST METRO MARKET SHARE
IN 2013

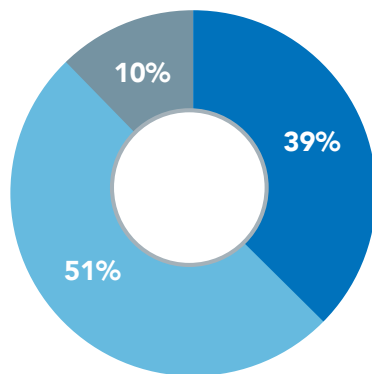


PRODUCTS RAISED IN 2013

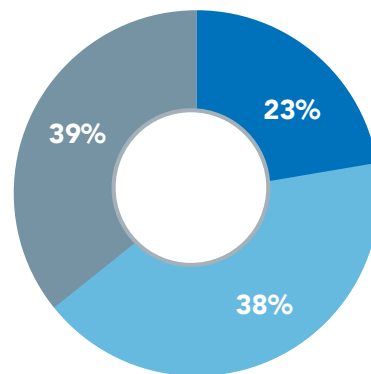


2013 DEBT & EQUITY DEALS BREAKDOWN

FIRST METRO



INDUSTRY



- Government Debt
- Corporate Debt
- Equity

**Based on publicly available information*

2013 MILESTONES AND ACHIEVEMENTS

MANY THE MILESTONES

Not only did First Metro celebrate its fiftieth anniversary in 2013. We did so in style. We solidified our place as the industry's dominant leader, we handled the lion's share of deals, and we posted staggering income numbers. The result: we reached new milestones, and the accolades—from independent observers, colleagues and clients—poured in.

First Metro brings to the Philippines world-acclaimed economist Nouriel Roubini through the Philippine Investment Summit 2013. Dubbed The Philippine Economic Upgrade: A Bright Spot in Asia, the summit proved timely, forerunning the country's credit rating upgrades. The event gathered over 800 people from financial institutions both here and abroad, as well as leading Philippine corporates, fund and asset managers, high net worth investors, and players in the capital markets.



First Metro wins fifth consecutive Best Bond House award.

For the fifth straight year, First Metro was chosen Best Domestic Bond House in the Philippines by the Asset Publishing and Research Ltd. in its Triple A Country Awards for 2013. First Metro was cited for its leadership in the Philippine domestic bond market, participating in the issuance of P477 billion in bonds, representing 77.9% of the total bond issuance for both private and public sectors. The company also remains the front-runner in private debt issuances, successfully raising P35.5 billion in corporate notes and P75 billion in loans, representing 49.6% and 73.5% of the industry (in the awards covered period).

First Metro receives FinanceAsia's Best Domestic Bond House Award.

FinanceAsia, a leading financial publication in the region, attributes First Metro's success as a domestic bond house to its strengths in deal origination, structuring and execution. In the awards covered period, First Metro helped both the government and private firms raise P209.7 billion and P135.3 billion in debt, or 60% of total debt market transactions. In the equities space, it raised P93.7 billion, or 39% of the market. Overall, First Metro dominated the domestic capital markets with its participation in 53% of the total capital markets transactions.



First Metro tops Asset Benchmark rankings. First Metro won the Asset Benchmark Research (ABR) 2013 Best Primary Bank for Corporate Bonds Investors' Vote Philippines. ABR's thirteenth annual survey of institutional investors ranks First Metro as the top bank arranger in the Philippines based on the quality and number of primary corporate bond deals. Of the total P233.5 billion bonds in the capital markets, First Metro posted P219.5 billion, or 94% of the market as of end-November 2013.



Underwriter	Rank	Mkt Share (%)	Amount PHP (MN)	Issues
First Metro Investment Corp	1	21.0	28,500.00	11
HSBC Bank PLC	2	18.8	25,566.67	12
Bank of Philippine Islands	3	17.6	23,916.67	14
Standard Chartered Bank	4	11.0	15,000.00	5
BDO Unibank Inc	5	9.0	12,166.67	11
ING Groep NV	6	8.4	11,416.67	6
Deutsche Bank AG	7	4.9	6,666.67	3
Security Bank Corp	8	2.7	3,666.67	4
China Banking Corp	9	2.2	3,000.00	1
PNB Capital & Investment Corp	10	1.8	2,500.00	1
Development Bank of Philippines	11	0.9	1,166.67	2
Philippine Commercial Capital Inc	11	0.9	1,166.67	2
Rizal Commercial Banking Corp	11	0.9	1,166.67	2
Total Amount 135,900 PHP (Mn)		Issues 28	#Underwriters 13	

(Bloomberg Debt League Table 2013)

First Metro leads Bloomberg Debt League Table. Among 13 local and international banks, First Metro takes the lead in Bloomberg's League Table for the Philippine debt market for having underwritten the majority of the issuances for the year, accounting for P28.5 billion, or 21%, of the P135.9 billion in peso-denominated debts.

First Metro dominates PDS Awards. First Metro took home six trophies at the Philippine Dealing System Holdings Corp. & Subsidiaries (or the PDS Group) Annual Awards. For the third straight year, The PDS Group conferred on First Metro its highest and most prestigious prize, the Cesar E.A. Virata Award for Best Securities House (Investment House Category). The company was also honored as Top Brokering Participant Corporate Securities, Top Issue Manager/Arranger, Top Corporate Securities Market Maker, Top Fixed Income Brokering Participant and Top Fixed Income Dealing Participant.



FinanceAsia tabs First Metro as one of the ten best managed companies in the Philippines. FinanceAsia's thirteenth annual poll of Asia's top companies involves investors and analysts across the region. In a list including the country's biggest and most respected firms, First Metro was the only investment bank. This is the first time the company received this recognition from FinanceAsia. First Metro was likewise voted one of the Best in Investor Relations.

First Metro bags PIFA awards. All four First Metro Save & Learn mutual funds won big in different categories of the Philippine Investment Fund Association Awards. Save & Learn Fixed Income Fund won first place in the 1-year, 3-year and 5-year categories; Save & Learn Equity Fund won first place in the 3-year and 5-year categories; Save & Learn Balanced Fund won first place in the 3-year and 5-year categories and second place in the 1-year category; and Save & Learn Money Market Fund won third place in the 1-year and 3-year categories.




BTr recognizes First Metro as one of the Best Performing GSEDs. First Metro was recognized as the fifth best performing Government Securities Eligible Dealer in 2013 by the Bureau of the Treasury. The only investment bank in the top ten, First Metro was commended for its staunch support of the efforts and programs of the government aimed at promoting and strengthening the growth and development of the Philippine capital markets. The distinction also acknowledges First Metro's significant market share or volume turnover in both primary and secondary markets for government securities.

First Metro lists the country's first ETF. First Metro Philippine Equity Exchange-Traded Fund was listed on the Philippine Stock Exchange on December 2, 2013. First Metro is the proponent, lead coordinator and fund sponsor in the registration, offer and listing of up to 30,000,000 common shares. First Metro Asset Management, Inc. is the fund manager. The market maker is First Metro Securities Brokerage Corporation, which is also the authorized participant together with IGC Securities.



2013 INVESTMENT BANKING DEALS

<p>December 2013</p>  <p>First Metro Philippine Equity Exchange-Traded Fund, Inc.</p> <p>Up to 30,000,000 Shares Registration, Offer and Listing</p> <p>Proponent, Lead Coordinator & Fund Sponsor</p>	<p>December 2013</p>  <p>Metrobank Card Corporation</p> <p>PHP 1,170,000,000 10-year Fixed Rate Subordinated Notes Eligible as Tier 2 Capital</p> <p>Joint Lead Manager & Bookrunner</p>	<p>December 2013</p>  <p>Manila Electric Company</p> <p>PHP 18,500,000,000 7- and 12-year Fixed Rate Bonds</p> <p>Joint Issue Manager & Joint Lead Underwriter</p>	<p>November 2013</p>  <p>Therma South, Inc.</p> <p>PHP 24,000,000,000 12-year Term Loan Facility</p> <p>Co-Lead Arranger</p>	<p>November 2013</p>  <p>Aboitiz Equity Ventures, Inc.</p> <p>PHP 8,000,000,000 7- and 10-year Fixed Rate Bonds</p> <p>Issue Manager, Lead Underwriter & Sole Bookrunner</p>	<p>November 2013</p>  <p>Ayala Corporation</p> <p>PHP 10,000,000,000 Preferred Class "B" Shares</p> <p>Joint Lead Underwriter</p>
<p>November 2013</p>  <p>Rockwell Land, Inc.</p> <p>PHP 5,000,000,000 7.25-year Fixed Rate Bonds</p> <p>Issue Manager, Lead Underwriter & Sole Bookrunner</p>	<p>November 2013</p>  <p>Filinvest Land, Inc.</p> <p>PHP 7,000,000,000 7- and 10-year Fixed Rate Bonds</p> <p>Joint Issue Manager & Joint Lead Underwriter</p>	<p>October 2013</p>  <p>Ayala Land, Inc.</p> <p>PHP 6,000,000,000 7- and 20-year Fixed Rate Bonds</p> <p>Joint Lead Underwriter</p>	<p>August 2013</p>  <p>Beacon Electric Asset Holdings, Inc.</p> <p>PHP 1,000,000,000 Bridge Loan Facility</p> <p>Joint Lead Arranger & Bookrunner</p>	<p>August 2013</p>  <p>Republic of the Philippines (Bureau of the Treasury)</p> <p>PHP 150,000,000,000 10-year Retail Treasury Bonds</p> <p>Issue Manager & Selling Agent</p>	<p>August 2013</p>  <p>Manila Water Company, Inc.</p> <p>PHP 5,000,000,000 7-year Term Loan Facility</p> <p>Sole Arranger</p>
<p>July 2013</p>  <p>Beacon Electric Asset Holdings, Inc.</p> <p>PHP 9,000,000,000 10-year Corporate Notes</p> <p>Joint Lead Arranger & Bookrunner</p>	<p>July 2013</p>  <p>Ayala Land, Inc.</p> <p>PHP 15,000,000,000 10.5-year Fixed Rate Bonds</p> <p>Co-Lead Underwriter</p>	<p>July 2013</p>  <p>National Grid Corporation of the Philippines</p> <p>PHP 29,500,000,000 10-year Fixed Rate Corporate Notes</p> <p>Joint Lead Manager & Joint Bookrunner</p>	<p>July 2013</p>  <p>Federal Land, Inc.</p> <p>PHP 5,000,000,000 7- and 10-year Fixed Rate Corporate Notes</p> <p>Sole Arranger & Bookrunner</p>	<p>June 2013</p>  <p>SM Development Corporation</p> <p>PHP 6,200,000,000 7- and 10-year Fixed Rate Corporate Notes</p> <p>Sole Arranger & Bookrunner</p>	<p>June & October 2013</p>  <p>Property Company of Friends, Inc.</p> <p>PHP 4,000,000,000 Medium Term Corporate Notes Facilities</p> <p>Arranger</p>
<p>June 2013</p>  <p>COSCO Capital, Inc.</p> <p>PHP 16,800,000,000 Top-Up Placement</p> <p>Domestic Lead Manager</p>	<p>May 2013</p>  <p>Asia United Bank</p> <p>PHP 8,360,000,000 Initial Public Offering</p> <p>Joint Domestic Lead Underwriter</p>	<p>May 2013</p>  <p>Megawide Construction Corporation</p> <p>PHP 2,374,596,000 Top-Up Placement</p> <p>Domestic Manager & Joint Bookrunner</p>	<p>May 2013</p>  <p>FP Finance (2013) Limited</p> <p>USD 250,000,000 3- and 5-year Term Loan Facility</p> <p>Arranger</p>	<p>March 2013</p>  <p>Toledo Power Company</p> <p>PHP 7,000,000,000 12-year Project Loan Facility</p> <p>Mandated Lead Arranger</p>	<p>March 2013</p>  <p>Beacon Electric Asset Holdings, Inc.</p> <p>PHP 17,000,000,000 10-year Corporate Notes</p> <p>Joint Lead Arranger & Bookrunner</p>
<p>February 2013</p>  <p>GT Capital Holdings, Inc.</p> <p>PHP 10,000,000,000 7- and 10-year Fixed Rate Bonds</p> <p>Issue Manager, Bookrunner & Joint Lead Underwriter</p>	<p>February 2013</p>  <p>Philippine Business Bank</p> <p>PHP 3,192,002,100 Initial Public Offering</p> <p>Joint Lead Underwriter & Bookrunner</p>	<p>February 2013</p>  <p>Megawide Construction Corporation</p> <p>PHP 4,000,000,000 5-, 7- and 10-year Corporate Notes</p> <p>Sole Arranger & Bookrunner</p>			



MASTERING THE ART OF THE DEAL

Cementing our place as dominant leader in the capital markets were a handful of remarkable deals. Over the years we have become the country's investment bank of choice, and 2013 shows that we remain so. Through these noteworthy transactions, we aided our partners gain from opportunities to finance their projects and operations, thereby stirring the economy into more vibrant action.

Energetic equities

The year began busily, with First Metro pushing four equity deals in the first six months.

First Metro acted as joint lead underwriter and bookrunner in the first IPO of 2013: the P3.19 billion offering of **Philippine Business Bank** in February. The IPO, offered only to the domestic market, was well-received by both institutional and retail investors, resulting in an oversubscription of over four times.

We also had a hand in the year's second IPO. The P8.36 billion offering of **Asia United Bank** in May, for which First Metro played joint domestic lead underwriter, was the first IPO after the Philippines received its investment-grade credit ratings.

The P2.375 billion top-up placement of **Megawide Construction Corporation**, also in May, was a milestone: it was the first such transaction in the Philippines co-managed by a domestic investment bank. With First Metro as joint bookrunner, the placement was 2.22x oversubscribed.

Within a month of the first such top-up came the second. After Puregold Price Club made its IPO in 2012 with the assistance of First Metro, it was majority shareholder Cosco Capital's turn to tap the equity market. In June, First Metro was joint domestic lead underwriter to **Cosco Capital's** P16.8 billion top-up placement.

Then in the middle of the year came the uncertainty. After the Federal Reserve announced in May that it would taper its quantitative easing, the Philippine Stock Exchange index fell from an all-time high of 7,403.65 to 7,021.95 by the end of the month. Lingering concerns dampened investment action in the equity market for the rest of the year, and 2013 came to a close with the index at 5,889.83.

Bond house bonanza

But in the debt market, we charged full-steam ahead. True to our reputation as a bond house, First Metro strung together substantial corporate debt deals throughout the year. Among them were these:

The P10 billion 7- and 10-year fixed rate bonds of **GT Capital Holdings, Inc.**, for which First Metro was issue manager and joint lead underwriter. Following its successful IPO in 2012, GT Capital listed its maiden bond issue at the Philippine Dealing and Exchange Corporation. The issue was oversubscribed.

First Metro acted as mandated lead arranger of the P7 billion project loan facility of **Toledo Power Company**. The successful project finance loan syndication exercise proved that the Philippine domestic market is prepared to explore nontraditional forms of financing for as long as the appropriate safeguards are in place to mitigate risks. The deal was more than 50% oversubscribed.

First Metro has long been a partner of **Beacon Electric Asset Holdings, Inc.** in its fundraising efforts. In 2013, Beacon Electric successfully raised P26.0 billion in debt through a private placement. In February, the firm issued P17 billion in corporate notes, the largest fundraising in the

domestic debt capital markets in the first half of 2013. In July, the company issued another P9 billion in notes. Strong demand from local financial institutions led to its being 3x oversubscribed. First Metro acted as joint lead arranger and underwriter both times.

First Metro was sole arranger and bookrunner in the P6.2 billion issuance of corporate notes by **SM Development Corporation**. Owing to strong demand from institutional lenders, the size of the notes issue was more than doubled from the original P3 billion.

A furious, final flurry

And then came the last quarter of the year.

First Metro sprung into action in these last three months, engaging in five bond deals that, at a combined value of P44.5 billion, accounted for more than half of all bonds issued in the year (P83.5 billion). Of these five, four were issue-managed by First Metro.

- The **Manila Electric Company** issued P18.5 billion in 7- and 12-year fixed rate bonds, for which First Metro was joint issue manager and joint lead underwriter.
- **Aboitiz Equity Ventures** floated P8 billion in 7- and 10-year fixed rate bonds, for which First Metro was issue manager, lead underwriter and sole bookrunner.
- **Filinvest Land, Inc.** issued 7- and 10-year fixed rate bonds worth P7 billion. First Metro was joint issue manager and joint lead underwriter.
- **Rockwell Land, Inc.** issued P5 billion in 7.25-year fixed rate bonds, for which First Metro played issue manager, lead underwriter and sole bookrunner.
- **Ayala Land, Inc.** issued P6 billion in 7- and 20-year fixed rate bonds, for which First Metro was joint lead underwriter.

For these deals First Metro received a number of awards, including Top Corporate Issue Manager/Arranger and the prestigious Cesar E.A. Virata Award for Best Securities House (Investment House Category) from the PDS Group.

The bang at the end of the year

We ended the year with a bang. In December, the country's first-ever exchange-traded fund (ETF), made its way to the Philippine Stock Exchange (PSE): the **First Metro Philippine Equity Exchange-Traded Fund**. With First Metro Asset Management, Inc. as the fund manager and First Metro Securities Brokerage Corporation as market maker, First Metro ETF is yet another feather in First Metro's cap.

Designed to track the stock exchange index, the ETF is a cost-efficient way of diversifying a portfolio, allowing investors access to a broader market at lower expense ratios. A stock and a mutual fund rolled into one, First Metro ETF provides a diverse, transparent and tradable investment option that suits any type of investor, both global and local.

First Metro's innovative spirit spawned the new product, the first of its class in the country, and yet another way by which the company hopes to nurture the growth of the country's capital markets.



THRIVING IN A BRAVE NEW WORLD

At the close of its fiftieth year, First Metro finds itself on the cusp of a brave new world. To thrive in it, the company continues to innovate, introducing new products into the capital markets that will help them grow and prosper. The company also looks to the region, forging alliances with strategic partners with whom it can expand into other shores and strengthen its foothold in Asia.

Finding an ally in Japan

First Metro forms a strategic alliance with Japanese holding firm Tokai Tokyo Financial Holdings, Inc. (TTFH), a Japan-based holding company engaged primarily in securities. The alliance aims to broaden the two companies' product offerings and services for the benefit of their clients. This partnership, a significant step toward First Metro's goal of expanding its business coverage in Asia, will open up a more diverse client base for First Metro.

The memorandum of understanding will address collaborative and mutual endeavors such as the provision of products and services, information sharing on the economic environment and the corporate sector, exchange programs for on-the-job trainees, the establishment of investment trust products, and the promotion of corporate finance businesses including financial advisory.

First Metro and TTFH will seek to develop other areas of possible cooperation, giving the clients of each access to a broader range of financial products and services. TTFH is the first group engaged in securities brokerage operations in Japan to form an alliance with the Metrobank Group.

TTFH is among the top ten publicly listed securities companies in the Tokyo Stock Exchange. The company is engaged in the purchase and sale of securities, the brokerage of securities, the underwriting, sale, public offering and private offering of securities, as well as other financial product transaction businesses and financial product-related businesses. The company also provides financing and fund management services for clients in overseas markets, including Asian and European financial markets.

The country's first-ever exchange-traded fund

The country's first-ever exchange-traded fund (ETF) hit the market in 2013. First Metro Philippine Equity Exchange-Traded Fund, with First Metro as the fund sponsor, was listed on the Philippine Stock Exchange (PSE) on December 2, 2013. First Metro Asset Management, Inc. is the fund manager while First Metro Securities Brokerage Corporation is the market maker.

First Metro ETF offers an investment option that allows a collective investment scheme to be traded in the PSE. Designed to track the stock exchange index, it is a cost-efficient way of diversifying a portfolio, allowing investors access to a broader market at lower expense ratios. A stock and a mutual fund rolled into one, it provides a diverse, transparent and tradable investment option that suits any type of investor.

"ETFs have remained one of the fastest-growing asset classes in the world market because the product itself has shown to be beneficial to investors worldwide and one of the easiest to understand and trade," said PSE President Hans Sicat at the listing ceremony. "We are hopeful that more retail investors can now participate easily in the growth of our market. Global investors will also be able to benefit as they can readily get exposure to the Philippines with just one product." Retail and institutional investors alike can buy and sell First Metro ETF shares through any of the PSE's 135 brokers, just like any listed stock.

"Today is a milestone for the Philippine capital markets with the listing of the country's first-ever ETF," said First Metro President Roberto Juanchito Dispo in his speech during the listing ceremony. "True to our thrust and advocacy to be a prime mover in the development of the Philippine capital markets, First Metro is privileged to be the first institution in the country to launch and list this exciting and innovative product. The road to this momentous occasion, however, was not easy as the journey was long and full of challenges. We planted the seed of this idea many years back after we recognized the market's hunger for new products."

Indeed, the listing caps a period of long, hard work. First Metro, the PSE and the SEC spent more than four years hammering out the regulatory framework for ETFs, a process that is not over yet. Regulators have committed to continue enhancing the framework, fine-tuning regulations as conditions shift and the market for such products plays out. On top of their agenda: reviewing a move to the trust structure so capitalization limits under the current corporate structure are removed.

ETFs may be uncharted territory for the country, but First Metro's thrust to be a prime mover of the Philippine capital markets spurred the company to forge ahead. The new product, the first of its class in the country, will help foster the growth of the equity market.

ETFs debuted in 1993 when State Street launched the SPDR S&P 500, an equity index fund tracking the S&P 500. Shortly after, ETFs gained popularity, leading to the creation of other forms of ETFs such as bond index and commodity ETFs. In 1999, the Hong Kong Tracker Fund was launched and introduced the first ETF in Asia. Europe's first ETF, the Euro STOXX 50, arrived two years later. As of March 2013, there were 4,964 ETFs worldwide with assets amounting to USD2,059.6 billion.

ETFs may be uncharted territory for the country, but First Metro's thrust to be a prime mover of the Philippine capital markets spurred the company to forge ahead. The new product, the first of its class in the country, will help foster the growth of the equity market.



FOSTERING FUTURE INVESTORS, REACHING OUT TO THOSE IN NEED

Beyond marshaling capital for the needs of our partners, we see our role as encompassing two other important tasks: nurturing future investors, thereby increasing awareness of and involvement in the capital markets, so as to stir long-term economic development; and helping spread our economic gains to communities in need. Through these tasks, we add to our contribution in making the nation's growth as inclusive as possible. Thus, our corporate social responsibility program, ***First Metro Inspires Cares***.

Its two key advocacies: investment literacy and community outreach.

Nurturing the investor of the future

First Metro's investment literacy initiatives help raise awareness of the capital markets and share our expertise as the country's leading investment bank.

We conducted our semiannual economic and capital markets briefing titled "Philippines on the Rise: 2013 Economic Outlook" for different audiences, two for the press, seven in different regional centers (including Pampanga, Cebu and Davao), for an audience of more than 1,200 people. These briefings touch on topics such as macroeconomic trends, prospects for the fixed income, equities and corporate debt markets, as well as those for corporate issuances and emerging growth industries.

First Metro Asset Management, Inc. (FAMI) continued holding its investment literacy seminars across the nation, holding it 176 times for an audience of nearly 5,000 people including students and teachers, Metrobank employees, and the general public. The themes: "How to save for your future when you think you have nothing to save" and "How to build a winning portfolio."

Our stock brokerage arm, First Metro Securities Brokerage Corporation, continued conducting its own weekly tutorials aimed at educating the market and fostering future investors among the young. The seminars, which began in October 2012, averaged five a week over forty weeks, bringing the total to about 200, benefiting some 3,200 participants. The seminar traveled from Metro Manila sites such as Makati and Binondo to places far afield including San Fernando in La Union, Baguio, Tuguegarao, Cebu, Bacolod and Davao. Topics covered include how to invest in stocks, trade online, invest in mutual funds, save and set up a retirement portfolio.

For the third year in a row, First Metro organized **Stock X Challenge**, a competition that promotes stock market awareness and develops future investors in the equities market. The annual intercollegiate online stock trading competition, a partnership with the Philippine Stock Exchange and the Catholic Educational Association of the Philippines, featured more than 200 teams with more than 700 participants. These were culled from more than 2,000 attendees of portfolio management seminars held around the country, including schools in Baguio, Isabela, Iloilo, Cebu, Davao and Cagayan de Oro. Participants were given access to the online trading platform of First Metro Securities as well as other research and investment tools. Besting the competition were teams from the University of the Philippines-Cebu, the University of Santo Tomas and the University of the Philippines-Diliman.

A helping hand to those in need

First Metro shares its financial success by giving to communities in need.

Through the **Bigay Liwanag** project, launched in 2006 and still going strong, First Metro helped some 600 public elementary students with impaired vision to see better. The project, which provides free eye checkups and prescription glasses for students, reached more schools and beneficiaries than ever before.

Pio Del Pilar Elementary School	107
P. Guevarra Elementary School	248
Dr. Albert Elementary School	95
Antonio Luna Elementary School	48
Emilio Jacinto Elementary School	102

First Metro also made monetary donations to various causes, including:

- Elsie Gaches Village, to aid the mentally challenged
- SOS Children's Villages, to benefit children who are orphaned, abandoned or homeless
- Philippine Institute of the Deaf, to assist students with impaired hearing
- Metrobank Build-a-Classroom Fiesta Fun Run, to raise funds for building classrooms
- the Musmos Organization of Ateneo de Manila University, to benefit the street children of Katipunan Avenue and Cubao, Quezon City

Also, employees of First Metro, FAMI and First Metro Securities volunteered to join Metrobank's "You're in Green Hands" tree-planting project held at the Toyota Forest in Santa Rosa City, Laguna. Spearheaded by Metrobank Foundation in coordination with the subsidiaries and affiliates of the Metrobank Group, the activity responds to the call to mitigate the impact of climate change in our own humble way. Participants planted seedlings that will contribute to the country's reforestation.



RISING ABOVE THE EBB AND FLOW OF CHANGE

Managing risk is an essential part of our business. We would not have taken the lead in the industry had we not learned early on that calculating risk, hedging against it, using it to one's advantage and understanding how it changes were crucial to our success as an investment bank. And change comes upon us constantly. The regulatory environment in which we work shifts continuously, behooving us never to take our gains for granted and always to study how we can thrive in it.

Risk management is a responsibility that rests on everyone in the company, and it begins at the top. The Board of Directors draws up the risk oversight charter and cascades its principles to the Risk Oversight Committee (ROC) and the various units. The company has three lines of defense in mitigating risk: (1) the operating business unit, (2) risk management and (3) audit.

A key risk management goal of First Metro is institutionalizing, fostering and strengthening a culture of risk awareness within the organization, including its affiliates and subsidiaries. To this end, it constantly updates its risk management manual, a ready reference in identifying, recognizing, measuring, reporting and monitoring risks.

New Initiatives

In 2013, First Metro produced the fourth and fifth batches of the operating manuals for information security (Parts 1 and 2) and the Credit Division amendments. The first batch was completed in 2011 for the Strategic Business Units (or SBUs; these are Treasury, Investment Banking, Investment Advisory, and Strategic Finance) with the assistance of Isla Lipana/ PricewaterhouseCoopers consultancy firm.

The second and third batches were completed in 2012 for the Strategic Support Units (SSU) with help from Punongbayan & Araullo/Grant Thornton International Ltd. The SSU manuals included those for General Accounting, Management Accounting, Operations, Accounting—Chart of Accounts, Preparation of Accounting Schedules, Preparation of Financial Statements and Other Accounting Activities; MIS-Budget, Human Resources, Credit Division, Administrative Services, Corporate Planning, Legal, Risk Management, Compliance and Information Technology (project management and systems development life cycle which includes quality assurance testing). Likewise included was the operating manual of Regional Business Development and the Internal Capital Adequacy Assessment Process (ICAAP) manual.

First Metro also sponsored the sixth of its annual risk seminars for the Board, this time on RA 10175 (the Cybercrime Prevention Act of 2012) and on RA 10173 (the Data Privacy Act of 2012), as discussed by Punongbayan & Araullo (P&A).

First Metro also drew up the operating manual for the First Metro Philippine Equity Exchange-Traded Fund prior to the product launch with the help of P&A.

First Metro also collaborated with parent firm Metrobank on the continued implementation of the ICAAP across the following risks: market, credit, operational, liquidity, interest rate risk in the banking books, compliance, reputational, business/strategic, underwriting and conglomerate. Metrobank subsidiaries were given frameworks for the calculation of the ICAAP numbers and stress testing, which incorporates macro and internal assumptions to construct different scenarios. The final consolidation of the group's numbers and ICAAP write-ups was done by Metrobank.

Managing Risk Across the Enterprise

First Metro continued to pursue an enterprise-wide risk management (ERM) system, which it began in 2007. Proactive, vigilant and integrative, the system focuses on risk management for the entire organization.

The ERM emphasizes policy, methodology and infrastructure. Policy involves business strategy, definition of risk tolerance, authorities and disclosures. Methodology covers the measurement of risk in achieving risk-based pricing and risk-adjusted returns. Infrastructure involves the hiring, training and development of people, as well as the organization, operations and technology to support the framework.

The ERM framework is guided by the following functional structure:

Board of Directors

- establishes risk management strategies and is ultimately accountable for risks taken within the group
- understands major risks faced by the company and approves broad risk tolerance levels/limits and other recommendations of the ROC
- leads in disseminating risk philosophy and control culture throughout the organization

Risk Oversight Committee (ROC)

The ROC is composed of three Board members and a resource representative from the parent bank who possess a range of expertise as well as adequate knowledge of our institution's risk exposures, in order to develop strategies for preventing losses and minimizing the impact of losses as well as maximizing returns.

The risk oversight charter defines the duties and responsibilities of ROC members and their reporting functions to the Board, including the membership composition and regularity of meetings. The Committee:

- recommends for Board approval policies and guidelines on risk measurement, management and reporting
- reviews and recommends a system of risk limits for approval by the Board
- monitors the timely and accurate reporting of risks by risk-taking units and/or the risk control and compliance units
- analyzes and confirms that the risk infrastructure satisfies corporate policies and is consistent with current technology and techniques
- ensures that business units provide for ongoing review and validation of the adequacy and soundness of policies and practices
- creates and promotes a risk culture that requires and encourages the highest standards of ethical behavior among all personnel
- promotes the professional development and training of staff engaged in both risk management and control activities and risk-taking activities
- promotes the continuous development of risk programs and infrastructure

Risk Management Division and Control Units

These are composed of the Controller, the Internal Auditor, the Compliance Officer and the Chief Risk Officer. The Chief Risk Officer:

- performs the daily mark-to-market valuation and value-at-risk calculations for all of our risk positions using independent data sources
- ensures compliance with internal limits and reports limit excesses to appropriate business unit heads and the ROC
- ensures that proper accounting, operations, legal and technology systems are in place to support risk-taking activities at all times
- actively assists in the planning, designing and testing of new systems or system improvements

Managing Various Types of Risk

The risk issues that affect First Metro are these:

Liquidity Risk

This is the potential risk of being unable to make a timely payment on any of its financial obligations to customers or counterparties. Liquidity can be affected by the inability to access long- or short-term deposit substitutes and repurchase markets, or draw from credit facilities, whether due to factors specific to First Metro or to general market conditions. The timing of difficult-to-predict events and contingencies can also make cash requirements and liquidity tight.

Liquidity risk management techniques are designed to:

- meet financial commitments when these fall due
- have funds available for new business that meet credit and pricing standards
- cover differences in the maturity pattern of assets and liabilities
- cover shortfalls in projected cash flows
- cover unplanned expenditures

Outlined in the liquidity and contingency plan is a specific plan of action to implement the liquidity management techniques, which the Board approves through the ROC.

First Metro uses a monitoring system to support liquidity risk management policies. The system includes maximum cumulative outflow (MCO) analysis, identification of large funds providers and development of core investors.

To strengthen its monitoring system, First Metro creates additional stressful scenarios in its analysis to comply with the requirements of the Bangko Sentral ng Pilipinas (BSP). The tests show liquidity requirements in case the scenarios materialize.

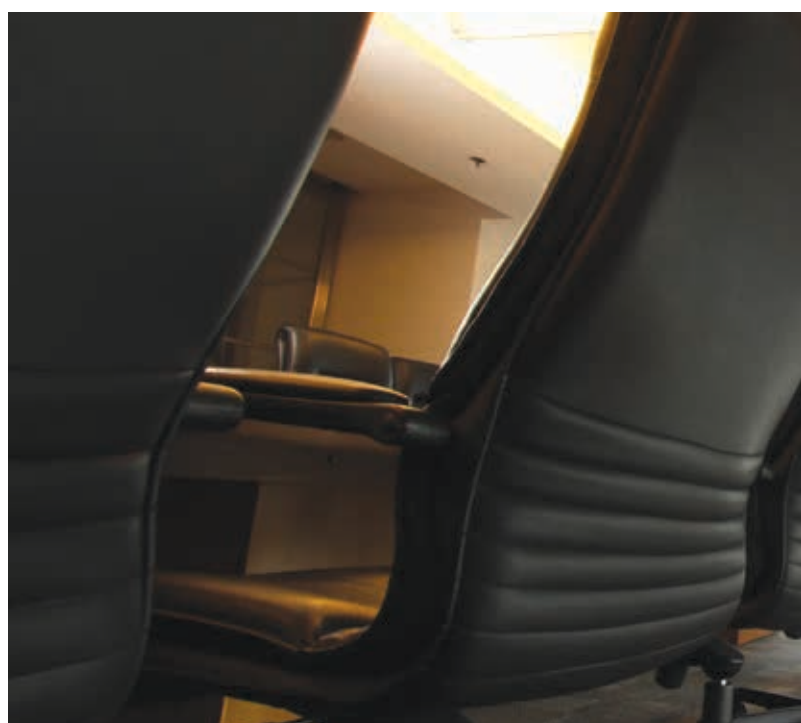
Market Risk

This is the risk of losing future earnings, fair values or cash flow that may result from changes in the price of a financial instrument. Potential market risk originates in the company's holdings of debt securities and equities.

First Metro manages market risk by segregating its balance sheet into a trading book and a banking book. The management of this portfolio is assigned to the Senior Management Committee, chaired by the President.

The risk management team serves under the ROC and performs daily market-risk analyses to ensure compliance with policies and procedures. The methods used to manage risk include the daily marking-to-market, monitoring of loss alerts and stop-loss limits, profit alert and start-sell limits, nominal position limits, as well as value-at-risk (VaR) and earnings-at-risk (EaR) limits. Monitoring also includes sensitivity analysis, stress testing and backtesting of the VaR.

VaR is generated by Riskmark, the risk engine of Credence Analytics. Riskmark's VaR methodology was independently validated by SGV & Co. In 2013, First Metro purchased the enhanced Credence Analytics Riskmark VaR calculation engine, which calculates the value-at-risk of the local- and foreign-denominated currency, fixed income securities, as well as the foreign exchange rate. First Metro engaged SGV anew for the independent validation of the enhanced Riskmark models and the foreign-currency denominated gapping reports.



Guiding daily monitoring activities are limit structures that are based on annual targets set during budget hearings, approved by the ROC and the Board. Monitoring reports are discussed in the ROC monthly meetings.

Also in 2013, First Metro had the Board approved the revised equity risk guidelines that tightened the monitoring of equity investing across First Metro and its subsidiaries First Metro Asset Management, Inc. (FAMI) and First Metro Securities Brokerage Corporation and raised the standard of qualified issues that can be purchased, limited to those with a credit rating of 1 (Excellent) to 5 (Acceptable) effective March.

Credit Risk

This refers to the risk to earnings or capital arising from an obligor's, customer's or counterparty's failure to perform or to meet the terms of any contract with First Metro, subjecting the company to a financial loss. It also includes sovereign risk for some foreign-owned counterparties, where applicable.

Credit risk arises from lending activities, committed underwritings, investments in equities and strategic finance. To assess the creditworthiness of counterparties, First Metro evaluates the company or individual's background, management or ownership, industry and competitors, financials, the mechanics of the deal, and any credit enhancements. Given the new business model, credit risk arises mainly from strategic investments in debt/equity securities and other committed underwritings while winding down its lending/on-books positions.

Counterparties are rated based on a Basel II compliant, 10-point internal credit rating patterned after the Metrobank model. The rating is automatically linked to provisioning at the BSP-classified levels. First Metro obtains security or other credit enhancements and limits the duration of its exposures where warranted. The risk-taking units present their proposals to a deal committee. After thorough deliberation and pre-clearance by the deal committee, the proposals are then presented to the credit committee(s) for final approval.



First Metro also regularly undertakes and reports credit monitoring of risk areas to the ROC for First Metro and its subsidiaries FAMI and First Metro Securities. This monitoring includes: ceiling to DOSRI loans, single borrower's limits/group exposure, level of classified accounts, portfolio's credit risk profile (through weighted rating) per SBU/originating unit, level of availed facility versus committed credits, portfolio profiles on security, tenor, risk rating, industry, nonperforming loans, and any other concentrations. Regular stress testing and concentration risk analysis are likewise carried out. A credit line monitoring report on the financial institutions is emailed to Metrobank daily before noon.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, but excludes strategic and reputational risk.

Operational risk management entails resolute vigilance and continuous enhancement. Simply put, an effectively managed operational risk improves the quality and stability of earnings, enhancing one's competitive position in the industry.

The operational risk management framework embodies the company's resolve to effectively manage operational risk via a staged approach. This involves risk identification, analysis and assessment, treatment, monitoring, and reporting. It also outlines a set of principles that provides a framework for effective supervision and management of such risk. In line with the framework, First Metro established various methods and tools to enhance the management of risk that are aligned with those of Metrobank. These include operational risk incident data management, risk event database maintenance, risk assessment, key risk indicator monitoring and contingent legal liability reporting.

The operational risk management manual outlines a set of principles that provides a framework for effective supervision and management of operational risk. Various methods and tools were established to facilitate management of the risk. These

operate under the operational risk self-assessment (ORSA) framework and include an operational risk incident management and reporting process, a risk event database, a risk assessment process, and the monitoring of and reporting on identified key risk indicators.

First Metro is also implementing a structured five-year information systems strategic plan approved by the Board that is in sync with its strategic business direction. The plan provides reasonable assurance of an effective information systems infrastructure that will support the business's current and future requirements in a controlled and efficient way. This tool runs in tandem with the IT risk control self-assessment. These monitoring tools are actively supervised by the IT Steering Committee.

First Metro also adopted proactive risk management practices for effective oversight, due diligence and management of risks arising from outsourcing, covering the run-up to entering into such an agreement as well as its lifespan. Outsourcing, after all, can be cost-effective but at the same time poses risks. Outsourcing risk is the risk that third-party service providers may not act within the intended limits of their authority, deliver desired results, or meet legal and regulatory requirements.

Metrobank's Internal Audit Group reviews operational risk management processes and provides independent assurance of their adequacy and effectiveness.

Compliance Risk

These are risks arising from violations or nonconformity with laws, rules and regulations, circulars, and prescribed practices or ethical standards that may expose First Metro to fines, penalties and even assumption of control by regulatory authorities in case of capital inadequacy.

The company has an established compliance function and written compliance policy manual that defines the compliance system, its status, authorities and independence. A Compliance Division headed by a compliance officer ensures the implementation of this compliance system.

The compliance officer leads in identifying, assessing and reporting compliance issues to ensure that the company complies with the laws, rules, regulations and standards set forth by the different regulatory bodies.

Legal Risk

This refers to breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits or adverse judgment that may lead to potential losses and disruption or that may result in financial and reputational risk.

The company's Legal Division advises the business units on:

- legal constitution of enforceable commitments during negotiations
- appropriate governing laws and jurisdiction for agreements
- development and documentation of terms for transactions involving collateral, guarantees, syndication, multi-office transactions and any third-party support
- documentation of waivers and amendments to the original documents

The Legal Division also ensures that contracting entities have the legal capacity or are duly empowered to contract with First Metro. It also establishes procedures for safeguarding original documentation and reviews these documents for compliance completeness and enforceability under respective legal jurisdictions.



GOOD GOVERNANCE, GOOD BUSINESS

Good corporate governance: our success is unimaginable without it. It is one of the values we have long embraced. We understand good corporate governance to mean fairness, accountability and transparency. Only by adhering strictly to the highest standards of business ethics and fair play can we be worthy of our shareholders' trust and confidence.



Milestones in 2013

Because we are determined to go beyond compliance with regulations, First Metro adopted in 2013 courses of action aimed at improving its governance policies and guidelines. Its Manual of Corporate Governance (Manual) that was first adopted in 2002, which embodies the company's governance framework, was amended in the light of new industry trends and more stringent guidelines issued by the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP).

First Metro also submitted the 2013 Compliance Officer's Certification of Compliance together with the Manual to the SEC on January 2, 2014.

Board of Directors

Good corporate governance starts at the top, as the Board of Directors sets the tone for the rest of the company. The Board determines First Metro's strategic goals and draws up the roadmap toward achieving them, while always mindful of the firm's mission, vision and corporate values.

First Metro's Board is committed to upholding the highest principles of good corporate governance. As an elected body, it is accountable to shareholders for maximizing shareholder value. It is also directly accountable to the investing public for safeguarding their investments and maintaining public trust.

It is the Board's responsibility to foster the long-term success of the corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it exercises in the best interest of the corporation, its shareholders and other stakeholders. The Board discharges its duties, functions and responsibilities, under the provisions of the relevant regulatory agency rules and regulations, with utmost honesty and integrity.

DIRECTORS' ATTENDANCE IN BOARD AND BOARD COMMITTEE MEETINGS FOR 2013

DIRECTORS	BOARD	EXECUTIVE	CORPORATE GOVERNANCE	AUDIT	RISK OVERSIGHT	NOMINATIONS	TRUST	RELATED PARTY TRANSACTIONS
Francisco C. Sebastian	13/0	6/0					5/0***	
Arthur V. Ty	11/2	5/1						
Solomon S. Cua	13/0	6/0		6/0				
Roberto Juanchito T. Dispo	13/0	6/0	7/0			1/0	5/0	
Martin Q. Dy Buncio	13/0		4/0*		12/0	1/0		
Ismael G. Cruz	11/2							7/0
Bienvenido E. Laguesma	13/0		5/2				3/2	
Vicente R. Cuna, Jr.	13/0						4/1	
Abelardo V. Cortez (ID)	13/0			6/0	12/0			7/0
Rex C. Drilon II (ID)	13/0		7/0	6/0	12/0	1/0		
Manuel I. Ayala (ID)	11/2		7/0				0/0**	7/0

Legend: Present/ Absent

*Term of office started April 2013

**Term of office started November 2013

***Term of office ended November 2013

Board Composition

The Board is composed of eleven directors, three of whom are independent, elected by the stockholders entitled to vote during the annual stockholders' meeting. Members are screened and nominated based on their qualifications, extensive experience and expertise. In compliance with BSP Circular 749, all elected directors are of Philippine nationality, and a sufficient number are non-executive.

Role of Independent Directors

Although all directors have equal responsibilities, the role of independent directors is especially significant in safeguarding the interest of all stakeholders by ensuring that strategies and key policies formulated by management are fully reviewed, examined and disclosed. They also provide independent judgment and insight on matters where views diverge.

Independent Directors are represented by Rex C. Drilon II, Abelardo V. Cortez and Manuel I. Ayala.

These independent directors are still within the term limit as prescribed by the SEC and the BSP.

The three independent directors do not participate in the company's day-to-day affairs and do not engage in any business dealings or other relationship with the Group, so they are capable of exercising independent judgment and acting in the best interest of the company and its shareholders.

Board Meetings

The Board meets every month, with additional meetings convened as the need arises. During the reporting period, the Board met thirteen times to deliberate on and consider a variety of significant matters.

In 2013, all directors complied with the requirement that they attend at least 50% of Board meetings, as prescribed by the SEC and the BSP.

Board Committees

Board-level committees were established to aid the Board in corporate governance and in the performance of its corporate functions and responsibilities. Each committee has its own charter detailing its purpose, membership requirements, meetings, and duties and responsibilities. The memberships of these committees are distributed to ensure that they are balanced and effective.

The **Executive Committee** approves credit proposals within defined limits and performs other functions delegated to it. All matters passed and acted upon are reported to the Board.

Members: Francisco C. Sebastian (chairman), Arthur V. Ty (vice chairman), Solomon S. Cua and Roberto Juanchito T. Dispo

The **Corporate Governance Committee** ensures the Board's effectiveness and due observance of corporate governance principles and guidelines by periodically appraising the Board and its committees. It decides whether or not a director has been adequately carrying out his duties and makes recommendations to the Board regarding the continuing education of directors, assignment to board committees, and succession plan for the board members and senior officers. It is composed of five directors, two of whom, including the chairman, are independent. It convenes at least every quarter or as often as necessary.

Members: Rex C. Drilon II (chairman), Roberto Juanchito T. Dispo, Martin Q. Dy Buncio, Bienvenido E. Laguesma and Manuel I. Ayala

The **Audit Committee** is tasked to provide oversight over senior management's activities in managing risks of the corporation, the effectiveness and reliability of the financial reporting process and its systems of internal controls and the coordination and monitoring of compliance with existing laws, rules and regulations. It is responsible for setting up the Internal Audit Division and appointment of an external auditor. It reviews the reports of internal and external auditors and ensures that management is taking appropriate and timely action in addressing reported issues. It is chaired by an independent director, is composed of two other directors and meets every quarter. Pursuant to BSP Circular No. 749, the CEO, CFO and treasurer are not part of the Audit Committee.

