INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

2013 Audited Consolidated Financial Statements - GT Capital Holdings, Inc.

Index to the Consolidated Financial Statements and Supplementary Schedules

2013 Audited Financial Statements

GT CAPITAL
HOLDINGS, INCORPORATED

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of GT Capital Holdings, Inc. (the Company) is responsible for the preparation and fair presentation of the parent company and consolidated 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 misstatement, 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 & 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.

Signature: ____________________________
Arthur V. Ty, Chairman of the Board

Signature: ____________________________
Carmelo Maria L. Bautista, President

Signature: ____________________________
Francisco H. Suarez Jr., Chief Financial Officer

March 11, 2014

43rd Floor, GT Tower International, 6813 Ayala Avenue corner H.V. Dela Costa Street, 1227 Makati City, Philippines
Tel: +632 836-4500 • Fax: +632 836-4159 • E-mail: gtcap@gtcapital.com.ph

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

SUBSCRIBED AND SWORN to before me on MAR 25 2014, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

Arthur V. Ty	TIN No. 121-526-580
Carmelo Maria L. Bautista	TIN No. 106-903-668
Francisco H. Suarez, Jr.	TIN No. 126-817-465

Doc. No. 5
Page No. 1
Book No. 5
Series of 2014

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

COVER SHEET

CS200711792
SEC Registration Number

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

43rd Floor, GT Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City

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

Francisco H. Suarez Jr.
(Contact Person)

836-4500
(Company Telephone Number)

1 2	3 1
Month	*Day*

(Fiscal Year)

AACFS
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

74
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 08 2014
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PRECIOSA C. JAY...

Remarks: Please use BLACK ink for scanning purposes.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

Date APR 08 2014
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PRECIOSA C. JAVIER

The Stockholders and the Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International
Ayala Avenue corner H.V. de la Costa Street
Makati City

We have audited the accompanying consolidated financial statements of GT Capital Holdings, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated 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 Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 financial statements present fairly, in all material respects, the financial position of GT Capital Holdings, Inc. and subsidiaries as at December 31, 2013 and 2012, and their financial performance and cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

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

March 11, 2014

LARGE
Date APR 08 2014
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GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4)	**₱27,166,888,452**	₱11,553,288,498	₱454,421,565
Short-term investments (Note 4)	**1,466,463,867**	–	–
Receivables (Note 5)	**12,450,904,615**	6,504,694,886	3,933,792,763
Reinsurance assets (Note 16)	**4,965,577,810**	–	–
Inventories (Note 6)	**20,813,304,994**	12,275,078,957	11,338,367,323
Due from related parties (Note 27)	**849,398,310**	489,042,589	938,859,224
Prepayments and other current assets (Note 7)	**5,969,225,750**	5,999,839,002	1,905,301,342
Total Current Assets	**73,681,763,798**	36,821,943,932	18,570,742,217
Noncurrent Assets			
Receivables (Note 5)	**4,928,548,716**	3,159,140,836	1,114,943,862
Investments in associates and joint ventures (Note 8)	**40,559,463,758**	42,788,987,730	37,680,110,739
Investment properties (Note 9)	**8,328,668,533**	7,815,576,971	5,227,423,530
Available-for-sale investments (Note 10)	**3,110,796,243**	1,060,087,293	9,921,760
Property and equipment (Note 11)	**41,163,427,981**	33,661,228,629	396,367,203
Deposits (Note 12)	–	2,085,000,000	4,085,000,000
Goodwill and intangible assets (Note 13)	**18,275,016,054**	8,715,210,721	8,498,083
Long-term cash investments (Note 27)	–	–	2,440,084,378
Deferred tax assets (Note 29)	**1,109,171,386**	330,684,499	102,917,367
Other noncurrent assets (Note 14)	**1,202,989,799**	547,194,483	93,473,604
Total Noncurrent Assets	**118,678,082,470**	100,163,111,162	51,158,740,526
	₱192,359,846,268	₱136,985,055,094	₱69,729,482,743
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts and other payables (Note 15)	**₱20,836,977,405**	₱7,376,718,844	₱4,573,419,840
Insurance contract liabilities (Note 16)	**6,683,585,120**	–	–
Short-term debt (Note 17)	**1,744,000,000**	9,138,300,000	7,648,700,000
Current portion of long-term debt (Note 17)	**3,364,221,245**	7,426,958,699	–
Current portion of liabilities on purchased properties (Notes 20 and 27)	**783,028,773**	–	–
Customers' deposits (Note 18)	**1,844,221,010**	974,327,489	457,625,624
Dividends payable (Note 27)	**1,966,038,000**	1,948,727,265	244,000
Due to related parties (Note 27)	**188,385,414**	191,264,721	403,598,150
Income tax payable	**876,006,220**	25,793,451	–
Other current liabilities (Note 19)	**906,669,981**	1,370,244,207	57,884,393
Total Current Liabilities	**39,193,133,168**	28,452,334,676	13,141,472,007

(Forward)

	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
Noncurrent Liabilities			
Long-term debt - net of current portion (Note 17)	**₱40,584,387,751**	₱39,187,769,092	₱19,600,000,000
Bonds payable (Note 17)	**9,883,088,308**	–	–
Liabilities on purchased properties - net of current portion (Notes 20 and 27)	**3,537,347,350**	2,580,574,771	–
Pension liability (Note 28)	**1,703,632,361**	532,611,273	358,610,428
Deferred tax liabilities (Note 29)	**3,251,740,846**	935,506,710	80,613,144
Other noncurrent liabilities (Note 21)	**1,642,761,605**	242,566,372	62,932,335
Total Noncurrent Liabilities	**60,602,958,221**	43,479,028,218	20,102,155,907
	99,796,091,389	71,931,362,894	33,243,627,914
Equity			
Equity attributable to equity holders of the Parent Company			
Capital stock (Note 22)	**1,743,000,000**	1,580,000,000	1,250,000,000
Additional paid-in capital (Note 22)	**46,694,658,660**	36,752,473,660	23,071,664,419
Treasury shares (Note 22)	**(6,125,000)**	–	–
Retained earnings (Note 22)	**21,801,822,521**	13,684,536,407	7,595,668,454
Net unrealized gain (loss) on available-for-sale investments (Note 10)	**80,294,836**	(6,606,601)	–
Net unrealized loss on remeasurements of defined benefit plans	**(216,180,970)**	(57,332,052)	(79,839,700)
Equity in net unrealized gain on available-for-sale investments of associates	**4,687,958**	2,954,074,141	2,544,293,006
Equity in translation adjustments of associates	**417,142,069**	36,424,322	261,158,822
Equity in net unrealized loss on remeasurements of defined benefit plans of associates	**(722,918,846)**	(502,969,032)	(362,408,777)
Other equity adjustments (Note 22)	**729,053,992**	(681,066,182)	–
	70,525,435,220	53,759,534,663	34,280,536,224
Non-controlling interests (Note 22)	**22,038,319,659**	11,294,157,537	2,205,318,605
Total Equity	**92,563,754,879**	65,053,692,200	36,485,854,829
	₱192,359,846,268	₱136,985,055,094	₱69,729,482,743

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
REVENUE			
Automotive operations	**₱74,358,719,420**	₱–	₱–
Net fees (Note 35)	**16,944,068,872**	12,845,109,991	–
Real estate sales	**4,702,395,088**	2,131,002,354	2,512,196,616
Equity in net income of associates and joint ventures (Note 8)	**3,587,810,207**	3,902,096,175	3,567,873,099
Gain (loss) on revaluation of previously held interest (Note 31)	**2,046,209,717**	(53,949,714)	–
Interest income (Note 23)	**1,429,029,216**	866,431,011	598,227,699
Sale of goods and services	**656,716,866**	730,736,289	764,665,350
Rent income (Notes 9 and 30)	**592,043,715**	233,443,132	238,001,688
Net premium earned	**504,585,414**	–	–
Commission income	**188,187,509**	184,493,366	95,970,876
Gain from loss of control in a subsidiary (Note 8)	–	1,448,398,924	–
Gain on bargain purchase (Note 31)	–	427,530,654	–
Other income (Note 23)	**537,642,016**	262,450,798	188,545,192
	105,547,408,040	22,977,742,980	7,965,480,520
COSTS AND EXPENSES			
Cost of goods and services sold (Note 25)	**45,469,459,666**	680,910,846	709,726,583
Cost of goods manufactured (Note 25)	**19,986,100,133**	–	–
General and administrative expenses (Note 26)	**9,393,711,094**	3,559,020,927	1,109,747,048
Power plant operation and maintenance expenses (Note 24)	**8,945,435,941**	6,711,049,473	–
Cost of real estate sales (Note 6)	**3,666,932,487**	1,342,018,241	1,553,768,313
Interest expense (Note 17)	**3,462,323,310**	1,749,782,179	989,749,556
Net insurance benefits and claims	**289,524,812**	–	–
	91,213,487,443	14,042,781,666	4,362,991,500
INCOME BEFORE INCOME TAX	**14,333,920,597**	8,934,961,314	3,602,489,020
PROVISION FOR INCOME TAX (Note 29)	**1,803,270,121**	287,650,596	148,779,135
NET INCOME	**₱12,530,650,476**	₱8,647,310,718	₱3,453,709,885
ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱8,640,186,114**	₱6,589,727,953	₱3,324,399,379
Non-controlling interests	**3,890,464,362**	2,057,582,765	129,310,506
	₱12,530,650,476	₱8,647,310,718	₱3,453,709,885
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 34)	**₱49.70**	₱44.50	₱26.60

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
NET INCOME	**₱12,530,650,476**	₱8,647,310,718	₱3,453,709,885
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments (Note 10)	**180,349,522**	(10,489,999)	–
Equity in other comprehensive income of associates (Note 8):			
Changes in fair value of available-for-sale investments	**(2,949,386,183)**	478,401,175	2,762,533,470
Translation adjustments	**380,717,747**	(224,734,500)	133,071,497
	(2,388,318,914)	243,176,676	2,895,604,967
Items that may not be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans	**(401,830,157)**	(56,945,823)	–
Equity in remeasurement of defined benefit plans of associates	**(314,214,019)**	(200,800,364)	–
Income tax effect	**214,813,253**	77,323,856	–
	(501,230,923)	(180,422,331)	–
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(2,889,549,837)**	62,754,345	2,895,604,967
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱9,641,100,639**	₱8,710,065,063	₱6,349,314,852
ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱5,779,620,383**	₱6,718,735,420	₱6,220,004,346
Non-controlling interests	**3,861,480,256**	1,991,329,643	129,310,506
	₱9,641,100,639	₱8,710,065,063	₱6,349,314,852

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Treasury Shares (Note 22)	Retained Earnings (Note 22)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 10)	Net Unrealized Gain (Loss) on Remeasurements of Defined Benefit Plans (Note 2)	Equity in Net Unrealized Gain (Loss) on Available-for-Sale Investments of Associates (Note 8)	Equity in Net Unrealized Loss on Remeasurements of Defined Benefit Plans of Associates (Note 2)	Equity in Translation Adjustments of Associates (Note 8)	Other Equity Adjustments (Note 22)	Total	Attributable to Non-controlling Interests (Note 22)	Total Equity
Balance at January 1, 2013	₱1,580,000,000	₱36,752,473,660	₱–	₱13,855,815,763	(₱6,606,601)	₱–	₱2,954,074,141	₱–	₱36,424,322	(₱681,066,182)	₱54,491,115,103	₱11,373,072,694	₱65,864,187,797
Effect of changes in accounting policy (Note 2)	–	–	–	(171,279,356)	–	(57,332,052)	–	(502,969,032)	–	–	(731,580,440)	(78,915,157)	(810,495,597)
Balance at January 1, 2013, as restated	1,580,000,000	36,752,473,660	–	13,684,536,407	(6,606,601)	(57,332,052)	2,954,074,141	(502,969,032)	36,424,322	(681,066,182)	53,759,534,663	11,294,157,537	65,053,692,200
Issuance of capital stock (Note 22)	163,000,000	9,942,185,000	–	–	–	–	–	–	–	–	10,105,185,000	959,350,239	11,064,535,239
Effect of business combination (Note 31)	–	–	(6,125,000)	–	–	–	–	–	–	2,591,176	(3,533,824)	7,222,853,016	7,219,319,192
Dividends declared (Note 22)	–	–	–	(522,900,000)	–	–	–	–	–	–	(522,900,000)	–	(522,900,000)
Sale of indirect interest in a subsidiary (Note 22)	–	–	–	–	–	–	–	–	–	1,407,528,998	1,407,528,998	2,156,827,165	3,564,356,163
Dividends paid to non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	(3,456,348,554)	(3,456,348,554)
Total comprehensive income	–	–	–	8,640,186,114	86,901,437	(158,848,918)	(2,949,386,183)	(219,949,814)	380,717,747	–	5,779,620,383	3,861,480,256	9,641,100,639
Balance at December 31, 2013	₱1,743,000,000	₱46,694,658,660	(₱6,125,000)	₱21,801,822,521	₱80,294,836	(₱216,180,970)	₱4,687,958	(₱722,918,846)	₱417,142,069	₱729,053,992	₱70,525,435,220	₱22,038,319,659	₱92,563,754,879
Balance at January 1, 2012	₱1,258,000,000	₱23,071,664,419	₱–	₱7,801,755,408	₱–	₱–	₱2,544,293,006	₱–	₱261,158,822	₱–	₱34,928,871,655	₱2,220,763,173	₱37,149,634,828
Effect of changes in accounting policy (Note 2)	–	–	–	(206,086,954)	–	(79,839,700)	–	(362,408,777)	–	–	(648,335,431)	(15,444,568)	(663,779,999)
Balance at January 1, 2012, as restated	1,250,000,000	23,071,664,419	–	7,595,668,454	–	(79,839,700)	2,544,293,006	(362,408,777)	261,158,822	–	34,280,536,224	2,205,318,605	36,485,854,829
Issuance of capital stock (Note 22)	330,000,000	13,680,809,241	–	–	–	–	–	–	-	–	14,010,809,241	639,809,982	14,650,619,223
Effect of business combination (Note 31)	–	–	–	–	–	–	(68,620,040)	–	–	–	(68,620,040)	15,238,649,131	15,170,029,091
Acquisition of non-controlling interest (Note 31)	–	-	–	–	–	–	–	–	–	(681,066,182)	(681,066,182)	(5,235,856,759)	(5,916,922,941)
Dividends declared (Note 22)	–	–	–	(500,860,000)	–	–	–	–	–	–	(500,860,000)	–	(500,860,000)
Dividends paid to non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	(3,545,093,065)	(3,545,093,065)
Total comprehensive income	–	–	–	6,589,727,953	(6,606,601)	22,507,648	478,401,175	(140,560,255)	(224,734,500)	–	6,718,735,420	1,991,329,643	8,710,065,063
Balance at December 31, 2012	₱1,580,000,000	₱36,752,473,660	₱–	₱13,684,536,407	(₱6,606,601)	(₱57,332,052)	₱2,954,074,141	(₱502,969,032)	₱36,424,322	(₱681,066,182)	₱53,759,534,663	₱11,294,157,537	₱65,053,692,200
Balance at January 1, 2011	₱1,250,000,000	₱23,071,664,419	₱–	₱5,377,356,029	₱–	₱–	(₱218,240,464)	₱–	₱128,087,325	₱–	₱29,608,867,309	₱2,211,452,667	₱31,820,319,976
Effect of changes in accounting policy (Note 2)	–	–	–	(206,086,954)	–	(79,839,700)	–	(362,408,777)	–	–	(648,335,431)	(15,444,568)	(663,779,999)
Balance at January 1, 2011, as restated	1,250,000,000	23,071,664,419	–	5,171,269,075	–	(79,839,700)	(218,240,464)	(362,408,777)	128,087,325	–	28,960,531,878	2,196,008,099	31,156,539,977
Consideration transferred on acquisition of a subsidiary under common control (Note 22)	–	–	–	(336,000,000)	–	–	–	–	–	–	(336,000,000)	(84,000,000)	(420,000,000)
Dividends declared (Note 22)	–	–	–	(564,000,000)	–	–	–	–	–	–	(564,000,000)	–	(564,000,000)
Dividends paid to non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	(36,000,000)	(36,008,000)
Total comprehensive income	–	–	–	3,324,399,379	–	–	2,762,533,470	–	133,071,497	–	6,220,004,346	129,310,506	6,349,314,852
Balance at December 31, 2011	₱1,250,000,000	₱23,071,664,419	₱–	₱7,595,668,454	₱–	(₱79,839,700)	₱2,544,293,006	(₱362,408,777)	₱261,158,822	₱–	₱34,280,536,224	₱2,205,318,605	₱36,485,854,829