Members: Rex C. Drilon II (chairman), Solomon S. Cua and Abelardo V. Cortez

The **Risk Oversight Committee** assists the Board in overseeing the formulation and maintenance of written policies and procedures relating to the management of risk throughout the company. The risk management policy includes a comprehensive risk management approach, detailed structure of limits, risk guidelines and parameters used to govern risk-taking, the clear delineation of lines of responsibility for managing risks, an adequate system for measuring and monitoring risks, and effective internal controls and a comprehensive risk-reporting process. The ROC convenes monthly. It is composed of at least three directors, including one independent director and a chairperson who is a non-executive director.

Members: Abelardo V. Cortez (chairman), Martin Q. Dy Buncio and Rex C. Drilon II

The **Nominations Committee** reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. This is to aid stockholders in selecting qualified persons as directors and officers under the "fit and proper rule."

Members: Abelardo V. Cortez (chairman), Roberto Juanchito T. Dispo and Martin Q. Dy Buncio

The **Compensations Committee** establishes a formal and transparent procedure for developing a policy on the remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates.

Members: Arthur V. Ty (chairman), Francisco C. Sebastian and Abelardo V. Cortez

The **Trust Committee** is responsible for the proper management and administration of the trust, investment management activities and other fiduciary business of the Investment Advisory & Trust Division.

Members: Bienvenido E. Laguesma (chairman), Roberto Juanchito T. Dispo, Vicente R. Cuna, Jr., Manuel I. Ayala and Dreda Teresa Mendoza (trust officer)

The **Related Party Transactions Committee** assists the Board in ensuring that transactions with related parties (including internal Group transactions) are reviewed to assess risks, are subject to appropriate restrictions to ensure that transactions are conducted at arm's length terms and that corporate or business resources of the company are not misappropriated or misapplied. The committee ensures that company transactions with related parties are fair and transparent and do not benefit a particular group or individual at the expense of public investors or minority shareholders.

Members: Abelardo V. Cortez (chairman), Ismael G. Cruz, Manuel I. Ayala and Maritess B. Antonio

Remuneration Policy

As outlined in the standard remuneration policy, the members of the Board receive competitive compensation based on their attendance and participation in board and committee meetings. Bonuses are also given to each director annually.

Accountability and Audit

The Board recognizes its responsibility to ensure that First Metro's financial reports are accurate and reliable. The Audit Committee assists the Board in overseeing the financial reporting process and the quality of financial statements to make certain that the reports present a fair and accurate view of First Metro's performance.

The financial statements of First Metro comply with Philippine financial reporting standards and Philippine accounting standards prescribed by the Philippine Accounting Standards Board, which are in line with international accounting standards.

The Board has overall responsibility for First Metro's system of internal controls, which include financial controls, operational and compliance controls, and risk management, to ensure that stakeholders' investments and interests are safeguarded.

The Audit Committee maintains a professional relationship with auditors, both internal and external.

An independent internal audit function was set up to provide the Board, through the Audit Committee, with reasonable assurance that key organizational and procedural controls are effective, appropriate and complied with. The internal audit evaluates the firm's governance, risk management and compliance systems—encompassing governance structure, operations, information systems, financial and reportorial integrity, safeguarding of assets, and compliance with laws, rules and regulations, and code of conduct. The Internal Audit Division performs its duties and responsibilities and complies with international standards for the professional practice of internal auditing. As allowed under BSP regulations, First Metro has outsourced its internal audit function to its parent company, Metrobank.

SGV & Co., an independent external auditor appointed by the Board, audits First Metro's financial reporting process and evaluates the fairness of its financial statements. The audit complies with Philippine standards on auditing. SGV & Co. does not perform non-audit work for First Metro that may undermine its independence and objectivity in auditing our financial statements.

Compliance System

It is the oversight responsibility of the Board to ensure that the corporation complies with applicable laws, rules and regulations. To this end, a compliance system was adopted describing the specific roles of each unit, from the Board down to the last unit in the organization, including responsibilities in complying with applicable laws, rules and regulations. The same is embodied in an updated compliance system manual duly approved by the Board in June 2012 and amended in January 2014.

The chief compliance officer is mandated to oversee the implementation of the compliance system.

The thrust of the compliance function is building the right culture and promoting the ethical conduct of business. It was created to disseminate and create awareness of the applicable laws, rules, regulations and circulars, as well as global standards and principles of good governance.

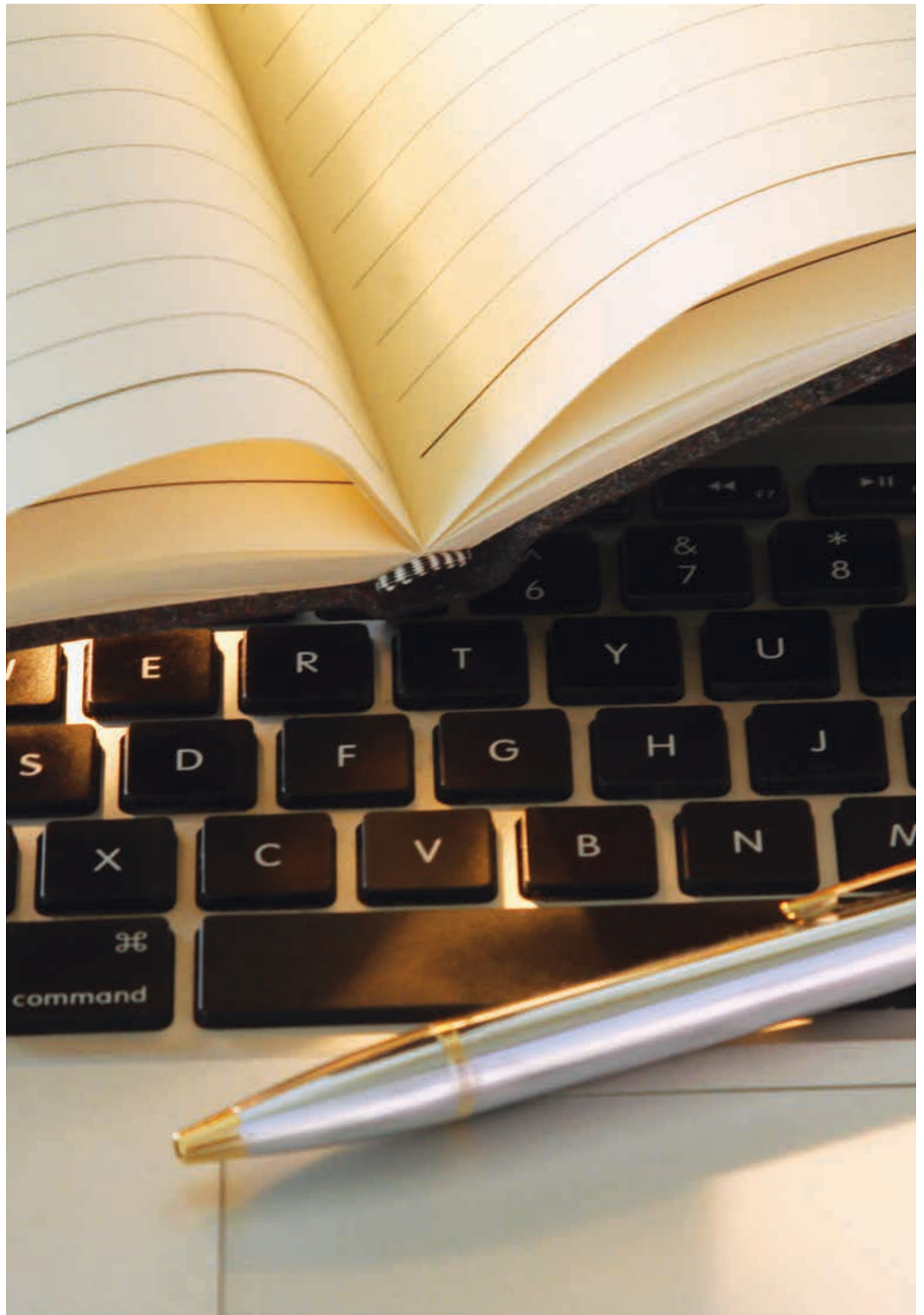
Disclosure and Transparency

The Board is transparent and fair in the conduct of the annual stockholders' meeting. Stockholders are encouraged to personally attend the meeting. The Board also promotes the rights of stockholders and protects the interests of minority stockholders. For this purpose, First Metro created an Investor Relations Unit to assist and handle queries of shareholders and investors.

On April 18, 2013, the parent company held its annual meeting and the stockholders representing at least two-thirds of the outstanding capital stock approved and ratified the amendment to the Articles of Incorporation to extend the corporate term of First Metro for another 50 years, from June 25, 2013 to June 25, 2063.

On October 12, 2012, the SEC approved the extension of the corporate term of First Metro for 50 years, from June 25, 2013 to June 25, 2063.

First Metro discloses to the BSP and the SEC all material information, such as earnings results, the acquisition or disposal of assets, Board changes, related party transactions or changes in ownership, corporate strategy, and other information that may have a direct or indirect impact on the decision-making of our stockholders and the investing public. Periodic reports are also submitted to the BSP and the SEC.



AUDIT COMMITTEE REPORT

The Audit Committee (the Committee), composed of three (3) non-executive directors, two (2) of whom are independent directors including the Chairman, assists the Board of Directors in its oversight responsibilities by diligently performing effective oversight on the internal and external audit functions; transparency and proper reporting; compliance with company policies, and applicable laws, rules and regulations, and code of business conduct; and, adequate and effective internal controls, thereby enhancing stakeholders' value and protect their interest.

The Audit Committee is governed by a Board-approved Audit Committee Charter that sets forth their overall purpose, composition and qualifications, authority, duties and responsibilities, and meeting requirements.

Oversight of Audit Functions

The Committee had seven (7) meetings in 2013, and reviewed/ evaluated results of audit performed by internal and external auditors on internal control systems, including financial reporting, operational and compliance controls, risk management and information technology security and controls on a going-concern basis. Results of such review are communicated to the Board of Directors and Management to ensure that Management is taking appropriate corrective actions in a timely manner to address risk exposures, internal control, and compliance issues.

- **Internal**

The Committee has worked effectively with Metrobank Internal Audit Group (IAG), internal audit provider, in accordance with insourcing service level agreement. They reviewed the internal audit methodologies and risk-based audit plan, which are prepared in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPA), including revisions thereto, to ensure adequacy of internal audit coverage. Internal audit completed all focus areas/ audit activities identified in its 2013 risk-based audit plan with appropriate resources and required competencies, unrestricted access and overall effectiveness. The results of internal audit activities were thoroughly discussed and evaluated. The corrective actions taken by the Management to resolve audit issues/observations were monitored. The Committee raised observations and shared valuable insights/ recommendations during deliberations.

- **External**

The Committee assessed and discussed with the external auditors, SyCip Gorres Velayo & Co., the independence requirement to perform the work, the scope of audit and the approach to the audit; the key risks identified in relation to the financial statements and the Company's controls; accounting policies, disclosure requirements, and observations on the overall quality of financial reporting; engagement timeline; accounting standards update; and other matters considered relevant to be brought to the attention of the Committee. The Committee reviewed the 2013 financial statements of the Company audited by the external auditors, who are responsible for expressing an independent opinion on such statements in accordance with accounting standards and principles.

New Developments & Emerging Risks

The Committee keeps abreast with changing regulatory and business environment and continuously updates its knowledge on areas such as risk management, fraud control, compliance, information management and security, and, financial management and reporting, through relevant seminars, written material/guidance, or presentations from and discussions with internal and external audits.

- **Information Technology (IT)**

IT governance and controls were continuously monitored, including, the progress of enhancements on Credence iDeal Treasury Management System. Internal Audit and IT Division regularly reported to the Committee updates on Company's ongoing system improvements and target dates of implementation.

- **Re-organization**

The Internal Audit's risk-based audit plan was aligned with the Company's re-organization of business and support units in its thrust to better reflect extent of audit coverage, provide better customer experience, and service quality through unit segmentation.

Effectiveness

The Committee understood the need to monitor its effectiveness, and identify improvement needs and opportunities. The Performance of the Committee for 2013 was reviewed by way of self-evaluation to determine its effectiveness on: committee structure and operation; oversight on financial reporting and disclosures; oversight on risk management and internal controls; oversight on management and internal audit; and oversight on external audit.

Conclusion

Based on the work undertaken, the Internal Audit's favorable overall assessment on the adequacy and effectiveness of the Company's risk management, control and governance process, and, representation letter from Company Management with an unqualified opinion from the external auditors on the financial statements, the Audit Committee concludes that it has acted in accordance with its Board-approved Charter; has ensured the independence and objectivity of the outsourced internal and external auditors; and that risk and control mechanisms are in place to achieve the Company's business objectives.

The Audit Committee will continue to monitor and ensure that activities of Management are carried out in accordance with the guidelines set by the Board, while attaining its strategic plan and business objectives; Management is taking the necessary steps to address and mitigate identified risks and close gaps; and, corporate governance, risk management processes and internal controls are adequate and implemented effectively.


REX C. DRILON II
Chairman


SOLOMON S. CUA
Member


ABELARDO V. CORTEZ
Member

BOARD OF DIRECTORS



FRANCISCO C. SEBASTIAN
CHAIRMAN

Mr. Sebastian is currently the Vice Chairman of Metrobank.

Formerly based in Hong Kong, he worked for Ayala International Finance Limited and Filinvest Finance (HK) Ltd. as an investment banker from 1977 to 1984. Mr. Sebastian subsequently went private and started his own corporate and financial advisory firm, Integrated Financial Services Ltd., which he managed until he joined the Metrobank Group in 1997.

With his investment banking and international finance experience spanning over 20 years, he took over as President of First Metro, which he served for 13 years, until he became its Chairman in 2011.

In addition to First Metro, he is also the Chairman of Global Business Power Corporation, a position he has held since 2007. He also currently sits on the Board of Federal Land, Inc., in which he was Chairman from 2007 to 2012.

Mr. Sebastian graduated Magna Cum Laude with an AB degree in Economics Honors from the Ateneo de Manila University in 1975.



ARTHUR V. TY
VICE CHAIRMAN

Mr. Ty currently serves as the Chairman of Metropolitan Bank and Trust Company, Vice Chairman of PSBank, Chairman of GT Capital Holdings, Inc. and Chairman of Metropolitan Bank (China) Ltd.

He graduated from the University of California, Los Angeles with a degree in BS Economics and obtained his Master's degree in Business Administration from Columbia University.



SOLOMON S. CUA
VICE CHAIRMAN

Mr. Cua has over 20 years of experience in general management, banking and finance.

Prior to First Metro, he served as Undersecretary of the Department of Finance from 1998 to 2000. In the past eleven years, he has served as Director of Lepanto Consolidated Mining Corporation and Omico Corporation; Vice Chairman/Senior Executive Vice President of Manila Jockey Club, Inc.; Director of Global Treasure Holdings, Inc. and Global Business Power Corporation; President/Director of Philippine Racing Club, Inc.; and Board of Trustee of GT Metro Foundation, Inc.

He is currently the Chairman of AXA Philippines; Vice Chairman/Director of the Philippine Racing Club, Inc.; Director of GT Capital Holdings, Inc., Grand Titan Capital Holdings, Inc., Greenhills West Association, Inc., and Philippine Newtown Global Solutions, Inc.

He graduated from the University of Melbourne and the University of Queensland where he earned the degrees BA in Economics & Mathematical Sciences and Bachelor of Laws, respectively. He obtained his Master of Laws from the London School of Economics and Political Science.



ROBERTO JUANCHITO T. DISPO
PRESIDENT / DIRECTOR

Mr. Dispo is a member of the Advisory Board of Metropolitan Bank & Trust Company; Chairman of First Metro Securities Brokerage Corporation; Vice Chairman of First Metro Asset Management, Inc.; and a member of the Board of AXA Philippines.

Before joining First Metro in 1998, he held various positions in different government offices, including the Department of National Defense, the Department of Trade and Industry, the Department of Finance and the Central Bank of the Philippines (now Bangko Sentral ng Pilipinas). His last government post was Deputy Treasurer of the Philippines with the rank of Assistant Secretary.

Mr. Dispo holds BSC Economics and Business Management-MBA degrees from San Sebastian College and the Pamantasan ng Lungsod ng Maynila, respectively. He completed a Master's degree in Business Economics from the University of Asia & the Pacific. He also took a diploma course in International Banking and Finance from the Economic Institute of the University of Colorado and another diploma course in Management Development from the Asian Institute of Management. He is also a member of the American Economic Society.



ISMAEL G. CRUZ
DIRECTOR

Mr. Cruz was elected to the Board in April 2008. He brings over 30 years of experience in investment banking in the Philippines and in the other parts of Asia. He served for several years as Governor of the Philippine Stock Exchange.

He is currently the President of the Philippine Association of Securities Dealers and Brokers, Inc., Director of the Philippine Depository and Trust Corporation, as well as Governor of the Market Governance Board of the Philippine Dealing System, Inc. He is a member of the Capital Markets Council of the Philippines. He is a Trustee of the Securities Investor Protection Fund, Inc. He is a Governor of the Makati Commercial Estate Association, Inc. and an Independent Director of Penta Capital Investment Corp. He is also the founder and President of IGC Securities, Inc., and Chairman and President of Carmen Homes, Inc.

He holds a BS Economics degree and completed academic requirements for a Master in Business Management degree from the Ateneo de Manila University. In 1980, he was named one of the Ten Outstanding Young Men of the Philippines in the field of International Finance.



MARTIN Q. DY BUNCIO
DIRECTOR

Mr. Dy Buncio has served as a Director since 1995, and brings with him over 20 years of experience in interdisciplinary management.

Currently, he is the Chairman of the Board of Pro-Oil Corp. and Pro-Auto Parts; President of HJ Marketing, Design Products Mfg., Proline II Mercantile, and Integra Development Corp.; and President/General Manager of Proline Sports Center and of DYBCOM CORP.

He holds a Bachelor of Arts degree from De La Salle University.



BIENVENIDO E. LAGUESMA
DIRECTOR

Atty. Laguesma has been a Director since April 2005. He has over 35 years of professional experience in law, public service and governance. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association.

He joined the Department of Labor and Employment in 1976 where he held various positions and served as Secretary from 1998 to 2001.

Atty. Laguesma is currently the Chairman of Charter Ping An Insurance Corporation. He is also a Senior Partner at Laguesma Magsalin Consulta & Gastardo Law Offices. He is likewise a member of the Social Security Commission.

He took AB Political Science at the Lyceum of the Philippines and earned a Bachelor of Laws degree from the Ateneo College of Law. He undertook the Career Executive Service Development Program in 1984 at the Development Academy of the Philippines and completed Public Sector Administration Course at the Royal Institute of Public Administration in London in 1985. He attended a governance course of the Institute of Corporate Directors in 2011 and a similar course in 2005.



VICENTE R. CUNA, JR.
DIRECTOR

Mr. Cuna is currently the President of PSBank. Before his secondment to PSBank, he was a Senior Executive Vice President of Metrobank responsible for Institutional Banking.

He held key positions in top financial institutions, among them JP Morgan, Bankers Trust of New York and Merrill Lynch. He was also Vice President of Citibank New York and Citibank Manila for 14 years before joining the Metrobank Group. Previously, he also served as a Director of Asia Top Management International Resources and Charter Ping An Insurance Corporation and Vice Chairman of PS Bank.

Mr. Cuna finished his Bachelor of Arts in Economics from De La Salle University.



REX C. DRILON II
INDEPENDENT DIRECTOR

Mr. Drilon has over 30 years of experience in general management, having served in various key executive positions such as: President of Phil Fuji Xerox Corporation, Hawaiian Philippine Company, HPCo Agridev Corporation, Cebu Holdings Inc., Cebu Property Ventures and Development Corp.; Vice President and General Manager of Jardine Sugar Group; Vice President of Ayala Land, Inc.; and Chief Operating Officer of Ortigas and Company Limited Partnership.

He currently serves as an Independent Director of Metropolitan Bank and Trust Company, First Metro Asset Management, Inc.; Director of Keyland Corporation, Uniwireless, Inc; Chairman of the National Advisory Group for Police Transformation and Development; Vice Chairman of the Iloilo Economic Development Foundation; and Trustee of the Shareholders Association of the Philippines.

Mr. Drilon received his Business Administration degree from the University of the East and pursued further studies at the University of Asia and the Pacific. He is a Fellow and Trustee of the Institute for Solidarity in Asia and the Institute of Corporate Directors.



ABELARDO V. CORTEZ
INDEPENDENT DIRECTOR

Atty. Cortez has over 25 years of experience in the local and international banking industry, with concentration on treasury, trust and private banking side of the business.

He held the following posts over the years: Money Market Head, Rizal Banking Corporation; Vice President - Treasury Operations, Bank of the Philippine Islands; Managing Director and CEO, BPI International Finance Ltd. (Hong Kong); Vice President/Head - Private Banking Group, Bank of the Philippine Islands; and Director of Trust and Investments, ATR KimEng Capital Partners, Inc. He was the President of the Financial Executives Institute of the Philippines (FINEX) and Co-Chairman of the country's Capital Market Development Council.

Currently, he sits as an Independent Director of PBC Capital Investment Corporation and First Metro Philippine Equity Exchange-Traded Fund, Inc. He is also a Director/Trustee of FINEX Foundation and writes a monthly business column in BusinessWorld.

Atty. Cortez earned his Bachelor of Laws degree from San Beda College of Law. He also completed his bachelor's degree at San Beda College, graduating as Cum Laude. In 2008, he was awarded the Most Distinguished Bedan in the field of banking and finance by the San Beda College Alumni Association.



MANUEL I. AYALA
INDEPENDENT DIRECTOR

Mr. Ayala was elected to the Board of Directors in April 2012. He is the Chairman of Hatchd, Inc., a technology incubator focused on building internet and mobile startups. He is also the Managing Director of IRG Ltd., a boutique investment bank headquartered in Hong Kong.

Previously, Mr. Ayala was Head of Strategy, Programming and On-Air Branding at Discovery Networks Asia Pacific; and Vice President and Deputy General Manager at TNT & Cartoon Network Asia. He was the President of Entrepreneurs Organization (EO) in 2012 and is currently the Regional Director of EO's Global Student Entrepreneurs Awards.

Mr. Ayala has a Master's degree in Business Administration from Harvard Graduate School of Business and a Bachelor of Arts degree from Yale University.



MR. FLORENCIO T. MALLARE
CONSULTANT



ALESANDRA T. TY
CORPORATE SECRETARY



NIMFA B. PASTRANA
ASSISTANT CORPORATE SECRETARY

SENIOR MANAGEMENT



SENIOR MANAGEMENT

From left to right: **Justino Juan R. Ocampo** (SVP), Group Head – Investment Banking; **Marie Arabella D. Veron** (FVP), Group Head – Controllershship; **Roberto Juanchito T. Dispo**, President; **Nimfa B. Pastrana** (FVP), Group Head – Strategic Services; **Reynaldo B. Montalbo, Jr.** (SVP), Group Head – Financial Markets



FAMI AND FIRST METRO SECURITIES

From left to right: **Augusto M. Cosio, Jr.**, President – First Metro Asset Management, Inc.
Gonzalo G. Ordoñez, President – First Metro Securities Brokerage Corporation

PRINCIPAL OFFICERS



INVESTMENT BANKING

From left to right: **Maria Teresa V. De Vera** (AVP), Division Head – Debt Capital Market; **Francisco Javier P. Bonoan** (FVP), Division Head – Coverage & Origination; **Melissa T. Dimayuga** (AVP), Division Head – Public Sector Coverage; **Justino Juan R. Ocampo** (SVP), Group Head – Investment Banking; **Abigail B. Magpayo** (VP), Division Head – Equity Capital Market and Corporate Finance & Advisory; **Anthony Thomas C. Roxas** (AVP), Division Head – Domestic Business Development; **Arsenio Kenneth M. Ona** (VP), Division Head – Coverage & Origination



FINANCIAL MARKETS

From left to right: **Lalaine C. De Guzman** (FVP), Division Head – Local Sales; **David Ignacio C. Estacio** (AVP), Department Head – Local Market; **Peter Anthony D. Bautista** (VP), Department Head – Institutional Clients; **Maricel R. Teng** (SM), Division Head – Asset & Liability Management; **Reynaldo B. Montalbo, Jr.** (SVP), Group Head – Financial Markets; **Ina B. Pacheco** (AVP), Department Head – Private Clients; **Annagraziela S. Banaad** (VP), Division Head – Debt Securities Trading; **Percival P. Peña** (AVP), Department Head – Global Market; **Mary Grace S. Ong** (M), Section Head – Private Clients



INVESTMENT ADVISORY & TRUST AND REGIONAL BUSINESS DEVELOPMENT

From left to right: **Carlota S. Reyes** (AVP), Transaction Coordinator - Regional Business Development;
Stella Maria Piedad I. Torres (FVP), Division Head – Regional Business Development; **Bede Lovell S. Gomez** (VP), Group Head – Investment Advisory & Trust;
Dreda Teresa D. Mendoza (AVP), Deputy Group Head - Investment Advisory & Trust



CONTROLLERSHIP

From left to right: **Mauro B. Placente** (AVP), Division Head – Financial Accounting; **Carmelita M. Inocentes** (SM), Division Head – Operations;
Marie Arabella D. Veron (FVP), Group Head – Controllership; **Maria Elena Cresencia Antonia M. Alpuerto** (SM), Division Head – Financial Reporting



RISK MANAGEMENT, CREDIT, COMPLIANCE AND TECHNOLOGY MANAGEMENT

*From left to right: **Ryan B. Butalid** (VP), Deputy Division Head – Risk Management; **Maria Eleanor T. Raz** (AVP), Deputy Division Head – Credit; **Sinfronio A. Alanano** (AVP), Department Head – Market Risk; **Joel H. Suarez** (VP), Division Head – Credit; **Maria Antonia N. Bacabac** (FVP), Division Head – Risk Management; **Jonathan T. Tabac** (VP), Division Head – Compliance; **Reynaldo L. Bas** (SM), Division Head – Technology Management; **Sergio M. Ceniza** (AVP), Deputy Division Head – Compliance*



STRATEGIC SERVICES

*From left to right: **Anna Marie S. Tuprio** (M), Department Head – Corporate Strategy & Communications; **Nelson L. Caballar** (SM), Division Head – Administration; **Nimfa B. Pastrana** (FVP), Group Head – Strategic Services; **Maria Cristina D. Tomas** (SM), Division Head – Human Capital Management; **Cristina S. Ulang** (AVP), Department Head - Research*



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of First Metro Investment Corporation (the Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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


FRANCISCO C. SEBASTIAN
Chairman


ROBERTO JUANCHITO T. DISPO
President

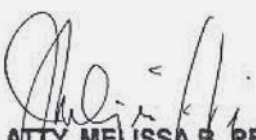

MARIE ARABELLA D. VERON
First Vice President/Controller

SUBSCRIBED AND SWORN to before me this **MAR 25 2014** day of March 2014 in Makati City, Philippines, affiants exhibiting to me their Passport ID/TIN ID as follows:

Name	Passport ID No./TIN	Date of Issue/Place of Issue
Francisco C. Sebastian	Passport No. EB9047722	September 3, 2013
Roberto Juanchito T. Dispo	Passport No. EB8527397	July 1, 2013/DFA Manila
Marie Arabella D. Veron	Tin No. 108-156-679-000	11-10-97

Doc. No. 7;
Page No. 2;
Book No. 5;
Series of 2014.

NOTARY PUBLIC


ATTY. MELISSA B. REYES
NOTARY PUBLIC FOR MAKATI CITY UNTIL DEC. 31, 2014
ROLL NO. 41369 / APPOINTMENT NO. M-270
IBP NO. 913785 / PTR. NO. 3674214
45/F GT TOWER INTERNATIONAL, AYALA AVENUE
CORNER H.V. DE LA COSTA, MAKATI CITY

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
First Metro Investment Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of First Metro Investment Corporation and Subsidiaries (the Group) and of First Metro Investment Corporation (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2013 and 2012, and the consolidated and parent company statements of income, the consolidated and parent company statements of comprehensive income, the consolidated and parent company statements of changes in equity and the consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2013 and 2012, and their performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 36 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 First Metro Investment Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Vicky Lee Salas
Partner

CPA Certificate No. 86838

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

February 14, 2013, valid until February 13, 2016

Tax Identification No. 129-434-735

BIR Accreditation No. 08-001998-53-2012

April 11, 2012, valid until April 10, 2015

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

February 20, 2014

STATEMENTS OF FINANCIAL POSITION

	Consolidated			Parent Company		
	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
ASSETS						
Cash and other cash items (Note 27)	₱2,802,419,069	₱4,658,904,990	₱13,825,670,360	₱662,774,811	₱2,880,333,726	₱11,777,396,196
Due from Bangko Sentral ng Pilipinas (Note 14)	9,001,108,856	8,500,006,030	4,272,665,522	9,001,108,856	8,500,006,030	4,272,665,522
Interbank loans receivable and securities purchased under resale agreements	-	-	4,010,000,000	-	-	4,010,000,000
Financial assets at fair value through profit or loss (Notes 7, 27 and 28)	19,038,336,269	15,126,868,380	4,212,942,300	8,057,070,915	8,694,467,564	1,408,053,466
Available-for-sale investments (Notes 7, 14 and 27)	37,630,289,811	15,997,054,709	7,536,718,581	36,400,532,975	14,516,621,445	7,127,052,742
Held-to-maturity investments (Notes 7 and 14)	-	16,334,863,006	17,597,306,630	-	16,334,863,006	17,597,306,630
Loans and receivables (Notes 8, 14 and 27)	8,487,016,793	12,503,727,610	15,986,108,141	7,694,426,673	11,789,386,846	15,353,982,561
Property and equipment (Note 9)	82,878,189	90,828,120	85,890,466	72,609,421	81,028,824	79,070,885
Investments in subsidiaries, associates and joint venture (Notes 10 and 27)	4,759,713,695	13,461,063,638	13,174,436,120	6,161,338,632	13,017,255,894	11,840,417,238
Investment properties (Note 11)	464,477,073	513,513,966	513,993,020	463,063,622	511,912,055	512,202,649
Deferred tax assets (Note 26)	921,729	21,410,066	9,153,935	-	19,263,890	7,174,269
Other assets (Notes 12 and 27)	505,987,911	379,946,325	163,475,031	446,791,726	331,875,334	103,965,678
	₱82,773,149,395	₱87,588,186,840	₱81,388,360,106	₱68,959,717,631	₱76,677,014,614	₱74,089,287,836
LIABILITIES AND EQUITY						
LIABILITIES						
Bills payable (Notes 14 and 27)	₱39,733,048,675	₱53,212,112,640	₱60,785,544,411	₱39,733,048,675	₱53,212,112,640	₱60,785,544,411
Accounts payable (Note 27)	568,694,611	407,943,625	453,093,469	19,365,582	33,955,778	45,602,224
Accrued taxes, interest and other expenses (Notes 15 and 27)	483,793,416	488,040,255	412,639,250	434,770,267	455,536,147	387,693,742
Derivative liability (Notes 7 and 27)	-	-	67,666,035	-	-	58,239,001
Bonds payable (Note 16)	11,642,095,928	11,556,415,150	4,733,500,084	11,953,546,079	11,946,246,805	5,010,896,739
Income taxes payable	7,624,198	30,668,954	4,249,667	-	-	-
Deferred tax liability (Note 26)	149,355,356	18,723,490	9,478,830	142,825,478	-	-
Other liabilities (Notes 17 and 27)	11,238,755,524	6,974,605,461	3,624,537,385	546,189,736	162,668,500	127,361,582
	63,823,367,708	72,688,509,575	70,090,709,131	52,829,745,817	65,810,519,870	66,415,337,699
EQUITY						
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
Common stock (Note 19)	4,208,692,400	4,208,692,400	4,208,692,400	4,208,692,400	4,208,692,400	4,208,692,400
Capital paid in excess of par value	2,065,694,042	2,065,694,042	2,065,694,042	2,065,694,042	2,065,694,042	2,065,694,042
Retained earnings (Note 19)	13,516,081,700	9,983,651,685	6,708,923,206	11,018,824,102	6,752,185,834	3,476,513,643
Treasury stock (Note 19)	(2,652,129,301)	(2,646,441,934)	(2,359,211,914)	(2,654,895,565)	(2,649,208,198)	(2,256,151,891)
Net unrealized gain on available-for-sale investments (Notes 7 and 27)	1,598,043,907	603,206,759	256,605,350	1,552,000,681	530,914,765	192,382,491
Equity in net unrealized gain on available-for-sale investments of associates (Note 10)	264,784,909	756,119,223	421,759,080	-	-	-
Equity in revaluation increment (Note 10)	-	-	35,537,331	-	-	-
Equity in translation adjustment (Note 10)	(43,102,630)	(56,403,847)	(39,379,598)	-	-	-
Remeasurements of retirement liability (Note 22)	(67,025,901)	(45,303,878)	(15,590,830)	(60,343,846)	(41,784,099)	(13,180,548)
	18,891,039,126	14,869,214,450	11,283,029,067	16,129,971,814	10,866,494,744	7,673,950,137
Equity attributable to non-controlling interests	58,742,561	30,462,815	14,621,908	-	-	-
	18,949,781,687	14,899,677,265	11,297,650,975	16,129,971,814	10,866,494,744	7,673,950,137
	₱82,773,149,395	₱87,588,186,840	₱81,388,360,106	₱68,959,717,631	₱76,677,014,614	₱74,089,287,836

See accompanying Notes to Financial Statements.

STATEMENT OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
INTEREST INCOME (Notes 7, 8, 20 and 27)	P2,724,053,178	P3,312,560,073	P3,617,582,149	P2,564,002,398	P3,195,081,879	P3,534,240,308
INTEREST EXPENSE (Notes 14, 16, 21 and 27)	1,558,860,027	2,340,935,014	2,455,143,442	1,578,266,065	2,358,308,162	2,460,097,570
NET INTEREST INCOME	1,165,193,151	971,625,059	1,162,438,707	985,736,333	836,773,717	1,074,142,738
OTHER OPERATING INCOME						
Gain on sale of assets (Notes 9, 10 and 11)	7,410,349,595	28,588,696	392,612,386	9,348,801,918	28,588,696	403,418,591
Trading and securities gain (Notes 7 and 27)	4,536,179,714	2,369,904,114	1,617,103,832	4,525,824,623	928,919,663	1,354,929,077
Service charges, fees and commissions (Note 27)	724,031,704	612,108,090	532,063,831	628,766,867	521,212,681	448,203,630
Dividends (Notes 7, 10, 27 and 32)	426,923,495	150,598,175	132,176,221	546,743,384	2,257,417,543	417,514,600
Miscellaneous (Notes 23 and 24)	51,042,534	116,629,834	19,947,602	(1,721,166)	88,846,550	9,456,312
TOTAL OPERATING INCOME	14,313,720,193	4,249,453,968	3,856,342,579	16,034,151,959	4,661,758,850	3,707,664,948
OTHER EXPENSES						
Taxes and licenses	1,286,092,324	476,230,391	531,936,619	1,198,454,028	456,323,464	518,254,940
Compensation and fringe benefits (Notes 22 and 27)	471,351,330	351,020,902	305,869,062	405,640,291	292,078,381	266,480,318
Broker's commission	98,919,846	55,022,214	44,841,635	110,760,508	61,010,973	61,849,040
Rent, light and water (Note 24)	50,187,080	48,343,896	44,107,241	43,108,910	43,051,483	39,499,406
Realized loss from permanent decline in market value of available-for-sale investments (Note 7)	43,673,395	–	17,123,077	43,673,395	–	17,123,077
Depreciation and amortization of property and equipment (Note 9)	38,955,196	36,492,984	29,845,873	34,964,066	32,734,819	26,863,229
Entertainment, amusement and recreation (Note 26)	21,671,387	36,021,415	22,805,581	12,195,156	29,544,620	18,970,980
Provision for (recovery from) impairment and other probable losses (Notes 13 and 29)	(18,348,058)	(161,725,913)	455,932,491	(18,312,052)	(293,714,965)	557,099,064
Depreciation of investment properties (Note 11)	4,320,231	3,703,079	3,949,430	4,131,771	3,514,619	3,760,970
Foreign exchange (gains) or losses (Note 7)	(2,141,807)	67,338,454	47,271,735	212,343	67,337,618	47,336,526
Miscellaneous (Notes 11 and 25)	715,586,012	305,845,324	237,995,434	596,163,412	216,043,714	179,471,952
	2,710,266,936	1,218,292,746	1,741,678,178	2,430,991,828	907,924,726	1,736,709,502
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND INCOME TAX	11,603,453,257	3,031,161,222	2,114,664,401	13,603,160,131	3,753,834,124	1,970,955,446
SHARE IN NET INCOME OF ASSOCIATES (Note 10)	1,247,175,155	1,840,989,521	777,326,694	–	–	–
INCOME BEFORE INCOME TAX	12,850,628,412	4,872,150,743	2,891,991,095	13,603,160,131	3,753,834,124	1,970,955,446
PROVISION FOR INCOME TAX (Note 26)	1,453,652,468	575,901,006	531,015,335	1,332,707,371	478,161,933	475,944,593
NET INCOME	P11,396,975,944	P4,296,249,737	P2,360,975,760	P12,270,452,760	P3,275,672,191	P1,495,010,853
Attributable to:						
Equity holders of the Parent Company (Note 31)	P11,536,244,507	P3,274,728,479	P2,191,495,971			
Non-controlling interests:						
Puttable	(172,938,545)	1,006,794,171	163,839,127			
Equity	33,669,982	14,727,087	5,640,662			
	(139,268,563)	1,021,521,258	169,479,789			
	P11,396,975,944	P4,296,249,737	P2,360,975,760			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	P31.0	P8.7	P5.8			

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
NET INCOME FOR THE YEAR	P11,396,975,944	P4,296,249,737	P2,360,975,760	P12,270,452,760	P3,275,672,191	P1,495,010,853
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Items that recycle to profit or loss in subsequent periods:</i>						
Net gain on available-for-sale investments (Note 7)	989,799,341	372,952,040	143,801,005	1,021,085,916	338,532,274	103,201,510
Income tax effect (Notes 7 and 26)	10,868,183	(14,273,911)	(2,786,697)	-	-	-
	1,000,667,524	358,678,129	141,014,308	1,021,085,916	338,532,274	103,201,510
Equity share in change in fair values of available-for-sale investments of associates (Note 10)	(491,334,314)	334,360,143	155,339,929	-	-	-
Equity share in change in translation adjustment (Note 10)	13,301,217	(17,024,249)	-	-	-	-
	522,634,427	676,014,023	296,354,237	1,021,085,916	338,532,274	103,201,510
<i>Items that do not recycle to profit or loss in subsequent periods:</i>						
Remeasurements of retirement liability (Note 22)	(31,103,831)	(42,267,459)	(22,762,854)	(26,513,924)	(40,862,216)	(18,829,354)
Income tax effect (Notes 22 and 26)	9,331,149	12,680,238	6,828,856	7,954,177	12,258,665	5,648,806
	(21,772,682)	(29,587,221)	(15,933,998)	(18,559,747)	(28,603,551)	(13,180,548)
Equity share in change in revaluation increment (Note 10)	-	(35,537,331)	(396,921)	-	-	-
	(21,772,682)	(65,124,552)	(16,330,919)	(18,559,747)	(28,603,551)	(13,180,548)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	P11,897,837,689	P4,907,139,208	P2,640,999,078	P13,272,978,929	P3,585,600,914	P1,585,031,815
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	P12,031,326,535	P3,873,415,403	P2,471,862,457			
Non-controlling interests:						
Puttable	(167,341,114)	1,014,379,097	163,839,127			
Equity	33,852,268	19,344,708	5,297,494			
	(133,488,846)	1,033,723,805	169,136,621			
	P11,897,837,689	P4,907,139,208	P2,640,999,078			

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

Consolidated
Equity Attributable to Equity Holders of the Parent Company

	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain on Available-for- Sale Investments (Notes 7 and 27)	Equity in Net Unrealized Gain on Available-for- Sale Investments of Associates (Note 10)	Equity in Revaluation Increment (Note 10)	Equity in Transition Adjustment (Note 10)	Remeasurements of Retirement Liability (Note 22)	Total	Non-Controlling Interest	Total Equity
Balance at January 1, 2013, as previously reported	P4,208,692,400	P2,065,694,042	P9,987,945,763 (4,294,078)	(P2,646,441,894)	P595,764,040 7,442,719	P756,743,059 (623,839)	P-	(P56,403,847)	P-	P14,911,993,523 (42,779,073)	P30,646,144 (183,329)	P14,942,639,687 (42,962,402)
Effect of changes in accounting policies (Note 2)	-	-	-	-	-	-	-	-	(45,303,878)	14,869,214,450	30,462,815	14,899,677,265
Balance at January 1, 2013, as restated	4,208,692,400	2,065,694,042	9,983,651,685 (4,294,078)	(2,646,441,894)	603,206,759	756,119,223 (491,334,314)	-	(58,403,847)	(45,303,878)	12,001,326,535	30,882,268	12,066,176,803
Total comprehensive income	-	-	1,566,244,507	-	894,337,146	-	-	13,301,217	(21,722,923)	(8,003,814,492)	(13,004,349)	(6,016,818,841)
Dividends to equity holders (Note 19)	-	-	-	-	-	-	-	-	-	-	7,431,827	7,431,827
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares (Note 19)	-	-	-	(5,687,987)	-	-	-	-	-	(5,687,987)	-	(5,687,987)
Balance at December 31, 2013	P4,208,692,400	P2,065,694,042	P13,516,081,700	(P2,652,129,901)	P1,698,043,907	P264,784,909	P-	(P43,102,630)	(P67,025,901)	P18,991,039,126	P68,742,661	P18,949,781,687
Balance at January 1, 2012	P4,208,692,400	P2,065,694,042	P6,714,067,051 (5,143,845)	(P2,256,151,881)	P229,755,731 26,249,619	P423,813,240 (2,054,160)	P35,537,331	(P39,379,598)	P-	P11,382,028,306 (98,999,239)	P14,965,076 (343,168)	P11,396,993,382 (99,342,407)
Effect of changes in accounting policies (Note 2)	-	-	-	-	-	-	-	-	(15,590,830)	11,283,029,067	14,621,908	11,297,650,975
Balance at January 1, 2012, as restated	4,208,692,400	2,065,694,042	6,708,923,206 (5,143,845)	(2,359,211,914)	256,605,350	421,759,080	35,537,331	(39,379,598)	(15,590,830)	11,283,029,067	14,621,908	11,297,650,975
Total comprehensive income	-	-	3,274,728,479	-	346,601,409	334,360,143	(85,537,331)	(17,024,249)	(29,713,048)	3,873,415,403	19,344,708	3,892,760,111
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3,503,801)	(3,503,801)
Reissuance of treasury shares (Note 19)	-	-	-	103,060,023	-	-	-	-	-	103,060,023	-	103,060,023
Acquisition of treasury shares (Note 19)	-	-	-	(390,290,043)	-	-	-	-	-	(390,290,043)	-	(390,290,043)
Balance at December 31, 2012	P4,208,692,400	P2,065,694,042	P9,983,651,685	(P2,646,441,894)	P603,206,759	P756,119,223	P-	(P56,403,847)	(P45,303,878)	P14,869,214,450	P30,462,815	P14,899,677,265
Balance at January 1, 2011	P4,208,692,400	P2,065,694,042	P5,527,034,737 (7,821,045)	(P2,268,825,841)	P115,591,042	P286,419,151	P35,934,252	(P39,379,598)	P-	P9,911,160,185 (110,881,059)	P9,405,737	P9,920,566,922 (110,881,059)
Effect of changes in accounting policies (Note 2)	-	-	-	-	-	-	-	-	-	9,800,279,117	5,297,494	9,805,576,611
Balance at January 1, 2011, as restated	4,208,692,400	2,065,694,042	5,519,213,692 (2,371,885,864)	(2,371,885,864)	115,591,042	286,419,151	35,934,252	(39,379,598)	-	9,800,279,117	9,405,737	9,809,684,854
Total comprehensive income	-	-	2,191,495,971	-	141,014,308	155,339,929	(396,921)	-	(15,590,830)	2,471,862,457	(81,323)	2,471,781,134
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(81,323)	(81,323)
Dividends to equity holders (Note 19)	-	-	-	-	-	-	-	-	-	-	-	-
Reissuance of treasury shares (Note 19)	-	-	(1,001,796,457)	-	-	-	-	-	-	(1,001,796,457)	-	(1,001,796,457)
Balance at December 31, 2011	P4,208,692,400	P2,065,694,042	P6,708,923,206	(P2,359,211,914)	P256,605,350	P421,759,080	P35,537,331	(P39,379,598)	(P15,590,830)	P11,283,029,067	P14,621,908	P11,297,650,975