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱14,333,920,597**	₱8,934,961,314	₱3,602,489,020
Adjustments for:			
Equity in net income of associates and joint ventures (Note 8)	**(3,587,810,207)**	(3,902,096,175)	(3,567,873,099)
Interest expense (Note 17)	**3,462,323,309**	1,749,782,179	989,749,556
Depreciation and amortization (Note 11)	**2,857,274,685**	1,629,115,327	71,352,576
Gain from loss of control in a subsidiary (Note 8)	**–**	(1,448,398,924)	–
Interest income (Note 23)	**(1,429,029,216)**	(866,431,011)	(598,227,699)
Gain on bargain purchase (Note 31)	**–**	(427,530,654)	–
Pension expense (Note 28)	**329,461,750**	105,727,646	16,621,998
Loss from initial recognition of financial asset (Note 27)	**275,000**	94,224,170	–
Loss (gain) on revaluation of previously held interest (Note 31)	**(2,046,209,717)**	53,949,714	–
Dividend income (Note 23)	**(77,277,481)**	–	–
Gain on disposal of property and equipment (Note 11)	**(15,998,480)**	(8,316,148)	(302,584)
Gain on sale of available-for-sale investments (Note 10)	**(8,522,850)**	–	–
Provision for impairment losses (Note 26)	**44,467,476**	–	–
Unrealized foreign exchange losses (Note 26)	**42,309,137**	7,113,039	193,784
Operating income before changes in working capital	**13,905,184,003**	5,922,100,477	514,003,552
Decrease (increase) in:			
Short-term investments	**(1,466,463,867)**	–	–
Receivables	**(3,567,427,696)**	1,230,216,844	(4,203,893,169)
Reinsurance assets	**(1,264,065,439)**	–	–
Inventories	**(1,241,257,020)**	3,002,358	(3,228,592,505)
Due from related parties	**(360,355,721)**	877,422,046	(380,714,964)
Prepayments and other current assets	**912,622,867**	(4,058,602,627)	(282,455,718)
Increase (decrease) in:			
Accounts and other payables	**3,247,434,285**	(581,033,757)	2,632,476,447
Insurance contract liabilities	**1,356,875,814**	–	–
Customers' deposits	**868,420,502**	516,701,865	40,164,351
Due to related parties	**(2,879,307)**	(212,333,429)	–
Other current liabilities	**(558,335,421)**	693,497,586	34,076,298
Cash provided by (used in) operations	**11,829,753,000**	4,390,971,363	(4,874,935,708)
Dividends paid (Note 22)	**(2,972,214,411)**	(2,550,817,000)	(600,000,000)
Interest paid	**(4,035,343,587)**	(1,468,593,272)	(1,087,246,900)
Income tax paid	**(1,031,375,223)**	(383,256,129)	(14,553,856)
Interest received	**1,498,796,846**	749,895,600	907,573,247
Dividends received	**833,163,900**	157,156,316	1,495,803,180
Contributions to pension plan assets (Note 28)	**(108,214,980)**	–	(12,959,089)
Net cash provided by (used in) operating activities	**6,014,565,545**	895,356,878	(4,186,319,126)

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Settlement of deposits (Note 12)	**₱2,085,000,000**	₱2,000,000,000	₱–
Disposal of property and equipment	**160,733,099**	50,915,037	475,003
Sale of available-for-sale investments	**62,977,803**	–	–
Settlement of long-term cash investments (Note 27)	–	2,440,084,378	–
Additions to:			
Investments in associates and joint ventures (Note 8)	**(502,243,750)**	(4,500,000,965)	(2,624,660,409)
Investment properties (Note 9)	**(143,738,791)**	(2,968,258,325)	(57,705,511)
Property and equipment (Note 11)	**(7,025,386,058)**	(1,152,938,297)	(18,540,327)
Available-for-sale investments	**690,297,705**	–	–
Intangible assets (Note 13)	**(9,201,020)**	(10,727,484)	–
Deposits (Note 12)	–	–	(4,085,000,000)
Long-term cash investments (Note 27)	–	–	(2,440,084,378)
Acquisition of subsidiary, net of cash acquired (Note 31)	**2,677,274,289**	7,903,548,151	(420,000,000)
Redemption of non-controlling interests in consolidated subsidiaries (Notes 22 and 31)	–	(5,916,922,941)	–
Decrease (increase) in other noncurrent assets	**(200,078,395)**	1,529,235,323	(24,329,670)
Refund of advances	–	–	602,879,241
Net cash used in investing activities	**(2,204,365,118)**	(625,065,123)	(9,066,966,051)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock (Note 22)	**10,105,185,000**	–	–
Issuance of bonds payable	**9,894,756,979**	–	–
Loan availments	**7,340,500,000**	–	19,305,000,000
Proceeds from initial public offering (Note 22)	–	14,010,809,241	–
Payment of loans payable	**(18,047,447,689)**	(5,755,695,795)	(8,238,491,076)
Increase (decrease) in:			
Liabilities on purchased properties	**1,739,801,352**	2,580,574,771	(516,846,000)
Due to related parties	–	–	83,026,536
Other noncurrent liabilities	**858,005,716**	–	10,269,220
Non-controlling interests	**(45,092,694)**	–	–
Net cash provided by financing activities	**11,845,708,664**	10,835,688,217	10,642,958,680
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(42,309,137)**	(7,113,039)	(193,784)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,613,599,954**	11,098,866,933	(2,610,520,281)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**11,553,288,498**	454,421,565	3,064,941,846
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱27,166,888,452**	₱11,553,288,498	₱454,421,565

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

GT Capital Holdings, Inc. (the Parent Company) was organized and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 2007. The primary purpose of the Parent Company is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, exchange, develop or otherwise dispose of real property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, associations, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned.

The common shares of the Parent Company were listed beginning April 20, 2012 and have since been traded in the Philippine Stock Exchange, Inc.

The ultimate parent of GT Capital Holdings, Inc. is Grand Titan Capital Holdings, Inc. (Grand Titan).

<u>Group Activities</u>

The Parent Company, Federal Land, Inc. (Fed Land) and Subsidiaries (Fed Land Group), Charter Ping An Insurance Corporation (Charter Ping An or Ping An), Toyota Motor Philippines Corporation (Toyota or TMPC) and Subsidiaries (Toyota Group) and Global Business Power Corporation (GBPC) and Subsidiaries (GBPC Group) are collectively referred herein as the "Group". The Parent Company, the holding company of the Fed Land Group (real estate business), Charter Ping An (non-life insurance business), Toyota Group (automotive business) and GBPC Group (power generation business), is engaged in investing, purchasing and holding shares of stock, notes and other securities and obligations.

The principal business interests of the Fed Land Group are real estate development and leasing and selling properties and acting as a marketing agent for and in behalf of any real estate development company or companies. The Fed Land Group is also engaged in the business of trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintaining a petroleum service station and food and restaurant service.

GBPC was registered with the Philippine SEC on March 13, 2002 primarily to invest in, hold, purchase, import, acquire (except land), lease, contract or otherwise, with the limits allowed for by law, any and all real and personal properties of every kind and description, whatsoever, and to do acts of being a holding company except to act as brokers dealers in securities. As discussed in Note 31, the Group acquired effective control of GBPC on April 30, 2012. The acquisition of control over GBPC was accounted for as a business combination achieved in stages and the details of the said transaction are discussed in Note 31.

In April 2013, the Parent Company finalized its purchase price allocation for the acquisition of GBPC and there were no changes to the fair market values of the assets acquired and liabilities assumed for GBPC.

Toyota Group is engaged in the assembly, manufacture, importation, sale and distribution of all kinds of motor vehicles including vehicle parts, accessories and instruments.

Charter Ping An is engaged in the business of nonlife insurance which includes fire, motor car, marine hull, marine cargo, personal accident insurance and other products that are permitted to be sold by a nonlife insurance company in the Philippines.

The Parent Company also has significant shareholdings in Metropolitan Bank & Trust Co. (MBTC), Philippine AXA Life Insurance Corporation (AXA Philippines or Phil AXA) and Toyota Manila Bay Corporation (TMBC).

The registered office address of the Parent Company is at the 43rd Floor, GT Tower International, Ayala Avenue corner H.V. de la Costa Street, 1227 Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis except for available-for-sale (AFS) investments which have been measured at fair value. The Group's consolidated financial statements are presented in Philippine Peso (₱), the Parent Company's functional currency. All values are rounded to the nearest peso unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated 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 consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Parent Company and the following wholly and majority-owned domestic subsidiaries:

		Direct Percentages of Ownership			Effective Percentages of Ownership		
	Country of	**December 31**			**December 31**		
	Incorporation	**2013**	2012	2011	**2013**	2012	2011
Fed Land and Subsidiaries	Philippines	**100.00**	100.00	80.00	**100.00**	100.00	80.00
GBPC and Subsidiaries	-do-	**50.89**	50.89	–	**53.16**	62.98	–
Toyota and Subsidiaries	-do-	**51.00**	36.00	21.00	**51.00**	36.00	21.00
Charter Ping An	-do-	**66.67**	–	–	**74.97**	–	–

As of December 31, 2013 and 2012, the Parent Company has effective ownership over GBPC of 53.16% (50.89% direct interest and 2.27% indirect interest) and 62.98% (50.89% direct interest and 12.09% indirect interest), respectively. The Parent Company's indirect interest comes from its 25.11% direct interest in MBTC, which has direct interest in First Metro Investments Corporation (FMIC). FMIC, in turn, has 9.11% and 49.11% direct interest in GBPC as of December 31, 2013 and 2012, respectively (Note 31).

As of December 31, 2013, the Parent Company has effective ownership over Charter Ping An of 74.97% (66.67% direct interest and 8.30% indirect interest). The Parent Company's indirect interest comes from its direct investment in MBTC, which has direct interest in FMIC. FMIC, in turn, owns the remaining 33.33% ownership interest over Charter Ping An as of December 31, 2013 (Note 31).

Fed Land's Subsidiaries

	Percentage of Ownership		
	2013	2012	2011
FLI - Management and Consultancy, Inc. (FMCI)	**100.00**	100.00	100.00
Baywatch Project Management Corporation (BPMC)	**100.00**	100.00	100.00
Horizon Land Property and Development Corp. (HLPDC)	**100.00**	100.00	100.00
Top Leader Property Management Corp. (TLPMC)	**100.00**	100.00	100.00
Bonifacio Landmark Realty and Dev't Corp (BLRDC)	**–**	–	100.00
Central Realty and Development Corp. (CRDC)	**75.80**	75.80	75.80
Federal Brent Retail, Inc. (FBRI)	**51.66**	51.66	51.66
Fedsales Marketing, Inc. (FMI)*	**–**	100.00	100.00
Harbour Land Realty & Development Corporation (HLRDC)**	**–**	100.00	100.00
Southern Horizon Development Corporation (SHDC)**	**–**	100.00	100.00
Omni-Orient Marketing Network, Inc. (OOMNI)*	**–**	87.80	87.80

* *On February 18, 2013, the Board of Directors (BOD) of Fed Land approved the merger of Fed Land and its two subsidiaries namely FMI and OOMNI, where Fed Land will be the surviving entity and the two subsidiaries will be the absorbed entities. The merger was approved by the Philippine SEC on November 29, 2013.*

** *On May 8, 2013, the BOD of HLPDC, HLRDC and SHDC approved the merger of the three entities where HLPDC will be the surviving entity and HLRDC and SHDC will be the absorbed entities. The merger was approved by the SEC on October 21, 2013.*

GBPC's Subsidiaries

	Percentage of Ownership	
	2013	2012
GBH Cebu Limited Duration Company (GCLDC)	**100.00**	100.00
ARB Power Venture, Inc. (APVI)	**100.00**	100.00
Toledo Holdings Corp. (THC)	**100.00**	100.00
Toledo Cebu Int'l Trading Resources Corp. (TCITRC)	**100.00**	100.00
Toledo Power Company (TPC)	**100.00**	100.00
GBH Power Resources, Inc. (GPRI)	**100.00**	100.00
Global Energy Supply Corp. (GESC)	**100.00**	100.00
Mindanao Energy Development Corporation (MEDC)	**100.00**	100.00
Global Formosa Power Holdings, Inc. (GFPHI)	**93.00**	93.00
Panay Power Holdings Corp (PPHC)	**89.30**	89.30
Panay Power Corp. (PPC)	**89.30**	89.30
Panay Energy Development Corp. (PEDC)	**89.30**	89.30
Cebu Energy Development Corp. (CEDC)	**52.18**	52.18

Toyota's Subsidiaries

	Percentage of Ownership
Toyota Makati, Inc. (TMI)	100.00
Lexus Manila, Inc. (LMI)	75.00
Toyota San Fernando Pampanga, Inc. (TSFI)	55.00

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. 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.

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.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies except for Charter Ping An which uses the revaluation method in accounting for its condominium units included as part of 'Property and equipment' account in the consolidated statement of financial position. The carrying values of the condominium units are adjusted to eliminate the effect of revaluation and to recognize the related accumulated depreciation based on the original acquisition cost to align the measurement with the Group's accounting policy. All intragroup transactions, balances, income and expenses resulting from intragroup transactions and dividends are eliminated in full on consolidation.

Non-controlling interests (NCI) represent the portion of profit or loss and net assets in a subsidiary not attributed, directly or indirectly, to the Parent Company. NCI are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the NCI, even if that results in the NCI having a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any NCI and the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income 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.

Business Combinations Involving Entities Under Common Control
A business combination involving entities under common control is accounted for using the uniting of interest method, except when the acquisition is deemed to have commercial substance for the Group, in which case the business combination is accounted for under the acquisition method. The combined entities accounted for by the uniting of interests method reports the results of operations for the period in which the combination occurs as though the entities had been combined as of the beginning of the period. Financial statements of the separate entities presented for prior years are also restated on a combined basis to provide comparative information. The effects of intercompany transactions on assets, liabilities, revenues, and expenses for the periods presented, and on retained earnings at the beginning of the periods presented are eliminated to the extent possible.