	Parent Company						
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain on Available-for-Sale Investments (Notes 7 and 27)	Remeasurements of Retirement Liability (Note 22)	Total Equity
Balance at January 1, 2013, as previously reported	P4,208,692,400	P2,065,694,042	P6,755,350,811	(P2,649,208,198)	P530,914,765	P-	P10,911,443,820
Effect of changes in accounting policies (Note 2)	-	-	(P3,164,977)	-	-	(41,784,099)	(44,949,076)
Balance at January 1, 2013, as restated	4,208,692,400	2,065,694,042	6,752,185,834	(2,649,208,198)	530,914,765	(41,784,099)	10,866,494,744
Total comprehensive income	-	-	12,270,452,760	-	1,021,085,916	(18,559,747)	13,272,978,929
Dividends to equity holders (Note 19)	-	-	(8,003,814,492)	-	-	-	(8,003,814,492)
Acquisition of treasury shares (Note 19)	-	-	-	(5,687,367)	-	-	(5,687,367)
Balance at December 31, 2013	P4,208,692,400	P2,065,694,042	P11,018,824,102	(P2,654,895,565)	P1,552,000,681	(P60,343,846)	P16,129,971,814
Balance at January 1, 2012, as previously reported	P4,208,692,400	P2,065,694,042	P3,480,073,055	(P2,256,151,891)	P192,382,491	P-	P7,690,690,097
Effect of changes in accounting policies (Note 2)	-	-	(P3,559,412)	-	-	(13,180,548)	(16,739,960)
Balance at January 1, 2012, as restated	4,208,692,400	2,065,694,042	3,476,513,643	(2,256,151,891)	192,382,491	(13,180,548)	7,673,950,137
Total comprehensive income	-	-	3,275,672,191	-	338,532,274	(28,603,551)	3,585,600,914
Acquisition of treasury shares (Note 19)	-	-	-	(393,056,307)	-	-	(393,056,307)
Balance at December 31, 2012	P4,208,692,400	P2,065,694,042	P6,752,185,834	(P2,649,208,198)	P530,914,765	(P41,784,099)	P10,866,494,744
Balance at January 1, 2011, as previously reported	P4,208,692,400	P2,065,694,042	P2,990,433,392	(P2,256,151,891)	P89,180,981	P-	P7,097,848,924
Effect of changes in accounting policies (Note 2)	-	-	(P5,961,243)	-	-	-	(5,961,243)
Balance at January 1, 2011, as previously reported	4,208,692,400	2,065,694,042	2,984,472,149	(2,256,151,891)	89,180,981	-	7,091,887,681
Total comprehensive income	-	-	1,495,010,853	-	103,201,510	(13,180,548)	1,585,031,815
Dividends to equity holders (Note 19)	-	-	(1,002,969,359)	-	-	-	(1,002,969,359)
Balance at December 31, 2011	P4,208,692,400	P2,065,694,042	P3,476,513,643	(P2,256,151,891)	P192,382,491	(P13,180,548)	P7,673,950,137

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	P12,850,628,412	P4,872,150,743	P2,891,991,095	P13,603,160,131	P3,753,834,124	P1,970,955,446
Adjustments for:						
Trading gain on sale of available-for-sale investments (Note 7)	(3,921,070,744)	(545,811,397)	(1,230,946,863)	(3,901,006,437)	(353,852,230)	(1,070,233,528)
Loss (gain) from sale/redemption of unquoted commercial papers (Note 23)	(18,557,329)	(62,109,886)	11,533,646	(2,135,762)	(56,836,833)	12,584,713
Share in net income of associates (Note 10)	(1,247,175,155)	(1,840,989,521)	(777,326,694)	-	-	-
Provision for (recovery from) impairment and other probable losses (Note 13)	(18,348,058)	(161,725,913)	455,932,491	(18,312,052)	(293,714,965)	557,099,064
Realized loss from permanent decline in market value of available-for sale investments (Note 7)	43,673,395	-	17,123,077	43,673,395	-	17,123,077
Dividend income (Notes 7 and 10)	(426,923,495)	(150,598,175)	(132,176,221)	(546,743,384)	(2,257,417,543)	(417,514,600)
Unrealized foreign exchange gain on forward contracts (Note 7)	-	-	(50,868,250)	-	-	(50,868,250)
Depreciation and amortization (Notes 9, 11 and 12)	62,449,624	45,621,766	39,959,329	55,976,675	40,040,739	36,028,337
Unrealized foreign exchange gain/(loss)	(23,015,748)	70,277,301	13,576,627	(23,015,748)	70,277,301	13,576,627
Unrealized (gain) loss on held for trading securities (Note 7)	956,162,951	(519,275,452)	(62,304,732)	72,170,100	82,519,659	8,330,303
Gain on sale of:						
Investment properties (Note 11)	(22,231,246)	(28,310,210)	(22,417,959)	(22,231,246)	(28,310,210)	(22,417,959)
Property and equipment (Note 9)	(294,998)	(278,486)	(190,001)	(294,998)	(278,486)	(190,001)
Investments in subsidiaries and associates (Note 10)	(7,387,823,351)	-	(370,004,426)	(9,326,275,674)	-	(380,810,631)
Amortization of:						
Premium on unquoted debt securities classified as loans	(2,091,092)	11,803,652	197,889,872	(2,585,139)	11,683,955	196,756,265
Premium on held-to-maturity investments	2,634,313	12,770,159	23,504,562	2,634,313	12,770,159	23,504,562
Premium on available-for-sale investments	101,505,055	24,530,156	16,587,563	96,135,681	23,766,610	16,415,650
Premium on bonds payable	(12,517,293)	(9,817,401)	(957,821)	(11,292,147)	(9,817,401)	(957,821)
Debt issuance cost	17,368,071	11,772,232	769,419	18,591,421	11,772,232	769,419
Deferred gain from bond exchange	(8,976,077)	(723,287)	(326,762)	(8,976,077)	(723,287)	(326,762)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at fair value through profit or loss	(4,867,630,840)	(10,458,579,023)	(65,629,587)	565,226,549	(7,400,037,453)	1,072,790,960
Loans and receivables	1,899,982,390	543,316,269	(1,019,361,249)	2,072,888,963	361,157,711	(1,081,871,828)
Other assets	(138,478,870)	(25,556,009)	(71,303,336)	(117,397,285)	(44,402,677)	(60,454,474)
Increase (decrease) in the amounts of:						
Accrued taxes, interest and other expenses	(35,348,669)	33,431,826	166,570,600	(14,590,196)	25,513,748	161,674,161
Accounts payable	160,750,986	(45,149,844)	165,674,386	(20,765,880)	(11,646,446)	(1,107,721)
Other liabilities	3,891,817,725	2,337,916,613	1,000,995,668	(99,690,824)	36,030,205	28,403,436
Net cash generated from (used in) operations	1,856,489,957	(5,885,333,887)	1,198,294,434	2,415,144,379	(6,027,671,088)	1,029,258,445
Income taxes paid	(1,273,445,814)	(541,220,545)	(553,351,497)	(1,140,520,106)	(465,077,979)	(454,776,580)
Net cash provided by (used in) operating activities	583,044,143	(6,426,554,432)	644,942,937	1,274,624,273	(6,492,749,067)	574,481,865

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	(P100,181,105,813)	(P70,897,452,734)	(P85,038,401,588)	(P86,231,944,532)	(P68,722,948,357)	(P61,235,838,954)
Held-to-maturity investments	-	-	(8,149,658,405)	-	-	(8,149,658,405)
Unquoted commercial papers	(1,904,164,147)	(4,158,874,296)	(5,585,082,667)	(1,821,164,147)	(2,797,994,741)	(5,563,072,394)
Property and equipment (Note 9)	(31,778,683)	(44,265,553)	(44,874,774)	(27,047,999)	(37,293,170)	(41,278,883)
Investment properties (Note 11)	-	(4,588,000)	-	-	(4,588,000)	-
Software licenses (Note 12)	(40,104,641)	(40,174,657)	(9,007,964)	(36,543,665)	(29,665,507)	(9,007,964)
Investment in subsidiaries (Note 10)	-	-	-	-	(250,000,000)	-
Capital infusion to associates (Note 10)	(959,350,233)	(643,788,656)	(877,583,308)	(959,350,233)	(643,788,656)	(877,583,308)
Proceeds from sale/redemption of:						
Available-for-sale investments	103,146,854,201	63,282,350,695	91,493,639,433	88,855,258,380	61,931,720,247	67,676,596,512
Unquoted commercial papers	3,186,011,289	8,256,359,186	5,966,300,481	3,112,689,014	7,371,554,450	5,847,226,847
Investment in associates (Note 10)	14,308,000,000	-	713,209,467	14,308,000,000	-	1,074,730,319
Investment properties (Note 11)	34,897,505	41,104,260	220,685,745	34,897,505	41,104,260	220,685,745
Property and equipment (Note 9)	1,068,416	3,113,401	1,730,490	798,334	2,878,898	1,711,317
Return of investment from an associate (Note 10)	-	313,950,000	-	-	313,950,000	-
Dividends received from financial instruments	246,685,148	-	131,402,868	118,897,441	87,153,945	87,672,132
Dividends received from associates (Notes 10 and 32)	1,660,536,107	1,077,459,015	155,084,789	1,660,536,107	931,363,114	155,084,789
Proceeds from maturities of held-to-maturity investments	-	1,249,673,465	-	-	1,249,673,465	-
Net cash provided by (used in) investing activities	19,467,549,129	(1,565,133,874)	(1,022,555,433)	19,015,006,205	(556,880,052)	(812,732,247)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of:						
Bills payable	374,437,133,722	437,209,690,894	730,889,931,071	374,437,133,722	437,209,690,894	730,889,931,071
Bonds payable (Notes 16 and 32)	-	6,902,925,235	4,677,958,025	-	6,933,395,235	4,954,444,025
Proceeds from the sale of the Parent Company bonds payable to third parties held by subsidiaries (Note 16)	80,830,000	-	-	-	-	-
Capital infusion to subsidiaries (Note 10)	-	-	-	(519,280,200)	(597,000,000)	(701,000,000)
Proceeds from sale/redemption of investment in subsidiaries without loss of control (Note 10)	94,236,892	-	-	94,236,892	-	-
Payments of bills payable	(388,008,675,122)	(444,783,122,665)	(722,937,879,625)	(388,008,675,122)	(444,783,122,665)	(722,937,879,625)
Redemption of bonds payable	-	-	(55,200,000)	-	-	(150,000,000)
Dividends paid (Notes 19 and 32)	(8,003,814,492)	-	(998,534,032)	(8,003,814,492)	-	(999,716,933)
Issuance of treasury shares (Note 19)	-	103,060,023	12,673,950	-	-	-
Acquisition of treasury shares (Notes 19 and 32)	(5,687,367)	(390,290,043)	(103,060,023)	(5,687,367)	(393,056,307)	-
Net cash provided by (used in) financing activities	(21,405,976,367)	(957,736,556)	11,485,889,366	(22,006,086,567)	(1,630,092,843)	11,055,777,538
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	(1,355,383,095)	(8,949,424,862)	11,108,276,870	(1,716,456,089)	(8,679,721,962)	10,817,527,156
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	4,658,904,990	13,825,670,360	880,061,731	2,880,333,726	11,777,396,196	8,362,534,562
Due from Bangko Sentral ng Pilipinas	8,500,006,030	4,272,665,522	10,119,997,281	8,500,006,030	4,272,665,522	880,000,000
Interbank loans receivable and securities purchased under resale agreements	-	4,010,000,000	-	-	4,010,000,000	-
	13,158,911,020	22,108,335,882	11,000,059,012	11,380,339,756	20,060,061,718	9,242,534,562
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	2,802,419,069	4,658,904,990	13,825,670,360	662,774,811	2,880,333,726	11,777,396,196
Due from Bangko Sentral ng Pilipinas	9,001,108,856	8,500,006,030	4,272,665,522	9,001,108,856	8,500,006,030	4,272,665,522
Interbank loans receivable and securities purchased under resale agreements	-	-	4,010,000,000	-	-	4,010,000,000
	P11,803,527,925	P13,158,911,020	P22,108,335,882	P9,663,883,667	P11,380,339,756	P20,060,061,718

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
Interest paid	₱1,669,737,575	₱2,300,548,004	₱2,377,405,602	₱1,687,138,304	₱2,317,125,562	₱2,381,813,581
Interest received	3,028,525,753	3,591,987,757	3,824,273,895	2,854,170,816	3,205,558,458	3,758,415,198

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

First Metro Investment Corporation (the Parent Company) is an investment house. On September 22, 2000, the Parent Company was merged with Solidbank Corporation (Solidbank) with Solidbank as the surviving entity and subsequently renamed as First Metro Investment Corporation. The Parent Company's shares of stock (originally Solidbank) were listed in the Philippine Stock Exchange, Inc. (PSE) on October 25, 1963 and were subsequently delisted effective December 21, 2012. The Parent Company is a 99.2%-owned subsidiary of Metropolitan Bank & Trust Company (Metrobank or Ultimate Parent Company).

The Parent Company is primarily engaged in investment banking and has a quasi-banking license from the Bangko Sentral ng Pilipinas (BSP). It provides services such as equity and debt underwriting and private placements, loan syndication and arrangements, financial advisory and securities dealership. In September 2011, the BSP authorized the Parent Company to perform trust and other fiduciary business.

The Parent Company's principal place of business is located at 45th Floor, GT Tower International, Ayala Avenue corner H.V. dela Costa Street, Makati City.

2. Accounting Policies**Basis of Preparation**

The accompanying financial statements are prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative instruments that have been measured at fair value. The financial statements are presented in Philippine peso, the functional currency of the Parent Company and all values are rounded to the nearest peso except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, First Metro Investment Corporation and Subsidiaries (the Group) presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2012 is presented in these financial statements due to retrospective application of Philippine Financial Reporting Standards (PFRS) 10, *Consolidated Financial Statements* and Philippine Accounting Standards (PAS) 19, *Employee Benefits* (Revised). Refer to Changes in Accounting Policies and Disclosures section of this Note for the impact assessment of the new and revised standards.

Statement of Compliance

The financial statements of the Group and of the Parent Company have been prepared in accordance with accounting principles generally accepted in the Philippines for banks, particularly on the availment of the exemption from the tainting provision of the Parent Company's held-to-maturity (HTM) investments disposed through a government-initiated bond exchange, which was permitted by the BSP for prudential reporting and the Securities and Exchange Commission (SEC) for financial reporting purposes.

Except for the effects of accounting for HTM investments under the tainting rule in 2011 (Note 7), the financial statements of the Group and of the Parent Company for the three years in the period ended December 31, 2013 have been prepared in compliance with PFRS.

Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding the recovery of assets or settlement of liabilities 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 (noncurrent) is presented in Note 18.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its wholly owned and majority owned subsidiaries (Note 10).

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; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The consolidated financial statements are prepared for the same reporting period as the Parent Company's financial statements, using consistent accounting policies except for First Metro Securities Brokerage Corporation (FMSBC), a wholly owned subsidiary, which uses closing prices instead of the fair value basis as prescribed by PFRS 13, *Fair Value Measurement*. Such policy is in accordance with the rules set out in the Securities Regulation Code (SRC) in the consolidated financial statements of the Group. The valuation of equity securities of FMSBC is adjusted for the difference of closing and fair value basis which is determined in accordance with PFRS 13 to align the valuation with the Group's accounting policy. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Non-Controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to 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 the Parent Company's shareholders' equity.

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated with the puttable non-controlling interests recorded under 'Other liabilities' account in the statement of financial position.

Changes in Accounting Policies and Disclosures

The Group applied, for the first time, PFRS 10 and PAS 19 (Revised) that require restatement of previous financial statements, and PFRS 12, *Disclosure of Interests with Other Entities* and PFRS 7, *Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* that require additional disclosures in the financial statements. In addition, the Group also adopted PFRS 13 and amendments to PAS 1, *Presentation of Financial Statements*.

The nature and impact of each new standard and amendment are described below.

PFRS 7, Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The Group disclosed the requirements of the amendments regarding the information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32.

Refer to Note 33 for the details and the tabular format of the required disclosures which the Group retrospectively applied.

PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) No. 12, *Consolidation – Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements in PAS 27. Refer to Note 3 for the significant judgment made by management in identifying entities for consolidation.

Consolidation of Investments in First Metro Save and Learn Equity Fund, Inc. (FMSALEF) and First Metro Save and Learn Balanced Fund, Inc. (FMSALBF)

The Parent Company reassessed the control conclusion for FMSALEF and FMSALBF, that although the Parent Company owns less than half of the voting power of these investees, the Parent Company controls these investees because it has the power to direct the relevant activities of these investees through First Metro Asset Management, Inc. (FAMI), a subsidiary, who is the fund manager, and it has the exposure to variable returns from its investment with the investees and because of its ability to use its power over the investees to affect its return.

The effect of retroactive application of PFRS 10 is presented below:

	Consolidated		
	As of December 31, 2012		
	As previously reported	Effect of retroactive application of PFRS 10	As restated
Statement of Financial Position			
Assets			
Cash and other cash items	P4,220,173,033	P438,731,957	P4,658,904,990
Financial assets at FVPL	8,898,910,276	6,227,958,104	15,126,868,380
AFS investments	15,913,926,180	83,128,529	15,997,054,709
Loans and receivables	12,341,338,317	162,389,293	12,503,727,610
Investments in subsidiaries, associates and joint venture	15,298,387,175	(1,837,323,537)	13,461,063,638
Other assets	387,758,550	465,836	388,224,386
	<u>57,060,493,531</u>	<u>5,075,350,182</u>	<u>62,135,843,713</u>
Liabilities			
Accounts payable	349,292,739	58,650,886	407,943,625
Accrued taxes, interest and other expenses	426,184,234	(982,039)	425,202,195
Bonds payable	11,834,390,150	(277,975,000)	11,556,415,150
Other liabilities	1,685,768,009	5,288,837,452	6,974,605,461
	<u>14,295,635,132</u>	<u>5,068,531,299</u>	<u>19,364,166,431</u>
Equity			
Net unrealized gain on AFS investments	595,764,040	7,442,719	603,206,759
Equity in net unrealized gain on AFS investments of associates	756,743,059	(623,836)	756,119,223
	<u>1,352,507,099</u>	<u>6,818,883</u>	<u>1,359,325,982</u>
Statement of Income			
Interest income	P3,274,903,402	P37,656,671	P3,312,560,073
Interest expense	2,351,578,102	(10,643,088)	2,340,935,014
Trading and securities gain	1,177,308,284	1,192,595,830	2,369,904,114
Statement of Income			
Service charges, fees and commissions	716,926,162	(104,818,072)	612,108,090
Dividends	83,007,980	67,590,195	150,598,175
Miscellaneous income	110,370,398	6,259,436	116,629,834
Taxes and licenses	468,345,967	7,884,424	476,230,391
Compensation and fringe benefits	351,800,655	434,200	352,234,855
Miscellaneous expense	289,655,534	16,189,790	305,845,324
Share in net income of associates	2,126,489,345	(285,499,824)	1,840,989,521
Provision for income tax	545,576,401	29,994,432	575,570,833
Income attributable to non-controlling interests	151,562,767	869,924,478	1,021,487,245
	<u>P11,647,524,997</u>	<u>P1,827,568,472</u>	<u>P13,475,093,469</u>

	Consolidated		
	Year Ended December 2012		
	As previously reported	Effect of retroactive application of PFRS 10	As restated
Statement of Cash Flows			
Net cash used in operating activities	(P5,406,099,324)	(P1,020,455,108)	(P6,426,554,432)
Net cash used in investing activities	(2,195,319,886)	630,186,012	(1,565,133,874)
Net cash used in financing activities	(1,060,796,579)	103,060,023	(957,736,556)
	(P8,662,215,789)	(P287,209,073)	(P8,949,424,862)

	Consolidated		
	As of January 1, 2012		
	As previously reported	Effect of retroactive application of PFRS 10	As restated
Statement of Financial Position			
Assets			
Cash and other cash items	P13,099,729,330	P725,941,030	P13,825,670,360
Financial assets at FVPL	1,594,454,845	2,618,487,455	4,212,942,300
AFS investments	7,370,843,518	165,875,063	7,536,718,581
Loans and receivables	15,912,392,120	73,716,021	15,986,108,141
Investments in subsidiaries, associates and joint venture	14,155,896,295	(981,460,175)	13,174,436,120
Other assets	140,668,902	32,550,631	173,219,533
	52,273,985,010	2,635,110,025	54,909,095,035
Liabilities			
Accounts payable	321,197,796	131,895,673	453,093,469
Accrued taxes, interest and other expenses	392,564,979	(292,433)	392,272,546
Derivative liability	61,377,281	6,288,754	67,666,035
Bonds payable	4,929,510,084	(196,010,000)	4,733,500,084
Other liabilities	853,044,790	2,771,492,595	3,624,537,385
	6,557,694,930	2,713,374,589	9,271,069,519
Equity			
Treasury stock	(2,256,151,891)	(103,060,023)	(2,359,211,914)
Net unrealized gain AFS investments	229,755,731	26,849,619	256,605,350
Equity in net unrealized gain on AFS investments of associates	423,813,240	(2,054,160)	421,759,080
	(1,602,582,920)	(78,264,564)	(1,680,847,484)

PFRS 12, *Disclosure of Interests with Other Entities*

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The disclosure requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries, associates and joint ventures. While the Group has subsidiaries with material non-controlling interests and material associates, there are no unconsolidated structured entities. Refer to *Basis of Consolidation* and Notes 3 and 10 for the disclosures related to subsidiaries and associates.

PFRS 13, *Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard has no significant impact in the fair value measurement of financial assets and liabilities at FVPL, AFS investments, land and buildings. Refer to Notes 5 and 11 for the disclosures required by the standard.

PAS 1, *Presentation of Financial Statements – Presentation of Items of OCI* (Amendments)

The Group applied amendments to PAS 1 and changed the grouping of items presented in the statement of comprehensive income either:

- items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement). These include ‘Net gain on available-for-sale investments’,

'Equity share in change in fair values of available-for-sale investments of associates' and 'Equity share in change in translation adjustment'; or

- items that will never be recycled to profit or loss. These include 'Remeasurements of retirement liability' and 'Equity share in change in revaluation increment'.

The amendments affect presentation only and have no impact on the Group's financial position or performance.

PAS 19, *Employee Benefits* (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The adoption of PAS 19 (Revised) which required retrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary.

The following tables show the significant increase (decrease) in the following accounts in the statements of financial position and statements of income as a result of the adoption of PAS 19 (Revised)

	Consolidated		
	December 31 2013	2012	January 1, 2012
Statements of Financial Position			
Assets			
Deferred tax assets	P284,642	P19,525,787	P7,664,509
Other assets	(5,703,392)	(8,278,061)	(9,744,502)
	(P5,418,750)	P11,247,726	(P2,079,993)
Liabilities			
Accrued taxes, interest and other expenses	P92,271,820	P62,838,060	P20,366,704
Deferred tax liability	(29,145,320)	(1,809,049)	(1,368,854)
	P63,126,500	P61,029,011	P18,997,850

Statements of Financial Position			
Equity			
Retained earnings	(P2,657,900)	(P4,294,078)	(P5,143,845)
Remeasurements of retirement liability	(67,025,901)	(45,303,878)	(15,590,830)
Non-controlling interests	(207,085)	(183,329)	(343,168)
	(P69,890,886)	(P49,781,285)	(P21,077,843)

	Consolidated	
	2013	2012
Statements of Income		
Compensation and fringe benefits	(P2,969,916)	(P1,213,953)
Provision for income tax	1,272,822	330,173
Income attributable to non-controlling interests	60,916	34,013
	(P1,636,178)	(P849,767)

	Parent Company		
	December 31 2013	2012	January 1, 2012
Statements of Financial Position			
Assets			
Deferred tax assets	P-	P19,263,890	P7,174,269
Other assets	(5,703,392)	(8,278,061)	(9,744,502)
	(P5,703,392)	P10,985,829	(P2,570,233)
Liabilities			
Accrued taxes, interest and other expenses	P-	P55,934,905	P14,169,727
Deferred tax liability	(26,202,047)	-	-
	(P26,202,047)	P55,934,905	P14,169,727
Equity			
Retained earnings	(P795,661)	(P3,164,977)	(P3,559,412)
Remeasurements of retirement liability	(60,343,846)	(41,784,099)	(13,180,548)
	(P61,139,507)	(P44,949,076)	(P16,739,960)

Parent Company

	2013	2012
Statements of Income		
Compensation and fringe benefits	(P3,384,737)	(P563,479)
Provision for income tax	1,015,421	169,044
	(P2,369,316)	(P394,435)

The transition did not have impact on the statement of cash flows.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

PAS 1, Presentation of Financial Statements – Clarification of the requirements for comparative information

These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

Several other new and amendments standards apply for the first time in 2013. However, they do not impact the annual financial statements of the Group:

- PFRS 1, *First-time Adoption of PFRS – Government Loans* (Amendments)
- PFRS 11, *Joint Arrangements*
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation IFRIC 20, *Stripping Cost in the Production Phase of a Surface Mine*

Improvements to PFRSs (2009-2011 cycle)

- PFRS 1, *First-time Adoption of PFRS – Borrowing Costs*
- PAS 16, *Property, Plant and Equipment – Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities*

Significant Accounting Policies

Foreign Currency Translation

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.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction qualifies for recognition. Foreign currency-denominated monetary assets and liabilities are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year, and foreign currency-denominated income and expenses, at PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are

credited to or charged against operations except for AFS equity securities in the year in which the rates change.

Non-monetary items, 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.

Fair Value Measurement

The Group measures financial instruments, such as derivatives, at fair value at each statement of financial position date.

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 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 nonfinancial 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 reporting period.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

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

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques that include the use of mathematical models. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates.

'Day 1' profit or loss

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

Derivatives recorded at FVPL – Embedded derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contract. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and that the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Parent Company and some of its subsidiaries have certain derivatives that are embedded in debt financial instruments classified as loans and receivables and bonds payable. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and securities gain'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets or financial liabilities at FVPL

Financial assets or financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading and securities gain' in the statement of income. Interest earned or incurred from debt securities is recorded as 'Interest income' or 'Interest expense' in the statement of income, respectively, while dividend income from equity securities is recorded as 'Dividends' in the statement of income according to the terms of the contract, or when the right to receive payment has been established.

Designated financial assets or financial liabilities at FVPL

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met, determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are 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.

The Group has not designated any financial assets or liabilities upon initial recognition as financial instruments at FVPL.

HTM investments

HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the statement of income when the 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 'Provision for (recovery from) impairment and other probable losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized in the statement of income.

The Group follows Philippine generally accepted accounting principles (GAAP) for banks in accounting for its HTM investments. Under Philippine GAAP for banks, particular sales of HTM investments in participation of the government-initiated bond exchange program have been granted exemption by both SEC and the BSP from the tainting rules of PAS 39, *Financial Instruments: Recognition and Measurement*. Also, the gain on exchange on the Parent Company's participation in the bond exchange program of the Philippine government is deferred and amortized over the term of the new bonds based on effective interest method.

Loans and receivables

This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA)', and

'Loans and receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading' or designated as 'AFS investments' or 'Financial assets designated at FVPL'.

After initial measurement, 'Loans and receivables', 'Due from BSP', and 'IBLR and SPURA' 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 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL, 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. They include equity investments, money market papers and other debt instruments.

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

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain' 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 first-in first-out basis. Interest earned on holding AFS debt investments are reported in the statement of income as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Dividends' when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

Financial liabilities carried at amortized cost

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

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated as FVPL, 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. Any effects of restatement on foreign currency-denominated liabilities are recognized in the statement of income.

Treasury bonds

Issued bonds payable which have been reacquired but not retired or extinguished and those that are being held by a subsidiary are deducted from the carrying value of the bond and measured at weighted average cost. Treasury bonds are recorded at face value, and any related unamortized premium, discount and issue costs are cancelled. Also, any related accrued interest paid is charged to 'Interest expense' and the difference between the acquisition cost and the book value of the treasury bonds is treated as gain or loss and recorded under 'Miscellaneous income' in the statement of income.

Repurchase and Reverse Repurchase Agreements

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

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

Reclassification of Financial Assets

A financial asset is reclassified out of the financial assets at FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

The Group evaluated its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the Group has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- 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.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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.

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.

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, which include loans and receivables, due from BSP, IBLR and SPURA and HTM investments, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment.

The carrying amount of the asset is reduced through the 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, 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 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

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

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

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of the 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 subjected to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

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 the statement of comprehensive income and recognized in the statement of income.

Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in the 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 the statement of income.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (where applicable, a part of a financial asset, or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. 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.

Financial liabilities

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

Offsetting Financial Instruments

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

Derivative Financial Instruments and Hedge Accounting

Initial recognition and subsequent measurement

The Group use derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income, except for the effective portion of cash flow hedges, which is recognized in OCI.

For the purpose of hedge accounting, hedges are classified as:

- a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge);
- a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or
- a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

Hedge accounting

At the inception of a hedging relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity

will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis that they actually have been highly effective throughout the financial reporting periods for which they were designated. The Group considers the hedge as highly effective if the result of the hedge effectiveness testing falls within the range of 80.0% to 125.0%.

Current versus Noncurrent Classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the statement of financial position date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

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 IBLR and SPURA with original maturities of three months or less from the dates of placements and are subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost. Due from BSP includes the statutory reserves required by the BSP, which the Company considers as cash equivalents wherein drawings can be made to meet cash requirements.

Investments in Subsidiaries, Associates and Joint Venture

Investment in subsidiaries

Subsidiaries are entities, which the Parent Company has the power to govern the financial and operating policies and generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

Investment in associates and joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Consolidated financial statements

The Group's investments in its associates and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially

recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each statement of financial position date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss under 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

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

Parent Company financial statements

The Parent Company's investments in subsidiaries, associates and joint venture are carried at cost less any impairment in value. Under the cost method, the Parent Company recognizes income from the investment only to the extent that the investor receives distributions from accumulated profits of the subsidiary, associate or joint venture arising after the date of acquisition.

Equity in Translation Adjustment

The accounts of First Metro International Investment Company Ltd. - Hongkong (FMIIIC), an associate, are maintained in the currency of the country in which it operates. Adjustments resulting from the translation of the financial statements of FMIIIC into Philippine peso are shown in the statement of comprehensive income.

Property and Equipment

Depreciable properties, including leasehold improvements and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization, and any allowance for impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met, but excludes repairs and maintenance costs.

Depreciation is calculated using the straight-line method over the estimated useful life of the depreciable assets. The estimated useful lives of the depreciable assets are as follows:

Furniture, fixtures and equipment	1-5 years
Leasehold improvements	1-5 years or the terms of the related lease agreements, whichever is shorter

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

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

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case, the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under 'Investment properties' from foreclosure date.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and allowance for impairment losses, whereas, non-depreciable investment properties are carried at cost less allowance for impairment losses.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations when the costs are incurred.

Depreciation is calculated on a straight-line basis using the useful life of 34 and 10 years from the time of acquisition for condominium units and land improvements, respectively.

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

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

Intangible Assets

Intangible assets refer to the Group's software licenses. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

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 as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized

development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

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 the amortization method for an intangible asset with a finite 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 they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Miscellaneous expense' (Note 25).

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. An intangible asset with an indefinite 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.

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.

Impairment of Nonfinancial Assets

At each statement of financial position date, the Group assesses whether there is any indication that its nonfinancial 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 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 other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing 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. An impairment loss is charged against operations in the year in which it arises.

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

Property and equipment, investment properties and intangible assets with definite useful lives

For property and equipment, investment properties and intangible assets with definite useful lives, an assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income.

After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates and joint venture

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint venture. If this is the case, the Group calculates the amount of impairment loss as the difference between the recoverable amount of investment in the associate or joint venture and the acquisition cost and recognizes the amount under 'Provision for (recovery from) impairment and other probable losses' in the statement income.

Common Stock

Common stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Capital paid in excess of par value' in the statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury Shares and Contracts on Own Shares

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received and all transactions costs directly attributable on the purchase, sale, issue, or cancellation of the Parent Company's own equity instruments is recognized directly in equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of own equity instruments.

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 but excluding any taxes or duties. 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

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

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR to discount the future recoverable cash flows.

Fees and commission income

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

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

b) *Fee income from providing transaction services*

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

Dividends

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

Trading and securities gain

This income results from trading activities including gains and losses from disposal of AFS investments and financial assets held for trading, and all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL.

Rental income

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

Gain on sale or redemption of unquoted commercial papers

This income results from sale or redemption of unquoted commercial papers. The gain on sale or redemption of unquoted commercial papers is recorded under 'Miscellaneous income' in the statement of income.

Gain on sale of assets

Gain on sale of assets is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer, usually on the date of delivery, and the collectability of the sales price is reasonably assured. Any income recognized is recorded under 'Gain on sale of assets' in the statement of income.

Expenses

Expenses constitute costs of administering the business and these are charged to operations as incurred.

Leases

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

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

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

Group as lessee

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

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

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

Group as lessor

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

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

Retirement Benefits

The Group has a funded noncontributory defined benefit retirement plan. The retirement cost of the Parent Company, FMSBC and FAMI is determined using the projected unit credit method.

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

Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in 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 high quality corporate 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 under 'Compensation and fringe benefits' in the statement of income.

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

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

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.

Provisions

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

Contingencies

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

Income Taxes

Current tax

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

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 liabilities are recognized for all taxable temporary differences, including asset revaluations, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries and foreign associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Deferred tax assets and 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.

Deferred tax relating to items recognized directly in the statement of comprehensive income is also recognized in the statement of comprehensive income and not in the statement of income.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

Earnings per Share

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

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective Board of Directors (BOD) of the Parent Company and its subsidiaries and the BSP. 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.

Subsequent Events

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

Segment Reporting

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

Fiduciary Activities

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

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2013

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- *PAS 36, Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*
These amendments are effective for annual periods beginning on or after January 1, 2014. They 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 FVPL. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.
- *Philippine Interpretation IFRIC 21, Levies*
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. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.
- *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. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated

its derivatives during the current period. However, these amendments would be considered for future novations.

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)*

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Assets*

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

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

- *PFRS 1, First-time Adoption of PFRS – Meaning of ‘Effective PFRSs’*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- *PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.
- *PFRS 13, Fair Value Measurement – Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group’s financial position or performance.
- *PAS 40, Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group’s financial position or performance.
- *PFRS 9, Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. 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 FVPL. 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 FVPL. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in statement of income, unless presentation of the fair value change relating to the entity’s own credit risk in OCI would create or enlarge an accounting mismatch in the statement of income. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, 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 nonfinancial 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 financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

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

3. Significant Accounting Judgments and Estimates

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

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

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

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

a. Going concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

b. Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases. In determining whether or not there is indication of operating lease treatment, the Group considers retention of ownership title to the leased property, the period of lease contract relative to the estimated useful life of the leased property, and the bearer of executory costs, and among others.

Operating lease commitments – Group as lessee

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

c. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 5).

d. Classification of HTM investments

The classification to HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Ability to hold the debt securities to maturity is demonstrated by the availability of financial resources to continue to finance the investment until maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost. The Group has followed Philippine GAAP for banks in accounting for its HTM investments (Notes 2 and 7).

e. Financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis (Note 7).

f. Embedded derivatives

Where a hybrid instrument is not classified as financial asset at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract (Note 7).

g. Consolidation of entities in which the Group holds less than majority of voting rights

In determining whether the Group has control over an investee requires significant judgment.

The Group also applies judgment in assessing whether it holds control over an investee where the Group's ownership interest and voting rights is 50.0% and below. For this, the Group considers the following factors: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; (c) the ability to use its power over the investee to affect the amount of the investor's returns.

The Group directly holds 21.4%, 17.0%, and 14.4% in FMSALEF, FMSALBF and First Metro Save and Learn Fixed Income Fund (FMSLFIF), respectively, as of December 31, 2013 and 26.5%, 23.5% and 19.5%, respectively, as of December 31, 2012. The Group assessed that control over FMSLFIF, FMSALEF and FMSALBF (the Funds) exists because the Parent Company, through the Fund Manager of the Funds, FAMI, which is 70.0% owned subsidiary of the Parent Company and its economic interests (comprising direct interests and future management and advisory fees) over these Funds, is acting as principal of the Funds. The following factors were considered that support this assessment: (a) the Parent Company has wide decision making rights over the relevant activities of the Funds, (b) the removal rights are not substantive since there are multiple parties (widely dispersed shareholders) who hold the removal rights; further, members of the BOD of the Funds are normally nominated/appointed by the Parent Company and (c) the Parent Company has 20.0% or more effective ownership over the Funds. The effect of the retrospective consolidation of FMSALEF and FMSALBF is disclosed in Note 2.

h. Existence of significant influence over an associate with less than 20.0% ownership

In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.

There are instances that an investor exercises significant influence even if its ownership is less than 20.0%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

The Group directly holds 16.9% and 17.0% in Lepanto Consolidated Mining Company (LCMC), an associate, as of December 31, 2013 and 2012, respectively. The reasons why the presumption that the Group does not have significant influence is overcome even if the Group holds, directly or indirectly through subsidiaries, less than 20.0% of the voting or potential voting power of LCMC but concludes that the Group has significant influence, are disclosed in Note 10.

i. Contingencies

In the normal course of business, the Group incurs certain contingent liabilities that are not presented in the financial statements. The Group does not anticipate any material losses as a result of the contingent liabilities (Note 29).

Estimates

a. Credit losses on loans and receivables

The Group reviews its impaired loans and receivables at each statement of financial position date to assess whether additional allowance for credit losses should be recorded in the statement of income. In particular, judgment of 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 amount of loans and receivables and the allowance for credit losses are disclosed in more detail in Notes 8 and 13, respectively.

b. Fair values of derivatives

The fair values of derivatives that are not quoted in active markets are determined using valuation techniques such as discounted cash flow analysis and standard option pricing models. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Fair values of derivatives, as of December 31, 2013 and 2012, are disclosed in Notes 5 and 7.

c. Valuation of unquoted equity securities

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length transactions;
- current fair value of another instrument which is substantially the same;
- the expected cash flows discounted at current rates applicable for securities with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data. Where observable market data is not available, unquoted equity securities are carried at cost less allowance for impairment losses.

The carrying value of unquoted equity securities is disclosed in Note 7.

d. Impairment of AFS equity investments

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 or where other objective evidence of impairment exists. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as a decrease by more than 20.0% of the original cost of the investment and 'prolonged' as a continuous decline in value for more than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of AFS equity securities is disclosed in Note 7.

e. Recognition of deferred taxes

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Parent Company and certain subsidiaries have been in a tax loss position over the past several years. However, estimates of future taxable income for the other subsidiaries indicate that certain temporary differences will be realized in the future.

The carrying amount of deferred tax assets, for both the Group and the Parent Company, are disclosed in more detail in Note 26.

f. Present value of retirement obligation

The cost of the defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position date.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligations.

As of December 31, 2013 and 2012, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 22.

g. Impairment of property and equipment, investment properties and investments in subsidiaries, associates and joint venture

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

- 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 Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. This method is used in determining recoverable amounts of property and equipment and investment properties. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. This method is normally applied in determining recoverable amounts of investments in subsidiaries, associates and joint venture.

However, since impaired investments comprise associates and joint venture that are no longer in operation, the Group based its recoverable value on the net realizable value of the net assets of the associates which substantially comprise deposits in banks and accrued liabilities.

The carrying value of property and equipment and investment properties, and the related allowance for impairment losses, where applicable, are disclosed in more detail in Notes 9, 11 and 13, respectively. The carrying amount of investments in subsidiaries, associates and joint venture and the related allowance for impairment losses on these investments are disclosed in Notes 10 and 13, respectively.

4. Financial Risk Management

The Group has exposures to the following risks from the use of financial instruments:

- Operational risk
- Credit risk
- Liquidity risk
- Market risk

Risk Management Framework

The Group's implementation of the risk management process involves a top-down approach that starts with the BOD. The Parent Company's BOD, through the board-level Risk Oversight Committee (ROC), is actively involved in planning, approving, reviewing, and assessing all risks involved within the Parent Company. ROC also establishes the risk culture and sets the tone for all institutional risk-related activities and ensures that the risk policies are clearly formulated and disseminated within the Parent Company.

The ROC's functions are supported by the Executive Committee (EXCOM), which provides essential inputs and advice, particularly on credit and investment policy matters. The EXCOM is provided with the necessary assistance by the following management working committees, namely: the Senior Management Committee (SMC), the Credit Committee (Crecom), the Investment Committee (Incom) and the Deal Committee (Dealcom).

The SMC is responsible for identifying, synchronizing and addressing various operational problems and concerns of the Parent Company and certain subsidiaries. The SMC is also tasked with providing the general guidelines and advice on all transactional dealings which consider facet of risks, i.e., market, credit, operational risks, etc. The SMC's other functions are similar to that of Asset and Liability Committee (ALCO) of most banks. Its members comprise of the most senior officers of the Parent Company which have significant risk responsibilities over the asset and liability management.

The Crecom, another senior management committee comprised of senior officers of the Parent Company, is tasked with reviewing all credit proposals and approving loan applications and credit facilities up to set limits/criteria; when exceeded, the decision is elevated to the EXCOM. It also provides support on the monitoring and reviewing active credit and investments positions.

The Incom is tasked with reviewing all investment proposals, approving investment outlets and guiding the Fund Managers in the discharge of their respective investing responsibilities.

The Dealcom is tasked with the reviewing/screening of new deal proposals preparatory to sending mandate letter, clearing the business units' new deals subject to the final approval of credit authority, and monitoring all deals in process of the business units.

The Compliance Division (CD) also collaborates with the ROC. The main task of the CD is to monitor and assess compliance of various units of the Parent Company to its rules and regulations as well as their compliance with the rules and regulations prescribed by the government regulatory bodies. The CD is also tasked to properly disseminate these rules and regulations to the various units of the Parent Company.

The Chief Risk Officer (CRO) manages and oversees the day-to-day activities of the Risk Management Division (RMD). The CRO likewise evaluates all risk policy proposals and reports to be presented to the ROC. The CRO, through the RMD, also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regard to the submission of requisite reports on their risk compliance and control activities.

RMD is tasked with identifying, analyzing, measuring, controlling and evaluating risk exposures arising from fluctuations in the prices or market values of instruments, products and transactions of the Parent Company and certain subsidiaries. It is responsible for recommending trading risk and liquidity management policies, setting uniform standards of risk assessment and measurement, providing senior management with periodic evaluation and simulation and analyzing limit compliance exceptions. The RMD furnishes daily reports to Senior Management and RTUs and provide monthly reports to ROC.

The Parent Company requires either internal or external legal opinions to ensure that all documentations related to transactions entered into by the Parent Company are enforceable. Specific, internal legal functions/responsibilities including coordination with external counsel groups are handled by the Legal Department.

The identified market, such as equity prices, interest rate and foreign currency, and liquidity, as well as credit and operations risks are consequently measured and then controlled by a system of limits. The RMD defines and presents for approval of the ROC and BOD the various risk management measures to be used in quantifying those risks.

Operational Risk

The Parent Company's operational risk management framework outlines its effective management of operational risks via a staged approach which involves risk identification, analysis and assessment, treatment, monitoring and reporting. The document also provides pertinent operational risk management tools that need to be in place.

In line with the framework, various methodologies and tools were established to facilitate management of operational risk. These include operational risk incident data management, risk event database maintenance, risk assessment, key risk indicator monitoring and contingent legal liability reporting. The Parent Company, likewise, has in place a responsive risk management policy for effective oversight, due diligence and management of risks arising from outsourcing, prior to entering into, as well as, during the lifespan of an outsourcing agreement/arrangement. This is recognizing that while outsourcing can be cost effective and brings other competitive advantages, it also poses an Outsourcing Risk. Outsourcing Risk is the risk that third party service providers may not act within the intended limits of their authority and/or not perform in a manner consistent with outsourcing party's strategies, objectives and desired results, as well as, legal and regulatory requirements.

Moreover, the Parent Company has in place a structured Information Systems Strategic Plan (ISSP). The plan is reviewed and updated on regular basis to keep it in sync with Parent Company's strategic business direction.

The Ultimate Parent Company, on the other hand, thru its Internal Audit Group (IAG), reviews operational risk management processes and provide an independent assurance as to its adequacy and effectiveness.

Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits. Counterparty credit lines are established by the Parent Company annually to

guide its transactions. Business transactions are restricted to these accredited counterparties, and any violations are reported to the designated control units.

The management of credit risk is outlined in the Credit Policy Manual where credit authority and approval bodies are formalized within the institution. The Parent Company operates under sound, well-defined credit-granting criteria which include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment. The Parent Company gathers sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counterparty through an independent credit ratings provider and its Internal Credit Risk Rating System (ICRRS).

Concentrations of Credit Risk

Concentrations of credit risk 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 relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location. The Parent Company is guided by the regulatory ceilings on the management of concentration risk. In addition, internal limits were set at not more than 20.0% and 25.0% of the selected financial assets for counterparties and industry exposures, respectively.

Monitoring reports are done monthly wherein the same are elevated to the ROC on its monthly meeting for information and appropriate actions.

Each business unit is responsible for the performance and quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. IAG undertakes the periodic review of business units and credit processes.

Management of Credit Risk

The Parent Company faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enters into market-traded securities either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures).

The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in areas like documentation and collateral requirements as well as credit assessments and risk grading processes. The monitoring and reporting procedures are likewise documented. The guidelines provided by the regulators are also incorporated to internal policies to ensure adherence to regulatory requirements.
- Providing seminars or programs that enhance skills and risk awareness among its personnel.
- Establishing authorization limits for the approval and renewal of credit facilities.
- Independent review by Credit Division prior to loan approval.
- Screening of prospective borrowers/deals by the Dealcom prior to endorsement to other Committees, like Crecom/EXCOM.
- Limiting concentrations of exposures by periodic monitoring of counterparties including where industry it belongs.
- Continuous monitoring by credit quality on various portfolios including certain subsidiaries.
- Maintaining an ICRRS, approved by the BOD, in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

The ICRRS contains the following:

- a. Borrower Risk Rating (BRR) - The BRR is an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations in a foreseen manner.

The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually by the Credit Division.	40.0%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.0%
Management Quality	Refers to the management's ability to run the company successfully.	30.0%

- b. Facility Risk Factor (FRF) - This is determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.
- c. Adjusted Borrower Risk Rating (ABRR) - The combination of BRR and FRF results in ABRR.
- d. Composite Risk Rating (CRR) for borrowers with multiple facilities - The weighted average ABRR shall be computed and used in determining the CRR.

The following table shows the description of ICRRS grade:

Credit Quality	ICRRS Grade	Description
High Grade	1	Excellent
	2	Strong
Standard Grade	3	Good
	4	Satisfactory
	5	Acceptable
Substandard Grade	6	Watchlist
	7	Especially mentioned
Impaired	8	Substandard
	9	Doubtful
	10	Loss

1 - Excellent

An "excellent" rating is given to a borrower with no history of delinquencies or defaults, highly liquid and sustaining strong operating trends, unlikely to be affected by external factors and has a competent management that uses current business models.

2 - Strong

A “strong” rating is given to borrowers with the same characteristics as those rated as “excellent” rating, but is only adequately liquid.

3 - Good

A “good” rating is given to a borrower with no history of default in the last 12 months. The entity’s borrowing base can support its line of credit, and it is meeting performance expectations. It is unlikely to be affected by external factors and has a competent management that uses current business models.

4 - Satisfactory

A “satisfactory” rating is given to a borrower that pays as agreed, but is not necessarily non-delinquent. The entity has adequate to marginal liquidity and generally meets performance expectations. While there are external factors that may affect the entity, these will likely be overcome. A lack of key management experience may be a current problem for the entity, and such could be brought about by a recent departure of a key employee.

5 - Acceptable

An “acceptable” rating is given to a borrower that is current in its payments while not necessarily paying as agreed. The entity has marginal liquidity and has a declining trend in operations or an imbalanced position in the statement of financial position, though not to the point that repayment is jeopardized. There are identified external disruptions though the impact on the entity is uncertain. There may also be some turnover causing key management positions to stay vacant.

6 - Watchlist

This rating is given to a borrower that may either be current in its payments, or 30 to 60 days past due. The entity has marginal liquidity and may not be meeting performance expectations, even having defaulted on some of its loans. There are identified disruptions that negatively affect the entity’s performance, though there are near-term solutions. Management may also have changed its business model with negative implications for the entity.

7 - Especially Mentioned

The borrower in this rating shows evidence of weakness in its financial condition, having expected financial difficulties. There is a real risk that the entity’s ability to pay the interest and principal on time could be jeopardized. Without government intervention, external factors will negatively impact the entity. The entity’s ability or willingness to service debt is in doubt, likely causing a need to reschedule payments.

8 - Substandard

For a “substandard” borrower, the debt burden has become too heavy, only to be made worse by weak or negative cash flows and interest coverage. This makes the collection of principal or interest payments questionable, causing an assessment of default of up to 50.0%. Unless given closer supervision, the institution will likely suffer a future loss. External factors may be causing an adverse trend, or there may be a significant weakness in the entity’s collateral. Management has an unfavorable record and lacks managerial capability.

9 - Doubtful

This rating is given to a nonperforming borrower where a payment default has occurred, due to the borrower’s inability or unwillingness to service debt over an extended period of time. Loss is unavoidable and significant, although the extent of probable loss on the loan cannot be exactly quantified at the current time. However, there may be external factors that may strengthen the entity’s assets, e.g. merger, acquisition, and capital injection. Management has an unfavorable record and lacks managerial capability.

10 - Loss

This rating is given to a borrower when debt service or the prospect for re-establishment of credit worthiness, has become remote. This may be due to the fact that the borrower and/or his co-makers have become insolvent, thus the lender may already be preparing foreclosure procedures. A full provision is made on that part of the principal which is not fully and adequately covered. While the loan covers basically worthless assets, writing off these loans is neither practical nor desirable for the lender.

- Risk Rating References - Investment Securities
In ensuring a quality investment portfolio, the Parent Company uses the ICRRS as well as credit risk ratings from published data providers like Moody's, Standard & Poor's and other reputable rating agencies.

In undertaking its investment transactions, the Parent Company is also guided by the BOD - approved manual of procedures and the applicable rules and regulations issued by the concerned regulatory bodies of the government. The Parent Company's Compliance Unit, in collaboration with Legal Unit is tasked with monitoring adherence to these risk areas.

- Cash and other cash items
In 2013, cash and other cash items of the Group were rated based on credit risk ratings from published data providers like Moody's, Standard & Poor's and other reputable rating agencies.
- Collateral
The Parent Company's Credit Policy Manual provides for a separate collateral appraisal by an independent appraisal firm and a re-appraisal for at least every two years as circumstances warrant.
- Monitoring of compliance by the RMD of the approved exposure limits, likewise, with concentration limit.

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

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated			
	2013			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	₱3,211,663,011	₱5,895,964,770	₱-	₱3,211,663,011
Unsecured	396,000,000	-	396,000,000	-
	3,607,663,011	5,895,964,770	396,000,000	3,211,663,011
Others				
Fully secured	40,851,399	79,781,310	-	40,851,399
Unsecured	7,863,187	-	7,863,187	-
	48,714,586	79,781,310	7,863,187	40,851,399
Unsecured commercial papers				
Fully secured	175,000,000	2,834,910,000	-	175,000,000
Unsecured	3,731,180,605	-	3,731,180,605	-
	3,906,180,605	2,834,910,000	3,731,180,605	175,000,000
Sales contract receivable				
Partially secured	15,483,919	10,101,400	5,382,519	10,101,400
	₱7,578,042,121	₱8,820,757,480	₱4,140,426,311	₱3,437,615,810

Consolidated				
2012 (As restated - Note 2)				
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	P2,440,688,405	P5,408,823,131	P-	P2,440,688,405
Partially secured	2,413,109,244	1,952,727,786	460,381,458	1,952,727,786
Unsecured	413,000,000	-	413,000,000	-
	5,266,797,649	7,361,550,917	873,381,458	4,393,416,191
Others				
Fully secured	44,868,396	81,930,579	-	44,868,396
Unsecured	8,255,183	-	8,255,183	-
	53,123,579	81,930,579	8,255,183	44,868,396
Unquoted commercial papers				
Fully secured	350,000,000	2,551,000,000	-	350,000,000
Unsecured	4,618,198,651	-	4,618,198,651	-
	4,968,198,651	2,551,000,000	4,618,198,651	350,000,000
Sales contract receivable				
Partially secured	14,167,058	9,438,400	4,728,658	9,438,400
	P10,302,286,937	P10,003,919,896	P5,504,563,950	P4,797,722,987

Parent Company				
2013				
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	P3,211,663,011	P5,895,964,770	P-	P3,211,663,011
Unsecured	396,000,000	-	396,000,000	-
	3,607,663,011	5,895,964,770	396,000,000	3,211,663,011
Others				
Fully secured	40,851,399	79,781,310	-	40,851,399
Unsecured	6,930,823	-	6,930,823	-
	47,782,222	79,781,310	6,930,823	40,851,399
Unquoted commercial papers				
Fully secured	175,000,000	2,834,910,000	-	175,000,000
Unsecured	3,157,286,064	-	3,157,286,064	-
	3,332,286,064	2,834,910,000	3,157,286,064	175,000,000
Sales contract receivable				
Partially secured	15,483,919	10,101,400	5,382,519	10,101,400
	P7,003,215,216	P8,820,757,480	P3,565,599,406	P3,437,615,810

Parent Company				
2012				
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	P2,440,688,405	P5,408,823,131	P-	P2,440,688,405
Partially secured	2,413,109,244	1,952,727,786	460,381,458	1,952,727,786
Unsecured	398,000,000	-	398,000,000	-
	5,251,797,649	7,361,550,917	858,381,458	4,393,416,191
Others				
Fully secured	44,868,396	81,930,579	-	44,868,396
Unsecured	7,387,669	-	7,387,669	-
	52,256,065	81,930,579	7,387,669	44,868,396
Unquoted commercial papers				
Fully secured	350,000,000	2,551,000,000	-	350,000,000
Unsecured	4,004,139,372	-	4,004,139,372	-
	4,354,139,372	2,551,000,000	4,004,139,372	350,000,000
Sales contract receivable				
Partially secured	14,167,058	9,438,400	4,728,658	9,438,400
	P9,672,360,144	P10,003,919,896	P4,874,637,157	P4,797,722,987

Collateral and other credit enhancements

The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and these are periodically updated following the internally approved guidelines on accepted collaterals. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Parent Company is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral, usually, is not held against investment securities and no such collateral was held as of December 31, 2013, 2012 and 2011.

It is the Group's policy to dispose foreclosed properties acquired in an orderly fashion.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentrations of credit risk by industry at the statement of financial position date is shown below:

Consolidated				
2013				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Philippine government	P1,802,219,563	P9,001,108,856	P40,152,935,539	P50,956,263,958
Financial intermediaries	3,119,826,611	2,802,350,581	5,291,302,746	11,213,479,938
Electricity, gas and water	1,753,731,217	-	4,247,420,198	6,001,151,415
Real estate, renting and business activities	1,865,497,515	-	3,117,714,211	4,983,211,726
Transportation, storage and communication	834,082	-	976,636,440	977,470,522
Manufacturing	201,376	-	1,709,329,521	1,709,530,897
Hotels and restaurants	397,582,528	-	-	397,582,528
Mining and quarrying	494,780	-	166,113,789	166,608,569
Construction	125,608,800	-	523,564,247	649,173,047
Wholesale and retail trade	-	-	50,046,019	50,046,019
Private households	59,531,965	-	-	59,531,965
Others (various industries)	60,120,129	-	348,319,644	408,439,773
	9,185,648,566	11,803,459,437	56,583,382,354	77,572,490,357
Less allowance for credit losses	288,631,773	-	-	288,631,773
	P8,897,016,793	P11,803,459,437	P56,583,382,354	P77,283,858,584

* Comprises Loans and receivables including commitments which amounted to P410,000,000.

** Comprises Cash and other cash items and Due from BSP excluding petty cash fund which amounted to P68,488.

*** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P85,243,726) and AFS investments.

Consolidated				
2012 (As restated - Note 2)				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Philippine government	P1,928,154,817	P8,500,006,030	P37,091,424,881	P47,519,585,728
Financial intermediaries	5,936,646,152	4,658,823,632	4,222,308,938	14,817,778,722
Electricity, gas and water	3,634,744,259	-	1,014,064,450	4,648,808,709
Real estate, renting and business activities	2,799,375,937	-	2,295,326,639	5,094,702,576
Transportation, storage and communication	241,800	-	437,368,382	437,610,182
Manufacturing	115,082,825	-	909,080,528	1,024,163,353
Hotels and restaurants	399,590,521	-	-	399,590,521
Mining and quarrying	-	-	838,762,370	838,762,370
Wholesale and retail trade	15,516,029	-	384,221,030	399,737,059
Private households	57,038,130	-	-	57,038,130
Construction	-	-	19,040,000	19,040,000
Others (various industries)	46,861,587	-	219,380,011	266,241,598
	14,933,252,057	13,158,829,662	47,430,977,229	75,523,058,948
Less allowance for credit losses	804,704,447	-	-	804,704,447
	P14,128,547,610	P13,158,829,662	P47,430,977,229	P74,718,354,501

* Comprises Loans and receivables including commitments which amounted to P1,624,820,000.

** Comprises Cash and other cash items and Due from BSP excluding petty cash fund which amounted to P81,358.

*** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P27,808,866), AFS investments and HTM investments.

Parent Company				
2013				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Philippine government	P1,788,767,053	P9,001,108,856	P38,044,174,570	P48,834,050,479
Financial intermediaries	2,956,752,230	662,724,811	1,333,485,849	4,952,962,890
Electricity, gas and water	1,752,093,817	-	3,319,139,409	5,071,233,226
Real estate, renting and business activities	1,407,008,355	-	1,298,541,439	2,705,549,794
Transportation, storage and communication	24,180	-	76,647,500	76,671,680
Manufacturing	83,594	-	153,128,547	153,212,141
Hotels and restaurants	397,582,528	-	-	397,582,528
Private households	51,503,772	-	-	51,503,772
Construction	-	-	59,381,774	59,381,774
Wholesale and retail trade	-	-	49,355,915	49,355,915
Others (various industries)	5,902,724	-	32,889,857	38,792,581
	8,359,718,253	9,663,833,667	44,366,744,860	62,390,296,780
Less allowance for credit losses	255,291,580	-	-	255,291,580
	P8,104,426,673	P9,663,833,667	P44,366,744,860	P62,135,005,200

* Comprises Loans and receivables including commitments which amounted to P410,000,000.
** Comprises Cash and other cash items and Due from BSP excluding petty cash fund which amounted to P50,000.
*** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P90,859,030) and AFS investments.

Parent Company				
2012				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Philippine government	P1,900,658,759	P8,500,006,030	P35,734,011,989	P46,134,676,778
Financial intermediaries	6,049,779,396	2,880,273,726	1,437,972,542	10,368,025,664
Electricity, gas and water	3,369,218,477	-	323,516,212	3,692,734,689
Real estate, renting and business activities	2,703,532,099	-	1,173,025,876	3,876,557,975
Transportation, storage and communication	241,800	-	111,929,028	112,170,828
Manufacturing	100,965,043	-	183,468,572	284,433,615
Hotels and restaurants	399,590,521	-	-	399,590,521
Mining and quarrying	-	-	358,864,830	358,864,830
Private households	52,732,736	-	-	52,732,736
Wholesale and retail trade	330,998	-	90,706,205	91,037,203
Others (various industries)	8,485,265	-	104,192,989	112,678,254
	14,585,535,094	11,380,279,756	39,517,688,243	65,483,503,093
Less allowance for credit losses	771,328,248	-	-	771,328,248
	P13,814,206,846	P11,380,279,756	P39,517,688,243	P64,712,174,845

* Comprises Loans and receivables including commitments which amounted to P2,024,820,000.
** Comprises Cash and other cash items and Due from BSP excluding petty cash fund which amounted to P60,000.
*** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P28,263,772), AFS investments and HTM investments.

The following tables show the credit quality of financial assets:

Consolidated				
2013				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P8,422,259,209	P11,803,459,437	P55,368,997,708	P75,594,716,354
Impaired	353,389,357	-	1,214,384,646	1,567,774,003
Gross	8,775,648,566	11,803,459,437	56,583,382,354	77,162,490,357
Less allowance for credit losses***	288,631,773	-	-	288,631,773
Net	P8,487,016,793	P11,803,459,437	P56,583,382,354	P76,873,858,584

* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to P68,488.
** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P85,243,726) and AFS investments.
*** Includes allowance for collective impairment.

Consolidated				
2012 (As restated - Note 2)				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P12,892,899,746	P13,158,829,662	P46,510,158,307	P72,561,887,715
Impaired	415,532,311	-	920,818,922	1,336,351,233
Gross	13,308,432,057	13,158,829,662	47,430,977,229	73,898,238,948
Less allowance for credit losses***	804,704,447	-	-	804,704,447
Net	P12,503,727,610	P13,158,829,662	P47,430,977,229	P73,093,534,501

* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to P81,358.

** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P27,808,866), AFS investments and HTM investments.

*** Includes allowance for collective impairment.

Parent Company				
2013				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P7,629,713,820	P9,663,833,667	P43,152,360,214	P60,445,907,701
Impaired	320,004,433	-	1,214,384,646	1,534,389,079
Gross	7,949,718,253	9,663,833,667	44,366,744,860	61,980,296,780
Less allowance for credit losses***	255,291,580	-	-	255,291,580
Net	P7,694,426,673	P9,663,833,667	P44,366,744,860	P61,725,005,200

* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to P50,000.

** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P90,859,030) and AFS investments.

*** Includes allowance for collective impairment.

Parent Company				
2012				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P12,182,005,678	P11,380,279,756	P38,596,869,321	P62,159,154,755
Impaired	378,709,416	-	920,818,922	1,299,528,338
Gross	12,560,715,094	11,380,279,756	39,517,688,243	63,458,683,093
Less allowance for credit losses***	771,328,248	-	-	771,328,248
Net	P11,789,386,846	P11,380,279,756	P39,517,688,243	P62,687,354,845

* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to P60,000.

** Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to P28,263,772) AFS investments and HTM investments.

*** Includes allowance for collective impairment.

The table below shows the credit quality per class of financial assets based on the Group's rating system, gross of allowance for credit losses:

Consolidated						
December 31, 2013						
	Neither past due nor impaired					Total
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	
Loans and advances to banks						
Due from BSP	P9,001,108,856	P-	P-	P-	P-	P9,001,108,856
Cash and other cash items*	2,418,696,541	17,830,687	-	365,823,353	-	2,802,350,581
	11,419,805,397	17,830,687	-	365,823,353	-	11,803,459,437
Financial assets at FVPL						
Government debt securities	8,687,815,115	-	-	-	-	8,687,815,115
Private debt securities	400,328,140	220,025,337	-	-	-	620,353,477
Equity securities	5,001,736,256	4,630,879,927	12,307,768	-	-	9,644,923,951
	14,089,879,511	4,850,905,264	12,307,768	-	-	18,953,092,543

(Forward)

Consolidated						
December 31, 2013						
Neither past due nor impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
AFS investments						
Government debt securities	P26,621,746,825	P4,843,373,597	P-	P-	P-	P31,465,120,422
Private debt securities	428,533,225	143,883,002	-	-	-	572,416,227
Equity securities						
Quoted	16,000	881,053,279	-	60,000,000	1,214,384,646	2,155,453,925
Unquoted	-	3,275,997,552	147,949,700	8,995,900	-	3,432,942,552
Mutual Funds	-	-	-	4,356,685	-	4,356,685
	27,050,296,050	9,144,307,430	147,949,700	73,351,985	1,214,384,646	37,630,289,811
Loans and receivables						
Loans and discounts						
Corporate lending	-	3,686,183,069	-	-	-	3,686,183,069
Others	-	-	-	48,714,586	-	48,714,586
	-	3,686,183,069	-	48,714,586	-	3,734,897,655
Unquoted commercial papers	1,837,947,694	1,925,000,000	-	-	275,000,000	4,037,947,694
Dividends receivable	1,747,958	185,517,857	-	125,312	-	187,391,127
Accrued interest receivable	379,280,397	78,541,108	-	-	-	457,821,505
Accounts receivable	31,065,240	92,424,993	11,394,602	128,151,231	78,389,357	341,425,423
Sales contract receivable	-	-	-	15,483,919	-	15,483,919
Other receivables	-	-	-	681,243	-	681,243
	2,250,041,289	5,967,667,027	11,394,602	193,156,291	353,389,357	8,775,648,566
	P54,810,022,247	P19,980,710,408	P171,652,070	P632,331,629	P1,567,774,003	P77,162,490,357

* Excludes petty cash fund amounting to P68,488.

Consolidated						
December 31, 2012 (As restated - Note 2)						
Neither past due nor impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	P-	P8,500,006,030	P-	P-	P-	P8,500,006,030
Cash and other cash items*	863	4,258,782,769	400,040,000	-	-	4,658,823,632
	863	12,758,788,799	400,040,000	-	-	13,158,829,662
Financial assets at FVPL						
Government debt securities	-	6,937,747,045	-	-	-	6,937,747,045
Private debt securities	-	29,000,000	-	-	-	29,000,000
Equity securities	3,032,809,666	4,536,252,673	563,248,805	1,325	-	8,132,312,469
	3,032,809,666	11,502,999,718	563,248,805	1,325	-	15,099,059,514
AFS investments						
Government debt securities	-	13,818,814,830	-	-	-	13,818,814,830
Private debt securities	338,806,000	-	-	-	-	338,806,000
Equity securities						
Quoted	16,000	622,437,621	-	82,200,000	920,818,922	1,625,472,543
Unquoted	17,411,074	-	51,285,395	141,005,202	-	209,701,671
Mutual funds	-	-	-	4,259,665	-	4,259,665
	356,233,074	14,441,252,451	51,285,395	227,464,867	920,818,922	15,997,054,709
HTM investments						
Government debt securities	-	16,334,863,006	-	-	-	16,334,863,006
	-	16,334,863,006	-	-	-	16,334,863,006
Loans and receivables						
Loans and discounts						
Corporate lending	-	5,530,047,204	45,287,785	-	-	5,575,334,989
Others	-	-	-	53,123,579	-	53,123,579
	-	5,530,047,204	45,287,785	53,123,579	-	5,628,458,568
Unquoted commercial papers	3,718,625,056	1,333,655,087	-	-	331,250,000	5,383,530,143
Dividends receivable	131,398	1,415,695,829	-	782,553	-	1,416,609,780
Accrued interest receivable	506,155,091	149,563,013	1,133,950	-	3,393,750	660,245,804
Accounts receivable	-	36,389,203	10,000	79,265,693	80,888,561	196,553,457
Sales contract receivable	-	-	-	14,167,058	-	14,167,058
Others	-	-	-	8,867,247	-	8,867,247
	4,224,911,545	8,465,350,336	46,431,735	156,206,130	415,532,311	13,308,432,057
	P7,613,955,148	P63,503,254,310	P1,061,005,935	P383,672,322	P1,336,351,233	P73,898,238,948

* Excludes petty cash fund amounting to P81,358.

Parent Company						
December 31, 2013						
Neither past due nor impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	P9,001,108,856	P-	P-	P-	P-	P9,001,108,856
Cash and other cash items*	505,815,893	207,243	-	156,701,675	-	662,724,811
	9,506,924,749	207,243	-	156,701,675	-	9,663,833,667
Financial assets at FVPL						
Government debt securities	7,124,546,063	-	-	-	-	7,124,546,063
Private debt securities	-	849,993	-	-	-	849,993
Equity securities	360,412,364	480,403,465	-	-	-	840,815,829
	7,484,958,427	481,253,458	-	-	-	7,966,211,885
AFS investments						
Government debt securities	26,076,254,910	4,843,373,597	-	-	-	30,919,628,507
Private debt securities	10,681,116	-	-	-	-	10,681,116
Equity securities						
Quoted	-	823,586,258	-	-	1,214,384,646	2,037,970,904
Unquoted	-	3,275,997,551	147,259,597	8,995,300	-	3,432,252,448
	26,086,936,026	8,942,957,406	147,259,597	8,995,300	1,214,384,646	36,400,532,975
Loans and receivables						
Loans and discounts						
Corporate lending	-	3,686,183,069	-	-	-	3,686,183,069
Others	-	-	-	47,782,222	-	47,782,222
	-	3,686,183,069	-	47,782,222	-	3,733,965,291
Unquoted commercial papers	1,853,941,987	1,335,111,166	-	-	275,000,000	3,464,053,153
Dividends receivable	122,304	182,720,381	-	2,467	-	182,845,152
Accrued interest receivable	342,042,709	87,674,632	-	-	-	429,717,341
Accounts receivable	35,157	39,164,091	11,394,602	27,593,823	45,004,433	123,192,106
Sales contract receivable	-	-	-	15,483,919	-	15,483,919
Others	-	-	-	461,291	-	461,291
	2,196,142,157	5,330,853,339	11,394,602	91,323,722	320,004,433	7,949,718,253
	P45,274,961,359	P14,755,271,446	P158,654,199	P257,020,697	P1,534,389,079	P61,980,296,780

* Excludes petty cash fund amounting to P50,000.

Parent Company						
December 31, 2012						
Neither past due nor impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	P-	P8,500,006,030	P-	P-	P-	P8,500,006,030
Cash and other cash items*	863	2,480,232,863	400,040,000	-	-	2,880,273,726
	863	10,980,238,893	400,040,000	-	-	11,380,279,756
Financial assets at FVPL						
Government debt securities	-	6,937,747,045	-	-	-	6,937,747,045
Equity securities	410,547,928	1,038,020,801	279,888,018	-	-	1,728,456,747
	410,547,928	7,975,767,846	279,888,018	-	-	8,666,203,792
AFS investments						
Government debt securities	-	12,461,401,937	-	-	-	12,461,401,937
Private debt securities	338,806,000	-	-	-	-	338,806,000
Equity securities						
Quoted	-	586,583,019	-	-	920,818,922	1,507,401,941
Unquoted	17,411,074	-	50,595,291	141,005,202	-	209,011,567
	356,217,074	13,047,984,956	50,595,291	141,005,202	920,818,922	14,516,621,445
HTM investments						
Government debt securities	-	16,334,863,006	-	-	-	16,334,863,006
	-	16,334,863,006	-	-	-	16,334,863,006
Loans and receivables						
Loans and discounts						
Corporate lending	P-	P5,530,047,204	P30,287,785	P-	P-	P5,560,334,989
Others	-	-	-	52,256,065	-	52,256,065
	-	5,530,047,204	30,287,785	52,256,065	-	5,612,591,054
Unquoted commercial papers	3,427,776,119	1,010,444,745	-	-	331,250,000	4,769,470,864
Dividends receivable	-	1,415,535,315	-	-	-	1,415,535,315
Accrued interest receivable	475,167,881	144,190,354	948,919	-	3,393,750	623,700,904
Accounts receivable	-	40,441,592	10,000	40,444,219	44,065,665	124,961,476
Sales contract receivable	-	-	-	14,167,058	-	14,167,058
Others	-	-	-	288,423	-	288,423
	3,902,944,000	8,140,659,210	31,246,704	107,155,765	378,709,415	12,560,715,094
	P4,669,709,865	P56,479,513,911	P761,770,013	P248,160,967	P1,299,528,337	P63,458,683,093

* Excludes petty cash fund amounting to P60,000.

Impaired loans and receivables - are loans and receivables 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 security agreements. These loans are graded 8, 9 and 10 in the Group's ICRRS if provided with allowance.

Past due but not impaired loans and receivables - are loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate based on the cash flows of the available collateral or status of collection of the amounts due to the Group.

As of December 31, 2013 and 2012, the Group and the Parent Company has no outstanding past due but not impaired loans and receivables.

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

Liquidity management is among the most important activities conducted within the Parent Company. The Parent Company manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

For liquidity risk, the Parent Company uses the Maximum Cumulative Outflow (MCO or Liquidity Gap) analysis in analyzing its funding requirements. The report is prepared once a month and forwarded to the SMC and the RTU. The assumptions employed in the preparation of this report are approved by the BOD. These assumptions are reviewed and updated, as necessary, by the Senior Management through the Risk Management Division and Treasury Group. In addition, the Parent Company develops a Liquidity and Contingency funding plan to serve as reference in case of an occurrence of an event. This plan is also approved by the BOD.

The Parent Company's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The Treasury Group uses liquidity forecast models that estimate the Parent Company's cash flow needs based on the Parent Company's actual contractual obligations and under normal and extraordinary circumstances. Based on the behavioral pattern of the deposit substitute accounts, which has been observed to have a "core deposit" level of about 80.0% to 90.0%, liquidity forecast and/or plans for its use, are determined like earmarking for future loans and for other investment outlets. The plans and strategies in the liquidity risk management are contained in the Board-approved Liquidity Risk Management and Contingency Funding Plan.

Liquidity is monitored by the Parent Company on a daily basis and further analyzed at predetermined scenarios/situations.

The table below shows the maturity profile of the financial instruments, based on contractual undiscounted cash flows:

	Consolidated								Total
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	December 31, 2013 More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	
Financial Assets									
Loans and advances									
Cash and other cash items	P=774,620,218	P=2,028,013,401							P=2,802,633,619
Due from BSP	6,401,108,856	2,600,462,222							9,001,571,078
	7,175,729,074	4,628,475,623							11,804,204,697
Loans and receivables									
Loans and discounts									
Corporate lending									
Others									
	-	201,916,996	58,686,374	115,175,992	205,881,251	413,565,335	1,716,245,120	2,459,098,101	5,170,569,169
	-	896,137	1,735,044	2,675,115	5,135,090	8,928,688	14,747,296	39,489,820	73,607,170
	-	202,813,133	60,421,418	117,851,107	211,016,341	422,494,003	1,730,982,416	2,498,587,921	5,244,176,339
Unquoted commercial papers									
Accrued interest receivable									
Accounts receivable									
Sales contract receivable									
Dividends receivable									
Other receivables									
	5,191,127	681,243	-	182,200,000	1,964,366	3,928,731	8,545,160	5,359,208	21,761,831
	-	-	-	-	-	-	-	-	187,391,127
	5,191,127	676,583,828	247,847,822	475,889,118	1,682,138,804	858,197,160	3,001,640,377	3,249,639,286	10,197,127,522
Financial assets at FVPL									
Government debt securities									
Private debt securities									
Equity securities									
	-	516,430,291	14,271,866	230,859,472	340,581,285	395,613,714	1,166,713,484	11,326,970,683	13,991,440,775
	-	3,539,660	4,039,461	6,629,372	13,351,862	26,703,724	118,938,274	660,759,624	833,961,977
	-	9,644,923,951	-	-	-	-	-	-	9,644,923,951
AFS Investments									
Government debt securities									
Private debt securities									
Quoted equity investments									
Unquoted equity investments									
	-	20,998,052	61,625,344	373,061,313	555,415,576	2,454,154,003	9,660,497,665	24,375,041,942	37,700,793,895
	-	1,229,106	5,071,064	5,459,435	13,975,947	36,775,274	68,562,803	635,366,124	766,439,753
	-	-	-	-	-	-	-	-	2,159,810,610
	-	-	-	-	-	-	-	-	3,432,942,552
	-	10,187,121,060	85,007,735	616,009,592	923,324,670	2,913,246,715	11,214,712,206	42,590,891,535	68,530,313,513
	P=7,180,920,201	P=15,492,180,511	P=332,855,557	P=1,091,898,710	P=2,605,463,474	P=3,771,443,875	P=14,216,352,583	P=45,840,530,821	P=90,531,643,732

	Consolidated								
	December 31, 2013								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Liabilities									
Bills payable	P-	P15,742,757,175	P17,630,331,744	P4,180,530,241	P2,288,536,023	P-	P-	P-	P89,842,155,183
Bonds payable		69,569,444	83,248,041	136,250,000	263,581,374	527,162,748	9,666,235,663	3,066,130,795	13,811,178,065
Accrued interest and other expenses		175,275,594	137,749,991	12,736,168	6,949,758	-	-	-	332,711,511
Accounts payable		-	568,694,611	-	-	-	-	-	568,694,611
Other liabilities		88,600,950	-	-	-	-	-	-	88,600,950
Puttable non-controlling interests		16,076,203,163	18,420,024,387	4,328,516,409	2,559,067,155	527,162,748	9,666,235,663	3,066,130,795	54,643,340,320
		P10,612,415,716	P18,420,024,387	P4,328,516,409	P2,559,067,155	P527,162,748	P9,666,235,663	P3,066,130,795	10,612,415,716
		P10,612,415,716	P18,420,024,387	P4,328,516,409	P2,559,067,155	P527,162,748	P9,666,235,663	P3,066,130,795	P65,255,756,036
Commitments		P-	P-	P-	P-	P-	P-	P-	P814,411,120

	Consolidated								
	December 31, 2012 (As restated - Note 2)								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	P842,922,341	P3,688,636,587	P135,629,289	P-	P-	P-	P-	P-	P4,667,188,217
Due from BSP	8,000,006,030	501,066,406	-	-	-	-	-	-	8,501,072,436
	8,842,928,371	4,189,702,993	135,629,289	-	-	-	-	-	13,168,260,653
Loans and receivables									
Corporate lending									
Others	37,141	1,624,499	80,981,281	63,550,125	329,061,946	2,112,757,058	1,829,815,560	3,592,793,672	8,010,621,282
	-	1,227,996	2,448,858	3,662,911	6,867,029	12,528,470	31,123,698	33,965,466	91,824,628
Unquoted commercial papers									
Accrued interest receivable		2,852,495	83,430,139	67,213,036	335,928,975	2,125,285,528	1,860,939,458	3,626,759,138	8,102,445,910
Accounts receivable	185,031	101,891,788	147,039,463	461,006,822	1,688,602,141	3,944,389,057	5,619,198,446	4,505,518,591	15,867,646,308
Sales contract receivable		351,109,056	252,247,287	56,704,430	-	-	-	-	660,245,804
Dividends receivable		223,300	446,601	669,901	1,339,802	3,107,505	8,038,812	8,038,812	119,111,592
Other receivables	624,163	161,294,239	1,254,751,378	-	-	-	-	-	21,864,733
	-	8,867,247	8,867,247	-	-	-	-	-	1,416,609,780
	846,335	736,422,470	1,746,782,115	585,594,189	2,025,870,918	5,472,782,090	7,488,176,716	8,140,316,541	26,196,791,374
Financial assets at FVP									
Government debt securities		1,642,053	175,755,590	270,380,993	223,933,848	63,579,225	189,032,292	6,920,169,232	7,844,493,233
Private debt securities		61,867	116,000	348,000	696,000	1,392,000	4,176,000	31,320,000	38,109,867
Equity securities		8,132,312,469	-	-	-	-	-	-	8,132,312,469

(Forward)

Consolidated

	December 31, 2012 (As restated - Note 2)								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
AFS investments									
Government debt securities	P-	P26,462,671	P20,979,652	P604,771,852	P319,490,581	P642,981,161	P2,208,786,222	P21,442,433,203	P25,265,905,342
Private debt securities	-	-	4,339,323	7,232,205	340,239,410	-	-	-	351,810,938
Quoted equity investments	-	-	-	-	-	-	-	1,629,732,208	1,629,732,208
Unquoted equity investments	-	-	-	-	-	-	-	209,701,671	209,701,671
HTM investments									
Government debt securities	-	22,104,676	38,818,080	209,201,802	517,569,559	1,035,139,119	6,496,917,357	21,941,420,856	30,261,171,449
	-	8,182,583,736	240,008,645	1,091,934,852	1,401,929,398	1,743,091,505	8,895,911,871	52,174,777,170	73,733,237,177
	P8,843,774,706	P13,108,709,199	P2,122,420,049	P1,677,529,041	P3,427,800,316	P7,215,873,595	P16,387,088,587	P60,315,093,711	P113,098,289,204
Financial Liabilities									
Bills payable	P-	P37,809,763,767	P9,317,134,536	P3,465,321,944	P186,088,062	P2,683,477,266	P-	P-	P53,461,785,575
Bonds payable	-	-	78,378,689	155,600,219	155,600,219	622,400,876	6,695,309,502	7,293,579,550	15,000,869,055
Accrued interest and other expenses	-	248,220,657	92,879,455	21,780,902	866,057	23,654,930	-	-	387,402,001
Accounts payable	-	-	-	-	-	-	-	-	407,943,625
Other liabilities	-	15,392,092	78,834,090	-	-	-	-	-	94,226,182
Puttable non-controlling interests	-	38,073,376,516	9,975,170,395	3,642,703,065	342,554,338	3,329,533,072	6,695,309,502	7,293,579,550	69,352,226,438
	6,815,662,801	-	-	-	-	-	-	-	6,815,662,801
	P6,815,662,801	P38,073,376,516	P9,975,170,395	P3,642,703,065	P342,554,338	P3,329,533,072	P6,695,309,502	P7,293,579,550	P76,167,889,239
Commitments	P1,385,010,018	P-	P1,200,000,000	P-	P-	P-	P-	P-	P2,585,010,018

Parent Company

	December 31, 2013								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances	P464,320,544	P198,519,017	P-	P-	P-	P-	P-	P-	P662,839,561
Cash and other cash items	6,401,108,856	2,600,462,222	-	-	-	-	-	-	9,001,571,078
Due from BSP	6,865,429,400	2,798,981,239	-	-	-	-	-	-	9,664,410,639
Loans and receivables									
Loans and discounts	-	201,916,996	58,686,374	115,175,992	205,881,251	413,565,335	1,716,245,120	2,459,098,101	5,170,568,189
Corporate lending	-	787,750	1,567,291	2,350,045	4,866,749	8,769,504	14,528,995	39,489,820	72,159,154
Others	-	202,704,746	60,263,665	117,526,037	210,647,000	422,334,839	1,730,774,115	2,498,587,921	5,242,728,323
Unquoted commercial papers	-	4,751,158	41,741,587	55,782,156	1,455,525,795	410,929,826	1,248,933,251	745,692,157	3,983,355,930
Accrued interest receivable	-	182,514,881	137,536,720	108,455,738	1,210,002	-	-	-	429,717,341

(Forward)

	Parent Company							Total
	December 31, 2013	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	
Loans and receivables								
Accounts receivable	P-	P78,187,673	P-	P-	P-	P-	P-	P78,187,673
Sales contract receivable	-	327,394	982,183	1,964,366	3,928,731	8,545,160	5,359,208	21,761,831
Dividends receivable	645,152	-	182,200,000	-	-	-	-	182,845,152
Other receivables	-	461,291	-	-	-	-	-	461,291
		468,947,143	464,946,114	1,669,247,163	837,193,396	2,988,252,526	3,249,639,286	9,919,057,541
Financial assets at FVPL								
Government debt securities	-	513,230,291	197,508,420	303,179,180	320,809,504	942,300,834	8,921,234,900	11,211,689,943
Private debt securities	-	856,630	-	-	-	-	-	856,630
Equity securities	-	840,815,829	-	-	-	-	-	840,815,829
AFS Investments								
Government debt securities	-	12,973,522	371,323,942	540,595,088	2,428,901,158	9,503,077,578	24,055,930,140	36,973,318,183
Private debt securities	-	4,602	95,664	2,440,300	380,599	1,141,798	8,736,745	12,923,401
Quoted equity investments	-	-	-	-	-	-	2,037,970,904	2,037,970,904
Unquoted equity investments	-	-	-	-	-	-	3,432,252,448	3,432,252,448
		1,367,024,244	566,928,026	846,214,568	2,750,091,261	10,446,520,210	38,456,125,137	54,509,821,338
		P4,634,952,626	P1,033,874,140	P2,515,461,731	P3,587,284,657	P13,434,772,736	P41,705,764,423	P74,083,289,518
Financial Liabilities								
Bills payable	P-	P15,742,757,175	P4,180,530,241	P2,288,536,023	P-	P-	P-	P39,842,155,183
Bonds payable	-	69,569,444	135,250,000	270,500,000	541,000,000	9,982,583,333	3,080,500,000	14,169,589,444
Accrued interest and other expenses	-	175,275,594	12,736,168	6,949,758	-	-	-	300,565,081
Accounts payable	-	-	19,365,582	-	-	-	-	19,365,582
Other liabilities	-	48,775,175	-	-	-	-	-	48,775,175
	P-	P16,036,377,388	P4,328,516,409	P2,565,985,781	P541,000,000	P9,982,583,333	P3,080,500,000	P54,380,430,465
		P17,945,467,554	P4,328,516,409	P2,565,985,781	P541,000,000	P9,982,583,333	P3,080,500,000	P54,380,430,465
Commitments								
		P814,411,120	P-	P-	P-	P-	P-	P814,411,120

	Parent Company										Total	
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years				
Financial Assets												
Loans and advances	P721,894,997	P2,158,438,729		63,367,105	314,061,946	2,112,757,058	1,829,815,560	3,592,793,672		P-	P-	P2,880,333,726
Cash and other cash items	8,000,006,030	501,066,406		3,551,778	6,651,807	12,170,674	30,857,866	33,965,466				8,501,072,436
Due from BSP	8,721,901,027	2,659,505,135										11,381,406,162
Loans and receivables												
Loans and discounts	37,141	1,624,499	80,800,272	66,918,883	320,713,753	2,124,927,732	1,860,673,426	3,626,759,138				8,086,020,565
Corporate lending	-	1,190,852	2,374,769	84,033,692	934,690,546	1,833,184,957	1,743,814,326	810,272,365				5,529,527,558
Others	-	2,815,451	83,175,041	66,918,883	320,713,753	2,124,927,732	1,860,673,426	3,626,759,138				623,700,904
Unquoted commercial papers	-	70,157,788	53,373,884	84,033,692	934,690,546	1,833,184,957	1,743,814,326	810,272,365				80,895,810
Accrued interest receivable	-	316,498,665	250,653,768	56,548,471	-	-	-	-				21,864,733
Accounts receivable	80,895,810	-	-	-	-	-	-	-				1,415,535,315
Sales contract receivable	-	223,300	446,601	669,901	1,339,802	3,107,505	8,038,812	-				288,423
Dividends receivable	624,163	160,454,153	1,254,456,999	-	-	-	-	-				
Other receivables	-	-	288,423	-	-	-	-	-				
	81,557,114	550,149,357	1,642,394,716	208,170,947	1,256,744,101	3,961,220,194	3,612,526,564	4,445,070,315				15,757,833,308
Financial assets at FVPL												
Government debt securities	-	1,642,053	175,755,590	270,380,993	223,933,848	63,579,225	189,032,292	6,920,169,232				7,844,493,233
Equity securities	-	1,728,456,747	-	-	-	-	-	-				1,728,456,747
AFS investments												
Government debt securities	-	23,317,507	20,102,890	587,565,491	285,279,926	570,559,852	1,998,592,642	19,378,636,170				22,864,054,478
Private debt securities	-	-	4,339,323	7,232,205	340,239,410	-	-	-				351,810,938
Quoted equity investments	-	-	-	-	-	-	-	-				1,507,401,941
Unquoted equity investments	-	-	-	-	-	-	-	209,011,567				209,011,567
HTM investments												
Government debt securities	-	22,104,676	38,818,080	209,201,802	517,569,559	1,035,139,119	6,496,917,357	21,941,420,856				30,261,171,449
	-	1,775,520,983	299,015,883	1,074,380,491	1,367,022,743	1,669,278,196	8,684,542,291	49,956,639,766				64,766,400,353
	P8,803,458,141	P4,985,175,475	P1,881,410,599	P1,282,551,438	P2,623,766,844	P5,630,498,390	P12,297,068,855	P54,401,710,081				P91,905,639,823

Parent Company									
December 31, 2012									
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Liabilities									
Financial liabilities at amortized cost									
Bills payable	P-	P37,809,763,767	P9,317,134,536	P3,465,321,944	P186,088,062	P2,683,477,266	P-	P-	P53,461,785,575
Bonds payable	-	-	78,990,323	156,835,016	156,835,016	627,340,064	6,749,678,397	7,364,868,250	15,134,547,066
Accrued interest and other expenses	-	232,026,567	93,501,678	21,780,902	866,057	23,654,930	-	-	371,830,134
Accounts payable	-	-	33,955,778	-	-	-	-	-	33,955,778
Other liabilities	-	408,543	99,751,833	-	-	9,375,000	-	-	109,535,376
	P-	P38,042,198,877	P9,623,334,148	P3,643,937,862	P843,789,135	P3,343,847,260	P6,749,678,397	P7,364,868,250	P69,111,653,929
Commitments									
	P1,785,010,018	P-	P1,200,000,000	P-	P-	P-	P-	P-	P2,985,010,018

Financial assets

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

Financial liabilities

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

Market Risk

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 Parent Company's market risk originates from its holdings of debt securities and equities.

The Parent Company manages market risk by segregating its statement of financial position into a trading book and a banking book. The management of this portfolio is assigned to the SMC, chaired by the President.

The RMD serves under the ROC and performs daily market risk analyses to ensure compliance with the company's policies and procedures. The methodologies used in managing the risk include the daily marking-to-market, monitoring of loss alerts and stop loss limits, profit alert and start sell limits, nominal position limits as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits. Monitoring also includes sensitivity analysis/stress testing and backtesting of the VaR. The VaR and backtesting risk management tools for fixed income has been enhanced starting January 2011 with the full operation of RiskMark, whose VaR methodology was independently validated by SyCip Gorres Velayo & Co. The Parent Company is also calculating VaR for its equity risk through the Bloomberg facility and the foreign currency denominated securities through excel-spread sheets.

The VaR methodology prescribes the use of historical data set with a minimum sample size of 260.0 trading days of most recently observed daily percentage changes in price (a one-year "rolling window"). The VaR amount is equal to that percentile associated with the specified level of confidence set at 99.0%.

The summary of the interest rate and equity VaR arising from PHP and foreign currency denominated bonds and equity trading portfolio follows:

	2013			2012	
	Interest Rate	Equity	Interest Rate (ODB/ROP)	Interest Rate	Equity
Year-end	₱115,396,803	₱31,833,262	\$-	₱23,342,325	₱37,402,354
High	182,039,347	121,244,784	1,070,018	216,575,472	49,499,834
Low	9,603,074	27,622,062	283	1,616,196	18,402,433
Average	65,861,621	45,630,318	135,285	34,548,720	36,312,759

Stress testing on the portfolio is also done on a daily basis to complement the VaR methodology. The stress testing results are reported to the President and Treasurer as well as to the Controller and the CRO and subsequently to the ROC and the BOD.

Guiding daily monitoring activities are limits structures that are based on annual targets set during budget hearings, approved by the ROC and the BOD. Monitoring reports are discussed in the ROC monthly meetings.