Under the uniting of interest method, the acquirer accounts for the combination as follows:
- the assets and liabilities of the acquiree are consolidated using the existing carrying values instead of fair values;
- intangible assets and contingent liabilities are recognized only to the extent that they were recognized by the acquiree in accordance with applicable PFRS;
- no amount is recognized as goodwill;
- any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities; and
- comparative amounts are restated as if the combination had taken place at the beginning of the earliest comparative period presented.

The acquiree's equity are included in the opening balances of the equity as a restatement and are presented as 'Effect of uniting of interest' in the consolidated statement of changes in equity. Cash considerations transferred on acquisition of a subsidiary under common control are deducted in the 'Retained earnings' at the time of business combination.

When evaluating whether an acquisition has commercial substance, the Group considers the following factors, among others:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as NCIor other third parties; and
- whether or not the transaction is conducted at fair value.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the date of acquisition. Acquisition-related costs are expensed and included in the consolidated statement of income.

When the Group acquires a business, it assesses the financial assets and liabilities of the acquiree for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. The Group also assesses whether assets or liabilities of the acquiree that are previously unrecognized in the books of the acquiree will require separate recognition in the consolidated financial statements of the Group at the acquisition date.

In a business combination achieved in stages, the Group remeasures its previously-held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in the consolidated statements of income. Any recognized changes in the value of its equity interest in the acquiree previously recognized in other comprehensive income are recognized by the Group in profit or loss, as if the previously-held equity interest are disposed of.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in the consolidated statements of income or as changes to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that if known, would have affected the amounts recognized as at that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as at the acquisition date and is subject to a maximum of one year.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognized for any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held interest, if any, over the fair value of the net assets acquired.

If after reassessment, the fair value of the net assets acquired exceeds the consideration transferred, the amount recognized for any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held interest, if any, the difference is recognized immediately in the consolidated statements of income as 'Gain on bargain purchase'.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment loss is recognized immediately in the consolidated statements of income and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating unit (CGU) that are expected to benefit from the combination from the acquisition date irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Change in Ownership without Loss of Control

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent Company.

Changes in Accounting Policies and Disclosures
The accounting policies are consistent with those of the previous financial year except for the following new and amended PFRS, Philippne Accounting Standards (PAS) and Philippine Interpretation which were adopted as of January 1, 2013.

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

PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose 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.

The amendment did not have an impact on the consolidated financial statements as the Group has not set off any financial instruments in its financial statements and does not have offsetting arrangements that qualify for disclosures required.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation – Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 requires 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 judgments made by management in identifying entities for consolidation.

PFRS 11, *Joint Arrangements*
PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The adoption of this standard has no impact to the Group as the joint ventures of the Group are currently accounted for under the equity method of accounting.

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 31 and PAS 28, *Investments in Associates*. 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 (NCI) and material associates, there are no unconsolidated structured entities. Refer to *Basis of Consolidation* and Note 8 for 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 at fair value through profit or loss, AFS investments and investment properties. Refer to Note 32 for the disclosures required by the standard.

PAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (Amendments)
The Group applied amendments to PAS 1 and changed the grouping of items presented in the consolidated 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 'Change in fair value of available-for-sale investments', 'Equity in change in fair values of available for-sale investments of associates' and 'Equity in change in translation adjustment'; or
- items that will never be recycled to profit or loss. These include 'Remeasurement of defined benefit plan' and 'Equity in remeasurement of defined benefit plans of associates'.

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 of the Group. The adjustment amounts were determined by the Group with the assistance of an external actuary.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

	December 31, 2012		
	As previously reported	Effect of retrospective application of PAS 19R	As restated
Statement of Financial Position			
Assets			
Investments in associates and joint ventures	₱43,363,689,238	(₱574,701,508)	₱42,788,987,730
Deferred tax assets	238,369,925	92,314,574	330,684,499
Liabilities and Equity			
Pension liability	204,502,610	328,108,663	532,611,273
Retained earnings	13,855,815,763	(171,279,356)	13,684,536,407

(Forward)

	December 31, 2012		
	As previously reported	Effect of retrospective application of PAS 19R	As restated
Net unrealized loss on remeasurement of defined benefit plan	₱–	(₱57,332,052)	(₱57,332,052)
Equity in net unrealized loss on remeasurement of defined benefit plans of associates	–	(502,969,032)	(502,969,032)
Non-controlling interests	11,373,072,694	(78,915,157)	11,294,157,537
Statement of Income			
Equity in net income of associates and joint ventures	3,903,830,555	(1,734,380)	3,902,096,175
General and administrative expenses	3,583,829,706	(24,808,779)	3,559,020,927
Provision for income tax	298,282,930	(10,632,334)	287,650,596
Net income attributable to NCI	2,058,683,630	(1,100,865)	2,057,582,765
Other Comprehensive Income			
Net unrealized loss on remeasurement of defined benefit plan	–	(39,862,076)	(39,862,076)
Equity in net unrealized gain on remeasurement of defined benefit plan of associates	–	140,560,255	140,560,255
Equity in net unrealized loss on remeasurement of defined benefit plan attributable to NCI	–	(62,369,724)	(62,369,724)

	January 1, 2012		
	As previously reported	Effect of retrospective application of PAS 19R	As restated
Statement of Financial Position			
Assets			
Investments in associates and joint ventures	₱38,112,517,612	(₱432,406,873)	₱37,680,110,739
Deferred tax assets	3,791,675	99,125,692	102,917,367
Liabilities and Equity			
Pension liability	28,111,610	330,498,818	358,610,428
Retained earnings	7,801,755,408	(206,086,954)	7,595,668,454
Net unrealized loss on remeasurement of defined benefit plan	–	(79,839,700)	(79,839,700)
Equity in net unrealized loss on remeasurement of defined benefit plans of associates	–	(362,408,777)	(362,408,777)
Non-controlling interests	2,220,763,173	(15,444,568)	2,205,318,605

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 the following amendment 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. However, management assessed that presentation of supporting notes for the third balance sheet is relevant for the users of the financial statements. 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 consolidated financial statements of the Group:

- PFRS 1, *First-time Adoption of PFRS – Government Loans* (Amendments)
- 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

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Long-term Cash Investments
Long term cash investments are highly liquid investments that are subject to explicit time restriction under the provisions of the contracts.

Fair Value Measurement
The Group measures financial instruments, such as AFS investments, at fair value at each consolidated 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 best economic interest.

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

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell assets.

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2013 and 2012, the Group has no financial assets and financial liabilities at FVPL and HTM investments. The Group's financial instruments include loans and receivables, AFS investments and other financial liabilities.

Determination of fair value

The fair value for financial instruments traded in active markets as at the reporting 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 a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, 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' difference
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' difference) in the consolidated statement of income under "Interest income" and "Interest expense" accounts unless it qualifies for recognition as some other type of asset or liability. 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 consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL. This accounting policy relates to the accounts in the consolidated statement of financial position 'Receivables', 'Due from related parties', 'Deposits', 'Cash and cash equivalents' and 'Long-term cash investment'.

Receivables are recognized initially at fair value which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated 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. The Group's AFS investments pertain to quoted and unquoted equity securities and other debt instruments.

After initial recognition, AFS investments are measured at fair value with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously included in equity are included in the consolidated statement of income. Dividends on AFS equity instruments are recognized in the consolidated statement of income when the entity's right to receive payment has been established. Interest earned on holding AFS debt instruments are reported in the statement of income as 'Interest income' using the effective interest rate method.

The fair value of investments that are traded in active markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The unquoted equity instruments are carried at cost less any impairment losses because fair value cannot be measured reliably due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

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

This accounting policy applies primarily to the Group's "Accounts and other payables", "Long-term debt", "Liabilities on purchased properties", "Due to related parties" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable). 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 reporting date whether there is 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original EIR of the asset.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as 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. 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.

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 reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost as at the reversal date.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity instruments 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 consolidated statement of income, is removed from the statement of changes in equity and recognized in the consolidated statement of income. Impairment losses on equity instruments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in the consolidated 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 'Interest income' in the statement of income. If, in the subsequent year, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

Financial asset

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

a. the rights to receive cash flows from the asset have expired;
b. 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
c. 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 risk 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 of 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 original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 consolidated statement of financial position.

Inventories

Real estate inventories

Property acquired that are being developed or constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as real estate inventory. Real estate inventories consist of land and improvements, and condominium units held for sale.

Land and improvements consists of properties that is held for future real estate projects and are carried at the lower of cost or net realizable value (NRV). Cost includes the acquisition cost of the land and those costs incurred for development and improvement of the properties. Upon commencement of real estate project, the subject land is transferred to 'Condominium units held for sale'.

Costs of condominium units held for sale includes the carrying amount of the land transferred from 'Land and improvements' at the commencement of its real estate projects and those costs incurred for construction, development and improvement of the properties, including capitalized borrowing costs.

Gasoline retail, petroleum products and chemicals
Cost is determined using first-in, first-out method. The costs of oil, petroleum products and chemicals include cost incurred for acquisition and freight charges.

Power inventories
Inventories, at GBPC Group, which consist of coal, industrial fuel, lubricating oil, spare parts and supplies are stated at the lower of cost and NRV. Cost is determined using the weighted average method while the NRV is the current replacement cost. In determining the NRV, the Group considers any adjustment necessary for obsolescence.

Automotive inventories
These are inventories of the Toyota Group which are valued at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and spare parts	– Purchase cost on a weighted average cost
Finished goods and work-in-process	– Cost of direct material and labor and proportion of fixed and overhead manufacturing costs allocated based on normal operating capacity
Raw materials and spare parts in-transit	– Cost is determined using the specific identification method

Investments in Associates and Joint Ventures
This account includes advances for future stock acquisition on investee companies. Investments in associates and jointly-controlled entities are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a jointly-controlled entity of the Group. A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control.

An investment is accounted for using the equity method from the day it becomes an associate or a jointly-controlled entity. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is included as income in the determination of the share in the earnings of the investee.

Under the equity method, the investments in and advances to associates and jointly-controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value.

The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the investee companies and the Group's share on movements in the investee's OCI are recognized directly in OCI in the consolidated financial statements. The Group's share on total comprehensive income of an associate is shown in the consolidated statement of income and consolidated statement of comprehensive income. The aggregate of the Group's equity in net income of associates and joint ventures is shown on the face of the consolidated statement of income as part of operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate and joint venture.

Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies, and for unrealized losses, to the extent that there is no evidence of impairment of the assets transferred. Dividends received from investee companies are treated as a reduction of the accumulated earnings included under "Investments in associates and joint ventures" account in the consolidated statement of financial position.

The Group discontinues applying the equity method when its investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates or jointly-controlled entity. When the investees subsequently report net income, the Group will resume applying the equity method but only after its equity in the net income equals the equity in net losses of associates and jointly-controlled entities not recognized during the period the equity method was suspended.

Investment Properties

Investment properties consist of properties that are held to earn rentals and that are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in residual value. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives (EUL) of the properties which is 25 years.

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

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use, including capitalized borrowing costs.

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and put into operational use.

Power plant construction in progress represents power plant complex under construction and is stated at cost. Cost of power plant construction in progress includes purchase price of the components, capitalized borrowing cost, cost of testing and other directly attributable cost of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. CIP is not depreciated until such time that the relevant assets are ready for use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are calculated on the straight-line basis over the following EUL of the property and equipment as follows

	Years
Transportation equipment	5
Furniture, fixtures and equipment	5
Leasehold improvements	2 to 10 or lease term (whichever is shorter)
Machineries, tools and equipment	3 to 5
Building	20 to 40
Boilers and powerhouse	9 to 25
Turbine generators and desox system	9 to 25
Buildings and land improvements	9 to 25
Electrical distribution system	7 to 25
Other property and equipment	3 to 5

The assets' residual values, EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Transfers are made from property and equipment, when there is a change in use, evidenced by ending of owner-occupation, and with a view of sale.

Impairment or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of the 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 with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Group's intangible assets consist of power purchase agreements, customer relationship, software costs and franchise. A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Power Purchase Agreements (PPA)
PPA pertain to the EPPAs which give GBPC the right to charge certain electric cooperatives for the electricity to be generated and delivered by GBPC. This is recognized initially at fair value which consists of the cost of the power generation and the fair value of future fee payments. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The PPA is amortized using the straight-line method over the estimated economic useful life which is the life of the EPPAs, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated economic useful life is ranging from 4 to 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Customer Relationship
Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers, which adds value to the operations of Toyota and enhances the latter's earnings potential. This is recognized initially at fair value and is assessed to have an indefinite useful life. Following initial recognition, the intangible asset is not amortized but assessed annually for impairment.

Franchise
Franchise fee is amortized over the franchise period which ranges from three (3) to five (5) years. Accumulated depreciation and amortization and provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Software Costs
Costs related to software purchased by the Group for use in the operations are amortized on a straight-line basis over a period of 3 to 5 years.

Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and provision for impairment losses, if any. Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are recognized as capital improvements and added to the original cost of the software.

Goodwill
Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:
- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segments as determined in accordance with PFRS 8, *Operating Segments*.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see Impairment of Nonfinancial Assets).

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill is presented together with the intangible assets in the consolidated statement of financial position.

Deposits
Deposits are stated at cost. Cost is the fair value of the asset given up at the date of transfer to the affiliates. This account is treated as a real option money to purchase and develop a property that is held by a related party or an equity instrument to be issued upon exercise of option. The deposit granted to affiliates charges an interest and other related expenses in lieu of the time value in use of option money granted to the affiliates (Note 23).

Impairment of Non-financial Assets
The Group assesses at each financial reporting date whether there is an indication that their nonfinancial assets (e.g. investments in associates and joint ventures, investment properties, property and equipment, and intangible assets), may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 the 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. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting 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. The recoverable amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

This accounting policy applies primarily to the Group's property and equipment and investment properties. Additional considerations for other non-financial assets are discussed below.

Investments in associates and joint ventures
After application of the equity method, the Group determines whether it is necessary to recognize goodwill or any additional impairment loss with respect to the Group's net investment in its associates and jointly controlled entities. The Group determines at each financial reporting date whether there is any objective evidence that the investments in associates and joint ventures are impaired.

If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and jointly controlled entities and the carrying cost and recognizes the amount in the consolidated statement of income.

Intangible assets
Except for customer relationship, where an indication of impairment exists, the carrying amount of intangible assets with finite useful lives is assessed and written down immediately to its recoverable amount. Customer relationship is reviewed for impairment annually, similar with goodwill, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the consolidated statement of financial position date.

Insurance Receivables
Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortised cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of income.

Insurance receivables are derecognized under the derecognition criteria of financial assets.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists and that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against profit or loss.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized in the consolidated statement of income as part of commission income in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated insurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired, or when the contract is transferred to another party.

Deferred Acquisition Costs (DAC)
Commissions and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as expense as incurred.

Subsequent to initial recognition, these costs are amortized on a straight line basis using twenty-fourth (24^{th}) method over the life of the contract except for the marine cargo where commissions from the last two months of the year are recognized as expense in the following year. Amortization is charged against consolidated statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" are presented under Prepayments and Other Current Assets in the assets section of the statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount. The impairment loss is charged to consolidated statement of income. DAC is also considered in the liability adequacy test for each end of the reporting period.