Interest rate risk

The Group follows a prudent policy in managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Majority of the Parent Company's loan portfolio have no repricing rate arrangements. The determination of the applicable rates is sourced from the Parent Company's approved lending rates. Lending rates are determined based on funding cost plus certain spreads. As of December 31, 2013, 2012 and 2011, nil, 7.1% and 8.3% of the total loans and discounts were subject to periodic interest repricing, respectively, for the Group, and nil, 6.9% and 6.5%, respectively, for the Parent Company. The remaining loans earned fixed annual interest rates.

Another interest rate risk area where the Parent Company has exposures is on the effect of future changes in the prevailing level of interest rates on its fixed and floating interest rate-financial assets and liabilities. It has identified the financial assets and liabilities that are to mature or to reprice in the future and monitors its effect on the statement of income and equity.

The tables below demonstrate the sensitivity to a reasonable possible change in interest rates with all other variables held constant, of the Group's net income before tax (through the impact on interest on floating rate instruments and financial debt assets at FVPL) and the Group's equity (through the impact on unrealized gain/loss on AFS fixed rate debt securities).

Consolidated							
December 31, 2013							
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity				Total
			0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Currency PhP	+10	(P98,631,292)	P-	(P3,738)	(P22,505,976)	(P152,323,442)	(P174,833,156)
Currency PhP	-10	100,392,687	-	4,401	22,379,521	153,846,740	176,230,662
Consolidated							
December 31, 2012 (As restated - Note 2)							
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity				Total
			0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Currency PhP	+10	(P61,504,991)	(P205,015)	(P 6,679)	(P850,486)	(P163,483,211)	(P164,545,391)
Currency PhP	-10	62,269,529	142,542	7,428	808,118	166,377,954	167,336,042
Parent Company							
December 31, 2013							
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity				Total
			0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Currency PhP	+10	(P74,517,872)	P-	(P1,121)	(P21,776,526)	(P145,858,534)	(P167,636,181)
Currency PhP	-10	75,643,508	-	1,123	21,855,546	147,090,875	168,947,544
Parent Company							
December 31, 2012							
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity				Total
			0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Currency PhP	+10	(P61,343,105)	(P205,015)	P-	(P759,871)	(P147,840,265)	(P148,805,151)
Currency PhP	-10	62,106,510	142,542	-	704,545	150,434,690	151,281,777

The impact on the Company's equity already excludes the impact on transactions affecting the statement of income. The sensitivity to predetermined basis points of 50.0 is considered stressful enough for this purpose.

Foreign exchange risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes an exposure to effects on the fluctuations in the prevailing foreign currency exchange rates on its cash flows.

The tables below summarize the Group and the Parent Company's exposure to foreign currency risk as of December 31, 2013 and 2012:

	Consolidated		
	2013		
	US Dollar	Euro	HK Dollar
Financial assets			
Loans and advances			
Cash and other cash items	US\$4,139,496	€138,323	HK\$34,300
Loans and receivable	-	-	-
Accrued interest receivable	256,806	9,874	-
Dividends receivable	-	-	8,890
Financial assets at FVPL			
Government securities	-	-	-
AFS investments			
Government securities	115,332,000	1,766,300	-
Equity securities	-	-	873,888
	US\$119,728,302	€1,914,497	HK\$917,078
Financial liabilities			
Bills payable	US\$105,734,020	€1,700,000	HK\$-
Accrued interest payable	236,998	€344	-
	US\$105,971,018	€1,700,344	HK\$-
Net assets in foreign currency	US\$13,757,284	€214,153	HK\$917,078

	Consolidated		
	2012		
	US Dollar	Euro	HK Dollar
Financial assets			
Loans and advances			
Cash and other cash items	US\$4,211,765	€143,563	HK\$3,022,067
Loans and receivable			
Accrued interest receivable	504,825	23,725	-
Dividends receivable	-	-	9,800
Financial assets at FVPL			
Government securities	129,388,765	-	-
AFS investments			
Government securities	13,724,583	4,999,500	800,100
Equity securities	-	-	-
	US\$147,829,938	€5,166,788	HK\$3,831,967
Financial liabilities			
Bills payable	US\$144,957,181	€5,000,000	HK\$-
Accrued interest payable	111,881	3,363	-
	US\$145,069,062	€5,003,363	HK\$-
Net assets in foreign currency	US\$2,760,876	€163,425	HK\$3,831,967

	Parent Company		
	2013		
	US Dollar	Euro	HK Dollar
Financial assets			
Loans and advances			
Cash and other cash items	US\$3,751,585	€138,323	HK\$-
Loans and receivable			
Accrued interest receivable	256,786	9,874	-
Financial assets at FVPL			
Government securities	-	-	-
AFS investments			
Government securities	115,322,000	1,766,300	-
Equity securities	-	-	-
	US\$119,330,371	€1,914,497	HK\$-
Financial liabilities			
Bills payable	105,734,020	1,700,000	-
Accrued interest payable	236,998	344	-
	US\$105,971,018	€1,700,344	HK\$-
Net assets in foreign currency	US\$13,359,353	€214,153	HK\$-

	Parent Company		
	2012		
	US Dollar	Euro	HK Dollar
Financial assets			
Loans and advances			
Cash and other cash items	US\$4,211,765	€143,563	HK\$-
Loans and receivable			
Accrued interest receivable	504,825	23,725	-
Financial assets at FVPL			
Government securities	129,388,765	-	-
AFS investments			
Government securities	13,724,583	4,999,500	-
Equity securities	-	-	-
	US\$147,829,938	€5,166,788	HK\$-
Financial liabilities			
Bills payable	US\$144,957,181	€5,000,000	HK\$-
Accrued interest payable	111,881	3,363	-
	US\$145,069,062	€5,003,363	HK\$-
Net assets in foreign currency	US\$2,760,876	€163,425	HK\$-

The exchange rates used to convert the Group's US Dollar-denominated assets and liabilities into Philippine Peso follow:

	December 31, 2013		
	US Dollar-Philippine Peso	Euro- Philippine Peso	HKD- Philippine Peso
Exchange rate	₱44.4 to US\$1.0	₱61.1 to €1.0	₱5.7 to HK\$1.0

	December 31, 2012		
	US Dollar-Philippine Peso	Euro- Philippine Peso	HKD- Philippine Peso
Exchange rate	₱41.1 to US\$1.0	₱54.2 to €1.0	₱5.3 to HK\$1.00

The following tables set forth the impact of the range of reasonable possible changes in the US Dollar-Philippine Peso exchange rate and Euro-Philippine Peso exchange rate on the Group's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2013 and 2012 before and after taking into account the effect of the forward contract entered by the Group to hedge its foreign currency risk in US Dollar borrowings:

Reasonable Possible Change	Consolidated	
	2013	
	Change in Income Before Income Tax	Change in Equity
US Dollar		
1.0%	₱6,107,546	₱-
(1.0%)	(6,107,546)	-
Euro		
1.0%	130,868	-
(1.0%)	(130,868)	-
HK Dollar		
1.0%	52,509	50,036
(1.0%)	(52,509)	(50,036)

		Consolidated	
		2012	
Reasonable Possible Change		Change in Income Before Income Tax	Change in Equity
US Dollar			
	1.0%	P1,293,910	P42,375
	(1.0%)	(1,293,910)	(42,375)
Euro			
	1.0%	88,534	–
	(1.0%)	(88,534)	–
HK Dollar			
	1.0%	160,592	42,380
	(1.0%)	(160,592)	(42,380)
		Parent Company	
		2013	
Reasonable Possible Change		Change in Income Before Income Tax	Change in Equity
US Dollar			
	1.0%	P5,930,885	P–
	(1.0%)	(5,930,885)	–
Euro			
	1.0%	130,868	–
	(1.0%)	(130,868)	–
		Parent Company	
		2012	
Reasonable Possible Change		Change in Income Before Income Tax	Change in Equity
US Dollar			
	1.0%	P1,132,516	P–
	(1.0%)	1,132,516	–
Euro			
	1.0%	88,534	–
	(1.0%)	(88,534)	–

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposures arise from the Parent Company's investment portfolio and a few golf shares.

The Parent Company's policies and procedures as well as risk limit structures on its equity investment portfolio are approved by the ROC and BOD. Management's strategies and plans are discussed in the regular Incom meetings. The committee is headed by the President and the members include the Treasurer and the investment managers.

The following tables set forth, for the period indicated, the impact of a reasonable possible change in the PSE index (PSEi), with all other factors being held constant, on the Group's and the Parent Company's unrealized gain or loss on held for trading securities:

	Consolidated			
	2013		2012 (As restated - Note 2)	
Changes in PSEi	15.5%	(15.5%)	17.0%	(17.0%)
Change on trading income under:				
Mining and oil industry	₱9,111,093	(₱9,111,093)	₱124,034,971	(₱124,034,971)
Holding firm industry	381,016,857	(381,016,857)	287,687,970	(287,687,970)
Financial industry	163,630,911	(163,630,911)	214,184,474	(214,184,474)
Property industry	240,398,503	(240,398,503)	215,909,050	(215,909,050)
Industrial industry	389,546,213	(389,546,213)	272,772,964	(272,772,964)
Services industry	170,690,252	(170,690,252)	154,038,608	(154,038,608)
Total	₱1,354,393,829	(₱1,354,393,829)	₱1,268,628,037	(₱1,268,628,037)
As a percentage of the Group's net trading gain for the year	2,497.0%	(2,497.0%)	82.2%	(82.2%)

	Parent Company			
	2013		2012	
Changes in PSEi	15.5%	(15.5%)	17.0%	(17.0%)
Change on trading income under:				
Mining and oil industry	₱-	₱-	₱49,056,118	(₱49,056,118)
Holding firm industry	40,543,017	(40,543,017)	58,977,647	(58,977,647)
Property industry	6,900,173	(6,900,173)	17,579,845	(17,579,845)
Financial industry	18,646,176	(18,646,176)	12,272,761	(12,272,761)
Industrial industry	32,079,533	(32,079,533)	64,208,947	(64,208,947)
Services industry	14,393,213	(14,393,213)	33,709,225	(33,709,225)
Total	₱112,562,112	(₱112,562,112)	₱235,804,543	(₱235,804,543)
As a percentage of the Parent Company's net trading gain for the year	76.3%	(76.3%)	79.3%	(79.3%)

The increase or decrease in PSEi will directly impact the statement of income of both the Group and Parent Company.

The following tables set forth, for the period indicated, the impact of changes in the PSEi to the Group's and the Parent Company's unrealized gain or loss on AFS investments:

	Consolidated			
	2013		2012 (As restated - Note 2)	
Changes in PSEi	15.5%	(15.5%)	17.0%	(17.0%)
Change on equity under:				
Property industry	₱113,644,234	(₱113,644,234)	₱144,795,738	(₱144,795,738)
Financial industry	96,076,584	(96,076,584)	51,478,702	(51,478,702)
Services industry	5,408,258	(5,408,258)	5,777,025	(5,777,025)
Holding firm industry	-	-	-	-
Mining and oil industry	-	-	-	-
Industrial industry	-	-	-	-
Total	₱215,129,076	(₱215,129,076)	₱202,051,465	(₱202,051,465)
As a percentage of the Group's net unrealized gain for the year	13.5%	(13.5%)	33.0%	(33.0%)

	Parent Company			
	2013		2012	
Changes in PSEi	15.5%	(15.5%)	17.0%	(17.0%)
Change on equity under:				
Property industry	P113,644,234	(P113,644,234)	P144,795,738	(P144,795,738)
Services industry	-	-	5,774,669	(5,774,669)
Financial industry	86,937,173	(86,937,173)	42,641,163	(42,641,163)
Mining and oil industry	-	-	-	-
Industrial industry	-	-	-	-
Total	P200,581,407	(P200,581,407)	P193,211,570	(193,211,570)
As a percentage of the Group's net unrealized gain for the year	12.9%	(12.9%)	36.4%	(36.4%)

The increase or decrease in PSEi will directly impact the equity of both the Group and Parent Company.

5. Fair Value Measurement

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

Cash and other cash items and due from BSP, financial liabilities at cost except for bills payable and bonds payable - Carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

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

Derivative instruments - Fair values are estimated based on prices derived using acceptable valuation models.

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

Investment properties - Fair value has been determined based on valuations made by independent appraisers. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the highest and best use of the properties at the time the valuations were made (Note 11).

Bills payable - Carrying value approximates fair value for borrowings with relatively short maturity. For certain borrowings which are long-term in nature, fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The Company's nonperformance risk as at December 31, 2013 and 2012 was assessed to be insignificant.

The following tables summarize the carrying amount and fair values of the financial assets, financial liabilities and nonfinancial assets, analyzed based on inputs to fair value:

	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	P8,687,815,115	P8,687,815,115	P-	P-	P8,687,815,115
Private	620,353,477	620,353,477	-	-	620,353,477
Equity securities	9,644,923,951	9,644,923,951	-	-	9,644,923,951
Derivative assets	85,243,726	-	85,243,726	-	85,243,726
AFS investments:					
Debt securities:					
Government	31,465,120,422	30,923,196,672	541,923,750	-	31,465,120,422
Private	572,416,227	572,416,227	-	-	572,416,227
Equity securities	2,159,810,610	2,159,810,610	-	-	2,159,810,610
	P53,235,683,528	P52,608,516,052	P627,167,476	P-	P53,235,683,528
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	P3,607,663,011	P-	P-	P4,061,218,690	P4,061,218,690
Others	48,714,586	-	60,718,368	-	60,718,368
Other receivables:					
Unquoted commercial papers	3,906,180,605	-	-	4,222,928,470	4,222,928,470
Sales contract receivable	15,483,919	-	19,985,653	-	19,985,653
	P7,578,042,121	P-	P80,704,021	P8,284,147,160	P8,364,851,181
Financial liabilities					
Bills payable	P39,733,048,675	P-	P39,741,189,968	P-	P39,741,189,968
Bonds payable	11,642,095,928	-	-	12,409,893,522	12,409,893,522
	P51,375,144,603	P-	P39,741,189,968	P12,409,893,522	P52,151,083,490
Nonfinancial assets					
Investment properties	P464,477,073	P-	P-	P907,854,540	P907,854,540

	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	P6,937,747,045	P6,937,747,045	P-	P-	P6,937,747,045
Private	29,000,000	29,000,000	-	-	29,000,000
Equity securities	8,132,312,469	8,132,312,469	-	-	8,132,312,469
Derivative assets	27,808,866	-	27,808,866	-	27,808,866
AFS investments:					
Debt securities:					
Government	13,818,814,830	13,813,652,323	5,162,507	-	13,818,814,830
Private	338,806,000	338,806,000	-	-	338,806,000
Equity securities	1,629,732,208	1,629,732,208	-	-	1,629,732,208
	P30,914,221,418	P30,881,250,045	P32,971,373	P-	P30,914,221,418
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	P5,266,797,649	P-	P-	P6,671,216,896	P6,671,216,896
Others	53,123,579	-	65,645,848	-	65,645,848
Other receivables:					
Unquoted commercial papers	4,968,198,651	-	-	5,645,191,776	5,645,191,776
Sales contract receivable	14,167,058	-	18,852,057	-	18,852,057
HTM investments:					
Government bonds	16,334,863,006	15,672,669,366	3,915,235,909	-	19,587,905,275
	P26,637,149,943	P15,672,669,366	P3,999,733,814	P12,316,408,672	P31,988,811,852
Financial liabilities					
Bills payable	P53,212,112,640	P-	P53,386,564,888	P-	P53,386,564,888
Bonds payable	11,556,415,150	-	-	12,472,949,934	12,472,949,934
	P64,768,527,790	P-	P53,386,564,888	P12,472,949,934	P65,859,514,822

	Parent Company				
	2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	P7,124,546,063	P7,124,546,063	P-	P-	P7,124,546,063
Private	849,993	849,993	-	-	849,993
Equity securities	840,815,829	840,815,829	-	-	840,815,829
Derivative assets	90,859,030	-	90,859,030	-	90,859,030
AFS investments:					
Debt securities:					
Government	30,919,628,507	30,377,704,757	541,923,750	-	30,919,628,507
Private	10,681,116	10,681,116	-	-	10,681,116
Equity securities	2,037,970,904	2,037,970,904	-	-	2,037,970,904
	P41,025,351,442	P40,392,568,662	P632,782,780	P-	P41,025,351,442
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	P3,607,663,011	P-	P-	P4,061,218,690	P4,061,218,690
Others	47,782,222	-	59,786,003	-	59,786,003
Other receivables:					
Unquoted commercial papers					
Sales contract receivable	3,332,286,064	-	-	3,642,489,472	3,642,489,472
	15,483,919	-	19,985,653	-	19,985,653
	P7,003,215,216	P-	P79,771,656	P7,703,708,162	P7,783,479,818
Bills payable	P39,733,048,675	P-	P39,741,189,968	P-	P39,741,189,968
Bonds payable	11,953,546,079	-	-	12,738,122,629	12,738,122,629
	P51,686,594,754	P-	P39,741,189,968	P12,738,122,629	P52,479,312,597
Nonfinancial assets					
Investment properties	P463,063,622	P-	P-	P900,014,540	P900,014,540

	Parent Company				
	2012				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	P6,937,747,045	P6,937,747,045	P-	P-	P6,937,747,045
Equity securities	1,728,456,747	1,728,456,747	-	-	1,728,456,747
Derivative assets	28,263,772	-	28,263,772	-	28,263,772
AFS investments:					
Debt securities:					
Government	12,461,401,937	12,456,239,430	5,162,507	-	12,461,401,937
Private	338,806,000	338,806,000	-	-	338,806,000
Equity securities	1,507,401,941	1,507,401,941	-	-	1,507,401,941
	P23,002,077,442	P22,968,651,163	P3,426,279	P-	P23,002,077,442
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	P5,251,797,649	P-	P-	P6,656,216,896	P6,656,216,896
Others	52,256,065	-	64,644,423	-	64,644,423
Other receivables:					
Unquoted commercial papers					
Sales contract receivable	4,354,139,372	-	-	5,027,087,412	5,027,087,412
	14,167,058	-	18,852,057	-	18,852,057
HTM investments:					
Government bonds	16,334,863,006	15,672,669,366	3,915,235,909	-	19,587,905,275
	P26,007,223,150	P15,672,669,366	P3,998,732,389	P11,683,304,308	P31,354,706,063
Financial liabilities					
Bills payable	P53,212,112,640	P-	P53,386,564,888	P-	P53,386,564,888
Bonds payable	11,946,246,805	-	-	12,588,871,724	12,588,871,724
	P65,158,359,445	P-	P53,386,564,888	P12,588,871,724	P65,975,436,612

As of December 31, 2013 and 2012, no transfers were made among the three levels in the fair value hierarchy.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Group and the Parent Company:

	<u>Valuation Techniques</u>	<u>Significant Unobservable Inputs</u>
Land	Market data approach	Price per square meter, size, location, shape, time element and corner influence
Building/land improvements/ condominium for sale/lease	Market data approach for building and condominium for sale/lease and cost approach and effective age method for land improvements	Reproduction cost new

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Company's investment properties are as follows:

Valuation Techniques

Market data approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Cost approach and effective age method	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the cost approach is the estimate of reproduction cost new of the improvements.

Significant Unobservable Inputs

Reproduction cost new	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

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. The Group's operating segments are as follows:

- Treasury - manages the liquidity and funding requirements of the Parent Company and the distribution of financial instruments such as government securities and corporate papers. It offers a wide variety of profitable and secure instruments such as treasury bills, treasury notes/bonds, commercial papers, and promissory notes. As a quasi-bank licensed by the BSP, it borrows money from the public and issues its own financial instruments. Moreover, it is an accredited government securities eligible dealer authorized by the Bureau of Treasury in trading government securities and it remains a dominant selling agent in the distribution of government securities, government-owned or controlled corporations and other corporate issuances;
- Investment Banking and Strategic Finance - is responsible for raising long-term funding requirements of the government and the private sectors. Its products and services include debt and equity underwriting, loan syndication, financial advisory, project finance and structured financial solutions. It holds over 50.0% market share in origination and underwriting of debt and equity. Strategic Finance also handles the loan portfolio of the Parent Company and pursues corporate markets by providing proprietary lending facilities and unique structures. Among its proprietary structures include loans against receivables, participation in securitization, trade acceptances, term loans and "special funded" short-term facilities;
- Investment Advisory - develops and enhances the wealth of private clients, uncovering investment opportunities and seeking a thorough understanding of the market through first-hand research. It also provides meticulous and comprehensive professional portfolio advisory and research services to both individuals and firms;
- Mutual Funds - these are the fund business of the Group;
- Strategic Investments - these are the business of the Group which are involved in power, leasing and finance, life and non-life insurance and mining industries.
- Others - principally consists of institutions with significant presence in each of its respective markets which include stock brokerage, auto sales and real estate. This also includes non-interest income and expenses managed on a group basis that are not allocated to operating segments.

No operating segments have been aggregated to form the reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. These segment information are presented monthly to the Parent Company's BOD which is the Chief Operating Decision Maker.

The following tables present revenue and income information of the Group's operating segments measured in accordance with PFRS as of and for the years ended December 31, 2013, 2012 and 2011:

	2013									
	Treasury	Investment Banking	Investment Advisory	Strategic Finance	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations										
Net interest income (loss)	P833,433,701	P-	(P44,361,884)	P281,946,550	P165,919,598	(P46,023,282)	(P23,721,532)	P1,165,193,151	P-	P1,165,193,151
Non-interest income	4,344,097,160	516,448,299	259,351,156	21,835,172	100,925,967	7,387,823,351	518,044,937	13,148,527,042	-	13,148,527,042
Total revenue	5,177,530,861	516,448,299	214,989,272	303,781,722	266,846,565	7,339,800,069	494,323,405	14,313,720,193	-	14,313,720,193
Intersegment income	42,720,589	-	29,709,355	-	-	-	298,470,918	370,900,862	(370,900,862)	-
Revenue - net of interest expense	5,220,251,450	516,448,299	244,698,627	303,781,722	266,846,565	7,339,800,069	792,794,323	14,684,621,055	(370,900,862)	14,313,720,193
Non-interest expense	575,081,473	37,147,816	86,390,700	45,104,901	451,175,030	542,558,742	1,343,709,136	3,081,167,798	(370,900,862)	2,710,266,936
Income (loss) before share in net income of associates, income tax and net income attributable to non-controlling interests	4,645,169,977	479,300,483	158,307,927	258,676,821	(184,328,465)	6,797,241,327	(550,914,813)	11,603,453,257	-	11,603,453,257
Share in net income of associates	-	-	-	-	-	1,247,175,155	-	1,247,175,155	-	1,247,175,155
Provision for income tax	(359,446,982)	-	(51,726,864)	(1,473,478)	(31,371,653)	(726,906,564)	(282,726,927)	(1,453,652,468)	-	(1,453,652,468)
Net (income) loss attributable to non-controlling interest	-	-	-	-	172,938,545	-	(33,669,982)	139,268,563	-	139,268,563
Net income attributable to the Parent Company	P4,285,722,995	P479,300,483	P106,581,063	P257,203,343	(P42,761,573)	P7,317,509,918	(P867,311,722)	P11,536,244,507	P-	P11,536,244,507
Statement of Financial Position										
Total assets	P43,670,462,021	P-	P862,389,979	P4,684,908,779	P13,215,434,144	P4,749,813,696	P15,590,140,776	P82,773,149,395	P-	P82,773,149,395
Total liabilities	43,074,127,490	-	4,108,269	4,636,768,825	10,675,150,521	-	5,433,212,603	63,823,367,708	-	63,823,367,708
Other Segment Information										
Capital expenditures	-	-	-	-	-	-	71,883,324	71,883,324	-	71,883,324
Deferred tax assets	-	-	-	-	-	-	921,729	921,729	-	921,729
Depreciation and amortization	-	-	-	-	-	-	62,449,624	62,449,624	-	62,449,624
Recovery from impairment and other probable losses	-	-	-	-	-	-	(18,348,058)	(18,348,058)	-	(18,348,058)

2012 (As restated - Note 2)

	Treasury	Investment Banking	Investment Advisory	Strategic Finance	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations										
Net interest income (loss)	P\$66,766,703	P-	(P\$6,194,059)	P219,266,721	P116,521,992	(P222,565,713)	(P\$2,170,585)	P\$71,625,059	P-	P\$71,625,059
Non-interest income	754,514,868	374,369,426	428,802,871	28,933,208	1,448,292,435	-	242,916,101	3,277,828,909	-	3,277,828,909
Total revenue	1,711,281,571	374,369,426	362,608,812	248,199,929	1,564,814,427	(222,565,713)	210,745,516	4,249,453,968	-	4,249,453,968
Intersegment income	-	-	24,545,996	-	-	-	142,889,382	167,435,378	(167,435,378)	-
Revenue - net of interest expense	1,711,281,571	374,369,426	387,154,808	248,199,929	1,564,814,427	(222,565,713)	353,634,898	4,416,889,346	(167,435,378)	4,249,453,968
Non-interest expense	76,629,313	25,593,360	74,243,497	60,912,322	175,061,659	36,959,813	936,328,160	1,385,728,124	(167,435,378)	1,218,292,746
Income (loss) before share in net income of associates, income tax and net income attributable to non-controlling interests	1,634,652,258	348,776,066	312,911,311	187,287,607	1,389,752,768	(259,525,526)	(582,693,262)	3,031,161,222	-	3,031,161,222
Share in net income of associates	-	-	-	-	-	1,840,989,521	-	1,840,989,521	-	1,840,989,521
Provision for income tax	(417,770,102)	-	(28,605,296)	(9,355,165)	(43,436,165)	(4,064,933)	(72,669,345)	(575,901,006)	-	(575,901,006)
Net income attributable to non-controlling interest	-	-	-	-	(1,006,794,170)	-	(14,727,088)	(1,021,521,258)	-	(1,021,521,258)
Net income attributable to the Parent Company	P1,216,882,156	P348,776,066	P284,306,015	P177,932,442	P399,522,433	P1,577,399,062	(P670,089,695)	P3,274,728,479	P-	P3,274,728,479
Statement of Financial Position										
Total assets	P47,944,132,620	P-	P2,210,142,389	P8,044,141,326	P9,081,144,438	P16,487,398,926	P3,821,227,141	P87,588,186,840	P-	P87,588,186,840
Total liabilities	43,422,307,262	-	2,301,859,214	7,970,085,858	6,882,183,494	9,037,657,168	3,074,416,579	72,688,509,575	-	72,688,509,575
Other Segment Information										
Capital expenditures	-	-	-	-	-	-	89,028,210	89,028,210	-	89,028,210
Deferred tax assets	-	-	-	-	-	-	21,410,066	21,410,066	-	21,410,066
Depreciation and amortization	-	-	-	-	-	-	45,621,766	45,621,766	-	45,621,766
Recovery from impairment and other probable losses	-	-	-	-	-	-	(161,725,913)	(161,725,913)	-	(161,725,913)

2011 (As restated - Note 2)

	Treasury	Investment Banking	Investment Advisory	Strategic Finance	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations										
Net interest income (loss)	P1,078,197,241	P-	(P58,697,714)	P236,250,596	P63,671,294	(P199,763,780)	P42,781,070	P1,162,438,707	P-	P1,162,438,707
Non-interest income	1,321,411,466	295,605,440	178,638,075	1,207,918	263,161,266	-	633,879,707	2,693,903,872	-	2,693,903,872
Total revenue	2,399,608,707	295,605,440	119,940,361	237,458,514	326,832,560	(199,763,780)	676,660,777	3,856,342,579	-	3,856,342,579
Intersegment income	-	-	4,728,362	-	-	-	81,981,848	86,710,200	(86,710,200)	-
Revenue - net of interest expense	2,399,608,707	295,605,440	124,668,713	237,458,514	326,832,560	(199,763,780)	758,642,625	3,943,052,779	(86,710,200)	3,856,342,579
Non-interest expense	833,695,276	20,692,381	56,462,527	61,394,622	90,112,154	50,924,209	715,107,209	1,828,388,378	(86,710,200)	1,741,678,178
Income (loss) before share in net income of associates, income tax and net income attributable to non-controlling interests	1,565,913,431	274,913,059	68,206,186	176,063,892	236,720,406	(250,687,989)	43,535,416	2,114,664,401	-	2,114,664,401
Share in net income of associates	-	-	-	-	-	777,326,694	-	777,326,694	-	777,326,694
Provision for income tax	(389,992,664)	-	(30,703,844)	(17,743,737)	(25,392,614)	(12,994,913)	(54,187,563)	(531,015,335)	-	(531,015,335)
Net income attributable to non-controlling interest	-	-	-	-	(163,839,126)	-	(5,640,663)	(169,479,789)	-	(169,479,789)
Net income attributable to the Parent Company	P1,175,920,767	P274,913,059	P37,502,342	P158,320,155	P47,488,666	P513,643,792	(P16,292,810)	P2,191,495,971	P-	P2,191,495,971
Statement of Financial Position										
Total assets	P47,623,146,555	P-	P1,130,713,897	P8,943,904,188	P4,837,921,320	P15,915,808,440	P2,936,865,706	P81,388,360,106	P-	P81,388,360,106
Total liabilities	41,478,481,762	-	1,124,802,706	8,862,287,621	3,641,574,571	12,268,816,339	2,714,746,132	70,090,709,131	-	70,090,709,131
Other Segment Information										
Capital expenditures	-	-	-	-	-	-	53,882,738	53,882,738	-	53,882,738
Deferred tax assets	-	-	-	-	-	-	9,153,935	9,153,935	-	9,153,935
Depreciation and amortization	-	-	-	-	-	-	39,959,329	39,959,329	-	39,959,329
Provision for impairment and other probable losses	-	-	-	-	-	-	455,932,491	455,932,491	-	455,932,491

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustment/elimination' column.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net of interest expense as management primarily relies on the net interest income as performance measure, not the gross income and expense. Interest is charged or credited to business segments based on a pool rate which approximates the cost of funds.

Non-interest income consists of 'Service charges, fees and commissions', 'Gain on sale of assets', 'Trading and securities gain (loss)', 'Dividends' and 'Miscellaneous income'.

Non-interest expense consists of 'Taxes and licenses', 'Compensation and fringe benefits', 'Broker's commission', 'Rent, light and water', 'Realized loss from permanent decline in market value of available-for-sale investments', 'Foreign exchange gain (loss)', 'Depreciation and amortization', 'Entertainment, amusement and recreation', 'Provision for (recovery from) impairment and other probable losses' and 'Miscellaneous expense'.

Capital expenditure consists of additions to property, plant and equipment, investment properties and software licenses.

For the years ended December 31, 2013, 2012 and 2011, the Group has a significant customer in its Treasury segment, which contributed ₱6.0 billion, ₱2.5 billion and ₱3.0 billion, respectively, to the consolidated revenue.

The only foreign operation of the Group is handled by FMIIC for which the Parent Company has a 20.0% ownership interest.

7. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Financial assets at FVPL	₱19,038,336,269	₱15,126,868,380	₱8,057,070,915	₱8,694,467,564
AFS investments	37,630,289,811	15,997,054,709	36,400,532,975	14,516,621,445
HTM investments	-	16,334,863,006	-	16,334,863,006
	₱56,668,626,080	₱47,458,786,095	₱44,457,603,890	₱39,545,952,015

Financial Assets at FVPL

Financial assets at FVPL consist of the following held-for-trading (HFT) securities and derivative asset:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Debt securities:				
Government	P8,687,815,115	P6,937,747,045	P7,124,546,063	P6,937,747,045
Private	620,353,477	29,000,000	849,993	-
	9,308,168,592	6,966,747,045	7,125,396,056	6,937,747,045
Equity securities	9,644,923,951	8,132,312,469	840,815,829	1,728,456,747
Derivative asset	85,243,726	27,808,866	90,859,030	28,263,772
	P19,038,336,269	P15,126,868,380	P8,057,070,915	P8,694,467,564

HFT securities include fair value loss of P956.2 million in 2013, and fair value gain of P519.3 million and P62.3 million in 2012 and 2011, respectively, for the Group, and fair value loss of P72.2 million, P82.5 million and P8.3 million in 2013, 2012 and 2011, respectively, for the Parent Company.

Peso-denominated HFT debt securities bear nominal annual interest rates ranging from 1.6% to 12.8%, 4.6% to 12.8%, and 4.9% to 9.1% in 2013, 2012 and 2011, respectively, for the Group and the Parent Company. US dollar-denominated HFT debt securities bear nominal annual interest rates ranging from 5.0% to 9.5%, 2.8% to 9.5% and 4.0% to 9.5% in 2013, 2012 and 2011, respectively, for the Group and the Parent Company.

As of December 31, 2013 and 2012, peso-denominated HFT debt securities with a total face value of P7.0 million and P4.0 million are deposited with BSP for trust operations. Refer to Note 28.

Dividends earned from HFT equity securities amounted to P179.6 million, P105.9 million, and P79.5 million in 2013, 2012, and 2011, respectively, for the Group, and P35.5 million, P33.8 million, and P34.7 million in 2013, 2012, and 2011, respectively, for the Parent Company.

AFS Investments

AFS investments consist of the following:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Debt securities (Notes 14 and 16):				
Government	P31,465,120,422	P13,818,814,830	P30,919,628,507	P12,461,401,937
Private	572,416,227	338,806,000	10,681,116	338,806,000
	32,037,536,649	14,157,620,830	30,930,309,623	12,800,207,937
Equity securities:				
Quoted	2,159,810,610	1,629,732,208	2,037,970,904	1,507,401,941
Unquoted	3,432,942,552	209,701,671	3,432,252,448	209,011,567
	5,592,753,162	1,839,433,879	5,470,223,352	1,716,413,508
	P37,630,289,811	P15,997,054,709	P36,400,532,975	P14,516,621,445

Peso-denominated AFS debt securities bear nominal annual interest rates ranging from 1.6% to 10.3%, 5.0% to 8.9%, and 5.0% to 8.9% in 2013, 2012 and 2011, respectively, for the Group and the Parent Company. Foreign-denominated AFS debt securities bear nominal annual interest rates ranging from 2.8% to 7.8%, 2.9% to 7.8%, and 2.9% to 9.5% in 2013, 2012 and 2011, respectively, for US dollar-denominated AFS debt securities, and 3.3% to 4.1% in 2013, 2012 and 2011 for euro-denominated AFS debt securities, for the Group and the Parent Company.

As of December 31, 2013, AFS debt securities of the Parent Company with face value of P3.0 billion and P11.5 billion are held as collateral for repurchase agreements amounting to P2.0 billion and bonds payable amounting to P12.0 billion, respectively (Notes 14, 16 and 33).

As of December 31, 2013, AFS debt securities with carrying value of US\$1.2 million or P53.7 million and P4.7 billion, together with P201.6 million unquoted commercial papers, are held as collateral for borrowings from other banks amounting to US\$80.0 million or P3.6 million (Notes 14 and 33).

As of December 31, 2012, AFS debt securities with carrying value of US\$11.0 million or P451.6 million and P3.8 billion are held as collaterals for borrowings from other banks amounting to US\$80.0 million or P3.3 billion, and P700.0 million for interbank call loans amounting to P500.0 million (Notes 14 and 33).

Unquoted equity securities are investments where the Group and the Parent Company generally have less than 20.0% in equity holdings. These are strategic investments initiated by the Group and the Parent Company with the objective of generating income through dividends. The Group and the Parent Company intend to hold on or retain their holdings in companies that provide acceptable or modest returns. The Group and the Parent Company will dispose of these investments depending on liquidity requirements but the primary consideration would be the profit out of the sale or disposal.

Unquoted AFS equity investments include the Group's 9.1% remaining ownership interest in Global Business Power Corporation (GBPC) with fair value amounting to P3.3 billion that was reclassified from investment in associates after the partial disposal of investment in GBPC on October 22, 2013 (Note 10).

In December 2013, GBPC made a capital call amounting to P404.4 million (Note 29). This amount will allow the Parent Company to maintain its 9.1% interest at GBPC.

Dividends earned from AFS equity securities amounted to P247.3 million, P44.7 million, and P52.7 million in 2013, 2012, and 2011, respectively, for the Group, and P246.1 million, P43.3 million, and P51.5 million in 2013, 2012, and 2011, respectively, for the Parent Company.

The changes in the net unrealized gain on AFS investments of the Group follow:

	2013		
	Parent Company	Non-controlling Interest	Total
Balance at January 1	P603,206,759	P12,076,720	P615,283,479
Net fair value changes during period on AFS investments, net of tax	4,882,241,131	(4,176,258)	4,878,064,873
Realized gain on sale of AFS investments	(3,931,077,378)	10,006,634	(3,921,070,744)
Realized loss from permanent decline in market value of AFS investments	43,673,395	-	43,673,395
Net change during the year	994,837,148	5,830,376	1,000,667,524
Balance at December 31	P1,598,043,907	P17,907,096	P1,615,951,003

	2012 (As restated - Note 2)		
	Parent Company	Non-controlling Interest	Total
Balance at January 1	P256,605,350	P-	P256,605,350
Net fair value changes during period on AFS investments, net of tax	744,879,380	159,610,146	904,489,526
Realized gain on sale of AFS investments	(398,277,971)	(147,533,426)	(545,811,397)
Net change during the year	346,601,409	12,076,720	358,678,129
Balance at December 31	P603,206,759	P12,076,720	P615,283,479

	2011 (As restated - Note 2)		
	Parent Company	Non-controlling Interest	Total
Balance at January 1	P115,591,042	P-	P115,591,042
Net fair value changes during period on AFS investments, net of tax	1,354,838,094	-	1,354,838,094
Realized gain on sale of AFS investments	(1,230,946,863)	-	(1,230,946,863)
Realized loss from permanent decline in market value of AFS investments	17,123,077	-	17,123,077
Net change during the year	141,014,308	-	141,014,308
Balance at December 31	P256,605,350	P-	P256,605,350

The changes in the net unrealized gain (loss) on AFS investments of the Parent Company follow:

	Parent Company		
	2013	2012	2011
Balance at January 1	P530,914,765	P192,382,491	P89,180,981
Net fair value changes during period on AFS investments, net of tax	4,878,418,958	692,384,504	1,156,311,961
Realized gain on sale of AFS investments	(3,901,006,437)	(353,852,230)	(1,070,233,528)
Realized loss from permanent decline in market value of AFS investments	43,673,395	-	17,123,077
Net change during the year	1,021,085,916	338,532,274	103,201,510
Balance at December 31	P1,552,000,681	P530,914,765	P192,382,491

HTM Investments

As of December 31, 2013 and 2012, HTM investments consist of government bonds amounting to nil and P16.3 billion, respectively, for the Group and the Parent Company.

As of December 31, 2013 and 2012, the unamortized premium related to HTM investments amounted to nil and P60.5 million for the Group and the Parent Company, respectively. Effective interest rates on the HTM investments range from 7.7% to 8.2% for the Group and the Parent Company in 2012 and 2011. HTM investments bear nominal annual interest rates ranging from 7.9% to 10.4% in 2012 and 2011.

As of December 31, 2012, HTM investments with carrying value of P2.7 billion, P2.9 billion, P297.0 million and P10.0 billion are held as collateral for repurchase agreements amounting to P2.1 billion, borrowings from other banks amounting to US\$64.0 million or P2.6 billion, borrowings from other banks amounting to €5.0 million or P270.9 million and bonds payable amounting to P11.9 billion, respectively (Notes 14, 16 and 33).

Reclassification and Disposal of HTM Investments

In January 2013, the BSP issued Circular No. 781 to establish guidelines on the implementation of capital requirements under Basel III and mandated the effectivity of such Basel III to be January 1, 2014. The relevant change in the capital requirements that will have significant impact in the Parent Company's Capital Adequacy Ratio (CAR) is that certain equity investment securities which are used to be part of the Risk-Weighted Assets under BASEL II should now be 100.0% deducted from Common Equity Tier I (CET1) under BASEL III.

To comply with the more stringent capital requirements and to meet the minimum CAR, the Parent Company identified the unloading of its HTM investments as one of its capital raising strategies, as approved by the BOD in February 2013. Immediately after the BOD approval, the Parent Company reclassified its entire HTM investments with principal value of P16.3 billion to AFS investments since the Parent Company no longer intends to hold these securities up to their maturity but rather stands ready to sell such investments under the circumstances that are favorable to the Parent Company.

The change in intention and eventual disposal of the said HTM investments in response to the significant increase in regulatory capital requirements qualified as one of the permitted exemptions from the tainting rule of PAS 39 since the unloading of HTM investments was triggered by the significant increase in the industry's capital requirement and stringent application of Basel III in which the Parent Company did not reasonably anticipate.

Out of the total HTM securities reclassified to AFS investments, P11.0 billion was already disposed by the Parent Company which generated P4.0 billion gain recorded under 'Trading and securities gain' in the statements of income. As of December 31, 2013, AFS investments include securities with amortized cost of P5.2 billion and fair value of P6.1 billion reclassified from HTM investments.

Bond Exchange Program of the Republic of the Philippines

In July 2011, the Republic of the Philippines (ROP) through the Department of Finance and the Bureau of Treasury embarked on the 6th phase of its Domestic Debt Consolidation via a Liability Management exercise executed through the Exchange Offer, Subscription Offer and Tender Offer – i.e., exchange of eligible fixed-income government bonds for a new issuance of 10-year bonds (due 2022) or 20-year bonds (due 2031) wherein the proceeds of a simultaneous issuance of additional new 20-year bonds were used to buy back Eligible Bonds via Tender Offer.

To encourage existing bondholders to participate given the existing tainting rule on HTM investments under PAS 39, on June 28, 2011, the SEC granted all holders of eligible bonds currently classified as HTM that will exchange more than an insignificant amount of such bonds under this program, an exemptive relief from the tainting rule subject to the following conditions:

- disclosure to SEC of the (i) date of the exchange, (ii) amount of eligible bonds exchanged, and (iii) amount of total HTM portfolio before and after the exchange;
- day 1 profit or loss shall not be recognized and any unrealized gains or losses shall be amortized over the term of the new benchmark bonds;
- exemption shall not extend to Eligible Bonds that will be bought back by the ROP and shall not likewise apply if transaction would be a combination of tender offer for cash and exchange for new bonds;
- basis of preparation of the financial statements shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRS. This basis of financial reporting shall be adopted by the availing entity until such time that the ground for its coverage under the tainting rule of PAS 39 is no longer present; and
- appropriate clearance shall be obtained from the BSP and Insurance Commission, as the primary regulators of banks and insurance companies, respectively.

On October 11, 2011, the BSP through Circular No. 738 issued exemption from the tainting provision for prudential reporting on certain securities booked under the HTM category which are covered by an offer and accepted tender offer pursuant to liability management transactions of the ROP, among others.

In July 2011, given its nature of business, the Parent Company participated in the domestic bond exchange covering its P3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings (from maturity date of December 16, 2020 to July 19, 2031) and benefit from the higher yields (from 5.9% to 8.0%). The Parent Company has complied with the disclosure and other requirements of the SEC as follows:

- a. total HTM investments portfolio of the Parent Company before and after the exchange remain the same while the gain on exchange of P14.5 million is deferred and amortized over the term of the new bonds; and
- b. as disclosed in Note 2, the financial statements of the Group and the Parent Company have been prepared in accordance with Philippine GAAP for banks.

Reporting under PFRS

As of December 31, 2013 and 2012, had the Parent Company accounted for the transaction under PFRS, the unamortized balance of the deferred gain on exchange of P4.4 million and P13.4 million, respectively, would have been credited to the Parent Company's 2011 net income. As of December 31, 2012, the entire HTM investments portfolio of the Parent Company with an amortized cost of P16.3 billion would have been reclassified to AFS investments and carried at fair value, with a net unrealized gain of P3.3 billion (under the equity section and statement of comprehensive income of the Group and the Parent Company).

Trading and Securities Gain

The composition of trading and securities gain (loss) follows:

	Consolidated		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
Realized from sale of:			
HFT securities	P1,513,837,061	P1,293,395,198	P291,702,337
AFS investments	3,921,070,744	545,811,397	1,230,946,863
	5,434,907,805	1,839,206,595	1,522,649,200
Changes in fair value of financial instruments at FVPL:			
HFT securities	(956,162,951)	519,275,452	62,304,732
Derivative liability	-	37,392,450	34,101,112
Derivative asset	57,434,860	(25,970,383)	(1,951,212)
	(898,728,091)	530,697,519	94,454,632
	P4,536,179,714	P2,369,904,114	P1,617,103,832
	Parent Company		
	2013	2012	2011
Realized from sale of:			
HFT securities	P634,393,028	P652,878,610	P258,598,305
AFS investments	3,901,006,437	353,852,230	1,070,233,528
	4,535,399,465	1,006,730,840	1,328,831,833
Changes in fair value of financial instruments at FVPL:			
HFT securities	(72,170,100)	(82,519,659)	(8,330,303)
Derivative liability	-	31,103,696	36,410,677
Derivative asset	62,595,258	(26,395,214)	(1,983,130)
	(9,574,842)	(77,811,177)	26,097,244
	P4,525,824,623	P928,919,663	P1,354,929,077

Derivative Financial Instruments

Embedded derivatives from issuance of corporate fixed bonds with call option

On November 25, 2011, the Parent Company issued fixed corporate bonds amounting to P5.0 billion which contain an embedded call option. The call option allows the Parent Company to redeem the bonds at 102.0% of its face value plus accrued interest on any interest period date after November 25, 2015. At the date of inception, the fair value of the embedded call option amounted to P55.7 million and P56.6 million for the Group and the Parent Company, respectively.

As of December 31, 2013 and 2012, the fair valuation of the embedded call option resulted in the recognition of a derivative asset amounting to P85.2 million and P27.8 million, respectively, for the Group, and P90.9 million and P28.3 million, respectively, for the Parent Company (Note 16).

Foreign currency forwards

On August 22, 2011 and September 30, 2011, the Parent Company entered into one-year foreign currency forward contracts with notional amount of US\$50 million and US\$75 million, respectively. The forward contracts are intended to hedge the foreign currency exposure on US dollar borrowings, specifically the principal. Under the forward contracts, the Parent Company will pay a fixed amount of Philippine peso in exchange for specific amounts of US dollar. The forward contracts' maturity dates are August 22, 2012 and September 28, 2012, respectively (Note 27). Based on the hedge effectiveness testing made by the Parent Company for the year ended December 31, 2011, the forward contracts are 66.5% and 58.1% effective, respectively.

The positive fair value of these foreign currency forwards amounted to P50.9 million as of December 31, 2011. In 2012, the Group and the Parent Company recognized P50.9 million foreign exchange loss from the settlement of the forward contracts.

Embedded derivatives from investments in private commercial papers with call options

As of December 31, 2011, the Group and the Parent Company have outstanding investments in private commercial papers amounting to P1.0 billion and P889.3 million, respectively, which contain embedded call options. The call options allow the issuers of the commercial papers to redeem the instruments prior to their maturity but subject to prepayment penalties ranging from 1.5% to 3.0%.

As of December 31, 2011, the fair value of the embedded derivative liability amounted to P67.7 million for the Group and P58.2 million for the Parent Company. In 2012, the related investments in private commercial papers with outstanding prepayment option were redeemed in various dates. As a result, the Group and the Parent Company recognized gain from redemption of unquoted commercial papers amounting to P17.2 million and P12.8 million, respectively, that was booked under 'Miscellaneous income' in the statements of income (Note 23).

Details of the Group's and the Parent Company's derivatives follow:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Balance at beginning of year				
Derivative asset	P27,808,866	P104,647,499	P28,263,772	P105,527,236
Derivative liability	-	(67,666,035)	-	(58,239,001)
	27,808,866	36,981,464	28,263,772	47,288,235
Net changes in fair value of derivatives recognized in statement of income:				
Trading gain	57,434,860	11,422,067	62,595,258	4,708,482
Foreign exchange loss	-	(292,348,491)	-	(292,348,491)
Fair value of settled instruments	-	271,753,826	-	268,615,546
	57,434,860	(9,172,598)	62,595,258	(19,024,463)
Balance at end of year				
Derivative asset	P85,243,726	P27,808,866	P90,859,030	P28,263,772

8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Loans and discounts:				
Corporate lending	₱3,686,183,069	₱5,575,334,989	₱3,686,183,069	₱5,560,334,989
Others	48,714,586	53,123,579	47,782,222	52,256,065
Unearned discounts	—	—	—	—
	3,734,897,655	5,628,458,568	3,733,965,291	5,612,591,054
Unquoted commercial papers	4,037,947,694	5,383,530,143	3,464,053,153	4,769,470,864
Accrued interest receivable	457,821,505	660,245,804	429,717,341	623,700,904
Accounts receivable	341,425,423	196,553,457	123,192,106	124,961,476
Dividends receivable	187,391,127	1,416,609,780	182,845,152	1,415,535,315
Sales contract receivable	15,483,919	14,167,058	15,483,919	14,167,058
Other receivables	681,243	8,867,247	461,291	288,423
	8,775,648,566	13,308,432,057	7,949,718,253	12,560,715,094
Allowance for credit losses (Note 13)	(288,631,773)	(804,704,447)	(255,291,580)	(771,328,248)
	₱8,487,016,793	₱12,503,727,610	₱7,694,426,673	₱11,789,386,846

The following table shows the breakdown of loans and receivables to related parties as of December 31, 2013 and 2012:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Loans and discounts:				
Corporate lending	₱1,037,320,568	₱2,867,870,989	₱1,037,320,568	₱2,867,870,989
Others	48,714,586	53,015,794	47,782,222	52,148,280
Dividends receivable	182,200,000	1,409,751,378	182,200,000	1,409,457,000
Accounts receivable	48,166,317	44,749,069	46,779,220	46,652,852
Accrued interest receivable	31,128,688	55,144,256	29,123,053	54,959,225
	₱1,347,530,159	₱4,430,531,486	₱1,343,205,063	₱4,431,088,346

As of December 31, 2013 and 2012, nil and 7.1%, respectively, of the total loans and discounts were subject to periodic interest repricing, for the Group, and nil and 6.9%, respectively, for the Parent Company. The remaining loans earned fixed annual interest rates ranging from 3.0% to 15.0% in 2013, 2012 and 2011 for the Group and the Parent Company.

Unquoted Commercial Papers

This account consists of various debt instruments issued by government-owned or controlled corporations and private corporations. As of December 31, 2013, 2012 and 2011, the nominal annual interest for these securities ranges from 5.0 % to 13.0 %, 5.0% to 12.9% and 5.0% to 12.0%, respectively, for the Group, and 5.9% to 13.0%, 5.6% to 12.9% and 5.0% to 12.0%, respectively, for the Parent Company.

As of December 31, 2013 and 2012, the unamortized discount related to unquoted commercial papers amounted to ₱7.0 million and ₱9.2 million, respectively, for the Group, and ₱7.1 million and ₱9.7 million, respectively, for the Parent Company.

As of December 31, 2013 and 2012, 7.0% and 5.4%, respectively, of the outstanding unquoted commercial papers were subject to periodic interest repricing for the Group, and 8.1% and 6.0%, respectively, for the Parent Company. The remaining unquoted commercial papers earned fixed annual interest rates ranging from 5.0% to 8.9%, 5.5% to 12.0% and 5.6% to 12.0% in 2013, 2012 and 2011, respectively, for the Group and the Parent Company.

As of December 31, 2013 and 2012, unquoted commercial papers amounting to ₱570.4 million and ₱2.1 billion are held as collaterals for the Parent Company's repurchase agreements amounting to ₱570.4 million and ₱2.1 billion, respectively. As of December 31, 2013, unquoted commercial papers amounting to ₱201.6 million, together with US\$1.2 million or ₱53.7 million and ₱4.7 billion AFS debt securities, are held as collaterals for the Parent Company's borrowings from other banks amounting to US\$80.0 million or ₱3.6 million, and ₱115.0 million for borrowings from other banks amounting to €1.7 million or ₱102.2 million (Notes 7, 14 and 33).

Dividends Receivable

As of December 31, 2013 and 2012, dividends receivable of ₱182.2 million and ₱1.4 billion, respectively, for the Group and Parent Company, represents the unpaid dividends from GBPC, an affiliate.

BSP Reporting

As of December 31, 2013 and 2012, unsecured non-performing loans (NPLs) amounted to nil and ₱56.2 million, respectively, for the Group and the Parent Company. As of December 31, 2013 and 2012, there were no secured NPLs for the Group and the Parent Company.

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 applies to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.0% of the total receivable balance.

Receivables are classified as non-performing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables 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 that future payments appear assured.

Restructured receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

Current banking regulations allow banks and non-bank financial intermediaries with quasi-banking functions with no unbooked valuation reserves and capital adjustments to exclude from the non-performing classification those receivables from customers classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued. As of December 31, 2012, NPLs of the Group and the Parent Company are 100.0% covered by allowance for credit losses. As of December 31, 2013, the Group and the Parent Company have no receivables classified as NPLs.

As of December 31, 2013 and 2012, the Group and the Parent Company have outstanding restructured loans amounting to nil and ₱0.1 million, respectively.

The following table shows the breakdown of loans and discounts, gross of unearned discounts, of the Group and of the Parent Company as to secured and unsecured, and the breakdown of secured loans as to type of security as of December 31, 2013 and 2012 (amounts in thousands).

	Consolidated				Parent Company			
	2013		2012		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%
Secured loans:								
Shares of stock	P2,252,863	60.3	P2,264,284	40.2	P2,252,863	60.3	P2,264,284	40.4
Chattel	593,796	15.9	455,374	8.1	593,796	15.9	455,374	8.1
Real estate	484,375	13.0	1,437,545	25.5	484,375	13.0	1,437,545	25.6
Others - guarantee	—	—	1,050,000	18.7	—	—	1,050,000	18.7
	3,331,034	89.2	5,207,203	92.5	3,331,034	89.2	5,207,203	92.8
Unsecured loans	403,864	10.8	421,256	7.5	402,931	10.8	405,388	7.2
	P3,734,898	100.0	P5,628,459	100.0	P3,733,965	100.0	P5,612,591	100.0

As of December 31, 2013 and 2012, information on the concentration of credit risk as to industry of the Group's and the Parent Company's loans and discounts follows (amounts in thousands, gross of unearned discounts):

	Consolidated				Parent Company			
	2013		2012		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial intermediaries	P2,252,863	60.3	P3,794,464	67.4	P2,252,863	60.3	P3,794,464	67.6
Electricity, gas and water	1,037,320	27.8	1,367,871	24.3	1,037,320	27.8	1,367,871	24.4
Wholesale and retail trade	—	—	108	0.0	—	—	108	0.0
Private households	48,715	1.3	53,016	0.9	47,782	1.3	52,148	0.9
Others (various industries)	396,000	10.6	413,000	7.4	396,000	10.6	398,000	7.1
	P3,734,898	100.0	P5,628,459	100.0	P3,733,965	100.0	P5,612,591	100.0

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.0% of the total loan portfolio.

9. Property and Equipment

The composition of and movements in property and equipment account follow:

	Consolidated					
	2013			2012		
	Leasehold Improvements	Furniture, Fixtures and Equipment	Total	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	P87,897,510	P172,256,876	P260,154,386	P79,074,704	P148,108,399	P227,183,103
Acquisitions	3,437,010	28,341,673	31,778,683	8,993,106	35,272,447	44,265,553
Disposals	—	(9,678,900)	(9,678,900)	(170,300)	(11,123,970)	(11,294,270)
Balance at end of year	91,334,520	190,919,649	282,254,169	87,897,510	172,256,876	260,154,386
Accumulated depreciation and amortization						
Balance at beginning of year	54,738,026	114,588,240	169,326,266	39,322,296	101,970,341	141,292,637
Depreciation and amortization	13,865,899	25,089,297	38,955,196	15,415,730	21,077,254	36,492,984
Disposals	—	(8,905,482)	(8,905,482)	—	(8,459,355)	(8,459,355)
Balance at end of year	68,603,925	130,772,055	199,375,980	54,738,026	114,588,240	169,326,266
Net book value at end of year	P22,730,595	P60,147,594	P82,878,189	P33,159,484	P57,668,636	P90,828,120

	Parent Company					
	2013			2012		
	Building Improvements	Furniture, Fixtures and Equipment	Total	Building Improvements	Furniture, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	P81,149,381	P142,791,080	P223,940,461	P73,265,405	P124,083,126	P197,348,531
Acquisitions	3,422,073	23,625,926	27,047,999	8,054,276	29,238,894	37,293,170
Disposals	—	(4,102,798)	(4,102,798)	(170,300)	(10,530,940)	(10,701,240)
Balance at end of year	84,571,454	162,314,208	246,885,662	81,149,381	142,791,080	223,940,461
Accumulated depreciation and amortization						
Balance at beginning of year	48,831,709	94,079,928	142,911,637	34,950,581	83,327,065	118,277,646
Depreciation and amortization	13,556,603	21,407,463	34,964,066	13,881,128	18,853,691	32,734,819
Disposals	—	(3,599,462)	(3,599,462)	—	(8,100,828)	(8,100,828)
Balance at end of year	62,388,312	111,887,929	174,276,241	48,831,709	94,079,928	142,911,637
Net book value at end of year	P22,183,142	P50,426,279	P72,609,421	P32,317,672	P48,711,152	P81,028,824

As of December 31, 2013 and 2012, the gross carrying value of fully depreciated property and equipment that are still in use amounted to P128.3 million and P84.2 million, respectively, for the Group, and P110.2 million and P66.9 million, respectively, for the Parent Company.

In 2013, 2012 and 2011, the Group and the Parent Company recognized gain from sale of property and equipment amounting to P0.3 million, P0.3 million and P0.2 million, respectively, booked under 'Gain on sale of assets' account in the statements of income.

10. Investments in Subsidiaries, Associates and Joint Venture

The consolidated financial statements of the Group include:

Subsidiary	Principal Activities	Country of Incorporation	Effective Percentage of Ownership	
			2013	2012
FMSBC	Stock Brokerage	The Republic of the Philippines	100.0	100.0
Multi-Currency FX Corp.	Foreign Exchange Trading	-do-	100.0	100.0
PBC	Investment Banking	-do-	100.0	100.0
First Metro Insurance Agency, Inc.	Insurance	-do-	100.0	100.0
First Metro Insurance Brokers Corporation (FMIBC)	-do-	-do-	100.0	100.0
Prima Ventures Development Corporation (PVDC)	Holding Company	-do-	100.0	100.0
FMIC Equities, Inc. (FEI)	Holding Company	-do-	100.0	100.0
SBC Properties, Inc. (SPI)	Real Estate	-do-	100.0	100.0
Resiliency (SPC), Inc. (Resiliency)	Financial Holding Company	-do-	100.0	100.0
First Metro Global Opportunity Fund, Inc. (FMGOF)*	Mutual Fund	-do-	100.0	100.0
First Metro Save and Learn Dollar Bond Fund, Inc. (FMSLDBF)**	-do-	-do-	99.4	99.1
First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPEETF)	Exchange Traded Fund	-do-	87.2	100.0
FAMI	Asset Management	-do-	70.0	70.0
FMSALEF	Mutual Fund	-do-	21.4	26.5
FMSALBF	-do-	-do-	17.0	23.5
FMSLFIF	-do-	-do-	14.4	19.5

* Formerly First Metro Save and Learn Global Currency Fund, Inc.

** Formerly First Metro Save and Learn Money Market Fund, Inc.

The Group's percentage ownership in its investment in associates and joint venture follow:

	Effective Percentage of Ownership	
	2013	2012
Associates:		
Cathay International Resources, Corp. (CIRC)	35.0	35.0
Charter Ping An Insurance Corporation (CPAIC)*	33.3	33.3
Travel Services, Inc. (TSI)***	30.0	30.0
Philippine AXA Life Insurance Corporation (PALIC)	28.2	28.2
FMIIC	20.0	20.0
Skyland Realty Development Corporation (SRDC)	20.0	20.0
Orix Metro Leasing and Finance Corp (OMLFC)	20.0	20.0
Dahon Realty Corporation	20.0	20.0
LCMC	16.9	17.0
GBPC**	9.1	49.1
Joint Venture:		
Aurora Towers, Inc.	50.0	50.0

* Formerly Philippine Charter Insurance Corporation

** In 2013 this investment is classified as AFS investments following the sale of 40% equity interest

*** Formerly First Metro Travel, Inc.

The movements on 'Investments in subsidiaries, associates and joint venture' account follow:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Acquisition cost				
Balance at beginning of year	P10,663,411,932	P10,333,573,276	P13,319,649,471	P12,142,810,815
Additions	959,350,233	643,788,656	1,478,630,433	1,490,788,656
Disposals	(6,711,740,592)	-	(6,805,977,484)	-
Reclassification	(1,528,570,211)	-	(1,528,570,211)	-
Return of investment	-	(313,950,000)	-	(313,950,000)
	3,382,451,362	10,663,411,932	6,463,732,209	13,319,649,471
Accumulated equity in net earnings				
Balance at beginning of year	2,126,011,559	2,451,021,260	-	-
Equity share in net earnings	1,247,175,155	1,840,989,521	-	-
Cash dividends (Note 32)	(251,079,108)	(2,165,999,222)	-	-
Disposals	(1,938,452,323)	-	-	-
Balance at end of year	1,183,655,283	2,126,011,559	-	-
Equity in net unrealized gain on AFS investments of associates				
Balance at beginning of year	756,119,223	421,759,080	-	-
Equity share in changes in fair value of AFS investments of associates	(74,725,592)	334,360,143	-	-
Disposals	(416,608,722)	-	-	-
Balance at end of year	264,784,909	756,119,223	-	-
Equity in revaluation increment				
Balance at beginning of year	-	35,537,331	-	-
Share in changes in revaluation increment of associates	-	(35,537,331)	-	-
Balance at end of year	-	-	-	-
Equity in translation adjustment				
Balance at beginning of year	(56,403,847)	(39,379,598)	-	-
Share in changes in translation adjustment of an associate	13,301,217	(17,024,249)	-	-
Balance at end of year	(43,102,630)	(56,403,847)	-	-
Allowance for impairment losses (Note 13)	(28,075,229)	(28,075,229)	(302,393,577)	(302,393,577)
	P4,759,713,695	P13,461,063,638	P6,161,338,632	P13,017,255,894

The carrying values of the Group's and the Parent Company's investments in investee companies are shown below:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012 (As restated - Note 2)
Acquisition cost:				
Subsidiaries:				
FMSALEF	P-	P-	P948,644,354	P948,644,354
FMPEETFI	-	-	675,043,308	250,000,000
PBC	-	-	324,798,000	324,798,000
FMSALBF	-	-	261,202,510	261,202,510
FMSLFIF	-	-	254,307,675	254,307,675
FMSLDBF	-	-	200,000,000	200,000,000
FMSBC	-	-	130,000,000	130,000,000
FMGOF	-	-	127,000,000	127,000,000
SPI	-	-	57,057,828	69,261,041
FEI	-	-	12,500,000	12,500,000

(Forward)

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012 (As restated - Note 2)
FAMI	P-	P-	P8,235,000	P8,235,000
Resiliency	-	-	5,000,000	5,000,000
PVDC	-	-	4,200,000	4,200,000
FMIBC	-	-	2,362,243	2,362,243
	-	-	3,010,350,918	2,597,510,823
Associates:				
LCMC	2,251,034,902	2,281,009,465	2,397,129,052	2,397,129,052
PALIC	1,144,293,222	1,100,629,019	172,140,059	172,140,059
OMLFC	608,647,328	489,224,031	183,157,361	183,157,361
CPAIC	414,326,772	365,021,687	59,977,343	59,977,343
CIRC	183,678,608	183,310,499	175,000,000	175,000,000
FMIC	147,832,860	136,191,238	163,580,563	151,377,350
TSI	9,900,000	9,900,000	-	-
SRDC	1	1	3,334	3,334
Dahon Realty Corporation	1	1	1	1
GBPC	-	8,895,777,696	-	7,280,960,570
	4,759,713,694	13,461,063,637	3,150,987,713	10,419,745,070
Joint Venture:				
Aurora Towers, Inc.	1	1	1	1
	P4,759,713,695	P13,461,063,638	P6,161,338,632	P13,017,255,894

Investment in FMPEETFI

In November 2012, the BOD of the Parent Company approved the investment of P250.0 million in FMPEETFI that would be used for the paid-up capital of the latter. In December 2012, FMPEETFI filed an application for registration with the SEC. The application was approved on January 15, 2013. On December 2, 2013, FMPEETFI was launched to the public increasing its outstanding number of shares from 7,500,000 to 7,900,000 shares.

Investment in CIRC

The Group's investment in CIRC included deposits for future subscription amounting to P314.0 million. The deposits for future subscription would be converted to a fixed number of common shares upon CIRC's determination of the increase in authorized capital stock to be subscribed by existing stockholders. On December 18, 2012, the subscription agreement was rescinded and the Group received an amount of P314.0 million which represented the return of the deposits for future subscription.

Investment in GBPC

On January 16, 2012, the SEC approved the increase in GBPC's authorized capital stock. Consequentially, GBPC issued 199,058,600 shares for the Parent Company's deposit for future subscription. This resulted in an increase in the percentage of ownership of the Parent Company to 49.1% from 30.0%. As a result of the additional investment, the equity-accounted amount for GBPC increased by P135.7 million. The notional goodwill applicable to this tranche of acquisition is P481.4 million.

In June 2012, GBPC made a capital call amounting to P1.6 billion. This amount will allow the Parent Company to maintain its 49.1% interest at GBPC. The Parent Company subscribed to 199,689,070 shares amounting to P959.4 million and 18,212,638 shares amounting to P639.8 million in 2013 and 2012, respectively. The remaining balance of capital call amounting to P404.4 million is included in the Parent Company's Capital Commitments (Note 29).

On June 27, 2013, the Parent Company sold 200,000 shares or 20.0% interest in GBPC to a third party which resulted in P3.1 billion and P3.8 billion gain recorded under 'Gain on sale of assets' account in the statements of income for the Group and Parent Company, respectively. Included in the gain recognized by the Group is the previously recognized share in net unrealized gain on AFS investments of GBPC amounting to P169.7 million. At the date of transaction, management made a

reassessment and concluded that the Parent Company retained its significant influence over GBPC due to its 27.3% representation in the BOD of GBPC.

On October 22, 2013, the Parent Company sold another 200,000 shares or 20.0% interest in GBPC to another third party. The Group and the Parent Company recognized gain amounting to P4.3 billion and P5.5 billion, respectively, booked under 'Gain on sale of assets' account in the statements of income. Included in the gain from sale of investment in GBPC recognized by the Group in its consolidated financial statements is the previously recognized share in net unrealized gain on AFS investments of GBPC amounting to P246.9 million. After the transaction, the Parent Company's remaining ownership interest in GBPC is 9.1%. Management assessed that the Parent Company lost its significant influence over GBPC since its representation in the BOD of GBPC was reduced to 9.1%. Due to the loss of significant influence over GBPC, the Group reclassified its remaining interest in GBPC with fair value of P3.3 billion to AFS investments from investment in associates (Note 7).

Investment in LCMC

As of December 31, 2013 and 2012, the Group's direct ownership in LCMC is 16.9% and 17.0%, respectively. In 2013 and 2012, the Group has 2 out of 9 board seats (or 22.2%) in the BOD of LCMC. Although the Parent Company holds less than 20.0% of the ownership interest and voting control in LCMC, the Parent Company has the ability to exercise significant influence through its nominated directors' active participation on the LCMC BOD and management sub-committee.

In May 2011, the Parent Company partially disposed of its ownership in LCMC to a third party. The Group and the Parent Company recognized gain amounting to P370.0 million and P380.8 million, respectively, booked under 'Gain on sale of assets' account in the statements of income. The sale transaction did not result in a change in the number of board representatives of the Parent Company in LCMC.

None of the Group's equity-accounted investees are publicly listed entities and consequentially do not have published price quotations, except for LCMC, which is listed on the PSE. Based on its price of P0.3 for class A shares and class B shares in 2013, and P1.0 for class A shares and P1.1 for class B shares in 2012, the fair value of the investment in LCMC amounted to P2.2 billion and P7.4 billion as of December 31, 2013 and 2012, respectively.

The following tables present the financial information of significant associates with classified statements of financial position as of and for the years ended December 31, 2013, 2012, and 2011 (amounts in thousands):

Name of Company	Statement of Financial Position			Statement of Comprehensive Income			
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income
LCMC	P966,794	P7,739,201	P961,492	P408,192	P2,025,213	P2,275,215	(P258,966)
CIRC	925,263	2,389,674	686,795	1,142,129	253,068	253,021	1,052
2013							
Name of Company	Statement of Financial Position			Statement of Comprehensive Income			
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income
GBPC	P19,262,107	P39,430,628	P4,885,422	P35,685,108	P19,194,276	P15,812,436	P2,592,319
LCMC	1,281,723	7,757,342	899,246	562,404	123,654	203,222	(58,457)
CIRC	962,613	2,062,329	436,491	2,064,707	2,130,468	2,135,365	44,535
2012							
Name of Company	Statement of Financial Position			Statement of Comprehensive Income			
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Revenue	Costs and Expenses	Net Income
GBPC	P23,462,261	P38,796,243	P5,541,591	P36,093,963	P16,010,847	P11,580,988	P1,528,796
LCMC	1,565,255	7,809,068	1,275,554	589,732	237,010	187,559	52,872
CIRC	277,450	2,676,420	480,989	1,979,396	204,116	178,506	17,928
2011							

The following tables present the financial information of significant associates with unclassified statements of financial position as of and for the years ended December 31, 2013, 2012, and 2011 (amounts in thousands):

Name of Company	2013					
	Statement of Financial Position			Statement of Income		
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	
PALIC	P54,931,023	P50,862,683	P10,617,497	P1,388,195	P1,192,100	
OMLFC	19,401,163	16,238,814	2,972,109	852,050	601,591	
CPAIC	9,134,292	7,776,197	1,653,443	227,717	193,132	
FMIC	908,370	28,829	5,873	(8,298)	(8,298)	

Name of Company	2012					
	Statement of Financial Position			Statement of Income		
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	
PALIC	P44,702,889	P40,789,355	P12,279,551	P3,620,106	P868,557	
OMLFC	16,359,308	13,798,447	2,544,427	690,437	495,485	
CPAIC	5,642,295	4,473,130	2,893,733	281,802	201,252	
FMIC	847,469	26,137	3,853	(7,875)	(7,875)	

Name of Company	2011					
	Statement of Financial Position			Statement of Income		
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	
PALIC	P38,942,856	P35,275,081	P4,306,249	P1,108,080	P967,472	
OMLFC	12,575,856	10,426,319	2,241,357	2,495,634	504,390	
CPAIC	4,821,077	3,850,215	2,257,438	208,326	150,203	
FMIC	911,828	28,095	3,583	(10,505)	(10,505)	

Major assets of significant associates with unclassified statements of financial position include the following (amounts in thousands):

Name of Company	2013					
	Cash and cash equivalents	AFS investments	Financial assets at FVPL	Receivables-net of allowance for credit losses	Investment in unit-linked funds	Equipment for lease
PALIC	P3,158,285	P6,304,704	P993,746	P-	P43,323,209	P-
OMLFC	-	-	-	14,285,650	-	1,940,067
CPAIC	-	1,763,216	-	5,959,830	-	-
FMIC	820,579	-	-	50,972	-	-

Name of Company	2012					
	Cash and cash equivalents	AFS investments	Financial assets at FVPL	Receivables-net of allowance for credit losses	Investment in unit-linked funds	Equipment for lease
PALIC	P2,025,982	P7,949,889	P-	P-	P33,714,030	P-
OMLFC	2,198,211	-	-	12,087,689	-	1,545,116
CPAIC	-	1,790,528	-	3,584,185	-	-
FMIC	757,124	-	-	47,154	-	-

Name of Company	2011					
	Cash and cash equivalents	AFS investments	Financial assets at FVPL	Receivables-net of allowance for credit losses	Investment in unit-linked funds	Equipment for lease
PALIC	P3,160,172	P8,841,469	P-	P-	P25,286,199	P-
OMLFC	1,941,541	-	-	9,181,613	-	1,033,761
CPAIC	-	1,258,191	-	2,856,424	-	-
FMIC	812,575	-	-	50,255	-	-

Dividends received from the significant associates of the Group in 2013, 2012 and 2011 follows:

Name of Company	2013	2012	2011
PALIC	P251,079,107	P224,023,771	P315,852,801
OMLFC	-	16,863,451	14,052,880
GBPC*	-	1,925,112,000	-
	P433,279,107	P2,165,999,222	P329,905,681

*In 2013 this investment is classified as AFS investments following the sale of 40% equity interest

Aggregate financial information of associates and joint venture that are not individually significant follows:

	2013	2012	2011
Associates:			
Statements of Financial Position			
Total assets	₱132,801,561	₱118,947,395	₱105,902,840
Total liabilities	50,008,580	39,255,288	34,494,877
Statements of Income			
Gross income	20,153,663	52,455,475	35,453,875
Operating income	9,435,035	16,478,711	3,453,736
Net income	6,600,875	8,304,144	2,293,622
Joint Venture			
Statements of Financial Position			
Total assets	12,305,721	12,304,014	12,299,862
Total liabilities	72,669,097	70,997,036	69,250,914
Statements of Income			
Gross income	1,384	2,190	2,960
Operating income	1,384	2,190	2,190
Net loss	(1,670,353)	(1,789,972)	(1,661,027)

Unrecognized share of losses of the Group from its investment in Aurora Towers, Inc., a joint venture, amounted to ₱0.8 million, ₱0.9 million and ₱0.8 million in 2013, 2012 and 2011, respectively. As of December 31, 2013, the cumulative unrecognized share of losses of the Group from its investment in Aurora Towers, Inc. amounted to ₱30.2 million.

The financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:				
	Principal Activities	2013	2012	2011
FMSLFIF	Mutual Fund	85.6%	80.5%	69.2%
FMSALBF	-do-	83.0%	76.5%	73.7%
FMSALEF	-do-	78.6%	73.5%	74.1%
FAMI	Asset Management	30.0%	30.0%	30.0%
Accumulated balances of material non-controlling interests:				
FMSLFIF		₱2,838,128,863	₱1,519,816,803	₱669,882,471
FMSALBF		2,001,574,125	1,186,062,946	573,974,439
FMSALEF		5,680,175,486	4,107,736,826	2,196,541,457
FAMI		58,742,561	30,462,815	14,621,908
Profit/(loss) allocated to material non-controlling interests:				
FMSLFIF		₱144,713,273	₱136,849,082	₱62,419,650
FMSALBF		(76,018,302)	182,012,811	10,250,141
FMSALEF		(236,499,075)	687,911,666	90,924,960
FAMI		33,669,982	14,727,087	5,640,662

The following tables present financial information of subsidiaries with material non-controlling interests as of and for the years ended December 31, 2013, 2012 and 2011 (amounts in thousands):

	2013			
	FMSLFIF	FMSALBF	FMSALEF	FAMI
Statement of Financial Position				
Cash and other cash items	₱359,625	₱49,012	₱586,358	₱8,917
Financial assets at FVPL	2,131,659	1,710,341	6,558,919	-
AFS investments	472,706	476,320	146,719	109,402
Loans and receivables	443,137	229,160	6,995	64,716
Other assets	4,578	340	1,478	36,632
Other liabilities	14,231	24,472	88,573	33,640
Non-controlling interests	2,838,129	2,001,574	5,680,175	58,743
Dividends paid to non-controlling interests	-	-	-	(13,004)
Statement of Income				
Gross income	615,369	6,014	(32,086)	281,976
Operating income	531,462	(76,559)	(264,031)	150,939
Net income	510,508	(82,051)	(267,883)	102,783
Net income attributable to non-controlling interests	144,713	(76,018)	(236,499)	33,670
Total comprehensive income	181,562	(81,915)	(270,303)	113,010

(Forward)

	2013			
	FMSLFIF	FMSALBF	FMSALEF	FAMI
Statement of Cash Flows				
Net cash provided by (used in) operating activities	(P853,328)	(P574,418)	(P1,673,609)	P66,393
Net cash used in investing activities	(324,118)	(423,618)	(8,561)	(43,933)
Net cash provided by (used in) financing activities	1,266,264	944,798	1,923,763	(20,000)
Net increase in cash and cash equivalents	88,818	(53,238)	241,593	2,460
Cash and other cash items at beginning of year	270,807	102,250	344,765	6,457
Cash and other cash items at end of year	359,625	49,012	586,358	8,917
	2012			
	FMSLFIF	FMSALBF	FMSALEF	FAMI
Statement of Financial Position				
Cash and other cash items	P270,807	P102,250	P344,765	P6,457
Financial assets at FVPL	1,198,685	1,292,226	5,098,110	-
AFS investments	273,388	204,629	-	69,234
Loans and receivables	186,243	11,991	149,637	30,151
Other assets	659	71	395	17,799
Other liabilities	15,416	33,348	34,471	20,059
Non-controlling interests	1,519,817	1,186,063	4,107,737	30,463
Statement of Income				
Gross income	227,079	298,704	1,118,655	156,237
Operating income	176,323	264,096	978,213	72,175
Net income	166,263	260,781	973,032	50,405
Net income attributable to non-controlling interests	136,849	182,013	687,912	14,727
Total comprehensive income	170,926	238,910	971,992	59,470
Statement of Cash Flows				
Net cash provided by (used in) operating activities	(1,132,017)	(443,141)	(1,987,213)	47,367
Net cash provided by (used in) investing activities	(61,034)	(36,280)	8,193	(36,344)
Net cash provided by (used in) financing activities	685,481	560,476	1,618,349	(5,882)
Net increase in cash and cash equivalents	(507,570)	81,055	(360,671)	5,141
Cash and other cash items at beginning of year	778,377	21,195	705,436	1,316
Cash and other cash items at end of year	270,807	102,250	344,765	6,457
	2011			
	FMSLFIF	FMSALBF	FMSALEF	FAMI
Statement of Financial Position				
Cash and other cash items	P778,377	P21,195	P705,436	P1,316
Financial assets at FVPL	-	518,630	2,200,756	-
AFS investments	59,153	159,877	6,046	30,168
Loans and receivables	232,385	87,313	185,430	14,818
Other assets	309	60	307	16,455
Other liabilities	12,266	8,643	129,881	12,763
Non-controlling interests	669,882	573,974	2,196,541	14,622
Statement of Income				
Gross income	120,094	34,471	177,144	74,535
Operating income	94,749	13,100	108,777	26,985
Net income	91,216	11,531	105,394	18,802
Net income attributable to non-controlling interests	62,420	10,250	90,925	5,641
Total comprehensive income	95,529	37,390	106,433	21,138
Statement of Cash Flows				
Net cash provided by (used in) operating activities	(57,493)	(214,050)	(915,447)	19,937
Net cash provided by (used in) investing activities	37,442	(133,972)	38,308	(18,547)
Net cash provided by (used in) financing activities	(40,100)	277,836	1,206,735	(2,000)
Net increase in cash and cash equivalents	(60,151)	(70,186)	329,596	(610)
Cash and other cash items at beginning of year	838,528	91,381	375,840	1,926
Cash and other cash items at end of year	778,377	21,195	705,436	1,316

Limitation on dividend declaration of subsidiaries and associates

CPAIC

Section 195 of the Insurance Code provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

As of December 31, 2013 and 2012, the Parent Company has no share on commitments and contingencies of its associates and joint venture.

As of December 31, 2013 and 2012, there were no guarantees or other requirements entered into by the subsidiaries of the Parent Company that may restrict dividends and other capital distributions to be paid, or loans and advances to be made or repaid to or from other entities within the Group.

11. Investment Properties

The composition of and movements in this account for the Group and the Parent Company follow:

	Consolidated					
	2013			2012		
	Land	Building/land improvements/condominium for sale/lease	Total	Land	Building/land improvements/condominium for sale/lease	Total
Cost						
Balance at beginning of year	P485,834,593	P127,996,840	P613,831,433	P502,501,357	P123,408,840	P625,910,197
Additions	-	-	-	-	4,588,000	4,588,000
Disposals	(12,292,555)	(590,058)	(12,882,613)	(16,666,764)	-	(16,666,764)
Balance at end of year	473,542,038	127,406,782	600,948,820	485,834,593	127,996,840	613,831,433
Accumulated depreciation						
Balance at beginning of year	-	69,432,398	69,432,398	-	65,729,319	65,729,319
Depreciation	-	4,320,231	4,320,231	-	3,703,079	3,703,079
Disposals	-	(216,354)	(216,354)	-	-	-
Balance at end of year	-	73,536,275	73,536,275	-	69,432,398	69,432,398
Allowance for impairment losses (Note 13)	(62,935,472)	-	(62,935,472)	(30,885,069)	-	(30,885,069)
Net book value at end of year	P410,606,566	P53,870,507	P464,477,073	P454,949,524	P58,564,442	P513,513,966

	Parent Company					
	2013			2012		
	Land	Building/land improvements/condominium for sale/lease	Total	Land	Building/land improvements/condominium for sale/lease	Total
Cost						
Balance at beginning of year	P485,834,593	P123,285,209	P609,119,802	P502,501,357	P118,697,209	P621,198,566
Additions	-	-	-	-	4,588,000	4,588,000
Disposals	(12,292,555)	(590,058)	(12,882,613)	(16,666,764)	-	(16,666,764)
Balance at end of year	473,542,038	122,695,151	596,237,189	485,834,593	123,285,209	609,119,802
Accumulated depreciation						
Balance at beginning of year	-	66,322,678	66,322,678	-	62,808,059	62,808,059
Depreciation	-	4,131,771	4,131,771	-	3,514,619	3,514,619
Disposals	-	(216,354)	(216,354)	-	-	-
Balance at end of year	-	70,238,095	70,238,095	-	66,322,678	66,322,678
Allowance for impairment losses (Note 13)	(62,935,472)	-	(62,935,472)	(30,885,069)	-	(30,885,069)
Net book value at end of year	P410,606,566	P52,457,056	P463,063,622	P454,949,524	P56,962,531	P511,912,055

The aggregate fair value of investment properties as of December 31, 2013 and 2012 amounted to P907.9 million and P934.7 million, respectively, for the Group and P900.0 million and P926.9 million, respectively, for the Parent Company (Note 5).

In 2013, 2012 and 2011, the Group and the Parent Company recognized gains from the disposal of investment properties amounting to P22.2 million, P28.3 million and P22.4 million, respectively.

Direct operating expenses on investment properties that generated rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to P4.9 million, P4.8 million and P4.9 million in 2013, 2012 and 2011, respectively. Direct operating expenses on investment properties that did not generate rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to P3.9 million, P3.8 million and P8.0 million in 2013, 2012 and 2011, respectively.

12. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Creditable withholding tax	P349,564,759	P264,442,685	P325,677,094	P237,728,764
Software licenses	66,727,515	45,797,071	56,176,817	36,513,990
Prepaid expenses	48,648,791	37,810,817	43,104,333	36,115,412
Tax credit certificates	9,464,652	9,988,950	9,464,652	9,988,950
Miscellaneous (Note 27)	31,582,194	21,906,802	12,368,830	11,528,218
	P505,987,911	P379,946,325	P446,791,726	P331,875,334

Movements in software licenses follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Cost				
Balance at beginning of year	P64,822,959	P24,648,302	P50,444,134	P20,778,627
Additions	40,104,641	40,174,657	36,543,665	29,665,507
Balance at end of year	104,927,600	64,822,959	86,987,799	50,444,134
Accumulated amortization				
Balance at beginning of year	19,025,888	13,600,185	13,930,144	10,138,843
Amortization (Note 25)	19,174,197	5,425,703	16,880,838	3,791,301
Balance at end of year	38,200,085	19,025,888	30,810,982	13,930,144
Net book value at end of year	P66,727,515	P45,797,071	P56,176,817	P36,513,990

Creditable withholding taxes arise from income such as service charges, fees and commissions, interest income and rental income, in which customers are required to withhold taxes.

Prepaid expenses consist of prepaid guarantee fees, prepaid taxes (i.e., real estate tax, documentary stamp tax) and other prepaid expenses (i.e., licenses, insurance and membership fees).

Miscellaneous assets include unused office supplies and rental and other deposits.

13. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Balance at beginning of year				
Loans and receivables	P804,704,447	P787,021,588	P771,328,248	P884,531,896
Investment properties	30,885,069	46,187,858	30,885,069	46,187,858
Investments in associates	28,075,229	28,075,229	302,393,577	302,393,577
Other assets	-	169,330,112	-	169,081,242
	863,664,745	1,030,614,787	1,104,606,894	1,402,194,573
Provision for (recovery from) impairment and credit losses	(484,022,271)	(161,725,913)	(483,986,265)	(293,714,965)
Write-offs and others	-	(5,224,129)	-	(3,872,714)
	(484,022,271)	(166,950,042)	(483,986,265)	(297,587,679)
Balance at end of year				
Loans and receivables (Note 8)	288,631,773	804,704,447	255,291,580	771,328,248
Investment properties (Note 11)	62,935,472	30,885,069	62,935,472	30,885,069
Investments in associates (Note 10)	28,075,229	28,075,229	302,393,577	302,393,577
	P379,642,474	P863,664,745	P620,620,629	P1,104,606,894

Below is the breakdown of the provision for (recovery from) impairment and other probable losses in 2013, 2012 and 2011.

	Consolidated			Parent Company		
	2013	2012	2011	2013	2012	2011
Provision for (recovery from) impairment and credit losses						
Loans and receivables	(P516,072,674)	P18,785,404	P349,173,852	(P516,036,668)	(P113,203,648)	P450,589,295
Investment properties	32,050,403	(11,430,075)	38,843,970	32,050,403	(11,430,075)	38,843,970
Investments in associates	-	-	(101,415,443)	-	-	(101,415,443)
Other assets	-	(169,081,242)	169,330,112	-	(169,081,242)	169,081,242
	(484,022,271)	(161,725,913)	455,932,491	(483,986,265)	(293,714,965)	557,099,064
Provision for contingencies (Note 29)	465,674,213	-	-	465,674,213	-	-
	(P18,348,058)	(P161,725,913)	P455,932,491	(P18,312,052)	(P293,714,965)	P557,099,064

With the foregoing level of allowance for impairment and other credit losses, management believes that the Group and the Parent Company have sufficient allowance to cover any losses that the Group and the Parent Company may incur from the noncollection or nonrealization of receivables and other risk assets.

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

	Consolidated				
	2013				
	Corporate lending	Unquoted commercial papers	Accrued interest receivable	Accounts receivable	Total
At January 1, 2013	P308,537,340	P415,331,492	P3,393,750	P77,441,865	P804,704,447
Provision for (recovery from) credit losses	(230,017,282)	(283,564,403)	(3,393,750)	902,761	(516,072,674)
At December 31, 2013	P78,520,058	P131,767,089	P-	P78,344,626	P288,631,773
Individual impairment	P-	P90,950,087	P-	P78,344,626	P169,294,713
Collective impairment	78,520,058	40,817,002	-	-	119,337,060
	P78,520,058	P131,767,089	P-	P78,344,626	P288,631,773
Gross amount of loans and receivables individually determined to be impaired	P-	P275,000,000	P-	P78,389,357	P353,389,357

	Consolidated				
	2012				
	Corporate lending	Unquoted commercial papers	Accrued interest receivable	Accounts receivable	Total
At January 1, 2012	P321,713,418	P419,050,636	P2,142,647	P44,114,887	P787,021,588
Provision for (recovery from) credit losses	(13,176,078)	(3,719,144)	1,251,103	34,429,523	18,785,404
Write-offs/others	-	-	-	(1,102,545)	(1,102,545)
At December 31, 2012	P308,537,340	P415,331,492	P3,393,750	P77,441,865	P804,704,447
Individual impairment	P-	P331,250,000	P3,393,750	P77,441,865	P412,085,615
Collective impairment	308,537,340	84,081,492	-	-	392,618,832
	P308,537,340	P415,331,492	P3,393,750	P77,441,865	P804,704,447
Gross amount of loans and receivables individually determined to be impaired	P-	P331,250,000	P3,393,750	P80,888,561	P415,532,311

	Parent Company				
	2013				
	Corporate lending	Unquoted commercial papers	Accrued interest receivable	Accounts receivable	Total
At January 1, 2013	P308,537,340	P415,331,492	P3,393,750	P44,065,666	P771,328,248
Provision for (recovery from) credit losses	(230,017,282)	(283,564,403)	(3,393,750)	938,767	(516,036,668)
At December 31, 2013	P78,520,058	P131,767,089	P-	P45,004,433	P255,291,580
Individual impairment	P-	P90,950,087	P-	P45,004,433	P135,954,520
Collective impairment	78,520,058	40,817,002	-	-	119,337,060
	P78,520,058	P131,767,089	P-	P45,004,433	P255,291,580
Gross amount of loans and receivables individually determined to be impaired	P-	P275,000,000	P-	P45,004,433	P320,004,433

	Parent Company				
	2012				
	Corporate lending	Unquoted commercial papers	Accrued interest receivable	Accounts receivable	Total
At January 1, 2012	P419,301,097	P419,050,636	P2,142,647	P44,037,516	P884,531,896
Provision for (recovery from) credit losses	(110,763,757)	(3,719,144)	1,251,103	28,150	(113,203,648)
At December 31, 2012	P308,537,340	P415,331,492	P3,393,750	P44,065,666	P771,328,248
Individual impairment	P-	P331,250,000	P3,393,750	P44,065,666	P378,709,416
Collective impairment	308,537,340	84,081,492	-	-	392,618,832
	P308,537,340	P415,331,492	P3,393,750	P44,065,666	P771,328,248
Gross amount of loans and receivables individually determined to be impaired	P-	P331,250,000	P3,393,750	P44,065,666	P378,709,416

Movements in the allowance for credit and impairment losses on investments in associates and investment properties follow:

	Consolidated			
	Investments in associates	Investment properties	Other assets	Total
At January 1, 2013	P28,075,229	P30,885,069	P-	P58,960,298
Provision for impairment losses	-	32,050,403	-	32,050,403
At December 31, 2013	P28,075,229	P62,935,472	P-	P91,010,701
At January 1, 2012	P28,075,229	P46,187,858	P169,330,112	P243,593,199
Provision for (recovery from) impairment losses	-	(11,430,075)	(169,081,242)	(180,511,317)
Disposal	-	(3,872,714)	(248,870)	(4,121,584)
At December 31, 2012	P28,075,229	P30,885,069	P-	P58,960,298

	Parent Company			
	Investments in associates	Investment properties	Other assets	Total
At January 1, 2013	P302,393,577	P30,885,069	P-	P333,278,646
Provision for impairment losses	-	32,050,403	-	32,050,403
At December 31, 2013	P302,393,577	P62,935,472	P-	P365,329,049
At January 1, 2012	P302,393,577	P46,187,858	P169,081,242	P517,662,677
Provision for (recovery from) impairment losses	-	(11,430,075)	(169,081,242)	(180,511,317)
Disposal	-	(3,872,714)	-	(3,872,714)
At December 31, 2012	P302,393,577	P30,885,069	P-	P333,278,646

14. Bills Payable

This account consists of:

	2013	2012
Deposit substitutes:		
Promissory notes issued	P32,120,920,925	P39,830,174,849
Repurchase agreements	2,570,441,260	4,199,869,291
Borrowings from other banks (Note 27)	5,041,686,490	6,682,068,500
Interbank call loans	-	2,500,000,000
	P39,733,048,675	P53,212,112,640

Deposit substitutes have maturities of 15-364 days. Peso-denominated deposit substitutes bear annual interest rates ranging from 0.2% to 5.4%, 0.5% to 5.4%, and 1.0% to 6.4% in 2013, 2012 and 2011, respectively. US dollar-denominated deposit substitutes bear annual interest rates ranging from 0.6% to 2.6%, 0.9% to 2.4% and 0.6% to 2.3% in 2013, 2012 and 2011, respectively.