Value-Added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of sales tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from the tax authority is included under "Prepayments and other current assets" in the consolidated statement of financial position.

Assets Held for Sale
The Group classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets held for sale are included under prepayments and other current assets in the consolidated statements of financial position.

Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Unearned Premium
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums as part of "Insurance contract liabilities" and presented in the liabilities section of the statement of financial position. Premiums for short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24^{th} method except for the marine cargo where premiums for the last two months are considerd earned in the following year. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims Provision Incurred But Not Reported (IBNR) Losses
These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period together with the related claims handling cost and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR losses. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability Adequacy Test
At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of the related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of comprehensive income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Customers' Deposits
The Group requires buyers of condominium units to pay a minimum percentage of the total selling price. The minimum percentage is on the basis of the level of buyer's commitment to pay and is part of the revenue recognition criteria. When the revenue recognition criteria are met, sales are, then, recognized and these deposits and downpayments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the cash surrender value of the deposit will be refunded to the buyer.

Customer's deposits consist of payment from buyers which have not reached the minimum required percentage and amounts that have not been applied against the related installment contract receivables.

Equity
The Group records common stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Capital stock
The Parent Company has issued common stock that is classified as equity. Incremental costs directly attributable to the issue of new common stock are shown in equity as a deduction, net of tax, from the proceeds. All other equity issuance costs are recognized as expense as incurred.

Where the Parent Company purchases its' own common stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued.

Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, and is included in equity attributable to the Parent Company's equity holders.

Additional paid-in capital
Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the shareholders.

Deposits for future stock subscriptions
Deposits for future stock subscriptions are recorded based on the amounts received from stockholders and amounts of advances to be converted to equity.

Retained earnings
The amount included in retained earnings includes profit or loss attributable to the Group's equity holders and reduced by dividend on common stock. Dividends on common stock are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Acquisition of Non-controlling Interest in a Subsidiary
Acquisition of non-controlling interest is accounted for as an equity transaction, whereby the difference between the fair value of consideration given and the share in the net book value of the net assets acquired is recognized in equity. When the consideration is less than the net assets acquired, the difference is recognized as a gain in the consolidated statement of income. In an acquisition without consideration involved, the difference between the share of the non-controlling interests in the net assets at book value before and after the acquisition is treated as transaction between equity owners.

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

The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Net fees
Net fees consist of energy fees for the energy and services supplied by the operating companies as provided for in their respective PPA or EPPA with respective customers. Energy fee is recognized based on actual delivery of energy generated and made available to customers multiplied by the applicable tariff rate, net of adjustments, as agreed upon between the parties. In case the actual energy delivered by PPC and GPRI to customers is less than the minimum energy off-take, PPC and GPRI shall reimburse their customers for the difference between the actual cost for sourcing the shortfall from another source and tariff rate, multiplied by the actual shortfall. On the other hand, if the customers fail to accept the minimum supply, the customers shall be subject to penalty equivalent to the cost of power unused or not accepted on an annual basis. For TPC, energy fee is recognized based on actual delivery of energy generated and made available to its customers, multiplied by the applicable tariff rate, net of adjustments, as agreed upon between TPC and its customers.

Real estate sales
Real estate revenue and cost from completed projects is accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work. When the sale of real estate does not meet the requirements for revenue recognition, the sale is accounted under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventories continue to be reported in the consolidated statement of financial position as "Inventories" and the related liability as deposit under "Customers' deposits".

Real estate revenue and cost from completed projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-01, the percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When the sale of real estate does not meet the requirements for revenue recognition, the sale is accounted under the deposit method until all the conditions are met. Under this method, revenue is not recognized, the receivable from the buyer is not recorded and the cash received from buyers are presented under the "Customers' deposits" account in the liabilities section of the consolidated statement of financial position. The related real estate inventories continue to be reported in the consolidated statement of financial position as "Inventories".

Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

Automotive operations
Revenue from automotive operations arises from sale of manufactured vehicles and trading of completely built-up vehicles and local and imported parts. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer (including certain "bill and hold" sales, wherein in the buyer takes title and accepts billing), usually on dispatch of goods.

Sale of goods
Sale of goods is recognized from retail customers at the point of sale in the stores. This is measured at the fair value of the consideration received, excluding (or 'net of,' or 'reduced for') discounts, returns, rebates and sales taxes.

Rendering of services
Service fees from installation of parts and repairs and maintenance of vehicles are recognized as revenue when the related services have been rendered.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy intercepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums for short-duration insurance contracts are recognized as revenue over the period of contracts using the 24th method except for marine cargo where premiums for the last two months are considered earned the following year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period is accounted for as Provision for unearned premiums and is shown as part of "Insurance contract liabilities" presented in the liabilities section of the consolidated statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at end of the reporting period are accounted for as deferred reinsurance premiums and are shown as part of "Reinsurance assets" in the consolidated statement of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

Reinsurance commissions
Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relate to the unexpired portions of the policies at end of the reporting period are accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the consolidated statement of financial position.

Net premiums earned consist of gross earned premiums on insurance contracts (net of reinsurer's share of gross earned premiums on insurance contracts).

Benefits and claims
Benefits and claims consists of benefits and claims paid to policyholders, which includes changes in the valuation of Insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in insurance revenue. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Net insurance benefits and claims represent gross insurance contract benefits and claims and gross change in insurance contract liabilities less reinsurer's share.

Management fees
Management fees from administrative, property management and other fees are recognized when services are rendered.

Commission income
Commission income is recognized by reference to the percentage of collection of the agreed sales price or depending on the term of the sale as provided under the marketing agreement.

Rental income
Rental income under noncancellable leases is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Interest income
Interest is recognized as it accrues using the effective interest method.

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

Other income
Other customer related fees such as penalties and surcharges are recognized as they accrue, taking into account the provisions of the related contract. Other income also includes sale of scrap and sludge oil which is recognized when there is delivery of goods to the buyer and recovery from insurance which is recognized when the right to receive payment is established.

Expense Recognition

Cost of real estate sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's project and construction department.

Cost of goods and services sold

Cost of goods sold for vehicles and spare parts includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. These costs include the costs of storing and transporting the products. Vendor returns and allowances are generally deducted from cost of goods sold and services.

Other cost of goods sold includes Fed Land's gasoline and food products, and are recognized when goods are delivered which is usually at the point of sale in stores. Cost of services are recognized when services are rendered.

Cost of goods manufactured

Cost of goods manufactured includes the purchase price of the products manufactured, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. These are recorded as "Prepaid expenses" under "Prepayments and other current assets" account.

Power plant operation and maintenance expenses

Power plant operations mainly represent depreciation of power plants, costs of coal and start-up fuel. Repairs and maintenance mainly represent cost of materials and supplies consumed and the cost of restoration and maintenance of the power plants. Purchased power represents power purchased from NPC.

General and administrative expenses

General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Pension Costs

The Parent Company and its subsidiaries have funded, noncontributory defined benefit retirement plans, administered by trustees, covering their permanent employees.

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

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 (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:
a. service cost
b. net interest on the net defined benefit liability or asset
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 consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statements of income.

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

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

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

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Tax
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 at the financial reporting dates.

Deferred tax
Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liability is recognized for all taxable temporary differences. Deferred tax asset is recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefit of unused tax credits from MCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized when it 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.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax asset and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Foreign Currency Transactions
The Group's consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. Each entity within the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions denominated in foreign currency are recorded using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at reporting date. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited to or charged against current operations.

Foreign operations
As at the reporting date, the assets and liabilities of foreign operations are translated into the Parent Company's presentation currency (the Philippine peso) using the closing rates prevailing at reporting date, and their income and expenses are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken to the statement of comprehensive income. Upon disposal of a foreign operation, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

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 the Group's business segments is presented in Note 35.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

Provisions
Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Decommissioning liability
The decommissioning liability arose from the Group's obligation, under the Environmental Compliance Certificates of certain subsidiaries of GBPC, to decommission or dismantle their power plant complex at the end of its useful lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as an "Accretion of decommissioning liability" under the "Interest expense" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the power plant complex, the excess shall be recognized immediately in the consolidated statement of comprehensive income.

Provision for product warranties
Provision for product warranties are recognized when sale of the related products are consummated. The best estimate of the provision is recorded based on three (3) year warranty coverage provided by the Group as part of the sold product. Reversals are made against provision for the expired portion.

Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis over the lease term. Variable rent is recognized as an income based on the terms of the lease contract.

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

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

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

Operating leases
Operating leases represent those leases which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

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

Events after Financial Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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.

Effective 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.

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

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. 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.

- 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 fair value through profit or loss. 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 21, *Levies* (Philippine Interpretation 21)
Philippine Interpretation 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. Philippine Interpretation 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that Philippine Interpretation 21 will have material financial impact in future financial statements.

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 fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after 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 Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact to the Group as it has not applied PFRS 3 to any of its joint arrangements, which are investments in joint ventures.

- 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 fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For 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 profit or loss, 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 profit or loss. 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.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. It introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. PFRS 9 also requires more extensive disclosures for hedge accounting.

The mandatory effective date of PFRS 9 is not specified but will be determined when the outstanding phases are completed. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology.

The Group has started the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. This standard is expected to have an impact on the Group's financial statements, in particular on the classification and measurement of the Group's financial assets.

- Philippine Interpretation 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 interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

3. Management's Judgments and Use of Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under circumstances.

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

Assessment of control over investees
The determination on whether the Group has control over an investee requires significant judgment. 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; and (c) the ability to use its power over the investee to affect the amount of the investor's returns. In assessing whether the Group has power over the investee, the Group assesses whether it has existing rights that give it the current ability to direct the relevant activities of the investee.

Consolidation of TMPC
The Group holds 51.00% ownership interest and voting rights in TMPC. The remaining 49.00% are held by 3 shareholders. TMPC's Board of Directors (BOD) maintains the power to direct the major activities of TMPC while the Group has the ability to appoint the majority of the BOD. When determining control, management considered whether it has the ability to direct the relevant activities of TMPC to generate return for itself. Management concluded that it has the ability based on its ability to appoint the majority of the BOD. The Group therefore accounts for TMPC as a subsidiary, consolidating its financial results for the reporting period.

Joint arrangements
The Group has investments in joint arrangements. The Group has joint control over these arrangements as under the contractual arrangements, unanimous consent is required from all the parties to the agreements for all relevant activities.

Revenue and cost recognition
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others:
- Buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and
- Stage of completion of the project.

Collectibility of the sales price
In determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10.00% would demonstrate the buyer's commitment to pay.

Operating lease commitments - the Group as lessee
The Group has entered into a lease contract with its related parties with respect to the parcels of land where its retail malls are located. The Group has determined that all significant risks and rewards of ownership of the leased property remains to the lessor since the leased property, together with the buildings thereon, and all permanent fixtures, will be returned to the lessor upon termination of the lease.

Operating lease commitments - the Group as lessor
The Group entered into commercial property leases on its retail mall, investment properties and certain units of its real estate projects to different parties for a specific amount depending on the lease contracts. The Group has determined that it retains all significant risks and rewards of ownership on the properties as the Group considered among others the length of the lease as compared with the estimated life of the assets.

A number of the Group's operating lease contracts are accounted for as noncancellable operating leases. In determining whether a lease contract is cancellable or not, the Group considered among others, the significance of the penalty, including the economic consequences to the lessee (Note 30).

Finance lease commitments - Group as lessee
The Group has entered into finance leases on certain parcel of land. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor transfers substantially all the risks and benefits incidental to ownership of the leased equipment to the Group thus, the Group recognized these leases as finance leases.

Impairment of AFS investments
The Group treats AFS investments as impaired when there has been a significant or prolonged decline or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more and 'prolonged' as greater than six months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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.

Distinction between real estate inventories and investment properties
The Group determines whether a property will be classified as real estate inventories or investment properties. In making this judgment, the Group considers whether the property is held for sale in the ordinary course of business (real estate inventories) or which are held primarily to earn rental and capital appreciation and are not occupied substantially for use by, or in the operations of the Group (investment properties).

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Contingencies
The Group is currently involved in few legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 36).

Determining whether an arrangement contains a lease
The PPAs and EPPAs qualify as a lease on the basis that the Group sells all its output to the specified counterparties as per their respective agreements. The agreements calls for a take or pay arrangement where payment is made on the basis of the availability of the power plant complex and not on actual deliveries. The lease arrangement is determined to be an operating lease where a significant portion of the risks and rewards of ownership are retained by the Group. Accordingly, the power plant complex is recorded as part of property, plant and equipment and the fees billed to the specified counterparties are recorded as revenue.

Allocation of costs and expenses
Costs and expenses are classified as exclusive and common. Exclusive costs such as raw materials and direct labor are charged directly to the product line. Common costs and expenses are allocated using sales value.

<u>Management's Use of Estimates</u>
The key assumptions concerning the future and other key sources of estimation and uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate sales recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. The carrying amount of installment contract receivable amounted to ₱5.82 billion and ₱3.93 billion as of December 31, 2013 and 2012, respectively (Note 5). The Group recognized real estate sales in 2013, 2012 and 2011 amounting to ₱4.70 billion, ₱2.13 billion and ₱2.51 billion, respectively.

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

The Group maintains allowance for impairment losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (industry, customer type, customer location, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. 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. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As of December 31, 2013 and 2012, the carrying values of these assets are as follow:

	2013	2012
Receivables (Note 5)	**₱17,379,453,331**	₱9,663,835,722
Due from related parties (Note 27)	**849,398,310**	489,042,589

Evaluating net realizable value of inventories
Inventories are valued at the lower of cost and net realizable value. The Group reviews its inventory to assess NRV at least annually. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The amount and timing of recorded expense for any period would differ if different judgments were made or different estimates were utilized.

Gasoline retail, petroleum products and chemicals
The Group provides allowance for inventory losses whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The allowance account is reviewed regularly to reflect the appropriate valuation in the financial records.

The carrying value of the Group's inventories amounted to ₱20.81 billion and ₱12.28 billion as of December 31, 2013 and 2012, respectively (Note 6).

Estimating useful lives of property and equipment, investment properties and intangibles assets
The Group determines the EUL of its property and equipment, investment properties, and intangibles assets based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property and equipment, investment properties and intangible assets based on factors that include asset utilization, internal technical evaluation, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment, investment properties and intangible assets would increase the recorded depreciation and amortization expense.

Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers which lay out the principal terms upon which its dealers agree to do business. Management assessed the useful life of the customer relationship to be indefinite since management is of the view that there is no foreseeable limit to the period over which the customer relationship is expected to generate net cash inflows to Toyota.

The said assessment is based on the track record of stability for the auto industry and the Toyota brand. Added to this is the commitment of management to continue to invest for the long term, to extend the period over which the intangible asset is expected to continue to provide economic benefits.