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

	2013		2012	
	Pledged securities	Bills payable	Pledged securities	Bills payable
AFS investments (Notes 7 and 33)	P3,015,798,284	P2,000,000,000	P-	P-
HTM investments (Notes 7 and 33)	-	-	2,656,262,691	2,067,471,138
Unquoted commercial papers (Notes 8 and 33)	570,441,260	570,441,260	2,123,274,960	2,132,398,153
	P3,586,239,544	P2,570,441,260	P4,779,537,651	P4,199,869,291

Included in the repurchase agreements is a repurchase transaction with a foreign bank amounting to P2.0 billion. The following are the significant terms and conditions:

- Notional amount - P2.0 billion
- Effective date - September 28, 2012, Maturity date - March 28, 2014

- Initial reference portfolio - Debt securities issued by the Republic of the Philippines, face value of ₱2.6 billion, coupon rate of 7.9% and maturity date of February 19, 2019
- Margin requirements - The Parent Company will transfer cash margin to the counterparty when the aggregate credit support value is less than or equal to 135.0% of the notional amount.
- Repurchase agreement rate - 5.4%
- The Parent Company has early termination right subject to payment of the make-whole and unwind costs
- Trigger Event - the occurrence of any of the following events:
 - (a) a rating downgrade of two notches or greater of the reference assets
 - (b) a failure of the Parent Company to provide cash margin
 - (c) the Philippine five-year credit default swaps trades above 500.0 bps
 - (d) if there is default, restructuring, or winding up of any debt obligation of the Republic of the Philippines
 - (e) the Ultimate Parent Company ceases to hold at least 50.0% of the issued share capital of the Parent Company

Upon occurrence of any of the foregoing trigger events, the counterparty may accelerate this repurchase transaction according to the following settlement provisions:

- a. the Parent Company shall pay its counterparty the notional amount plus interest up to, but excluding, the Trigger settlement date plus the present value of the financing rate that would be due for the remaining duration of the repurchase transaction and unwind costs
- b. upon receipt of the settlement amount, the counterparty shall deliver the reference asset to the Parent Company

In December 2013, the initial reference portfolio, as agreed with the counterparty, was substituted with three debt securities issued by the Republic of the Philippines with a total face value of ₱3.0 billion, bearing interest rates ranging from 1.6% to 7.0% and have maturity dates of January 27, 2016, April 25, 2016 and May 23, 2018.

Borrowings from other banks represent US dollar-, euro- and peso-denominated loans. Outstanding borrowings from other banks denominated in US dollar amounted to ₱4.4 billion and ₱5.9 billion as of December 31, 2013 and 2012, respectively, bearing annual interest rates ranging from 1.2% to 1.8%, 1.3% to 1.5% and 1.4% to 2.1% in 2013, 2012 and 2011, respectively.

Outstanding borrowings from other banks denominated in euro amounted to ₱102.2 million and ₱270.9 million as of December 31, 2013 and 2012, respectively, bearing an annual interest rate of 1.6%, 1.2% and 1.3% in 2013, 2012 and 2011, respectively. In January 2007, the Parent Company borrowed peso funds that matured in January 2014 amounting to ₱500.0 million which bear interest of 6.4%.

The following are the carrying values of the investment securities pledged under borrowings from other banks transactions of the Group and the Parent Company:

	2013		2012	
	Pledged securities	Borrowings from other banks	Pledged securities	Borrowings from other banks
AFS investments (Notes 7 and 33)	₱4,754,767,201	₱3,369,714,715	₱4,234,181,960	₱3,284,000,000
HTM investments (Notes 7 and 33)	–	–	3,216,000,000	2,898,068,500
Unquoted commercial papers (Notes 8 and 33)	314,692,527	284,071,775	–	–
	₱5,069,459,728	₱3,653,786,490	₱7,450,181,960	₱6,182,068,500

Interbank call loans are short-term borrowings that have terms of 1-5 days and bear annual interests ranging from 2.0% to 3.6%, 1.2% to 3.6% and 4.0% to 5.4% in 2013, 2012 and 2011, respectively.

As of December 31, 2012, interbank call loans amounting to P500.0 million is secured by AFS debt securities amounting to P700.0 million (Notes 7 and 33).

Interest expense on bills payable of the Group and the Parent Company follow (Note 21):

	Consolidated		
	2013	2012	2011
Deposit substitutes:			
Promissory notes issued	P643,357,167	P1,569,163,316	P1,821,091,338
Repurchase agreements	124,792,198	173,634,840	434,199,088
Borrowings from other banks	118,984,162	141,697,035	79,696,901
Interbank call loans	4,827,014	24,121,389	76,653,170
	P891,960,541	P1,908,616,580	P2,411,640,497

	Parent Company		
	2013	2012	2011
Deposit substitutes:			
Promissory notes issued	P643,357,167	P1,569,977,924	P1,821,091,338
Repurchase agreements	124,792,198	173,634,840	436,248,207
Borrowings from other banks	118,984,162	141,697,035	79,696,901
Interbank call loans	4,827,014	24,121,389	76,653,170
	P891,960,541	P1,909,431,188	P2,413,689,616

Under BSP Circular No. 732, deposit substitutes are subject to statutory and liquidity reserves of 10.0% and 11.0%, respectively. In March 2012, the BSP issued Circular No. 753, mandating the unification of the statutory/legal and liquidity reserves requirement on deposit substitutes. Likewise, effective the reserve week starting April 6, 2012, the Parent Company's deposit substitutes are subject to reserve requirement of 18.0%. As of December 31, 2013 and 2012, the Parent Company's available reserves on these deposits as reported to the BSP amounted to P6.4 billion and P8.0 billion, respectively, booked under 'Due from BSP' account in the statements of financial position.

As of December 31, 2013 and 2012, the Parent Company is in compliance with the regulations on reserve requirements.

15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012 (As restated - Note 2)
Financial liabilities:				
Accrued interest payable	P155,216,013	P270,944,339	P156,833,747	P273,005,260
Accrued salaries payable	90,226,219	47,794,316	90,005,240	39,431,264
Accrued fees payable	37,762,498	20,443,675	21,876,465	18,379,804
Accrued rent payable	135,116	12,718,296	39,744	12,612,522
Accrued other expenses payable	49,371,665	35,501,375	31,809,884	28,401,284
	332,711,511	387,402,001	300,565,080	371,830,134
Nonfinancial liabilities:				
Accrued taxes and licenses	52,575,315	27,784,651	52,568,425	27,771,108
Retirement liability (Note 22)	98,506,590	72,853,603	81,636,762	55,934,905
	151,081,905	100,638,254	134,205,187	83,706,013
	P483,793,416	P488,040,255	P434,770,267	P455,536,147

The following table shows the breakdown of accrued taxes, interest and other expenses to related parties as of December 31, 2013 and 2012 for the Group and the Parent Company:

	2013	2012
Accrued interest payable	P177,954	P5,985,410
Accrued other expenses payable	10,000,000	-
	P10,177,954	P5,985,410

16. Bonds Payable

Details of this account follow:

	Consolidated	
	2013	2012
Bonds payable	P12,000,000,000	P12,000,000,000
Unamortized premium	32,437,946	44,955,239
	12,032,437,946	12,044,955,239
Unamortized deferred finance charges	(82,252,018)	(99,620,089)
Bonds held by subsidiaries (Note 27)	(308,090,000)	(388,920,000)
	P11,642,095,928	P11,556,415,150

	Parent Company	
	2013	2012
Bonds payable	P12,000,000,000	P12,000,000,000
Unamortized premium	34,574,747	45,866,894
	12,034,574,747	12,045,866,894
Unamortized deferred finance charges	(81,028,668)	(99,620,089)
	P11,953,546,079	P11,946,246,805

Fixed Rate Corporate Bonds Due 2017 and 2019

On August 10, 2012, the Parent Company issued P7.0 billion fixed rate corporate bonds. The bonds have two tenors:

- a. P4.0 billion worth of bonds have a tenor of five years and three months at an interest rate of 5.50% which will mature on November 10, 2017 (Five Year Bonds), and
- b. P3.0 billion worth of bonds have a tenor of seven years at an interest rate of 5.75% which will mature on August 10, 2019 (Seven Year Bonds).

The Parent Company shall pay interest on the outstanding principal amount of the bonds on each quarterly interest payment date. All payments of interest shall be computed on the basis of 30/360 days.

The Bonds are scripless in form and sold in principal amounts of P50,000 and in multiples of P5,000 in excess of P50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth and fifth anniversary of the issue date of the Five Year Bonds and Seven Year Bonds, respectively, at 102.0% of its face value plus accrued interest.

The Bonds are exempt securities pursuant to certain provisions of the SRC and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 102.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%.

As of December 31, 2013 and 2012, the carrying amount of the government securities assigned as collateral follows:

	2013		2012	
	Pledged securities	Bonds payable	Pledged securities	Bonds payable
AFS investments (Notes 7 and 33)	₱7,494,099,341	₱6,947,583,274	P-	P-
HTM investments (Notes 7 and 33)	-	-	5,915,173,494	6,937,274,672
	₱7,494,099,341	₱6,947,583,274	₱5,915,173,494	₱6,937,274,672

As of December 31, 2013 and 2012, the Parent Company had complied with the terms of the issue.

In 2013 and 2012, the amount of interest expense recognized by the Group and the Parent Company on the Bonds amounted to ₱395.6 million and ₱147.8 million, respectively, for the Group, and ₱402.8 million and ₱157.6 million, respectively, for the Parent Company, which includes amortization of premium and deferred finance charges amounting to ₱10.3 million and ₱3.9 million, respectively.

Fixed Rate Corporate Bonds Due 2017

On November 25, 2011, the Parent Company issued fixed rate corporate bonds (the Bonds) amounting to ₱5.0 billion with fixed interest rate of 5.7% per annum computed based on 30/360 days, payable every quarter starting February 25, 2012 and will mature on February 25, 2017.

The Bonds are scripless in form and sold in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth anniversary of the issue date of the Bonds at 102.0% of its face value plus accrued interest. At initial transaction date, the Parent Company assessed that the prepayment option qualified for bifurcation. As a result, the Group and the Parent Company initially recognized ₱55.7 million derivative asset, respectively (Note 7).

The Bonds are exempt securities pursuant to certain provisions of the SRC and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 100.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%.

As of December 31, 2013 and 2012, the carrying amount of the government securities assigned as collateral follows:

	2013		2012	
	Pledged securities	Bonds payable	Pledged securities	Bonds payable
AFS investments (Notes 7 and 33)	₱5,216,142,863	₱5,005,962,805	P-	P-
HTM investments (Notes 7 and 33)	-	-	4,097,312,123	5,008,972,133
	₱5,216,142,863	₱5,005,962,805	₱4,097,312,123	₱5,008,972,133

As of December 31, 2013 and 2012, the Parent Company had complied with the terms of the issue.

In 2013, 2012 and 2011, the amount of interest expense recognized on the Bonds amounted to P268.5 million, P274.9 million and P26.7 million, respectively, for the Group, and P280.7 million, P281.7 million and P29.6 million, respectively, for the Parent Company, net of amortization of premium and deferred finance charges amounting to P2.7 million, P1.5 million and P0.8 million, respectively, for the Group, and P3.0 million, P1.9 million and P0.8 million, respectively, for the Parent Company.

17. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Financial liabilities:				
Non-equity non-controlling interests	P10,612,415,716	P6,815,662,801	P-	P-
Payables for securities purchased	46,243,124	52,262,564	12,624,521	73,180,307
Dividends payable	26,317,877	26,571,526	26,317,877	26,571,526
Premiums payable	15,392,093	14,833,477	-	-
Subscriptions payable	-	-	9,375,000	9,375,000
Miscellaneous	647,856	558,615	457,777	408,543
	10,701,016,666	6,909,888,983	48,775,175	109,535,376
Nonfinancial liabilities:				
Withholding taxes payable	41,175,105	41,919,621	26,312,242	38,517,802
Other deferred credits (Note 7)	4,440,900	13,416,977	4,440,900	13,416,977
Miscellaneous (Note 29)	492,122,853	9,379,880	466,661,419	1,198,345
	537,738,858	64,716,478	497,414,561	53,133,124
	P11,238,755,524	P6,974,605,461	P546,189,736	P162,668,500

Breakdown of 'Payables for securities purchased' follows:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Third parties	P46,243,124	P52,262,564	P9,556,467	P52,262,564
Related parties	-	-	3,068,054	20,917,743
	P46,243,124	P52,262,564	P12,624,521	P73,180,307

Non-equity non-controlling interests arise when funds are consolidated and where the Group holds less than 100.0% of the investment in those funds. When this occurs, the Group acquires a liability in respect of the non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests since these are puttable instruments.

18. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Group and of the Parent Company by contractual maturity and settlement dates as of December 31, 2013 and 2012:

	Consolidated			Parent Company		
	2013			2013		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	P2,802,419,069	P-	P2,802,419,069	P662,774,811	P-	P662,774,811
Due from BSP	9,001,108,856	-	9,001,108,856	9,001,108,856	-	9,001,108,856
Financial assets at FVPL	19,038,336,269	-	19,038,336,269	8,057,070,915	-	8,057,070,915
AFS investments	6,382,339	37,623,907,472	37,630,289,811	2,295,534	36,398,237,441	36,400,532,975
Loans and receivables - at gross (Note 8)	2,989,182,956	5,786,465,610	8,775,648,566	2,272,023,583	5,677,694,670	7,949,718,253
	33,837,429,489	43,410,373,082	77,247,802,571	19,995,273,699	42,075,932,111	62,071,205,810
Nonfinancial Assets						
Property and equipment	-	82,878,189	82,878,189	-	72,609,421	72,609,421
Investments in subsidiaries, associates and joint venture - at gross (Note 10)	-	4,787,788,924	4,787,788,924	-	6,463,732,209	6,463,732,209
Investment properties - at gross (Note 11)	-	527,412,545	527,412,545	-	525,999,094	525,999,094
Deferred tax assets	-	921,729	921,729	-	-	-
Other assets	407,678,202	98,309,709	505,987,911	378,246,079	68,545,647	446,791,726
	407,678,202	5,497,311,096	5,904,989,298	378,246,079	7,130,886,371	7,509,132,450
Allowance for impairment and credit losses (Note 13)	-	(379,642,474)	(379,642,474)	-	(620,620,629)	(620,620,629)
	P34,245,107,691	P48,528,041,704	P82,773,149,395	P20,373,519,778	P48,586,197,853	P68,959,717,631
Financial Liabilities						
Bills payable	P39,733,048,675	P-	P39,733,048,675	P39,733,048,675	P-	P39,733,048,675
Accounts payable	568,694,611	-	568,694,611	19,365,582	-	19,365,582
Accrued interest and other expenses payable (Note 15)	332,711,511	-	332,711,511	300,565,080	-	300,565,080
Bonds payable	-	11,642,095,928	11,642,095,928	-	11,953,546,079	11,953,546,079
Other liabilities (Note 17)	10,701,016,666	-	10,701,016,666	48,775,175	-	48,775,175
	51,335,471,463	11,642,095,928	62,977,567,391	40,101,754,512	11,953,546,079	52,055,300,591
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	52,575,315	98,506,590	151,081,905	52,568,425	81,636,762	134,205,187
Income taxes payable	7,624,198	-	7,624,198	-	-	-
Deferred tax liability	-	149,355,356	149,355,356	-	142,825,478	142,825,478
Other liabilities (Note 17)	533,297,958	4,440,900	537,738,858	492,973,661	4,440,900	497,414,561
	593,497,471	252,302,846	845,800,317	545,542,086	228,903,140	774,445,226
	P51,928,968,934	P11,894,398,774	P63,823,367,708	P40,647,296,598	P12,182,449,219	P52,829,745,817

	Consolidated			Parent Company		
	2012 (As restated - Note 2)			2012 (As restated - Note 2)		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	P4,658,904,990	P-	P4,658,904,990	P2,880,333,726	P-	P2,880,333,726
Due from BSP	8,500,006,030	-	8,500,006,030	8,500,006,030	-	8,500,006,030
Financial assets at FVPL	15,126,868,380	-	15,126,868,380	8,694,467,564	-	8,694,467,564
AFS investments	870,736,560	15,126,318,149	15,997,054,709	866,504,897	13,650,116,548	14,516,621,445
HTM investments	-	16,334,863,006	16,334,863,006	-	16,334,863,006	16,334,863,006
Loans and receivables - at gross (Note 8)	4,858,682,598	8,449,749,459	13,308,432,057	4,725,872,500	7,834,842,594	12,560,715,094
	34,015,198,558	39,910,930,614	73,926,129,172	25,667,184,717	37,819,822,148	63,487,006,865
Nonfinancial Assets						
Property and equipment	-	90,828,120	90,828,120	-	81,028,824	81,028,824
Investments in subsidiaries, associates and joint venture - at gross (Note 10)	-	13,489,138,867	13,489,138,867	-	13,319,649,471	13,319,649,471
Investment properties - at gross (Note 11)	-	544,399,035	544,399,035	-	542,797,124	542,797,124
Deferred tax assets	-	21,410,066	21,410,066	-	19,263,890	19,263,890
Other assets	312,242,452	67,703,873	379,946,325	283,833,126	48,042,208	331,875,334
	312,242,452	14,213,479,961	14,525,722,413	283,833,126	14,010,781,517	14,294,614,643
Allowance for impairment and credit losses (Note 13)	-	(863,664,745)	(863,664,745)	-	(1,104,606,894)	(1,104,606,894)
	P34,327,441,010	P53,260,745,830	P97,588,186,840	P25,951,017,843	P50,725,996,771	P76,677,014,614

(Forward)

	Consolidated			Parent Company		
	2012 (As restated - Note 2)			2012 (As restated - Note 2)		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Bills payable	P50,645,239,117	P2,566,873,523	P53,212,112,640	P50,645,239,117	P2,566,873,523	P53,212,112,640
Accounts payable	407,943,625	-	407,943,625	33,955,778	-	33,955,778
Accrued interest and other expenses payable (Note 15)	387,402,001	-	387,402,001	371,830,134	-	371,830,134
Bonds payable	-	11,556,415,150	11,556,415,150	-	11,946,246,805	11,946,246,805
Other liabilities (Note 17)	6,909,888,983	-	6,909,888,983	109,535,376	-	109,535,376
	58,350,473,726	14,123,288,673	72,473,762,399	51,160,560,405	14,513,120,328	65,673,680,733
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	27,784,651	72,853,603	100,638,254	27,771,108	55,934,905	83,706,013
Income taxes payable	30,668,954	-	30,668,954	-	-	-
Deferred tax liability	-	18,723,490	18,723,490	-	-	-
Other liabilities (Note 17)	51,299,501	13,416,977	64,716,478	39,716,147	13,416,977	53,133,124
	109,753,106	104,994,070	214,747,176	67,487,255	69,351,882	136,839,137
	P58,460,226,832	P14,228,282,743	P72,688,509,575	P51,228,047,660	P14,582,472,210	P65,810,519,870

19. Equity

Details of the Parent Company's capital stock as of December 31, 2013 and 2012 follow:

	2013		2012	
	Shares	Amount	Shares	Amount
Common stock - P10 par value				
Authorized - 800,000,000 shares				
Issued - 420,869,240 shares				
Issued and paid-up capital	420,869,240	P4,208,692,400	420,869,240	P4,208,692,400
Less treasury shares	48,252,818	2,654,895,565	48,188,915	2,649,208,198
Total issued and outstanding at end of year	372,616,422	P1,553,796,835	372,680,325	P1,559,484,202

As of December 31, 2013 and 2012, the total number of shareholders of the Parent Company's common share is 1,390 and 1,370, respectively.

Acquisition of Treasury Shares

In 2013, the Parent Company bought back 63,903 of its own shares for a total cost of P5.7 million.

In December 2012, the Parent Company acquired 4.4 million of its own shares for a total cost of P393.1 million to address the Minimum Public Ownership Requirement of the PSE. Subsequently, the Parent Company was delisted from the PSE. A portion of the treasury shares of the Parent Company which numbers to 700,320 shares were previously owned by FMSBC.

In 2011, FMSALEF and FMSALBF acquired 1,779,750 and 100,000 shares of stock of the Parent Company, respectively, for P98.0 million and P5.0 million, respectively. These shares were sold to a third party in 2012.

Dividend Declaration

Details of the Parent Company's dividend distribution follow:

Date of Declaration	Dividend		Date of BSP Approval	Record Date	Payment Date
	Per Share	Total Amount			
August 23, 2013	P8.06	P3,003,297,147	October 8, 2013	September 30, 2013	October 25, 2013
November 5, 2013	13.42	5,000,520,972	December 12, 2013	December 20, 2013	December 27, 2013
May 24, 2011	2.66	1,002,969,359	August 12, 2011	August 31, 2011	September 8, 2011

Capital Management

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

The Group manages its capital structure attuned to the changes in economic conditions and the risk characteristics of its activities. The Group may adjust the amount of dividend payments to shareholders or issue capital securities in order to maintain or adjust its capital structure.

Regulatory Qualifying Capital

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

In addition, the risk-based capital ratio of the Parent Company, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0% on a consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On August 4, 2006, the BSP issued Circular No. 538, the revised risk based capital adequacy framework for the Philippine Banking system to conform with the Basel II recommendation which took effect on July 1, 2007. The Group is in compliance with the CAR during the period 2013 and 2012. The capital-to-risk assets ratio of the Group as reported to the BSP as of December 31, 2013 and December 31, 2012 are shown in the table below:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Tier 1 capital	₱17,084,740,614	₱11,819,712,874	₱17,084,740,614	₱11,819,712,874
Tier 2 capital	807,930,052	603,598,676	766,817,487	547,215,247
Gross qualifying capital	17,892,670,666	12,423,311,550	17,851,558,101	12,366,928,121
Less: Required deductions	557,412,006	119,882,078	1,652,901,104	978,547,946
Total qualifying capital	₱17,335,258,660	₱12,303,429,472	₱16,198,656,997	₱11,388,380,175
Risk weighted assets	₱34,469,471,066	₱48,303,505,672	₱32,690,048,980	₱46,690,568,054
Tier 1 capital ratio	48.2%	24.3%	49.1%	24.3%
Total capital ratio	50.3%	25.5%	49.6%	24.4%

The breakdown of the risk-weighted assets for 2013 and 2012 is presented as follows (in millions):

	Consolidated		Parent Company	
	2013	2012	2013	2012
Total credit risk-weighted assets	₱24,367	₱31,243	₱22,983	₱30,325
Total market risk-weighted assets	6,200	13,490	6,051	13,065
Total operational risk-weighted assets	3,902	3,571	3,656	3,301
Total risk-weighted assets	₱34,469	₱48,304	₱32,690	₱46,691

Breakdown of the credit and market risk-weighted assets are as follows (in millions):

	Consolidated		Parent Company	
	2013	2012	2013	2012
Total risk-weighted on-balance sheet assets (Schedule A)	₱23,957	₱30,713	₱22,573	₱29,795
Total risk-weighted off-balance sheet assets (Schedule B)	410	530	410	530
Total credit risk-weighted assets	₱24,367	₱31,243	₱22,983	₱30,325

	Consolidated		Parent Company	
	2013	2012	2013	2012
Interest rate exposures	P4,317	P9,470	P4,317	P9,470
Equity exposures	1,843	3,898	1,694	3,473
Foreign exposures	40	122	40	122
Total market risk-weighted assets	P6,200	P13,490	P6,051	P13,065

	Schedule A			
	Consolidated			
	2013		2012	
	Total credit risk exposure after risk mitigation	Total credit risk weighted assets	Total credit risk exposure after risk mitigation	Total credit risk weighted assets
Cash and other cash items	P1,428	P1,428	P3,341	P3,341
Due from BSP	9,001	–	8,500	–
AFS investments	39,457	11,435	17,902	5,930
HTM investments	–	–	13,041	–
Unquoted commercial papers	1,775	1409	3,151	2,644
Loans and receivables arising from repurchase agreements, certificates of assignment/ participation with recourse and securities lending and borrowing transactions	3,735	3,715	4,561	4,539
Sales contract receivable	15	15	14	14
Investment properties	266	398	300	450
Total exposures excluding other assets	55,677	18,400	50,810	16,918
Other assets	5,557	5,557	13,795	13,795
Total exposures including other assets	61,234	23,957	64,605	30,713
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants	61,234	23,957	64,605	30,713
Total risk-weighted on-balance sheet assets covered by credit risk mitigants	1,901	–	5,971	–
Total credit risk-weighted on-balance sheet assets	P63,135	P23,957	P70,576	P30,713

	Schedule A			
	Parent Company			
	2013		2012	
	Total credit risk exposure after risk mitigation	Total credit risk weighted assets	Total credit risk exposure after risk mitigation	Total credit risk weighted assets
Cash and other cash items	P663	P663	P2,880	P2,880
Due from BSP	9,001	–	8,500	–
AFS investments	38,828	10,901	17,389	5,542
HTM investments	–	–	13,041	–
Unquoted commercial papers	1,775	1409	3,058	2,625
Loans and receivables arising from repurchase agreements, certificates of assignment/ participation with recourse and securities lending and borrowing transactions	3,735	3,715	4,561	4,539

(Forward)

Schedule A				
Parent Company				
	2013		2012	
	Total credit risk exposure after risk mitigation	Total credit risk weighted assets	Total credit risk exposure after risk mitigation	Total credit risk weighted assets
Sales contract receivable	P15	P15	P14	P14
Investment properties	266	398	300	450
Total exposures excluding other assets	54,283	17,101	49,743	16,050
Other assets	5,472	5,472	13,745	13,745
Total exposures including other assets	59,755	22,573	63,488	29,795
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants	59,755	22,573	63,488	29,795
Total risk-weighted on-balance sheet assets covered by credit risk mitigants	1,901	-	5,971	-
Total risk-weighted on-balance sheet assets	P61,656	P22,573	P69,459	P29,795

Schedule B				
	Consolidated		Parent Company	
	2013	2012	2013	2012
Direct credit substitutes (financial stand-by letter of credit)	P410	P410	P410	P410
Transaction-related contingencies (underwritten account unsold)	-	120	-	120
Total risk-weighted off-balance sheet assets	P410	P530	P410	P530

The regulatory qualifying capital of the Parent Company consists of Tier 1 (core) capital, which comprises paid-up common stock, capital in excess of par value, surplus including current year profit, cumulative foreign currency translation less required deductions such as treasury shares, unsecured credit accommodations granted to subsidiaries and affiliates. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes net unrealized gains on AFS investments - equity securities (subject to 55.0% discount) and general loan loss provision.

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

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that the appropriate level and quality of capital is maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory edicts. The Group follows the Metrobank Group's ICAAP framework and submits the result of its assessment to the Ultimate Parent Company. The BSP requires submission of ICAAP documents on a group-wide basis every January 31. The Group, through the Ultimate Parent Company, has complied with the requirement.

On January 15, 2013, the BSP issued Circular No. 781, covering the Basel III, *Implementing Guidelines on Minimum Capital Requirements*. The guidelines revised the risk-based capital adequacy framework that will significantly impact the Group as its equity investments in nonfinancial allied undertakings and non-allied undertakings and significant minority investments in other financial allied undertakings will be fully deducted from CET1 Capital. BSP Circular No. 781 is effective for annual periods beginning on or after January 1, 2014.

The Circular sets out a minimum CET1 ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.0% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

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

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

In the consolidated financial statements, a portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates amounting to P2.2 billion and P3.0 billion as of December 31, 2013 and 2012, respectively, and the gain from the remeasurement of the remaining ownership interest in GBPC reclassified from investments in associate to AFS investments amounting to P1.3 billion in 2013, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

Minimum Capital Requirement

As required by the 'Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered as Underwriters of Securities', investment houses shall have a minimum initial paid-in capital of P300.0 million or such amount as the BSP may prescribe at the time of incorporation. Further, BSP requires a P200.0 million minimum paid-in capital for investment houses to be established in Metro Manila.

The Parent Company's paid-in capital is P3.6 billion, which is above the required externally imposed minimum paid-in capital.

20. Interest Income

This account consists of interest income on:

	Consolidated			Parent Company		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012	2011
AFS investments	P1,368,985,327	P516,593,653	P480,154,455	P1,281,794,336	P494,828,219	P452,847,176
Loans and receivables	710,466,379	983,141,526	1,265,991,053	661,210,565	928,635,367	1,233,700,784
Financial assets at FVPL	257,081,298	125,983,347	85,754,419	257,081,298	125,983,347	85,754,419
HTM investments	214,128,015	1,328,696,387	1,216,259,137	214,128,015	1,328,696,387	1,216,259,137
Due from BSP	109,965,009	141,790,061	120,917,728	109,965,009	141,790,061	120,917,728
Deposits with banks	44,639,136	169,675,842	422,007,406	21,035,161	128,469,241	398,263,113
IBLR and SPURA	18,788,014	46,679,257	26,497,951	18,788,014	46,679,257	26,497,951
	P2,724,053,178	P3,312,560,073	P3,617,582,149	P2,564,002,398	P3,195,081,879	P3,534,240,308

In 2013, 2012 and 2011, the Group did not recognize any interest income on impaired loans and receivables.

21. Interest Expense

This account consists of interest expense on:

	Consolidated			Parent Company		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012	2011
Bonds payable (Note 16)	P664,143,236	P422,717,819	P26,653,639	P683,549,274	P439,276,359	P29,558,648
Deposit substitutes (Note 14):						
Promissory notes issued	643,357,167	1,569,163,316	1,821,091,338	643,357,167	1,569,977,924	1,821,091,338
Repurchase agreements	124,792,198	173,634,840	434,199,088	124,792,198	173,634,840	436,248,207
Borrowings from other banks (Note 14)	118,984,162	141,697,035	79,696,901	118,984,162	141,697,035	79,696,901
Interbank call loans (Note 14)	4,827,014	24,121,389	76,653,170	4,827,014	24,121,389	76,653,170
Others	2,756,250	9,600,615	16,849,306	2,756,250	9,600,615	16,849,306
	P1,558,860,027	P2,340,935,014	P2,455,143,442	P1,578,266,065	P2,358,308,162	P2,460,097,570

22. Retirement Plans

The Parent Company, FMSBC and FAMI have funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's, FMSBC's and FAMI's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The costs of defined benefit retirement plans as well as the present value of the retirement liability are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining retirement liability for the defined benefit retirement plans are shown below:

		January 1, 2013				
		Actuarial Assumptions				
	Date of Actuarial Valuation Report	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	January 1, 2013	55	8	12.7%	10.0%	4.5%
FMSBC	January 1, 2013	55	7	15.4%	10.0%	4.8%
FAMI	January 1, 2013	55	7	15.3%	10.0%	5.6%

		January 1, 2012				
		Actuarial Assumptions				
	Date of Actuarial Valuation Report	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	January 1, 2012	55	8	13.6%	10.0%	5.9%
FMSBC	January 1, 2012	55	7	16.3%	10.0%	6.1%
FAMI	January 1, 2012	55	6	14.2%	10.0%	6.0%

The net retirement liability recognized and shown under 'Accrued taxes, interest and other expenses payable' in the Group's and the Parent Company's statements of financial position follows:

	Consolidated										
	January 1, 2013	Current service cost	Net benefit cost	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions paid	December 31, 2013
Present value of defined benefit obligation	P229,680,700	P33,099,575	P11,990,624	P45,090,199	(P2,162,160)	P-	P15,229,137	P17,617,300	P32,846,437	P-	P305,455,176
Fair value of plan assets	(156,827,097)	-	(9,167,992)	(9,167,992)	2,162,160	(1,742,606)	-	-	(1,742,606)	(41,373,051)	(206,948,586)
Net defined benefit liability	P72,853,603	P33,099,575	P2,822,632	P35,922,207	P-	(P1,742,606)	P15,229,137	P17,617,300	P31,103,831	(P41,373,051)	P88,506,590
Parent Company											
	January 1, 2013	Current service cost	Net benefit cost	Subtotal	Benefits paid <td>Return on plan assets (excluding amount included in net interest)</td> <td>Actuarial changes arising from experience adjustments <td>Actuarial changes arising from changes in financial assumptions <td>Subtotal</td> <td>Contributions paid</td> <td>December 31, 2013</td> </td></td>	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments <td>Actuarial changes arising from changes in financial assumptions <td>Subtotal</td> <td>Contributions paid</td> <td>December 31, 2013</td> </td>	Actuarial changes arising from changes in financial assumptions <td>Subtotal</td> <td>Contributions paid</td> <td>December 31, 2013</td>	Subtotal	Contributions paid	December 31, 2013
Present value of defined benefit obligation	P207,242,800	P29,613,500	P10,772,885	P40,386,385	(P2,162,160)	P-	P12,490,425	P16,434,600	P28,925,025	P-	P274,382,000
Fair value of plan assets	(151,307,895)	-	(8,623,029)	(8,623,029)	2,162,160	(2,411,101)	-	-	(2,411,101)	(32,575,373)	(192,755,238)
Net defined benefit liability	P55,934,905	P29,613,500	P2,149,806	P31,763,306	P-	(P2,411,101)	P12,490,425	P16,434,600	P26,513,924	(P32,575,373)	P81,636,762

Consolidated

	Remeasurements in other comprehensive income											
	January 1, 2012	Current service cost	Net benefit cost interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions paid	December 31, 2012
Present value of defined benefit obligation	P160,143,570	P22,128,400	P9,509,203	P31,637,603	(P11,224,429)	P-	P22,023,656	(P1,029,900)	P28,130,200	P49,123,956	P-	P229,680,700
Fair value of plan assets	(134,053,330)	-	(8,344,452)	(8,344,452)	11,224,429	(6,856,497)	-	-	-	(6,856,497)	(18,797,247)	(156,827,097)
Net defined benefit liability	P26,090,240	P22,128,400	P1,164,751	P23,293,151	P-	(P6,856,497)	P22,023,656	(P1,029,900)	P28,130,200	P42,267,459	(P18,797,247)	P72,853,603

Parent Company

	Remeasurements in other comprehensive income											
	January 1, 2012	Current service cost	Net benefit cost interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions paid	December 31, 2012
Present value of defined benefit obligation	P143,377,200	P19,392,700	P8,356,365	P27,749,065	(P11,224,429)	P-	P23,084,065	(P937,300)	P25,194,200	P47,340,965	P-	P207,242,801
Fair value of plan assets	(129,207,473)	-	(8,048,856)	(8,048,856)	11,224,429	(6,478,749)	-	-	-	(6,478,749)	(18,797,247)	(151,307,896)
Net defined benefit liability	P14,169,727	P19,392,700	P307,509	P19,700,209	P-	(P6,478,749)	P23,084,065	(P937,300)	P25,194,200	P40,862,216	(P18,797,247)	P55,934,905

In 2013, there are no actuarial gains and losses arising from changes in demographic assumptions.

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated	
	2013	2012
Cash and cash equivalents	₱50,607,423	₱5,028,438
Equity instruments		
Holding firms	5,219,900	20,011,200
Services	2,596,400	1,110,000
Real estate	2,408,653	2,696,450
Industrial	2,099,760	4,030,635
Others	1,143,275	3,534,151
Debt instruments		
Government securities	118,660,385	89,444,861
Below AAA and not rated private debt securities	14,257,855	13,026,526
Investment in mutual funds	8,947,587	7,979,700
Loans and receivables		
Unquoted commercial papers		
Industrial	-	4,950,000
Services	-	3,960,000
Interest and other receivables	1,351,749	1,326,966
	207,292,987	157,098,927
Accrued trust fee payable	344,401	271,830
Fair value of plan assets	₱206,948,586	₱156,827,097

	Parent Company	
	2013	2012
Cash and cash equivalents	₱46,104,061	₱4,445,492
Equity instruments		
Holding firms	5,219,900	20,011,200
Services	2,596,400	1,110,000
Real estate	2,408,653	2,696,450
Industrial	2,099,760	4,030,635
Others	1,143,275	1,777,700
Debt instruments		
Government securities	109,962,364	86,322,338
Below AAA and not rated private debt securities	14,257,855	13,026,526
Investment in mutual funds	8,010,900	7,979,700
Loans and receivables		
Unquoted commercial papers		
Industrial	-	4,950,000
Services	-	3,960,000
Interest and other receivables	1,287,323	1,261,556
	193,090,491	151,571,597
Accrued trust fee payable	335,253	263,701
Fair value of plan assets	₱192,755,238	₱151,307,896

As of December 31, 2013 and 2012, equity securities included in the plan assets include shares from the Ultimate Parent Company and other related parties amounting to ₱2.0 million and ₱1.4 million, respectively (Note 27).

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	December 31, 2013			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rates	+1.0%	(P24,884,812)	+1.0%	(P22,288,100)
	-1.0%	28,434,832	-1.0%	25,457,800
Turnover rate	+2.0%	(7,778,987)	+2.0%	(6,875,300)
	-2.0%	8,951,646	-2.0%	7,890,400
Future salary increase rate	+1.0%	25,301,397	+1.0%	22,636,800
	-1.0%	(22,755,303)	-1.0%	(20,367,000)

The Group and the Parent Company expect to contribute P54.1 million and P46.9 million, respectively, to its defined benefit pension plan in 2014.

The average duration of the defined benefit retirement liability at the end of the reporting period ranges from 14.3 years to 18.2 years for the Group and 14.3 years for the Parent Company.

23. Miscellaneous Income (Loss)

This account consists of:

	Consolidated			Parent Company		
	2013	2012	2011	2013	2012	2011
		(As restated - Note 2)	(As restated - Note 2)		P-	P-
Sales load and redemption fees	P32,999,111	P12,988,762	P7,480,061	P-	P-	P-
Loss from redemption of AFS equity shares	(20,372,200)	-	-	(20,372,200)	-	-
Gain (loss) from sale/redemption of unquoted commercial papers (Note 7)	18,557,329	62,109,886	(11,533,646)	2,135,762	56,836,833	(12,584,713)
Rental income (Note 24)	12,792,140	11,680,285	9,358,973	11,395,568	10,204,024	7,882,712
Trust fee income	1,672,405	957,492	36,759	1,672,405	957,492	36,759
Prepayment penalty from redemption of unquoted commercial papers	564,567	24,123,606	9,499,897	564,567	15,979,165	9,499,897
Commitment fee	-	1,179,748	1,183,959	-	1,179,748	1,183,959
Others	4,829,182	3,590,055	3,921,599	2,882,732	3,689,288	3,437,698
	P51,042,534	P116,629,834	P19,947,602	(P1,721,166)	P88,846,550	P9,456,312

24. Leases

Operating Lease Commitments - Group as Lessee

The Group and the Parent Company lease the premises they occupy. The lease contracts are for periods ranging from two to five years and are renewable upon mutual agreement of parties. Annual lease payments are generally fixed. In 2013, 2012 and 2011, rent expense recognized under 'Rent, light and water expenses' in the statements of income amounted to P42.8 million, P41.9 million and P39.3 million, respectively, for the Group, and P37.0 million, P35.9 million and P35.5 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancellable operating leases of the Group and of the Parent Company as of December 31, 2013 and 2012 follow:

	2013	2012
Within one year	P34,549,295	P22,940,883
After one year but not more than five years	110,564,199	796,307
	P145,113,494	P23,737,190

Operating Lease Commitments - Group as Lessor
Parent Company

As of December 31, 2013 and 2012, the Parent Company leases its investment property on a short-term basis and is renewable annually upon mutual agreement of the parties. The Parent Company have future minimum rentals under non-cancellable operating leases amounting to P2.3 million and nil as of December 31, 2013 and 2012, respectively, receivable within one year from the statement of financial position date.

In 2013, 2012 and 2011, rental income from investment properties (included under 'Miscellaneous income') amounted to P5.1 million, P7.3 million and P4.9 million, respectively (Note 23).

On April 16, 2011, the Parent Company entered into a renewable sublease contract with a related party for a period of three years ending April 15, 2014. Rental income earned from the sublease contract (included under 'Miscellaneous income') amounted to P3.3 million, P3.3 million and P1.3 million in 2013, 2012 and 2011, respectively (Note 23).

Future minimum rentals under non-cancellable sublease of the Parent Company as of December 31, 2013 and 2012 follow:

	2013	2012
Within one year	P769,358	P2,637,798
After one year but not more than five years	-	769,358
	P769,358	P3,407,156

FMSBC

FMSBC also entered into a lease contract on its investment property with a related party for five years which ended on May 31, 2013 (with annual escalation of 10.0%). The lease contract was renewed for another five years ending May 31, 2018. Rental income (included under 'Miscellaneous income') amounted to P1.4 million, P1.5 million and P1.5 million, respectively, in 2013, 2012 and 2011, respectively.

Future minimum rentals under non-cancellable operating lease as of December 31, 2013 and 2012 follow:

	2013	2012
Within one year	P1,215,085	P578,612
After one year but not more than five years	4,528,368	-
	P5,743,453	P578,612

25. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012	2011
Transfer and exchange fees	P99,274,496	P39,419,046	P24,105,217	P36,319,918	P27,112,590	P13,653,839
Professional fees	75,276,707	43,148,490	41,306,617	44,850,338	23,789,988	19,940,542
Communication	32,650,099	21,859,213	18,290,365	25,385,685	17,565,547	14,993,296
Supervision fees	26,029,938	19,337,885	17,977,088	26,024,888	19,337,885	17,977,088
Referral and service fees	25,776,897	10,127,847	3,915,526	-	-	-
Security, messengerial and janitorial	19,842,049	17,141,507	13,249,199	15,450,312	13,235,816	10,556,135
Advertising	19,227,178	15,765,004	12,114,896	5,909,876	5,495,492	6,777,386
Amortization of software cost (Note 12)	19,174,197	5,425,703	6,164,026	16,880,838	3,791,301	5,404,138
Transportation and travel	16,616,405	11,869,115	9,742,968	11,309,903	8,656,147	7,555,239
Online trading fees	14,080,032	9,424,342	5,782,237	-	-	-
Fuel and lubricants	12,798,031	9,605,997	8,400,715	12,798,031	9,605,997	8,400,715
Insurance	11,785,883	9,509,132	8,553,663	9,516,594	7,441,545	7,328,013
Donations	11,410,000	895,000	10,799,731	11,290,000	895,000	10,709,731
Stationary and supplies used	8,513,991	7,250,845	6,493,844	5,056,937	5,065,275	4,130,829
Membership dues	7,797,194	9,992,904	8,866,853	7,406,772	9,487,296	8,211,882
Internal audit fee (Note 27)	5,794,948	10,475,205	-	5,794,948	10,475,205	-
Research and other technical cost	5,372,728	3,553,715	1,057,667	-	-	-
Litigation/asset-acquired expenses (Note 11)	3,924,159	3,756,475	7,194,149	3,924,159	3,756,475	7,194,149
Custodianship, collateral agent, and maintenance fees	3,882,366	4,488,482	2,027,918	3,882,366	4,488,482	2,027,918
Bank service charges and other service fees	3,562,810	2,956,321	1,964,221	3,562,810	2,956,321	1,964,221
Information technology expenses	3,358,766	2,888,979	3,148,459	1,531,268	2,888,979	3,148,459
Repairs and maintenance	2,875,641	2,123,658	1,509,559	2,106,310	1,366,338	1,024,163
Periodical and magazine subscriptions	500,714	458,217	411,905	500,714	458,217	411,905
Others	286,060,783	44,372,242	24,918,611	346,660,745	38,173,818	28,062,304
	P715,586,012	P305,845,324	P237,995,434	P596,163,412	P216,043,714	P179,471,952

Others consist mostly of expenses for business support and development costs for its mutual funds business, advertising and publicity, company sponsorships, corporate social responsibility initiatives, corporate giveaways, maintenance and administrative costs.

26. Income and Other Taxes

The provision for income tax consists of:

	Consolidated			Parent Company		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
Current						
Final tax	P1,174,285,362	P511,664,400	P482,863,743	P1,140,520,107	P465,077,979	P454,776,580
Corporate	109,483,424	68,890,342	50,079,104	22,143,719	12,914,910	20,138,657
	1,283,768,786	580,554,742	532,942,847	1,162,663,826	477,992,889	474,915,237
Deferred	169,883,682	(4,653,736)	(1,927,512)	170,043,545	169,044	1,029,356
	P1,453,652,468	P575,901,006	P531,015,335	P1,332,707,371	P478,161,933	P475,944,593

Under Philippine tax laws, the Parent Company and its domestic 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 (GRT) and documentary stamp taxes (DST).

Income taxes include corporate income tax, as discussed below, as well as final withholding taxes paid at the rates of 20.0% of gross interest income from peso-denominated debt instruments and other deposit substitutes, 7.5% of gross interest income from foreign currency deposits in a depository bank under the expanded foreign currency deposit system and a final tax (5.0% for the first P100,000 and 10.0% on any amount in excess of P100,000) imposed upon the net capital gains realized during the taxable year from the disposition of shares of stock in a domestic corporation not

traded in the stock exchange. Included in final tax is the amount of P726.4 million representing capital gains tax paid on the sale of GBPC shares.

The RCIT rate shall be 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax.

The National Internal Revenue Code of 1997 also provides for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Parent Company has elected to claim itemized deductions instead of OSD for its 2013, 2012 and 2011 RCIT computations.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. The regulations also provide for an MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's and Parent Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

As of December 31, 2013, net deferred tax asset of the Group represents the tax effect of the accrued retirement liability of a subsidiary amounting to P0.9 million. As of December 31, 2012 and 2011, net deferred tax asset of the Group represents the tax effect of the accrued retirement liability and accrued expenses of the Parent Company and a subsidiary amounting to P21.4 million and P9.2 million, respectively.

The components of consolidated net deferred tax liabilities follow:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012 (As restated - Note 2)
Deferred tax liabilities on:				
Fair value gain on reclassification of investment in associate to AFS investments	P206,192,591	P-	P206,192,591	P-
Unrealized gain on AFS debt investments	15,635,588	26,503,771	-	-
Deferred tax liabilities on:				
Unrealized gain on HFT investments	24,082	610,174	-	-
Unrealized foreign exchange gain	16,321,202	-	16,321,202	-
Rent receivable	13,189	-	-	-
Leasing income differential	-	38,597	-	-
	238,186,652	27,152,542	222,513,793	-
Deferred tax assets on:				
MCIT	55,197,286	-	55,197,286	-
Unamortized past service cost	831,523	442,783	-	-
Accrued retirement liability	28,667,646	3,233,399	24,491,029	-
Accrued expenses	4,134,841	4,752,870	-	-
	88,831,296	8,429,052	79,688,315	-
	P149,355,356	P18,723,490	P142,825,478	P-

In 2013, 2012 and 2011, deferred income tax recognized directly against OCI amounted to P10.9 million, P14.3 million and P2.8 million, respectively, for the Group and nil for the Parent Company. The recognized deferred income tax pertains to OCI that recycle to profit or loss in subsequent periods.

In 2013, 2012 and 2011, deferred income tax recognized directly against OCI amounted to P9.3 million, P12.7 million and P6.8 million, respectively, for the Group, and P8.0 million, P12.3 million and P5.6 million, respectively, for the Parent Company. The recognized deferred income tax pertains to OCI that do not recycle to profit or loss in subsequent periods.

The Parent Company and certain subsidiaries did not set up deferred tax assets on the following:

	Consolidated		Parent Company	
	2013	2012 (As restated - Note 2)	2013	2012
Temporary differences on:				
NOLCO	P600,329,069	P991,414,047	P-	P707,845,283
Allowance for impairment and credit losses	288,631,773	804,704,447	255,291,580	771,328,248
Accumulated depreciation on investment properties and other foreclosed properties	73,536,275	69,432,398	70,238,100	66,322,684
Unrealized loss on AFS and HFT investments	62,358,001	1,518,789	62,358,001	-
Unamortized past service cost	20,691,253	15,330,900	20,691,253	15,330,900
Carryforward benefits of MCIT	15,388	34,277,082	-	34,258,445
	P1,045,561,759	P1,916,677,663	P408,578,934	P1,595,085,560

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

As of December 31, 2013 and 2012, deferred tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries and associates, and the related equity in translation adjustment since such amounts are not taxable.

Details of the Group and the Parent Company's NOLCO follow:

Inception Year	Consolidated				
	Amount	Used	Expired	Balance	Expiry Year
2009	P945,007,039	P369,952,701	P575,054,338	P-	2012
2010	764,334,686	632,634,165	131,700,521	-	2013
2011	70,083,191	-	-	70,083,191	2014
2012	156,996,170	-	-	156,996,170	2015
2013	373,249,708	-	-	373,249,708	2016
	P2,309,670,794	P1,002,586,866	P706,754,859	P600,329,069	

Inception Year	Parent Company				
	Amount	Used	Expired	Balance	Expiry Year
2009	P932,325,916	P369,952,701	P562,373,215	P-	2012
2010	707,845,283	632,634,165	75,211,118	-	2013
	P1,640,171,199	P1,002,586,866	P637,584,333	P-	

Details of the Group and the Parent Company's MCIT follow:

Inception Year	Consolidated				
	Amount	Used	Expired	Balance	Expiry Year
2010	P1,208,127	P-	P1,208,127	P-	2013
2011	20,154,045	-	-	20,154,045	2014
2012	12,914,910	-	-	12,914,910	2015
2013	22,143,719	-	-	22,143,719	2016
	P56,420,801	P-	P1,208,127	P55,212,674	

Parent Company					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2010	P1,204,878	P-	P1,204,878	P-	2013
2011	20,138,657	-	-	20,138,657	2014
2012	12,914,910	-	-	12,914,910	2015
2013	22,143,719	-	-	22,143,719	2016
	P56,402,164	P-	P1,204,878	P55,197,286	

A reconciliation between the statutory income tax and effective income tax follows:

	Consolidated			Parent Company		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Statutory income tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tax effects of:						
Tax-exempt and tax-paid income	(31.4)	(21.6)	(37.2)	(28.3)	(30.0)	(46.5)
Equity in net earnings of associates	(2.9)	(11.3)	(8.1)	-	-	-
Non-deductible expenses	15.2	11.1	33.6	8.1	15.3	50.4
Unrecognized deferred tax assets	0.4	3.6	0.1	-	(2.6)	(9.8)
Effective income tax rate	11.3%	11.8%	18.4%	9.8%	12.7%	24.1%

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group and the Parent Company have transactions with its subsidiaries, associated companies, affiliates, and with certain related interests collectively referred to as directors, officers, stockholders and other related interests (DOSRI). These transactions consist primarily of loan transactions, management contracts, outright purchases and sales of trading and investment securities, business and development support and other regular banking transactions.

Existing BSP regulations limit the amount of individual loans to DOSRI, of which 70.0% must be secured, to the total amount of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed 100.0% of the Parent Company's combined capital accounts, net of deferred income tax, unbooked valuation reserves and other capital adjustments as may be required by the BSP.

The following table shows information on loans to DOSRI as of December 31, 2013 and 2012:

	2013	2012
Total outstanding DOSRI loans	P47,715,377	P1,550,664,952
Percent of DOSRI loans to total loans	1.3%	27.6%
Percent of unsecured DOSRI loans to total DOSRI	0.0%	29.0%

Under BSP Circular No. 423, loans and other credit accommodations and guarantees secured by assets are considered as non-risk by the Parent Company and therefore excluded from DOSRI individual and aggregate ceilings.

Total interest income on DOSRI loans amounted to P4.4 million, P104.4 million and P103.6 million in 2013, 2012 and 2011, respectively.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Consolidated						
	2013						
	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	P1,045,131,757,500	P1,045,334,297,993	P84,892,930,198	P85,430,083,893	P123,000,000,000	P-	P53,893,217,700
Associates	-	-	723,189,578	505,727,029	624,577,400	-	-
Affiliates	346,400,336	937,460,950	626,380,135	839,120,460	38,550,000,000	16,361,372,569	23,850,000,000
	P1,045,478,157,836	P1,046,271,758,943	P86,242,499,911	P86,774,931,382	P162,174,577,400	P16,361,372,569	P77,743,217,700
Consolidated							
2012 (As restated - Note 2)							
	Deposits	Withdrawals	Sale of Securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	P631,367,740,156	P631,465,965,533	P123,066,985,879	P120,021,499,928	P-	P-	P54,960,000,000
Associates	-	-	333,953,512	452,673,070	1,367,870,989	2,732,239,813	-
Affiliates	2,045,175,091	7,018,266,469	5,669,801,772	4,221,578,804	1,610,000,000	8,494,650,000	56,875,000,000
Key management personnel	-	-	-	-	-	238,273,008	-
	P633,412,915,247	P638,484,232,002	P129,070,741,163	P124,695,751,802	P2,977,870,989	P11,465,162,821	P111,835,000,000
Parent Company							
2013							
	Deposits	Withdrawals	Sale of Securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	P292,775,617,899	P293,123,682,073	P84,892,930,198	P85,430,083,893	P123,000,000,000	P-	P53,893,217,700
Subsidiaries	-	-	11,333,468,279	5,815,472,607	-	6,113,691	-
Associates	-	-	723,189,578	505,727,029	-	-	-
Affiliates	3,157,435	603,157,495	626,380,135	839,120,460	38,550,000,000	16,361,372,569	23,850,000,000
	P292,778,775,334	P293,726,839,568	P97,575,968,190	P92,590,403,989	P161,550,000,000	P16,367,486,260	P77,743,217,700
Parent Company							
2012 (As restated - Note 2)							
	Deposits	Withdrawals	Sale of Securities	Purchase of securities	Availments of term loans	Issuance of bills payable	Borrowings
Ultimate Parent Company	P231,625,022,472	P231,844,126,239	P123,066,985,879	P120,021,499,928	P-	P-	P54,960,000,000
Subsidiaries	-	-	39,257,543,205	41,759,122,049	-	191,760,000	-
Associates	-	-	272,847,632	371,067,898	1,367,870,989	2,732,239,813	-
Affiliates	654,812,833	5,054,787,764	5,669,801,772	4,221,578,804	1,500,000,000	8,494,650,000	56,875,000,000
Key management personnel	-	-	-	-	-	238,273,008	-
	P232,279,835,305	P236,898,914,003	P168,267,178,488	P166,373,268,679	P2,867,870,989	P11,656,912,821	P111,835,000,000

The following are the balances of the Group's related party transactions as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 (amounts in thousands):

As of December 31, 2013			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Cash and other items		P2,275,360	Savings, current and time deposits with interest rates ranging from 0.3% to 1.4% per annum
Financial assets at FVPL		378,335	Investments in equity securities
Accrued interest receivable		26	From time deposits
Other receivables		45	Non-interest bearing rent receivable and receivable from customers
Bills payable		546,136	Short-term interbank loans payable (IBCL) in foreign currency with interest ranging from 1.2% to 1.8%
Accrued taxes, interest and other expenses		10,178	Donation to Metrobank Foundation Inc. and accrued interest payable from Interbank loans payable in foreign currency
Accounts payable		172	Payable to customers and retainers' fee
Year Ended December 31, 2013			
Interest income	P28,400		From interbank loans, savings, current and time deposits
Service charges, fees commissions	6,655		Broker's commissions, contractual & other services
Dividend income	4,139		Dividends from stocks investments
Trading and securities gain	127,257		Realized and unrealized gain from investments in equity securities
Rental income	1,397		Rental income on leased investment property
Interest expense	61,368		Interest expense from interbank borrowings
Miscellaneous expense	16,204		Internal audit fee for the current year, stock and transfer agency fee, donation to Metrobank Foundation Inc.
As of December 31, 2013			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Joint Venture/Associates			
Cash and other cash items		P51,143	Short-term placements with interest rates ranging from 2.0% to 4.8%
Accounts receivable		44,264	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses; receivables from securities sold
Accrued interest receivable		121	From short-term placements
Year Ended December 31, 2013			
Interest income	P1,833		From short-term placements
Trading and securities gain	19,130		From sale of debt and equity securities
Rental income	3,297		Rental income from sublease agreement
As of December 31, 2013			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Cash and other cash items		P64,633	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 1.9% per annum
Financial assets at FVPL		770,294	Investments in equity securities

As of December 31, 2013

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
AFS investments		P4,308,412	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield ranging from 3.1% to 5.1%
Loans and discounts		1,071,734	Time loans with 10.0 -12.0 years original term and with interest rates ranging from 6.4% to 10.4% per annum; fringe benefit loans to employees with terms ranging from 1.9 years to 15.0 years and interest rates ranging from 3.0% to 12.0%.
Accrued interest receivable		30,982	From time deposits and time loans
Dividends receivable		182,200	Dividends receivable from GBPC
Accounts receivable		3,902	Short-term accounts receivable with effective interest rate of 6.2% per annum
Other assets		195	Rent deposits
Accounts payable		824	Payable to customers
Other liabilities		1,326	Short-term subordinated notes with effective interest rate of 6.1% per annum and rent payable to PS Bank
Net unrealized gain on AFS		515,896	Net unrealized gain on AFS investments

Year Ended December 31, 2013

Interest income	P128,606	Interest income from investment in private bonds, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Fees and commissions	18,916	Fees earned from underwriting activities with GT Capital Holdings, Inc. (GT Capital) and Metrobank Card Corporation's capital raising activities
Dividend income	247,602	Dividends from stocks investments
Trading and securities gain	242,703	Realized and unrealized gain on investments in equity securities
Interest expense	2,401	From interbank borrowings, short-term subordinated notes payable
Rent, light and water	5,486	Rental payments for office premises

As of December 31, 2013

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans and discounts		P14,302	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Accrued other expenses payable		159	Directors' fees payable

Year Ended December 31, 2013

Interest income	P1,290	Interest income from fringe benefit loans
Miscellaneous expense	14,929	Per diems given to directors during board meetings.

As of December 31, 2012

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Cash and other cash items		P2,259,989	Savings, current and time deposits with interest rates ranging from 0.3% to 1.1% per annum
Financial assets at FVPL		711,643	Investments in equity securities
Accrued interest receivable		75	From time deposits
Bills payable		7,282,069	IBCL in peso and foreign currency with interest rates ranging from 1.2% to 3.6%
Accrued interest payable		5,784	Accrued interest payable from IBCL
Accounts payable		589	Payable to customers and retainer's fee

Year Ended December 31, 2012		
Realized trading gain	P151,085	Realized and unrealized gain on debt and equity securities
Interest income	39,189	From interbank loans, savings, current and time deposits
Interest expense	87,827	Interest expense from interbank borrowings
Dividend income	7,316	Dividends from stocks investments
Rental income	1,476	Rental income on leased investment property
Miscellaneous expense	10,475	Internal audit fee for the year

As of December 31, 2012			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Joint Venture/Associates			
Dividends receivable		P1,409,457	Dividends receivable from GBPC
Accounts receivable		44,351	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Accounts payable		145	Payable to customers

Year Ended December 31, 2012		
Trading and securities gain	P7,622	From sale of debt and equity securities
Interest expense	3,231	Interest expense from bills payables
Rental income	3,297	Rental income from sublease agreement

As of December 31, 2012			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Cash and other cash items		P695,176	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 1.9% per annum
Financial assets at FVPL		1,100,590	Investments in equity securities
AFS investments		593,783	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield ranging from 3.1% to 5.1%
Loans and discounts		2,905,219	Time loans with 10-12 years original term and with interest rates ranging from 6.4% to 10.4% per annum; fringe benefit loans to employees with terms ranging from 1.0 year to 15.0 years from 3.0% to 12.0%
Accrued interest receivable		55,226	From time deposits and time loans
Dividends receivable		5,415	From investments in equity securities
Accounts receivable		205	Receivables from contract signing and seminar fees
Accounts payable		57	Payables related to rent and acquisitions of equipment
Bills payable		501,368	IBCL in peso and foreign currency with interest rates ranging from 1.2% to 3.6%
Accrued interest payable		201	Accrued interest from bills payable
Net unrealized gain on AFS		272,967	Net unrealized gain on AFS investments

Year Ended December 31, 2012		
Interest income	P300,141	Interest income from investment in private bonds, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Service charges, fees and commissions	163,732	Fees earned from underwriting activities with GT Capital's capital raising activities
Trading and securities gain	142,179	Realized and unrealized gain on equity investments
Dividend income	24,406	Dividends from stocks investments
Interest expense	54,814	From interbank borrowings, short-term subordinated notes payable

As of December 31, 2012

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans and discounts		P15,667	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Accrued other expenses payable		396	Directors' fees payable

Year Ended December 31, 2012

Interest income	P1,203		Interest income from fringe benefit loans
Miscellaneous expense	13,573		Per diems given to directors during board meetings.

Year Ended December 31, 2011

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Trading and securities gain	P51,860		Realized gain on sale of debt and equity securities and unrealized gain on equity securities
Service charges, fees and commissions	35,804		Fees earned from issue management fees related to stock rights offering
Interest income	18,115		From interbank loans, savings, current and time deposits
Dividend income	1,139		Dividends from stocks investments
Rental income	1,476		Rental income on leased property
Interest expense	70,320		Interest expense from interbank borrowings

Year Ended December 31, 2011

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Joint Venture/Associates			
Interest income	P1,016		Interest income from short-term investments with interest rates ranging from 1.0% to 4.5%
Interest expense	184		Interest expense from bills payables
Rental income	1,319		Rental income from sublease agreement

Year Ended December 31, 2011

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Interest income	P386,680		Interest income from investment in private bonds, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Service charges, fees and commissions	37,438		Fees earned from underwriting activities with Federal Land and GT Capital's capital and fund raising activities
Dividend income	6,113		Dividends from stocks investments
Trading and securities gain	86,424		Realized gain on sale of debt and equity securities and unrealized gain on equity securities
Interest expense	46,356		From interbank borrowings, short-term subordinated notes payable

Year Ended December 31, 2011

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Interest income	P1,204		Interest income from fringe benefit loans
Miscellaneous expense	10,007		Per diems given to directors during board meetings.

The Group and the Parent Company granted credit lines to related parties (Note 29). As of December 31, 2013 and 2012, undrawn commitments/facilities amounted to nil for the Group, and nil and ₱400.0 million, respectively, for the Parent Company.

Terms of Transactions with Ultimate Parent Company

Terms of cash deposits

These are peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.3% to 0.4% in 2013, 2012, and 2011 while US dollar deposits carry interest from 0.3% to 1.1% in 2013, 2012, and 2011.

Derivative transactions

In 2011, the Parent Company entered into derivative transactions with Metrobank which represents one-year foreign currency forward contracts with notional amount of US\$75 million. The forward contracts matured on September 28, 2012 (Note 7). The Parent Company incurred ₱2.8 million foreign exchange loss as a result of the settlement of the forward contracts.

Borrowings

The Parent Company also obtained US dollar- and euro-denominated short-term borrowings from Metrobank to fund its purchase of foreign currency-denominated securities. In 2013, 2012 and 2011, the interest rates on the said borrowings range from 1.3% to 1.6%, 0.9% to 2.4% and 0.9% to 2.5%, respectively. The borrowings are unsecured and are settled in cash.

Terms of Transactions with Subsidiaries

Investment in debt securities of the Parent Company

As of December 31, 2013 and 2012, the subsidiaries had the following investments in debt securities of the Parent Company which are eliminated and classified as treasury bonds in the consolidated financial statements of the Group:

Subsidiary	2013	2012
FMSALEF	₱163,648,293	₱74,938,773
FMSALBF	123,052,174	122,467,680
FMSLFIF	30,079,772	110,470,000
PBC	18,920,681	475,000

Management Fees

The Parent Company and its subsidiaries executed a management contract for a monthly fee. Management fee represents payments for services rendered by seconded employees from the Parent Company such as accounting, taxation, financial control, legal and related services, administrative services and government reportorial requirements.

The table below shows the management fee charged by the Parent Company in 2013 and 2012:

	2013	2012
FAMI	₱39,381,674	₱24,665,996
FMSEB	1,200,000	1,200,000
SPI	240,000	600,000
PBC	600,000	600,000
FMIBC	5,000	5,000
PVDC	5,000	5,000
FEI	5,000	5,000
Resiliency	5,000	–
	₱41,441,674	₱27,080,996

Terms of Transactions with other related parties

Loans and receivables

The loans granted to related parties are secured by properties of the respective borrowers while loans to Toyota Financial Services Philippines, Inc. is 70.0% guaranteed by Philippine Export-Import Credit Agency (PHILEXIM). The loans bear interest of 6.6% with maturity date of April 10, 2013.

In 2013 and 2012, the Group did not recognize provision for impairment losses on its outstanding receivables from related parties, except for its accounts receivable from Aurora Towers, a joint venture. The Group recognized provision for impairment and credit losses amounting to P51,517 and P28,150 in 2013 and 2012, respectively.

Underwriting activities

In 2013 and 2012, the Parent Company acted as underwriter and lead arranger, respectively, for GT's capital raising activities. Fees earned from underwriting activities amounted to P15.8 million in 2013 and P163.5 million in 2012. These are recognized in the statement of income under "Service charges, fees and commissions".

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group and the Parent Company's retirement plans are being managed by the Ultimate Parent Company's Trust Banking Group. The total carrying amount and fair value of the retirement plan as of December 31, 2013 amounted to P206.9 million and P156.8 million for the Group and the Parent Company, respectively. The details of the assets of the fund as of December 31, 2013 and 2012 are disclosed in Note 22. The Group's retirement funds may hold or trade its related parties' shares or securities. A summary of transactions with related party of the retirement plans follows.

	Consolidated		Parent Company	
	2013	2012	2013	2012
Equity shares				
Metrobank	P491,075	P-	P491,075	P-
Associates	-	620,000	-	620,000
Other related parties	1,544,000	744,000	1,544,000	744,000
Total	P2,035,075	P1,364,000	P2,035,075	P1,364,000

The President of the Parent Company exercises the voting rights for the foregoing equity shares.

Transactions with related parties are approved by all members of the Retirement Committee whom are senior officers of the Parent Company.

The following are the balances of the retirement fund's related party transactions as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013:

Counterparty		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
		2013	2012	2013	2012	2011
Metrobank	Cash and other cash items	P8,654,061	P4,290,435			
	AFS investments	491,075	-			
	Accrued trust fee payable	344,401	271,830			
Metrobank	Interest income			P58,011	P167,277	P199,425
	Trading gains			-	851,261	-
	Trust fee expense			1,371,284	1,034,600	757,241
LCMC	AFS investments	-	620,000			
	Trading gains			-	105,494	-
GT Capital	AFS investments	1,544,000	744,000			
	Dividends			6,000	3,804	-

Compensation of key management personnel

The compensation of key management personnel are as follows:

	Consolidated			Parent Company		
	2013	2012	2011	2013	2012	2011
Short-term employee benefits	P152,851,558	P119,135,087	P105,477,390	P130,894,732	P102,678,595	P92,671,454
Post-employment benefits	9,804,181	10,110,353	9,735,967	8,082,785	8,110,536	8,986,072
	P162,655,739	P129,245,440	P115,213,357	P138,977,517	P110,789,131	P101,657,526

28. Trust Operations

Properties held by the Parent Company in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company (Note 29).

In compliance with current banking regulations relative to the Parent Company's trust functions, as of December 31, 2013 and 2012, government securities with a total face value of P7.0 million and P4.0 million classified as 'HFT investments', respectively, are deposited with the BSP (Note 7).

29. Commitments and Contingent Accounts

Commitments

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

	Consolidated		Parent Company	
	2013	2012	2013	2012
Firm commitment to underwrite	P-	P1,200,000,000	P-	P1,200,000,000
Capital commitments (Notes 7 and 10)	404,411,120	960,190,018	404,411,120	960,190,018
Undrawn commitments/ facilities to lend:				
Third parties	-	14,820,000	-	14,820,000
Related parties (Note 27)	-	-	-	400,000,000
Stand-by letter of credit	410,000,000	410,000,000	410,000,000	410,000,000
Asset under management by the Trust Division	481,198,132	321,031,491	481,198,132	321,031,491
	P1,295,609,252	P2,906,041,509	P1,295,609,252	P3,306,041,509

Contingencies

In the normal course of business, the Group is involved in various contingencies which, in the opinion of the management, will not have a material effect on the Group's consolidated financial statements. The Group recognized provision for probable losses amounting to P465.7 million in 2013.

30. Financial Performance

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

	2013	2012	2011
Return on average equity	90.9%	35.3%	17.0%
Return on average assets	16.9	4.3	2.1
Net interest margin over average earning assets	4.3	1.8	2.1

31. Earnings Per Share

EPS are computed as follows:

	Consolidated		
	2013	2012	2011
a. Net income attributable to equity holders of the Parent Company	P11,536,244,507	P3,274,728,479	P2,191,495,971
b. Weighted average number of common shares	372,625,907	377,420,802	377,056,150
c. Basic/Diluted EPS (a/b)	P31.0	P8.7	P5.8

As of December 31, 2013, 2012 and 2011, there are no potential shares that have a dilutive effect on the basic EPS of the Parent Company.

32. Notes to Cash Flow Statements

The non-cash transaction of the Parent Company pertains to the application of creditable withholding taxes against income tax payable amounting to P22.1 million, P12.9 million and P20.1 million as of December 31, 2013, 2012 and 2011, respectively.

In July 2011, the Parent Company participated in the government-initiated domestic bond exchange covering its P3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings maturity date and benefit from the higher yields (Note 7).

PBC Capital Investment Corporation (PBC) participated in bond exchange transactions and received P95.1 million, 20-year Benchmark Bonds with coupon of 8.0% using its AFS investments in 2011 (Note 7).

On November 25, 2011, the Group and the Parent Company recognized the following upon issuance of bonds payable:

	Consolidated	Parent Company
Bonds payable	P4,919,525,000	P5,000,000,000
Deferred finance charges	45,556,975	45,556,975
Derivative asset	55,730,461	56,642,116

On August 10, 2012, the Group and the Parent Company recognized the following upon issuance of bonds payable:

	Consolidated	Parent Company
Bonds payable	P6,969,530,000	P7,000,000,000
Deferred finance charges	66,604,765	66,604,765

In 2010, the Group disposed its 30.0% ownership interest in TSI, a subsidiary. Net cash outflow arising on the disposal follows:

	Amounts
Cash consideration	P9,900,000
Cash and cash equivalents disposed	(34,860,041)
	(P24,960,041)

In 2013 and 2012, dividends declared by associates of the Group amounted to P251.1 million and P2.2 billion, respectively, of which nil and P1.4 billion remains outstanding as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, 2012 and 2011, the amount of outstanding dividends payable amounted to P26.3 million, P26.6 million and P23.5 million, respectively, for the Group and the Parent Company.

In 2013 and 2012, the Parent Company acquired its own shares for a total cost of P5.7 million and P393.1 million, respectively. Out of the total cost in 2012, P2.7 million represents the trading gains recognized by a subsidiary from sale of the Parent Company's shares.

In 2013, the Parent Company sold a total of 40.0% interest in GBPC to third parties for a total of P14.3 billion which resulted in P7.4 billion and P9.3 billion gain recorded under 'Gain on assets sold' account in the Group and Parent Company's statements of income, respectively.

33. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group 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 to the Group and the Parent Company of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2013						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statements of financial position [a-b] [c]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d] [e]
				Financial instruments [d]	Fair value of financial collateral	
Loans and receivable – net (Notes 4 and 8):						
Loans and discounts:						
Corporate lending	P2,252,862,500	P-	P2,252,862,500	P-	P3,811,348,877	P-
Unquoted commercial papers	175,000,000	-	175,000,000	-	2,834,910,000	P-
Total	P2,427,862,500	P-	P2,427,862,500	P-	P6,646,258,877	P-

December 31, 2012						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statements of financial position [a-b] [c]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d] [e]
				Financial instruments [d]	Fair value of financial collateral	
Loans and receivable – net (Notes 4 and 8):						
Loans and discounts:						
Corporate lending	P2,264,284,000	P-	P2,264,284,000	P-	P3,928,393,131	P-
Unquoted commercial papers	175,000,000	-	175,000,000	-	2,551,000,000	-
Total	P2,439,284,000	P-	P2,439,284,000	P-	P6,479,393,131	P-

Financial liabilities

December 31, 2013						
Financial liabilities 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		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Bills payable (Note 14):						
Repurchase agreements	P2,570,441,260	P-	P2,570,441,260	P-	P3,607,298,458	P-
Borrowings from other banks	3,653,786,490	-	3,653,786,490	-	5,397,262,833	-
	6,224,227,750	-	6,224,227,750	-	9,004,561,291	-
Bonds payable (Note 16)	11,953,546,079	-	11,953,546,079	-	12,710,242,204	-
Total	P18,177,773,829	P-	P18,177,773,829	P-	P21,714,803,495	P-

December 31, 2012						
Financial liabilities 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		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Bills payable (Note 14):						
Repurchase agreements	P4,199,869,291	P-	P4,199,869,291	P-	P5,251,890,569	P-
Borrowings from other banks	6,182,068,500	-	6,182,068,500	-	7,831,724,441	-
Interbank call loans	500,000,000	-	500,000,000	-	714,276,359	-
	10,881,937,791	-	10,881,937,791	-	13,797,891,369	-
Bonds payable (Note 16)	11,946,246,805	-	11,946,246,805	-	12,544,176,056	-
Total	P22,828,184,596	P-	P22,828,184,596	P-	P26,342,067,425	P-

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.

34. Events After Statement of Financial Position Date

On January 23, 2014, the BOD approved the Share Sale and Purchase Agreement executed by the Company with GT Capital on January 27, 2014 for the sale of 33.3% of its ownership in Charter Ping An at a consideration of P712.0 million which resulted in a gain of P203.7 million and P541.8 million for the Group and the Parent Company, respectively.

In January and February 2014, the Parent Company sold additional reclassified HTM investments with carrying value of P3.8 billion and P1.5 billion, respectively. The Group and the Parent Company recognized gain from the sale transactions amounting to P526.3 million and P215.7 million in January and February 2014, respectively.

35. Approval for the Release of the Financial Statements

The accompanying financial statements were authorized for issue by the Parent Company's BOD on February 20, 2014.

36. Supplementary Information Under Revenue Regulations (RR) 19-2011 and 15-2010

Supplementary Information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements.

For the taxable year December 31, 2013, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues

Interest income	P681,983,944
Service charges, fees and commissions	628,766,867
Profit from assets sold	1,490,078
Others	17,461,722
	<hr/>
	P1,329,702,611

Expenses

Cost of services:	
Interest and finance charges	P156,000,794
Compensation and fringe benefits	64,952,266
Others	1,563,590
	<hr/>
	P222,516,650

Itemized deductions:	
Trading loss	P325,075,511
Foreign exchange loss	54,616,353
Taxes and licenses	40,055,726
Salaries and allowances	11,532,366
Commissions	6,654,553
Rental	5,154,448
Communication, light and water	3,624,944
Professional fees	2,694,633
Information technology	2,298,020
Exchange charges	2,182,121
Depreciation	2,100,661
Transportation and travel	1,530,220
Fuel and oil	1,164,771
Representation and entertainment	1,139,153
Security services	928,263
Office supplies	901,820
Insurance	712,758
Advertising and promotions	577,371
Repairs and maintenance	151,661
Others	11,456,443
	<hr/>
	P474,551,796

Supplementary Information Under Revenue Regulations No. 15-2010

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR 21-2002. RR 15-2010 provides that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes for the year:

GRT and DST

Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the Parent Company consist principally of GRT and DST.

Taxes and Licenses

This includes all other taxes, DST, local tax, fringe benefit tax including licenses and permit fees lodged under 'Taxes and licenses' account in the Parent Company's statements of income for the taxable year ended December 31, 2013:

GRT	P963,259,570
DST - promissory notes	228,792,937
Local taxes	5,019,948
Real estate tax	521,247
Capital gains tax	130,246
Fringe benefit tax	730,080
	<u>P1,198,454,028</u>

Withholding Taxes

Details of total remittances and balance as of December 31, 2013 are as follows:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	P294,663,368	P19,882,363
Withholding taxes on compensation and benefits	82,630,474	5,032,486
Expanded withholding taxes	21,400,123	1,397,393
Final withholding value added tax	2,011,298	–
	<u>P400,705,263</u>	<u>P26,312,242</u>

SUBSIDIARIES



First Metro Securities Brokerage Corporation put up another banner year, recording consolidated net income of P96.6 million in 2013, 25.7% higher than in 2012. It also ranked 14th out of the 135 active trading participants in the Philippine Stock Exchange, raising its ranking two notches. This has been the highest ranking for the company since it started operations in 1994.

In 2013, the First Metro Group, through the efforts of First Metro Securities, forged another strategic partnership. An MOU on business collaboration with Tokai Tokyo Financial Holdings, Inc. was signed in September, which includes the distribution of First Metro Securities research reports to Japanese retail investors. First Metro Securities also ventured into new territory by being the sole market maker and one of two authorized participants in the country's first exchange-traded fund, First Metro Philippine Equity Exchange-Traded Fund.

The company was recognized in the fields of research and corporate governance. AsiaMoney polls awarded third place to DBS-First Metro (an alliance of DBS Vickers Singapore and First Metro Securities) for its work on independent research coverage, while the PSE Bell Awards selected First Metro Securities as a finalist in the trading participant category.

Furthering the company's goal to offer the best online trading platform to its clients, FirstMetroSec, the company's online trading brand, introduced Technical Indicators, a new feature that automatically identifies technical trading opportunities using chart pattern recognition. For its mobile users, the company launched the FirstMetroSec mobile and tablet apps for Android. With the earlier release of apps for iOS devices, investors can now watch the market and post their trading orders using two of the most popular mobile operating systems.

FOR THE YEAR	2013	2012
Gross Revenues	247,880,211	195,604,327
Total Expenses	110,991,451	87,943,608
Net Income	96,590,845	76,642,396
AT YEAR END		
Total Assets	953,103,494	815,593,657
Total Liabilities	456,755,395	390,742,800
Stockholders' Equity	496,348,099	424,850,857

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The year 2013 was a very trying one for the financial markets in general and the asset management business in particular. Equities and bond markets, full of optimism early in the year, were thrown for a loop in June: the US Federal Reserve's tapering announcement spooked both foreign and local investors, who took the Fed's action to mean that interest rates in the developed world would stop falling and that their economies were now recovering. Emerging markets such as the Philippines were hit hard by the exodus. And yet, in the midst of the volatility in the equities and bond markets, the Philippine mutual fund industry witnessed assets under management (AUM) grow to P206.9 billion by the year's end, a 41.5% improvement over 2012.

Better yet, the AUM of First Metro Asset Management, Inc. (FAMI) outpaced the industry's growth, growing 50.7% year-on-year to P14.22 billion. The company's client base likewise swelled, up 22% to around 25,000 accounts.

On December 2, 2013, First Metro listed the country's first exchange-traded fund (ETF), First Metro Philippine Equity Exchange-Traded Fund, and FAMI was appointed fund manager. The ETF asset class, which combines the natures of a mutual fund and a share of stock, enables investors to gain exposure to the Philippine Stock Exchange index by investing in just one listed issue. The ETF widens the product offering of FAMI. Along with First Metro ETF, the company was also appointed the fund manager and distributor of One Wealthy Nation Fund, Inc. (OWN), a balanced fund that aims to declare stock dividends to its shareholders each year.

The company's First Metro Save & Learn Fixed Income Fund again led all mutual funds in performance, generating a net return of 18.92% based on Philippine Investment Funds Association data as of December 31, 2013. The First Metro Save & Learn Equity Fund ended 2013 with a net return of -1.35% while the First Metro Save & Learn Balanced Fund produced a net yield of 1.04%.

All in all, 2013 was a milestone for FAMI. Net income blew past the 100-million peso mark, reaching P110.26 million, up by a staggering 85% from 2012. Assets more than doubled to P248.77 million, and stockholders' equity at P194.62 million was nearly twice its 2012 value.

FOR THE YEAR	2013	2012
Gross Revenues	313,413,733	156,236,573
Total Expenses	151,706,486	84,061,418
Net Income	110,259,780	59,470,486
AT YEAR END		
Total Assets	248,772,440	123,640,083
Total Liabilities	54,154,604	20,058,512
Stockholders' Equity	194,617,835	103,581,571

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redefining / standards



AXA Philippines, a formidable synergy between Metrobank and AXA Group, one of the world's largest financial protection and wealth management companies with 102 million customers in 56 countries, performed remarkably in 2013. Revenue soared 49%, from P12.31 billion in 2012 to P18.32 billion in 2013. Market share inched up from 10% to 11%.

Bancassurance, sales made in collaboration with Metrobank branches and which contributed 64% of total sales in 2013, shot up 41%, from P1.63 to P2.3 billion. Agency channels also pumped up sales by 48%, from P669 million in new business to P987 million. Variable life insurance, a pillar of AXA's business, posted a staunch 58% growth rate in 2013 and contributed 89% of gross written premiums.

Robust profit growth springs partly from strong campaigns. Fail Proof Your Future Campaign, which advocated financial needs planning to minimize the impact of an unexpected family crisis, was launched through print ads in major newspapers. Fail Proof Your Child's Education Campaign, launched in May 2013 through print ads, cinema advertising, and social media, highlighted the importance of preparing for a child's education in the present.

Also contributing to growth in 2013: the strategic expansion of marketing and distribution channels. AXA Philippines moved its corporate headquarters to Ayala Avenue, Makati, making it more accessible; renovated facilities in Iloilo, Quezon City, Ortigas Taipan, The Fort and General Santos; opened two new hubs for BankAssure team eXpand, providing centralized offices for staff in Binondo and Makati; laid the groundwork for bancassurance services in PSBank branches.

AXA Philippines embarked on projects that improved its internal efficiencies, such as MSwipe, making AXA Philippines the first in the industry to implement an anytime-anywhere payment system using the payment platform introduced by Metrobank Card Corporation. Other initiatives include E-application, a more convenient way of submitting applications for life insurance online; Group Management System, another first in the industry, allowing group insurance clients to manage and monitor their policies online; and E-notiXes, part of CSR efforts to save the environment, delivering policy notifications to clients via email.

AXA Philippines also introduced new products and services to the market: Academix, a secure investment-linked plan designed to provide for education expenses through high-earning potential AXA investment funds and guaranteed contingency education fund; DiverXity, a limited-offer investment linked plan available in both peso and dollar denominations, which provides an opportunity for high net-worth customers to invest in both Philippine and China equities through a structured note managed by BNP Paribas (dollar) and ING Bank NV (peso).

FOR THE YEAR	2013	2012
Gross Revenues	18,319,992,792	12,312,035,343
Total Expenses	9,229,904,492	3,532,703,737
Net Income	1,184,015,483	915,381,124
AT YEAR END		
Total Assets	54,951,301,795	44,850,867,951
Total Liabilities	50,894,781,604	40,890,570,031
Stockholders' Equity	4,056,520,191	3,960,297,920

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According to the Insurance Commission, growth in gross premiums written averaged 10% in the industry over the past five years. What was Charter Ping An's? An impressive 20%.

In 2013, Charter Ping An made headway in the commission's industry rankings, moving from seventh place in 2012 to sixth in gross premiums written and from fifth to fourth in net premiums written. Also, the Securities and Exchange Commission approved the company's P512.5 million paid-up capitalization, with authorized capital rising from P350 million to P1 billion.

Charter Ping An broadened its reach in 2013. Bundling products with those of subsidiaries, such as Metrobank Card Corporation's Metro Fraud Guard and PSBank's Kiddie Savers and Teen Savers, allowed the firm to deepen its roots in the market. The company also widened its distribution channels, creating new opportunities to grow the business. The company added 290 new agents and 28 accredited car dealers to its nationwide network. The Metrobank Referral Program's Account Specialist Plus, aimed at tapping underexplored markets, was implemented in Dumaguete, Palawan and Tuguegarao. Separate regional managers for Luzon, Visayas, Mindanao and Metro Manila branches were appointed, a major change in the sales division aimed at speeding up the risk acceptance and claims settlement processes.

Business also grew through the improvement of internal efficiencies, including the establishment of the Human Resource and Information System that enables employees to file and track work activities; the Pipeline System, which allows sales units to monitor business accounts; the Short Message System (SMS), which keeps agents updated on company policies and activities; the credit card payment facility launched in major branches, which allows agents to easily pay their premiums, facilitating premium remittances. The company's website was redesigned, promoting better communication and interaction with customers, and in its efforts to go green, Charter Ping An started releasing One Pager insurance for some products to minimize paper costs.

When natural disasters struck the nation (Typhoons Maring and Yolanda, the Visayas earthquake) late in 2013, Charter Ping An was ready. Its exposure of about P1.5 billion is backed by top global reinsurers. Its financial condition remains healthy and strong, providing policy holders the peace of mind they deserve.

FOR THE YEAR	2013	2012
Gross Revenues	1,899,753,175	1,632,029,345
Total Expenses	1,709,733,335	1,416,966,217
Net Income	190,019,840	215,063,128
AT YEAR END		
Total Assets	9,207,868,084	6,355,593,948
Total Liabilities	7,896,651,902	5,169,978,453
Stockholders' Equity	1,311,216,182	1,185,615,495

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Global Business Power Corporation saw its net consolidated income fall to P1.94 billion in 2013, a 12.06% drop from 2012. The decline was mostly attributed to softer Wholesale Electricity Spot Market (WESM) prices brought about by lower peak power consumption during the early months of 2013. Also dampening its income were the major catastrophes that struck the Visayas region — the 7.2-magnitude Bohol earthquake and Typhoon Yolanda, which affected many customers, and the downtime suffered by the 7.5 MW Pinamalayan Power Station in Oriental Mindoro.

Global Business Power, however, managed to mitigate the effects of these untoward incidents by continually improving on efficiency, recording a sharp P2.05 billion reduction in total expenses from 2012. In addition, 2013 was marked by milestones and foundational improvements.

Global Business Power entered into a strategic partnership with ORIX Corporation (ORIX), Japan's leading integrated financial services company, and Meralco PowerGen, a subsidiary of the country's largest power distribution utility. ORIX and Meralco PowerGen each acquired a 20% ownership stake in Global Business Power through a share sale agreement with First Metro. Global Business Power's ownership is now structured as follows: GT Capital Holdings (50.89%), ORIX (20%), Meralco PowerGen (20%), and First Metro Investment Corporation (9.11%).

Expansion plans for the Visayas gained momentum. In March, Toledo Power secured a P7 billion syndicated loan facility to fund the ongoing 82 MW TPC1A clean coal-fired power plant expansion project. In November, Panay Energy signed Formosa Heavy Industries Corp. to be the technical contractor in the expansion of the 150 MW PEDC Unit 3.

Global Energy Services Corporation, the official retail arm of Global Business Power, signed three new customers to retail electricity supply agreements in 2013. The customers — cement manufacturer Taiheiyō Cement Philippines, Inc., steel manufacturer Cathay Pacific Steel Corporation and Boracay Shangri-la — will source a combined 35.3 MW from Global Business Power's power plants in Iloilo and Toledo.

A testament to Global Business Power's commitment to efficiency, safety and environmental sustainability, Panay Power Corporation and Toledo Power Company each achieved the One Million Man Hours, Zero Accident Safety Milestone, while Cebu Energy Development Corporation received the Green Award from the Department of Environment and Natural Resources Region VII Chapter for its outstanding environmental performance in 2013.

FOR THE YEAR	2013 (Unaudited, December 31, 2013)	2012
Gross Revenues	16,859,905,107	19,180,488,228
Total Expenses	14,922,777,011	16,977,575,098
Net Income	1,937,128,906	2,202,913,130
AT YEAR END		
Total Assets	59,697,645,201	58,217,597,792
Total Liabilities	36,050,425,622	36,517,468,895
Stockholder's Equity	23,719,219,579	21,700,128,897

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ORIX Metro Leasing and Finance Corporation, a joint venture between Metrobank and ORIX Corporation of Japan, celebrated 36 years of success in the leasing and finance industry in 2013. Calendar year 2013 yielded P19.4 billion in total resources, up 18.59% from the previous year. Gross revenues also rose substantially, rising 17.07% to P3 billion. Return on equity grew 21.04%.

ORIX Metro offers financial leasing and mortgage loans for all kinds of vehicles such as cars, trucks, and buses; industrial machinery such as printing and packaging equipment; office equipment such as computers, servers, copiers and facsimile machines; medical equipment including CT scans, MRIs, optical and dental equipment; and other types of personal property. In 2007, the company was given a quasi-banking license. The company's wholly owned subsidiaries, ORIX Auto Leasing Philippines Corporation and ORIX Rental Corporation, are engaged in short-term car rental and long-term operating leases of vehicles with maintenance and fleet management.

ORIX Metro plans to create more opportunities by opening more branch offices in the countryside and aggressively marketing its full-service operating lease, targeting multinationals and big local corporations. As of December 31, 2013, ORIX Metro has a network of 63 branches nationwide.

FOR THE YEAR	2013	2012
Gross Revenues	2,972,108,955	2,538,781,190
Total Expenses	2,120,059,208	1,848,343,761
Net Income (after tax)	601,942,452	495,484,766
AT YEAR END		
Total Assets	19,401,163,087	16,359,307,560
Total Liabilities	16,238,982,565	13,798,968,115
Stockholders' Equity	3,162,180,522	2,560,339,445

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SHAREHOLDER INFORMATION

ANNUAL STOCKHOLDERS MEETING

May 5, 2014 (Monday), 4:00 p.m.
Penthouse, Metrobank Plaza
Sen. Gil Puyat Ave.
Makati City 1200, Philippines

SHAREHOLDERS SERVICES

For inquiries regarding dividend payments, change of address and account status, please contact:

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ANNUAL REPORT IN SEC FORM 17-A

The financial report included in this report follows the information contained in the SEC Form 17-A as required by and submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge from:

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