As of December 31, 2013 and 2012, the carrying values of investment property, property and equipment, intangible assets from power purchase agreements, customer relationship, software costs and franchise are as follow:

	2013	2012
Investment properties (Note 9)	**₱8,328,668,533**	₱7,815,576,971
Property and equipment (Note 11)	**41,163,427,981**	33,661,228,629
Power purchase agreements - net (Note 13)	**8,199,068,543**	8,676,723,532
Customer relationship (Note 13)	**3,883,238,361**	–
Software costs - net (Note 13)	**15,814,615**	14,286,161
Franchise - net (Note 13)	**1,583,333**	–

Evaluating asset impairment
The Group reviews investment properties, investments in and advances to associates and jointly controlled entities, input VAT, creditable withholding tax, property and equipment, power purchase agreements, software costs, franchise and other noncurrent assets for impairment. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in and advances to associates and jointly controlled entities, property and equipment, software cost and franchise. The following table sets forth the carrying values of investment properties, investments in associates and joint ventures, input VAT, creditable withholding tax, property and equipment, power purchase agreements, software costs, franchise and other noncurrent assets as of December 31, 2013 and 2012:

	2013	2012
Investment properties (Note 9)	**₱8,328,668,533**	₱7,815,576,971
Investments in associates and joint ventures (Note 8)	**40,559,463,758**	42,788,987,730
Input VAT (Note 7)	**3,092,442,775**	3,387,924,051
Creditable withholding taxes (Note 7)	**1,213,867,634**	324,510,952
Property and equipment (Note 11)	**41,163,427,981**	33,661,228,629
Power purchase agreements - net (Note 13)	**8,199,068,543**	8,676,723,532
Customer relationship (Note 13)	**3,883,238,361**	–
Software - net (Note 13)	**15,814,615**	14,286,161
Franchise - net (Note 13)	**1,583,333**	–
Other noncurrent assets (Note 14)	**1,202,989,799**	547,194,483

Estimating impairment of AFS investments
The Group treats AFS investments as impaired when there has been significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or when is 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more of the cost of AFS and 'prolonged' if greater than six months. In addition, the Group evaluates other factors, including normal and/or unusual

volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The Group also considers the ability of the investee company to provide dividends.

The carrying amounts of AFS investments amounted to ₱3.11 billion and ₱1.06 billion as of December 31, 2013 and 2012, respectively (Note 10). The change in fair value of AFS investments is recorded in the consolidated statements of comprehensive income. Net unrealized gain (loss) on available-for-sale investments amounted to a gain of ₱80.29 million as of December 31, 2013 and loss of ₱6.61 million as of December 31, 2012. There was no impairment loss recognized in 2013 and 2012.

Impairment of goodwill and intangible assets with indefinite useful life
The Group conducts an annual review for any impairment in value of goodwill and intangible assets with indefinite useful life (i.e., customer relationship). Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Group uses the weighted average cost of capital in discounting the expected cash flows from specific CGUs.

Refer to Note 13 for the details regarding the carrying values of the Group's goodwill and intangible assets as well as details regarding the impairment review and assessment.

Recognition of deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

The recognized deferred tax asset and unrecognized deferred tax asset on temporary differences of the Group are disclosed in Note 29.

Estimating the decommissioning liability
The Group has a legal obligation to decommission or dismantle its power plant asset at the end of its useful life. The Group recognizes the present value of the obligation to dismantle the power plant asset and capitalizes the present value of this cost as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest ranging from 3.90% to 5.97% per annum to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense which is included under "Interest expense" in the consolidated statement of comprehensive income.

Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of comprehensive income as it occurs.

While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates. The amount and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Decommissioning liability amounted to ₱192.66 million and ₱183.49 million as of December 31, 2013 and 2012, respectively (Note 21).

Estimating pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 28 to the consolidated statement of financial position and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations.

As of December 31, 2013 and 2012, the present value of defined benefit obligations amounted to ₱2.82 billion and ₱0.63 billion, respectively. The carrying values of pension liability and expense are disclosed in Note 28.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Fair value of retained interest in BLRDC
In June 2012, Fed Land lost control on BLRDC, the latter becoming a jointly controlled entity. Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The Group used the fair values of the contributed land properties and on-going construction less fair values of liabilities for the purpose of valuing the Group's retained interest. The valuation technique applied in estimating the value of Group's retained interest is based on the Cost Approach.

Claims liability arising from insurance contracts
For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claims settlement trends to predict future claims settlement trends. At each end of the reporting period, prior year claims estimates are assessed for adequacy and changes made are charged to provision.

Nonlife insurance claims provisions are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that the Group's past development experience can be used to project future claims development and hence, ultimate claims cost. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projects are based.

The carrying values of provision for outstanding claims and IBNR amounted to ₱4.92 billion as of December 31, 2013 (Note 16).

Provision for product warranties
Estimated warranty costs are provided at the time of sale. The provision is based on the estimated costs of future servicing the products sold, the costs of which are not recoverable from customers. A provision is recognized for expected warranty claims on products sold during the last two (2) years, based on past experience of the level of returns and repairs. It is expected that most of these costs will be incurred in the next financial year and all will be incurred within three (3) years as of the reporting date.

As of December 31, 2013, provision for product warranty amounted to ₱288.75 million (Note 21).

4. Cash, Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

	2013	2012
Cash on hand	**₱5,742,556**	₱6,451,650
Cash in banks (Note 27)	**4,651,051,201**	3,931,013,953
Cash equivalents (Note 27)	**22,510,094,695**	7,615,822,895
	₱27,166,888,452	₱11,553,288,498

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term investment rates ranging from 0.25% to 4.50% in 2013, and from 2.30% to 4.00% in 2012 and 2011, respectively.

Short-term Investments
These represent the Group's foreign currency and peso-denominated time deposits, as well as money market placements, with original maturities of more than three (3) months and up to 12 months and earn interest at the respective short-term investment rates, ranging from 0.20% to 3.00% in 2013.

5. **Receivables**

This account consists of:

	2013	2012
Trade receivables	**₱8,032,978,324**	₱4,548,367,765
Installment contracts receivables	**5,819,661,101**	3,925,822,347
Insurance receivables	**1,622,829,840**	–
Loans receivable	**719,934,106**	742,819,163
Accrued rent and commission income	**335,682,637**	148,605,645
Dividends receivable	**240,000,000**	–
Nontrade receivables	**198,940,565**	–
Others	**432,967,030**	302,838,226
	17,402,993,603	9,668,453,146
Less allowance for credit losses	**23,540,272**	4,617,424
	₱17,379,453,331	₱9,663,835,722

Total receivables shown in the consolidated statements of financial position follow:

	2013	2012
Current portion	**₱12,450,904,615**	₱6,504,694,886
Noncurrent portion	**4,928,548,716**	3,159,140,836
	₱17,379,453,331	₱9,663,835,722

Noncurrent receivables consist of:

	2013	2012
Trade receivables	**₱674,164,980**	₱738,478,778
Installment contracts receivables	**3,534,449,630**	1,677,842,895
Loans receivable	**719,934,106**	742,819,163
	₱4,928,548,716	₱3,159,140,836

Trade Receivables

The details of trade receivables follow:

	2013	2012
Current:		
Power	**₱3,723,957,882**	₱3,809,888,987
Automotive	**3,634,855,462**	–
	7,358,813,344	3,809,888,987
Noncurrent:		
Power	**674,164,980**	738,478,778
Balance at end of year	**₱8,032,978,324**	₱4,548,367,765

Trade receivables for power pertain to outstanding billings for energy fees and passed through fuel costs arising from the delivery of electricity, while trade receivables for automotive pertain to receivables from sale of vehicles and/or parts and services.

Trade receivables are non-interest bearing and have generally one (1) year to thirty (30) day term.

Installment Contracts Receivables

Installment contracts receivables pertain to receivables from the sale of condominium units. Titles to the sold condominium units are transferred to the buyers only upon full payment of the contract price.

The details of installment contracts receivables follow:

	2013	2012
Installment contracts receivables	**₱6,683,498,838**	₱4,417,915,379
Less unearned interest income	**863,837,737**	492,093,032
	5,819,661,101	3,925,822,347
Less noncurrent portion	**3,534,449,630**	1,677,842,895
Current portion	**₱2,285,211,471**	₱2,247,979,452

Installment contracts receivables are collected over a period of one (1) to ten (10) years and are noninterest-bearing. The fair value upon initial recognition is derived using the discounted cash flow methodology using discount rates ranging from 8.00 to 12.00% in 2013 and 2012.

Movements in the unearned interest income in 2013 and 2012 follow:

	2013	2012
Balance at beginning of year	**₱492,093,032**	₱424,136,862
Additions	**1,120,891,300**	347,402,107
Accretion (Note 23)	**(749,146,595)**	(279,445,937)
Balance at end of year	**₱863,837,737**	₱492,093,032

Insurance Receivables

The details of insurance receivable follow:

	2013
Premiums receivable and agents' balances	₱921,004,162
Reinsurance recoverable on paid losses	617,226,869
Bonds recoverable on paid losses	30,702,317
Due from ceding companies	51,004,663
Funds held by ceding companies	2,891,829
	₱1,622,829,840

Premiums receivable and agents balances arise from unpaid premiums from policy holders and intermediaries, due from ceding companies are premiums receivable for reinsuring the policies, while recoverable on paid losses are the share of ceding companies for the claims paid to the insured during the year. The amount of funds held by ceding companies is a percentage of the premiums, as required by the Insurance Commission. The Group's insurance receivables are all due within one year.

Loans Receivable

Loans receivable from various counterparties pertain to long-term receivables as follow:

	2013	2012
Real estate	**₱618,547,138**	₱610,775,830
Power	**101,386,968**	132,043,333
Balance at end of year	**₱719,934,106**	₱742,819,163

Loans receivable for real estate relate to a loan agreement (Loan) with Cathay International Resources Corp. (Borrower), an affiliate. On December 21, 2012, Fed Land agreed to lend to the Borrower a total amount of ₱705.00 million with a nominal and effective interest rate of 3.15% and 4.81%, respectively. The loan will mature on the tenth year anniversary from the date of execution of the agreement (Note 27). Fed Land used discounted cash flow analyses to measure the fair value of the Loan. The 'Day 1' difference from this receivable amounting to ₱94.22 million in 2012 was recorded under 'General and administrative expense' in the consolidated statement of comprehensive income (Note 26). Accretion of interest in 2013 amounted to ₱7.35 million.

Loan receivables for power pertain to GBPC's loan to PECO as assistance to build a transmission line payable in equal monthly installment within five (5) years commencing on the sixth month after the date of the last release of the loan balance subject to an interest rate of 9.00% per annum.

Accrued Rent and Commission Income
Accrued rent and commission income from real estate business pertain to rent and commission from third party real estate developers already earned but not yet collected, with a 15 to 30 day term.

Dividends Receivable
Dividends receivable pertains to receivable from Federal Land Orix Corporation (FLOC) for dividends but not yet paid as of December 31, 2013 (Note 27).

Nontrade Receivables
Nontrade receivables mainly consist of vehicle acquisition plan loans extended to employees which are collectible within one (1) year.

Others
Other receivables include receivable from employees, accrued interest receivable, receivable from BIR and management fee receivables.

Allowance for Credit Losses
Changes in the allowance for credit losses on receivables are as follows:

	December 31, 2013			
	Trade Receivables	Insurance Receivables	Other Receivables	Total
Balance at beginning of year	₱–	₱–	₱4,617,424	₱4,617,424
Provision for credit losses (Note 26)	300,000	13,968,802	8,288,966	22,557,768
Write-off	(84,500)	–	(3,550,420)	(3,634,920)
Balance at end of year	₱215,500	₱13,968,802	₱ 9,355,970	₱23,540,272
Individual impairment	₱215,500	₱–	₱9,355,970	₱9,571,470
Collective impairment	–	13,968,802	–	13,968,802
	₱215,500	₱13,968,802	₱9,355,970	₱23,540,272
Gross amount of receivables individually impaired before deducting any impairment allowance	₱215,500	₱–	₱9,355,970	₱9,571,470

	December 31, 2012			
	Trade Receivables	Insurance Receivables	Other Receivables	Total
Balance at beginning of year	₱–	₱–	₱3,768,388	₱3,768,388
Provision for credit losses (Note 26)	–	–	849,036	849,036
Balance at end of year	₱–	₱–	₱4,617,424	₱4,617,424
Individual impairment	₱–	₱–	₱4,617,424	₱4,617,424
Collective impairment	–	–	–	–
	₱–	₱–	₱4,617,424	₱4,617,424
Gross amount of receivables individually impaired before deducting any impairment allowance	₱–	₱–	₱4,617,424	₱4,617,424

6. Inventories

This account consists of:

	2013	2012
At cost		
Real estate		
Land and improvements	**₱9,684,589,236**	₱4,670,153,960
Condominium units held for sale	**5,324,507,924**	5,848,513,798
Materials, supplies and others	**1,116,298,814**	629,766,101
Gasoline retail and petroleum products (Note 25)	**7,940,644**	9,786,694
Food (Note 25)	**1,310,005**	2,351,541
Power		
Coal	**561,574,604**	468,099,034
Spare parts and supplies	**509,302,236**	556,432,939
Industrial fuel and lubricating oil	**84,575,238**	89,974,890
Automotive		
Finished goods	**909,282,096**	–
Work-in-process	**63,490,932**	–
	18,262,871,729	12,275,078,957
At NRV		
Automotive		
Spare parts	**301,556,231**	–
	301,556,231	–
Raw materials in transit	**2,248,877,034**	–
	₱20,813,304,994	₱12,275,078,957

A summary of movements in real estate inventories (excluding gasoline retail, petroleum products and food) follows:

	2013			
	Condominium unit held for sale	**Land and improvements**	**Construction in progress**	**Total**
Balance at beginning of the year	**₱5,848,513,798**	**₱4,670,153,960**	**₱629,766,101**	**₱11,148,433,859**
Construction and development costs incurred	**405,958,415**	**–**	**2,643,199,811**	**3,049,158,226**
Land acquired during the year	**–**	**3,530,124,671**	**–**	**3,530,124,671**
Borrowing costs capitalized	**256,062,423**	**–**	**43,203,175**	**299,265,598**
Cost of sales during the year	**(3,666,932,487)**	**–**	**–**	**(3,666,932,487)**
Transfer from construction in progress to condominium units for sale	**2,273,251,417**	**–**	**(2,273,251,417)**	**–**
Land developed during the period	**72,352,773**	**(547,826,286)**	**475,473,513**	**–**
Transfers to and from investment property (Note 9)	**135,301,585**	**2,032,136,891**	**(402,092,369)**	**1,765,346,107**
Balance at end of the year	**₱5,324,507,924**	**₱9,684,589,236**	**₱1,116,298,814**	**₱16,125,395,974**

	2012			
	Condominium units held for sale	Land and improvements	Construction in progress	Total
Balance at beginning of the year	₱5,538,798,214	₱3,420,850,758	₱1,147,663,801	₱10,107,312,773
Construction and development costs incurred	467,224,505	–	119,731,987	586,956,492
Land acquired during the year	–	1,623,438,096	–	1,623,438,096
Land costs transferred from land for future development	374,134,894	(374,134,894)	–	–
Land transferred from investment property (Note 9)	368,314,414	–	–	368,314,414
Borrowing costs capitalized	278,510,015	–	54,416,783	332,926,798
Cost of sales during the year	(1,342,018,241)	–	–	(1,342,018,241)
Transfer from construction in progress to condominium units for sale	163,549,997	–	(163,549,997)	–
Contribution to a joint venture	–	–	(175,964,066)	(175,964,066)
Transferred to and reimbursed from joint venture	–	–	(352,532,407)	(352,532,407)
Balance at end of the year	₱5,848,513,798	₱4,670,153,960	₱629,766,101	₱11,148,433,859

In 2013 and 2012, Fed Land acquired parcels of land amounting to ₱3.53 billion and ₱1.62 billion, respectively, to be held either for sale or for future land development.

Fed Land's capitalized borrowing costs in its real estate inventories amounted to ₱144.69 million and ₱160.35 million in 2013 and 2012, respectively, for loans specifically used to finance Fed Land's project construction with interest rates ranging from 3.25% to 7.09% in 2013 and 2012. Also, Fed Land's capitalized borrowing costs in respect of its general borrowing amounted to ₱154.58 million and ₱172.58 million in 2013 and 2012, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 7.34% and 7.29% in 2013 and 2012, respectively. Said capitalized interest is added to "Condominium units held for sale" account and recognized as expense upon the sale of condominium units.

Among the land owned by Fed Land is a parcel of land with a total cost of ₱175.96 million with an area of 5,484 square meters located at Bonifacio Global City, Fort Bonifacio, Taguig City. Said parcel was subject to deed of assignment in favor of BLRDC (formerly MHC) dated December 21, 2011. In 2012, this parcel of land became the contribution of the Parent Company to BLRDC upon execution of the Stockholders' Agreement with Orix (Note 8).

Automotive and power inventories charged to current operations amounted to ₱52.98 billion, ₱10.15 billion and ₱4.29 billion in 2013, 2012 and 2011, respectively.

Allowance for inventory write-down on automotive spare parts inventories follows:

	2013
Beginning balance	₱140,990,193
Provision for inventory write-down	26,912,531
Reversal	(3,166,859)
Write-off of scrap inventories	(18,916,265)
	₱145,819,600

7. Prepayments and Other Current Assets

This account consists of:

	2013	2012
Input value-added tax (VAT)	**₱3,092,442,775**	₱3,387,924,051
Creditable withholding taxes	**1,213,867,634**	324,510,952
Advances to contractors and suppliers	**741,106,996**	1,859,983,399
Prepaid expenses	**468,805,828**	291,344,697
Deferred acquisition cost	**216,376,278**	–
Ad valorem tax	**113,935,646**	–
Advances to officers, employees and agents (Note 27)	**67,970,674**	68,681,552
Deposits	**30,135,436**	49,857,650
Assets held for sale	**15,020,002**	–
Others	**9,564,481**	17,536,701
	₱5,969,225,750	₱5,999,839,002

Input VAT arises from the Group's purchases of goods and services and will be applied against output VAT on sales in the succeeding periods.

Creditable withholding taxes (CWT) are attributable to taxes withheld by third parties arising from net fees, service fees, real estate revenue, auto sales and rental income.

Advances to contractors and suppliers pertain to the Group's advances and initial payments for the purchase of construction materials and supplies and contractor services. These are liquidated every progress billing payments and will be due and demandable upon breach of contract.

Prepaid expenses mainly include unamortized commission expense for incomplete real estate unit and prepayments for supplies, taxes and licenses, rentals and insurance.

Deferred acquisition cost pertains to costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, and are deferred to the extent that they are recoverable out of future revenue margins.

The ad-valorem tax represents advance payments to the Bureau of Internal Revenue (BIR). This is applied against taxes on the manufacture and importation of vehicles which generally occurs within one (1) year from the date the ad-valorem taxes are paid.

Advances to officers and employees amounting to ₱56.56 million and ₱32.22 million as of December 31, 2013 and 2012, respectively, pertain mainly to cash advances for business-related expenses. Advances to officers and employees are liquidated within 30 days after incurrence of expense. Cash advances to agents amounting to ₱11.41 million and ₱36.46 million as of December 31, 2013 and 2012, respectively, pertain to mobilization funds granted to agents to finance their sales-related needs. These advances are subjected to liquidation within 30 days after the release of cash advance.

Deposits principally represent security deposits for operating leases entered into by GBPC as lessee, renewable annually, including returnable containers and other deposits.

Assets held for sale pertains to amount recoverable on account of losses on direct business of Charter Ping An. These recoveries are available for immediate sale in its present condition and its sale are highly probable. In 2013, the Company is committed to a plan to sell the asset and is actively locating a buyer.

No amount of gain or loss arising from the initial measurement of these assets was recognized in 2013.

Others include deferred import charges, marginal deposits set aside for payment to the contractors and suppliers, security deposit for power delivery and ancillary services, and deposit for purchase of external services and materials.

8. Investments in Associates and Joint Ventures

This account consists of:

	2013	2012 (As restated - Note 2)
Investments in associates	**₱35,917,641,690**	₱38,813,505,117
Investments in joint ventures	**4,641,822,068**	3,975,482,613
	₱40,559,463,758	₱42,788,987,730

The movements in the Group's investments in associates follow:

	2013	2012 (As restated - Note 2)
Cost		
Balance at beginning of year	**₱26,691,517,245**	₱24,548,058,026
Acquisitions/additional investments during the year	**4,537,085,322**	4,562,500,965
Unrealized upstream gain on sale of Toyota	–	(854,486,289)
Attributable to indirect interest - business combination		
Previously held interest	**(14,944,346)**	(188,645,412)
Additional indirect interest	–	(1,375,910,045)
Sale of indirect interest	**3,564,356,163**	–
Effect of business combination achieved in stages	**(9,654,189,037)**	–
Balance at end of year	**25,123,825,347**	26,691,517,245
Accumulated equity in net income		
Balance at beginning of year	**14,132,466,033**	10,153,975,071
Attributable to indirect interest - business combination	**(79,082,449)**	(555,948,211)
Equity in net income for the year	**4,043,232,848**	4,534,439,174
Unrealized upstream gain on sale of Toyota	**(863,773,221)**	–
Effect of business combination achieved in stages	**(2,916,331,936)**	–
Balance at end of year	**14,316,511,275**	14,132,466,034
Dividends received		
Balance at beginning of year	**(4,498,007,592)**	(3,309,024,409)
Dividends received during the year	**(755,886,419)**	(1,188,983,184)
Effect of business combination achieved in stages	**2,028,033,022**	–
Balance at end of year	**(3,225,860,989)**	(4,498,007,593)
Accumulated equity in other comprehensive income		
Balance at beginning of year	**2,487,529,431**	2,443,043,051
Equity in other comprehensive income (loss) for the year	**(738,740,864)**	113,106,420
Reversal of accumulated equity in other comprehensive income of previously held interest to profit or loss	**(8,634,834)**	(68,620,040)

(Forward)

	2013	2012 (As restated - Note 2)
Realized gain from sale of AFS investments of associates	**(₱2,026,061,414)**	**₱–**
Elimination of equity take up of indirect interest	**2,962,073**	–
Effect of business combination achieved in stages	**(13,888,335)**	–
Balance at end of year	**(296,833,943)**	2,487,529,431
	₱35,917,641,690	₱38,813,505,117

In 2012, the Group's equity in net income of associates is adjusted for the Group's share in the unrealized upstream gain on acquisition of Toyota shares from MBTC that was charged against the cost of Investment in Toyota account.

The movements in the Group's investment in joint ventures follow:

	2013	2012
Cost		
Balance at beginning of year	**₱3,636,401,083**	₱330,000,000
Acquisitions/additional investments	**502,243,750**	3,306,401,083
Balance at end of year	**4,138,644,833**	3,636,401,083
Accumulated equity in net income		
Balance at beginning of year	**339,081,530**	116,938,240
Equity in net income for the year	**408,350,580**	222,143,290
Balance at end of year	**747,432,110**	339,081,530
Dividends declared during the year	**(240,000,000)**	–
Accumulated equity in other comprehensive income	**(4,254,875)**	–
	₱4,641,822,068	₱3,975,482,613

Details regarding the Group's associates and joint ventures follow:

	Nature of Business	Country of Incorporation	Effective Ownership 2013	Effective Ownership 2012
Associates:				
MBTC	Banking	Philippines	**25.11**	25.11
Phil AXA	Insurance	-do-	**25.31**	25.31
Crown Central Properties Corporation (CCPC)	Real estate	-do-	**48.00**	48.00
Global Luzon Energy Development Corporation (GLEDC)	Power	-do-	**49.00**	–
Toyota	Automotive Operations	-do-	–	36.00
Joint Ventures:				
BLRDC	Real estate	-do-	**70.00**	70.00
FLOC	-do-	-do-	**60.00**	60.00
TMBC	Automotive Operations	-do-	**40.75**	–

The carrying values of the Group's investments in associates and joint ventures follow:

	2013	2012 (As restated - Note 2)
Associates:		
MBTC	**₱34,852,200,333**	₱31,875,202,956
Phil AXA	**995,808,466**	970,830,306
CCPC	**69,532,891**	66,007,469
GLEDC	**100,000**	–
Toyota	**–**	5,901,464,386
	35,917,641,690	38,813,505,117
Joint Ventures:		
BLRDC	**3,628,015,056**	3,352,483,012
FLOC	**514,191,276**	622,999,601
TMBC	**499,615,736**	–
	4,641,822,068	3,975,482,613
	₱40,559,463,758	₱42,788,987,730

The following table summarizes cash dividends declared and paid by the Group's associates and joint venture:

	Declaration date	Per share	Total (in millions)	Record Date	Payment Date
2013					
MBTC	**January 23, 2013**	**₱1.00**	**₱2,111**	**March 8, 2013**	**April 3, 2013**
Phil AXA	**October 16, 2013**	**134.96**	**891**	**October 16, 2013**	**November 14, 2013**
FLOC	**October 25, 2013**	**0.73**	**400**	**December 31, 2013**	**January 10, 2014**
2012					
MBTC	February 29, 2012	1.00	2,111	March 5, 2012	March 26, 2012
Phil AXA	October 24, 2012	120.57	796	October 24, 2012	November 9, 2012
TMPC	May 10, 2012	140.58	2,178	May 10, 2012	May 11, 2012

Investment in BLRDC

Fed Land and Morano Holdings Corporation Omnibus Agreement

On January 25, 2012, the SEC approved the change in name from Morano Holdings Corporation to BLRDC.

On December 8, 2011, Fed Land and Orix executed a memorandum of agreement (MOA) whereby each party will contribute a combination of cash and properties to BLRDC in exchange for shares of stock of BLRDC. Both Fed Land and Orix intended to develop "Project Land" which will be composed of developments in three main projects, namely (1) Residential condominium project (2) Hotel/office building, and (3) Operation of the Hotel.

On December 21, 2011, Fed Land, BLRDC and Orix (Parties) entered into the Omnibus Subscription Agreement (OSA) which sets out the Parties' mutual understanding as to the subscription to, and the issuance of, shares of stock of BLRDC to Fed Land and Orix, and various other agreements regarding the respective contributions of Fed Land and Orix to BLRDC, and their understanding in respect of such other matters as are hereinafter set forth. The OSA sets forth the tranches of contributions from the investors and the equivalent shares that will be transferred to the respective parties.

Simultaneously on December 21, 2011, Fed Land and Orix, also entered into a Shareholder Agreement (SA). The SA will govern their relationship as the shareholders of BLRDC as well as their respective rights and obligations in relation to BLRDC. The SA specifies that the Parties agree that their shareholding ratio in BLRDC shall be 70.00% for Fed Land and 30.00% for Orix (Shareholding Ratio). The Parties shall infuse additional capital into BLRDC in accordance with the Shareholding Ratio. The SA shall take effect upon the execution of the SA by the Parties, provided that the SA shall cease to become binding on the Parties if the closing does not take place under specific conditions of the SA or the SEC does not approve BLRDC's application for the amendment of its Articles of Incorporation.

All conditions were met on June 8, 2012, which is the date of the loss of control of Fed Land on BLRDC, the latter ceasing to be its subsidiary and becoming a jointly controlled entity. Effective such date, the ownership of the Parent company on BLRDC became 70.00%, while that of Orix is 30.00%.

The retained interest was measured at fair value and the difference of such fair value and the cost of the asset given up by Fed Land is recognized as "Gain from loss of control on a subsidiary" amounting to ₱1.45 billion in the consolidated statement of income. From the date of joint control, Fed Land recognized its share in equity in net earnings of BLRDC in the consolidated statements of income. For periods prior to loss of control, the financial statements of BLRDC were still consolidated and prior year financial statements before loss of control was not restated.

Investment in MBTC
In 2011, FMIC, a majority owned subsidiary of MBTC participated in a bond exchange transaction under the liability management exercise of the Philippine government. The SEC granted an exemptive relief from the existing tainting rule on HTM investments under PAS 39, *Financial Instruments: Recognition and Measurement,* while the Bangko Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to the participants. Following the exemption granted, the 2013 and 2012 consolidated financial statements of MBTC have been prepared in compliance with Philippine GAAP. For the purpose of computing the Group's share in 2013 and 2012 net income and other comprehensive income of MBTC, certain adjustments were made in the Group's 2013 and 2012 consolidated financial statements to comply with PFRS.

Investment in TMPC
The BOD of the Parent Company and MBTC, upon the endorsement of their Related Party Transaction Committees, approved in principle the acquisition of MBTC's 30.00% ownership in TMPC at a consideration of ₱9.00 billion on October 19, 2012 and October 23, 2012, respectively. The acquisition raised the Parent Company's interest in TMPC from 21.00% to 51.00%. The Parent Company assessed that it has control over TMPC through its majority ownership and accounted for TMPC as a subsidiary on January 17, 2013 (Note 31).

The following tables present the financial information of the Group's associates and joint ventures as of and for the years ended December 31, 2013 and 2012 (amounts in millions):

	Associates				Joint Ventures		
	MBTC**	Phil AXA**	Toyota	Others*	BLRDC	FLOC	TMBC
2013							
Current assets			**₱–**	**₱224**	**₱1,849**	**₱4,805**	**₱1,380**
Noncurrent assets			–	**30**	**449**	**1,563**	**528**
Total assets	**₱1,378,569**	**₱54,951**	–	**254**	**2,298**	**6,368**	**1,908**
Current liabilities			–	**98**	**1,347**	**1,521**	**1,333**
Noncurrent liabilities			–	–	**94**	**76**	**44**
Total liabilities	**1,235,864**	**50,895**	–	**98**	**1,441**	**1,597**	**1,377**
Net assets	**₱142,705**	**₱4,056**	**₱–**	**₱156**	**₱857**	**₱4,771**	**₱531**
Revenues	**₱78,924**	**₱3,864**	**₱–**	**₱32**	**₱866**	**₱1,525**	**₱9,441**
Expenses	**49,497**	**2,476**	–	**23**	**543**	**935**	**9,321**
2012							
Current assets			₱16,060	₱–	₱2,200	₱1,705	₱–
Noncurrent assets			2,876	–	3,021	9	–
Total assets	₱1,040,580	₱44,703	18,936	–	5,221	1,714	–
Current liabilities			9,197	–	1,804	1,037	–
Noncurrent liabilities			2,116	–	–	53	–
Total liabilities	913,560	40,789	11,313	–	1,804	1,090	–
Net assets	₱127,020	₱3,914	₱7,623	₱–	₱3,417	₱624	₱–
Revenues	₱58,701	₱12,280	₱71,434	₱–	₱403	₱741	₱–
Expenses	37,828	3,620	67,203	–	357	565	–

* *Others comprised of financial information for CCPC and GLEDC.*
** *MBTC and Phil AXA do not present classified statements of financial position.*

Fair Value of Investment in Associates and Joint Ventures

Phil AXA, CCPC, and GLEDC, as well as TMBC, BLRDC and FLOC are private companies and there are no quoted market prices available for their shares. As of December 31, 2013 and 2012, the fair value of the Group's investment in Metrobank, which is listed on the Philippine Stock Exchange, amounted to ₱52.07 billion and ₱54.03 billion, respectively.

The net assets and liabilities of MBTC and Phil AXA mainly consist of financial assets and financial liabilities.

As of December 31, 2013 and 2012, the Group has no share on commitments and contingencies of its associates and joint ventures.

The financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interests held by non-controlling interests

	Nature of Business	Direct Ownership 2013	Direct Ownership 2012	Effective Ownership 2013	Effective Ownership 2012
GBPC	Power	**49.11**	49.11	**46.84**	37.02
TMPC	Motor	**49.00**	–	**49.00**	–

Carrying value of material non-controlling interests

	2013	2012
GBPC	**₱3,990,181,658**	₱3,951,742,922
TMPC	**228,496,828**	–

Net income for the period allocated to material non-controlling interests

	2013	2012
GBPC	**₱1,024,612,916**	₱1,156,965,028
TMPC	**38,178,048**	–

The following table presents the financial information of subsidiaries with material non-controlling interests as of and for the years ended December 31, 2013 and 2012 (amounts in millions):

	2013		2012	
	GBPC	**TMPC**	GBPC	TMPC
Statement of Financial Position				
Current assets	**₱17,126**	**₱20,801**	₱16,460	₱–
Non-current assets	**42,749**	**4,240**	40,471	–
Current liabilities	**10,830**	**13,110**	6,702	–
Non-current liabilities	**25,310**	**2,644**	28,581	–
Dividends paid to non-controlling interests	**982**	**1,467**	1,289	–
Statement of Comprehensive Income				
Revenues	**17,055**	**80,250**	19,264	–
Expenses	**(14,093)**	**(75,980)**	(15,893)	–
Net income	**2,962**	**4,270**	3,371	–
Total comprehensive income (loss)	**3,273**	**(32)**	3,964	–
Statement of Cash Flows				
Net cash provided by operating activities	**5,884**	**4,253**	6,921	–
Net cash used in investing activities	**(4,604)**	**(2,564)**	(1,451)	–
Net cash provided by (used in) financing activities	**(1,925)**	**607**	(3,414)	–

Limitation on dividend declaration of subsidiaries and associates
Ping An, Phil AXA
Section 195 of the Insurance Code provides that a domestic 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 ctock;
- 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.

MBTC
The Bangko Sentral ng Pilipinas requires banks to keep certain levels of regulatory capital and liquid assets, limit their exposures to other parts of the Group and comply with other regulatory ratios.

In the ordinary course of the Group's business, the Parent Company issues guaranty for the completion of Fed Land's ongoing real estate projects (Note 36).

As of December 31, 2013 and 2012, there were no agreements entered into by the subsidiaries, associates and joint ventures 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.

9. Investment Properties

The composition and rollforward analysis of this account follow:

	December 31, 2013		
	Land and Improvements	Building and Improvements	Total
Cost			
At January 1	₱4,884,012,384	₱3,052,135,164	₱7,936,147,548
Effect of business combination	2,298,668,751	109,523,022	2,408,191,773
Additions	–	143,738,791	143,738,791
Transfers (Note 6)	(2,386,079,033)	620,732,926	(1,765,346,107)
At December 31	4,796,602,102	3,926,129,903	8,722,732,005
Accumulated Depreciation			
At January 1	–	120,570,577	120,570,577
Effect of business combination	61,713,968	101,732,698	163,446,666
Depreciation (Note 11)	–	110,046,229	110,046,229
At December 31	61,713,968	332,349,504	394,063,472
Net Book Value at December 31	₱4,734,888,134	₱3,593,780,399	₱8,328,668,533

	December 31, 2012		
	Land and Improvements	Buildings and Improvements	Total
Cost			
At January 1	₱5,030,540,238	₱305,663,399	₱5,336,203,637
Additions	221,786,560	2,746,471,765	2,968,258,325
Transfers (Note 6)	(368,314,414)	–	(368,314,414)
At December 31	4,884,012,384	3,052,135,164	7,936,147,548
Accumulated Depreciation			
At January 1	–	108,780,107	108,780,107
Depreciation (Note 11)	–	11,790,470	11,790,470
At December 31	–	120,570,577	120,570,577
Net Book Value at December 31	₱4,884,012,384	₱2,931,564,587	₱7,815,576,971

Certain parcels of land were transferred to the 'Inventories' account with a carrying amount of ₱2.39 billion and ₱368.31 million as of December 31, 2013 and 2012, respectively. The transferred properties are intended for the construction of condominium units held for sale.

Various parcels of land are leased to several individuals and corporations including related parties. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit. Rent income recognized from these properties amounted to ₱592.04 million, ₱233.44 million and ₱238.00 million in 2013, 2012 and 2011, respectively (Note 30).

The depreciation of the investment properties amounting to ₱110.05 million, ₱11.79 million and ₱11.52 million in 2013, 2012 and 2011, respectively, is included in the "General and administrative expenses" account in the consolidated statements of income (Note 26).

The aggregate fair value of the Group's investment properties amounted to ₱13.1 billion and ₱10.87 billion as of December 31, 2013 and 2012, respectively. The fair value of the Group's investment properties has been determined based on valuations performed by third party valuers. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison. Valuation of the Group's investment properties are done every three years with the latest valuation report issued in February 2012.

10. Available-for-sale Investments

This account consists of:

	2013	2012
Equity securities		
Quoted	**₱1,497,970,179**	₱1,050,165,533
Unquoted	**480,269,424**	9,921,760
Quoted debt securities	**1,132,556,640**	–
	₱3,110,796,243	₱1,060,087,293

Unquoted AFS investments are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable valuation of arriving at a reliable fair value.

Unquoted AFS investments in Toyota Autoparts Philippines, Inc. (TAPI), representing 5.00% ownership interest, amounted to ₱470.27 million as of December 31, 2013. Also included in the balance are AFS investments of Fed Land and Charter Ping An amounting to ₱9.94 million and ₱0.06 million, respectively.

Unquoted AFS of Fed Land pertain to preferred shares of a utility company issued to the Fed Land Group in connection with its subscription to the electricity services of the said utility company needed for the Fed Land Group's real estate projects. The said preferred shares have no active market and the Fed Land Group does not intend to dispose these investments since these are directly related to the continuity of its business.

Quoted debt securities pertain to both government and private debt securities amounting to ₱671.25 million and ₱461.31 million, respectively.

Movements in the net unrealized gain (loss) on AFS investments follow:

	2013		
	Attributable to Parent Company	**Non-controlling Interest**	**Total**
Balance at beginning of year	**(₱6,606,601)**	**(₱3,883,398)**	**(₱10,489,999)**
Net changes shown in other comprehensive income			
Fair value changes on AFS investments	**95,424,287**	**93,448,085**	**188,872,372**
Realized gain on sale on AFS investments	**(8,522,850)**	**–**	**(8,522,850)**
	86,901,437	**93,448,085**	**180,349,522**
Balance at end of year	**₱80,294,836**	**₱89,564,687**	**₱169,859,523**

	2012		
	Attributable to Parent Company	Non-controlling Interest	Total
Balance at beginning of year	₱–	₱–	₱–
Net changes shown in other comprehensive income			
Fair value changes during the period on AFS investments	(6,606,601)	(3,883,398)	(10,489,999)
Balance at end of year	(₱6,606,601)	(₱3,883,398)	(₱10,489,999)

11. Property and Equipment

The composition and rollforward analysis of this account follow:

	2013											
	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Machinery, Tools and Equipment	Land and Building	Boilers and Powerhouse	Turbine Generations and Desox System	Building and Land Improvements	Electrical Distribution System	Other Property and Equipment	Construction-in-Progress	Total
Cost												
At January 1	₱48,867,374	₱112,810,917	₱494,438,287	₱2,634,682,810	₱175,145,134	₱11,661,088,901	₱9,877,136,313	₱4,179,564,803	₱3,168,273,800	₱2,221,304,306	₱564,892,115	₱35,138,204,760
Effect of business combination	205,459,032	59,449,421	13,805,644	279,214,470	1,398,469,052	–	–	764,517,969	–	113,827,529	199,755,087	3,034,498,204
Additions	63,925,576	54,105,938	14,839,327	16,987,177	56,446,739	126,433,092	69,891,143	189,550,071	19,412,585	63,916,515	6,349,877,895	7,025,386,058
Disposals and reclassifications	16,039,195	46,931,540	(13,624,398)	121,335,814	3,000,000	(116,403,628)	(16,634,125)	20,098,576	–	632,802,659	(1,151,175,349)	(457,629,716)
At December 31	334,291,177	273,297,816	509,458,860	3,052,220,271	1,633,060,925	11,671,118,365	9,930,393,331	5,153,731,419	3,187,686,385	3,031,851,009	5,963,349,748	44,740,459,306
Accumulated Depreciation and Amortization												
At January 1	26,783,347	92,930,356	252,454,364	28,230,621	10,171,328	737,258,193	127,227,870	80,742,221	73,912,104	47,265,727	–	1,476,976,131
Depreciation and amortization (Note 26)	125,360,140	39,589,966	34,852,024	127,554,317	4,229,606	1,089,745,609	256,487,354	186,725,842	113,549,628	283,752,460	–	2,261,846,946
Disposals and reclassifications	(56,040,134)	14,942,767	(9,771,722)	(13,241,858)	–	(61,574,782)	(15,487,517)	(15,245,008)	–	(5,373,498)	–	(161,791,752)
At December 31	96,103,353	147,463,089	277,534,666	142,543,080	14,400,934	1,765,429,020	368,227,707	252,223,055	187,461,732	325,644,689	–	3,577,031,325
Net Book Value at December 31	₱238,187,824	₱125,834,727	₱231,924,194	₱2,909,677,191	₱1,618,659,991	₱9,905,689,345	₱9,562,165,624	₱4,901,508,364	₱3,000,224,653	₱2,706,206,320	₱5,963,349,748	₱41,163,427,981

	2012											
	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Machinery, Tools and Equipment	Land and Building	Boilers and Powerhouse	Turbine Generations and Desox System	Building and Land Improvements	Electrical Distribution System	Other Property and Equipment	Construction-in-Progress	Total
Cost												
At January 1	₱23,180,879	₱96,082,953	₱481,884,677	₱14,144,983	₱117,545,133	₱–	₱–	₱–	₱–	₱–	₱1,479,330	₱734,317,955
Effect of business combination	548,859	1,426,629	3,274,258	2,605,924,754	57,120,517	11,503,097,858	9,877,136,313	3,665,756,045	3,168,273,800	2,189,527,989	420,215,013	33,492,302,035
Additions	27,036,851	15,376,665	14,337,193	30,093,946	479,484	157,991,043	–	513,808,758	–	114,293,633	279,520,724	1,152,938,297
Disposals and reclassifications	(1,899,215)	(75,330)	(5,057,841)	(15,480,873)	–	–	–	–	–	(82,517,316)	(136,322,952)	(241,353,527)
At December 31	48,867,374	112,810,917	494,438,287	2,634,682,810	175,145,134	11,661,088,901	9,877,136,313	4,179,564,803	3,168,273,800	2,221,304,306	564,892,115	35,138,204,760
Accumulated Depreciation and Amortization												
At January 1	15,611,816	84,497,016	222,602,846	10,296,232	4,942,842	–	–		–	–	–	337,950,752
Depreciation and amortization (Note 26)	15,306,360	8,788,956	35,825,754	18,144,922	5,228,486	815,569,530	138,967,385	98,746,879	73,912,104	83,458,416	–	1,293,948,792
Disposals and reclassifications	(4,134,829)	(355,616)	(5,974,236)	(210,533)	–	(78,311,337)	(11,739,515)	(18,004,658)	–	(36,192,689)	–	(154,923,413)
At December 31	26,783,347	92,930,356	252,454,364	28,230,621	10,171,328	737,258,193	127,227,870	80,742,221	73,912,104	47,265,727	–	1,476,976,131
Net Book Value at December 31	₱22,084,027	₱19,880,561	₱241,983,923	₱2,606,452,189	₱164,973,806	₱10,923,830,708	₱9,749,908,443	₱4,098,822,582	₱3,094,361,696	₱2,174,038,579	₱564,892,115	₱33,661,228,629

The power plant complex of PPC and TPC, and the whole property and equipment of CEDC and PEDC, with aggregate carrying value of ₱37.17 billion and ₱33.99 billion as of December 31, 2013 and 2012, respectively, have been mortgaged/pledged as security for their long-term debt (Note 17).

Construction-in-progress pertains to the accumulated cost incurred for the Toledo Project Expansion which was started in 2012 and is expected to be completed in 2015.

Gain on disposal of property and equipment amounted to ₱16.00 million, ₱8.32 million and nil in 2013, 2012 and 2011, respectively (Note 23).

Details of depreciation and amortization follow:

	2013	2012	2011
Property and equipment	**₱2,261,846,946**	₱1,293,948,792	₱52,888,668
Intangible assets (Note 13)	**485,381,510**	323,376,065	6,945,468
Investment properties (Note 9)	**110,046,229**	11,790,470	11,518,440
	₱2,857,274,685	₱1,629,115,327	₱71,352,576

Breakdown of depreciation and amortization in the consolidated statement of income follows:

	2013	2012	2011
Power plant operation and maintenance expenses (Note 24)	**₱1,678,551,135**	₱1,255,133,738	₱–
Cost of goods manufactured	**234,483,648**	–	–
General and administrative expenses (Note 26)	**944,239,902**	373,981,589	71,352,576
	₱2,857,274,685	₱1,629,115,327	₱71,352,576

12. Deposits

In 2011, the Group entered into an option agreement with its various affiliates for the exclusive rights for three years either (a) to purchase the property, (b) to purchase shares of stock of the third party which own the property, (c) to develop the property as developer in a joint venture with a third party or (d) to undertake a combination of any of the foregoing, as may be agreed upon by the parties.

In 2012, option agreements with Kabayan Realty Corporation, Titan Resources Corporation and Hill Realty and Development amounting to ₱500.00 million, ₱1.00 billion and ₱500.00 million, respectively were terminated and settled in cash. Outstanding option deposits amounting to nil and ₱2.09 billion as of December 31, 2013 and 2012, respectively. These deposits carried a 7.34% interest in 2013, 2012 and 2011. Interest income recognized amounted to ₱263.85 million, ₱257.74 million and ₱337.71 million in 2013, 2012 and 2011, respectively (Note 23).

13. Goodwill and Intangible Assets

Goodwill and intangible assets consist of:

	2013	2012
Power purchase agreements - net (Note 31)	**₱8,199,068,543**	₱8,676,723,532
Goodwill (Note 31)	**6,175,311,202**	24,201,028
Customer relationship (Note 31)	**3,883,238,361**	–
Software costs - net	**15,814,615**	14,286,161
Franchise - net	**1,583,333**	–
	₱18,275,016,054	₱8,715,210,721

Goodwill

Goodwill mainly comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Goodwill in relation to acquisitions has been attributed to the following CGUs:

	2013				2012	
	Toyota	Ping An	THC	Total	THC	Total
Cost						
Balances at beginning of year	**₱–**	**₱–**	**₱24,201,028**	**₱24,201,028**	₱–	₱–
Additions through business combinations	**5,596,956,193**	**554,153,981**	**–**	**6,151,110,174**	24,201,028	24,201,028
Balances at end of year	**₱5,596,956,193**	**₱554,153,981**	**₱24,201,028**	**₱6,175,311,202**	₱24,201,028	₱24,201,028

Toyota

The recoverable amount of Toyota CGU was based on value in use calculations using cash flow projections from financial budgets approved by management covering a four-year period. The pre-tax discount rate applied to cash flow projections in 2013 is 17.39%. Cash flows beyond the four-year period are extrapolated using a steady growth rate of 1.00%. The carrying value of goodwill amounted to ₱5.60 billion as of December 31, 2013. No impairment loss was recognized for goodwill arising from the acquisition of Toyota.

The calculations of value in use for the Toyota CGU are most sensitive to the following assumptions:

- Budgeted gross margins - Gross margins are based on vehicle models mix per dealer and the foreign exchange movements between the Philippine Peso versus the United States (US) Dollar and the Japanese Yen versus the US Dollar.
- Growth rate - The projected growth rate is based on a conservative steady growth rate that does not exceed the compounded annual growth rate for the global automotive industry.
- Pre-tax discount rate - Discount rates reflect management's best estimate of the risks associated with the specific CGU. This is the benchmark rate used by management to measure operating performance.

Regarding the assessment of the value in use of Toyota, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

Ping An
As of December 31, 2013, goodwill arising from the acquisition of Ping An was determined provisionally as the Parent Company has to finalize the information with respect to the recognition of the fair value of identifiable assets and liabilities and deferred income tax assets and liabilities arising from the said acquisition (Note 31).

THC
On September 25, 2012, GBPC acquired 60.00% interest in THC from Yorktown Properties, Inc.

The fair values of the net assets of THC including its wholly owned subsidiary, TCITRC, as of acquisition date, are as follows:

Current assets	₱90,212,519
Current liabilities	(409,039,220)
Noncurrent assets	316,386,650
Noncurrent liabilities	(38,094,996)
Total	(40,535,047)
At 60%	(24,321,028)
Consideration paid	120,000
Goodwill	(₱24,201,028)

Consideration:

Cash acquired	₱24,569,910
Paid	(120,000)
Net cash acquired	₱24,449,910

<u>Power Purchase Agreements</u>
Power purchase agreements pertain to the EPPA with certain electric cooperatives. The EPPAs were accounted for as intangible assets as GBPC has the right to charge the electric cooperatives for the electricity to be generated and delivered by GBPC.

The rollforward analysis of the Group's power purchase agreements is as follows:

	2013	2012
January 1	**₱8,676,723,532**	₱–
Fair value on business combination date (Note 31)	**–**	8,995,160,191
Amortization (Note 11)	**(477,654,989)**	(318,436,659)
Net Book Value	**₱8,199,068,543**	₱8,676,723,532

<u>Customer Relationship</u>
Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers which lay out the principal terms upon which its dealers agree to do business. Toyota's relationship with its top dealers adds value to the operations of Toyota and enhances the latter's earnings potential. Management assessed the useful life of the customer relationship to be indefinite since management is of the view that there is no foreseeable limit to the period over which the customer relationship is expected to generate net cash inflows to Toyota.

The recoverable amount of the customer relationship of the Group was based on value in use calculations using earnings projections from financial budgets approved by management covering a four-year period. The pre-tax discount rate applied to earnings projections in 2013 is 17.39%.

Cash flows beyond the four-year period are extrapolated using a steady growth rate of 1.00%. The carrying value of the customer relationship amounted to 3.90 billion as of December 31, 2013. No impairment loss was recognized for the customer relationship arising from acquisition of Toyota.

The calculations of value in use for the customer relationship are most sensitive to the following assumptions:

- Attrition Rate- Sales to key customers for the four-year period are computed by taking into account a 5% attrition rate or 95% retention rate.
- % EBIT margin on key customers – A 7% EBIT margin was used in projecting the net operating profit on sales to key customers for the four-year period.
- Pre-tax discount rate - Discount rates reflect management's best estimate of the risks associated with the specific CGU. This is the benchmark rate used by management to measure operating performance.

Regarding the assessment of the value in use of Toyota's customer relationship, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

Software Cost
The Group's software costs pertain to software cost and licenses.

The rollforward analysis of the Group's software cost is as follows:

	2013	2012
Cost		
Balance at beginning of year	**₱48,048,186**	₱37,320,702
Additions	**7,501,020**	10,727,484
Effect of business combination	**142,609**	–
Reclassification	**2,599,326**	–
	58,291,141	48,048,186
Accumulated Amortization		
Balance at beginning of year	**33,762,025**	28,895,316
Amortization (Note 11)	**7,609,854**	4,866,709
Reclassification	**1,104,647**	–
	42,476,526	33,762,025
Net Book Value	**₱15,814,615**	₱14,286,161

Franchise
Franchise fee pertains to the Fed Land Group's operating rights for its fast food stores with estimated useful lives of three (3) to five (5) years.

The amortization of the franchise fee amounting to ₱0.12 million, ₱0.07 million and ₱0.07 million in 2013, 2012 and 2011, respectively, is included in the 'General and administrative expenses' account in the consolidated statements of income (Note 26).

The rollforward analysis of the Group's franchise fee is as follows:

	2013	2012
Cost		
Balance at beginning and end of year	**₱800,000**	₱800,000
Additions	**1,700,000**	–
	2,500,000	800,000
Accumulated Amortization		
Balance at beginning of year	**800,000**	727,303
Amortization (Note 11)	**116,667**	72,697
	916,667	800,000
Net Book Value	**₱1,583,333**	₱–

Details of amortization of intangible assets follow (Note 11):

	2013	2012	2011
Power purchase agreements	**₱477,654,989**	₱318,436,659	₱–
Software cost	**7,609,854**	4,866,709	6,872,741
Franchise	**116,667**	72,697	72,727
	₱485,381,510	₱323,376,065	₱6,945,468

14. Other Noncurrent Assets

This account consists of:

	2013	2012
Rental and other deposits	**₱511,712,824**	₱210,830,845
Advances to contractors	**300,318,756**	–
Deferred input VAT	**297,304,581**	34,364,891
Deposit for future acquisition of land	–	279,400,720
Others	**93,653,638**	22,598,027
	₱1,202,989,799	₱547,194,483

Rental and other deposits include deposits for the leased offices of the Group and deposits for the initial set-up of the services rendered by public utility companies. Rental deposits are to be applied on the last month's rent of the lease contract.

Deposit for future land acquisition pertains to Fed Land's deposit to acquire a parcel of land in Pasay City.

15. Accounts and Other Payables

This account consists of:

	2013	2012
Trade payables	**₱7,590,142,735**	₱3,993,882,998
Telegraphic transfers and drafts and acceptances payable	**4,493,193,586**	–
Accrued expenses	**3,698,807,355**	1,203,694,170
Deferred output tax	**2,454,049,984**	1,373,645,486
Retentions payable	**500,417,643**	294,632,748
Accrued interest payable	**389,752,174**	346,055,359
Accrued commissions	**367,772,684**	42,917,890
Insurance payable	**296,242,243**	–
Others	**1,046,599,001**	121,890,193
	₱20,836,977,405	₱7,376,718,844

The details of trade payables are as follows:

	2013	2012
Automotive	**₱3,493,615,820**	₱–
Real estate	**2,566,768,429**	3,061,700,963
Power	**1,268,902,322**	932,182,035
Insurance	**254,494,500**	–
Others	**6,361,664**	–
	₱7,590,142,735	₱3,993,882,998

Trade payables of automotive pertain to the purchase of raw materials, spare parts and vehicles which are non-interest bearing and are normally settled on one (1) to thirty (30) day term.

Trade payables for real estate pertain to billings received from contractors for construction costs incurred on a per project basis and commissaries for food products ordered.

Trade payables for power pertain to billing received from suppliers of fuels.

Telegraphic transfers and drafts and acceptance payable pertain to the liabilities of Toyota Group arising from importations of materials, spare parts and/or vehicles. These payables are normally settled after a thirty (30) day term.

Accrued expenses are non-interest bearing and are normally settled within a fifteen (15) to sixty (60) day term; this consist of accruals for payroll, professional services, fuel, oil and lubricants.

Deferred output tax pertains mostly to VAT on the uncollected portion of the contract price of sold units.

Accrued interest payables are normally settled within a fifteen (15) to sixty (60) day term.

Retentions payable represent a portion of construction cost withheld by the Fed Land Group and paid to the contractors upon completion of the project.

Accrued commissions are settled within one year.

Others include refunds from cancelled sales from Fed Land and other government-related payables which are non-interest bearing and are normally settled within one (1) year. These also include insurance premiums payable and other non-interest bearing payables which are all due within one (1) year.

16. Insurance Contract Liabilities

Insurance contract liabilities as of December 31, 2013 may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported and loss adjustment expenses	₱4,880,806,880	₱4,202,944,603	₱677,862,277
Provision for IBNR	43,005,989	19,437,256	23,568,733
Total claims reported and IBNR	4,923,812,869	4,222,381,859	701,431,010
Provision for unearned premiums	1,759,772,251	743,195,951	1,016,576,300
Total insurance contract liabilities	₱6,683,585,120	₱4,965,577,810	₱1,718,007,310

Provisions for claims reported by policyholders and IBNR may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱2,756,746,169	₱2,193,590,449	₱563,155,720
Claims incurred during the year	3,434,886,806	2,670,480,016	764,406,790
Increase (decrease) in IBNR	408,135	18,797,206	(18,389,071)
Claims paid during the year	(1,268,228,241)	(660,485,812)	(607,742,429)
At December 31	₱4,923,812,869	₱4,222,381,859	₱701,431,010

Provision for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱1,495,239,517	₱648,447,981	₱846,791,536
New policies written during the year	3,513,871,960	1,690,294,716	1,823,577,244
Premiums earned during the year	(3,249,339,226)	(1,595,546,746)	(1,653,792,480)
At December 31	₱1,759,772,251	₱743,195,951	₱1,016,576,300

In addition, reinsurance assets consist of the following:

Reinsurance recoverable on unpaid losses	₱4,222,381,859
Deferred reinsurance premiums	743,195,951
	₱4,965,577,810

17. Short-term, Long-term Debt and Bonds Payable

This account consists of:

	2013	2012
Loans payable		
Affiliated loans:		
Loans from local banks	**₱3,040,500,000**	₱17,975,921,094
Corporate notes	**233,900,704**	–
Non-affiliated loans:		
Loans from local banks	**30,818,208,292**	26,177,106,697
Corporate notes	**11,600,000,000**	11,600,000,000
	45,692,608,996	55,753,027,791
Less: Short term loans from banks		
Affiliated	–	2,841,300,000
Non-affiliated	**1,744,000,000**	6,297,000,000
Loans payable - current portion		
Affiliated	–	1,395,187,517
Non-affiliated	**3,364,221,245**	6,031,771,182
	5,108,221,245	16,565,258,699
	₱40,584,387,751	₱39,187,769,092

Bonds Payable - Parent Company
On February 13, 2013, the Parent Company issued ₱10.00 billion worth of seven (7)-year and ten (10)-year bonds due on February 27, 2020 and February 27, 2023, respectively, with an interest rate of 4.84% and 5.09% respectively. Gross proceeds amounted to ₱10.00 billion and net proceeds amounted to ₱9.90 billion, net of deferred financing cost incurred amounting to ₱100.00 million.

The net proceeds was utilized for general corporate requirements which include, but shall not be limited to the following (amounts in millions):

Funding of various equity calls	
Toledo plant, to be completed within 2014	₱1,900
Panay plant, to be completed within 2016	3,900
Refinancing of corporate notes due on November 25, 2013	4,200
	₱10,000

The bonds were listed on February 27, 2013. Total interest expense incurred in 2013 on bonds payable amounted to ₱430.01 million, including amortization of deferred financing cost amounting to ₱8.33 million.

The bonds contain negative covenants, which among others, include provision that the Parent Company should maintain a debt-to-equity ratio below 2.3 to 1.0. As of December 31, 2013, the Parent Company has complied with its bond covenants.

Loans from local banks have interest rates ranging from 3.09% to 9.50% lump sum with maturity within one year and interest payable quarterly in arrears.

Short-term Loans and Corporate Notes - Parent Company
As of December 31, 2013, the Parent Company had outstanding peso-denominated loans to affiliated and non-affiliated banks amounting to ₱0.30 billion and ₱0.50 billion, respectively. These loans were obtained in 2013 and carry an annual interest rate of 2.60% and 2.25% for both affiliated and non-affiliated bank loans, respectively. Both loans will mature in 2014.

As of December 31, 2012, the Parent Company had an outstanding notes facility (the "Notes") of ₱5.00 billion from various lenders acquired in 2010. ₱4.20 billion of these Notes matured in 2013 and the remaining ₱0.80 billion will mature in 2015. As of December 31, 2012 the Parent Company also had outstanding short-term and long term bank loans amounting to ₱7.55 billion and ₱2.80 billion, respectively. All these loans were subsequently prepaid by the Parent Company in 2013.

As of December 31, 2013 and 2012, the Parent Company had complied with its loan covenants.

Corporate notes - Fed Land
On March 18, 2011, Fed Land entered into a Notes Facility Agreement (Notes) with FMIC, MBTC - Trust Banking Group. as the 'Notes Facility Agent' and various non-affiliated institutions as 'Note Holders' whereby Fed Land issued ₱6.60 billion worth of fixed rate notes outstanding to finance projects, working capital and for general corporate purposes. The Notes are payable in five years with interest rate based on the latest PDST-F plus a spread of 85 basis points and gross receipts tax.

The agreements covering the above mentioned Notes provide for restrictions and requirements with respect to, among others, declaration or making payment of cash dividends/retirement of shares (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares); making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; maintaining certain financial ratios; and entering into any partnership, merger, consolidation or reorganization.

On June 24, 2013, the BOD of Fed Land authorized the issuance of ₱3.00 billion up to ₱5.00 billion fixed rate notes (the "Notes"), subject to oversubscription option. On July 5, 2013, Fed Land issued ₱4.00 billion Notes carrying a 5.57% interest rate maturing on July 5, 2020 and ₱1.00 billion Notes carrying a 6.27% interest rate maturing on July 5, 2023. The Notes were used to partially finance various ongoing projects.

As of December 31, 2013 and 2012, Fed Land had complied with its loan covenants. Interest expenses incurred in 2013 and 2012 amounted to ₱565.49 million and ₱216.31 million, respectively.

Loans from local banks - non-affiliated Fed Land
In 2011, Fed Land's loans payable pertains to unsecured peso-denominated short term borrowings from a local bank with floating interest rate at 1.5% spread over the benchmark 90-day PDST-R2 and gross receipts tax. The interest rates ranges from 2.89% to 7.00% in 2011.

In 2012, Fed Land obtained the following outstanding loans from local banks:
a) Unsecured loan amounting to ₱200.00 million with an effective interest of 4.38% and will mature on March 31, 2013.
b) Peso-denominated loans amounting to ₱1.24 million which carries interest at three (3) months PDSTF rate plus 2.00% per annum. These loans have a maturity of twelve months and are renewable for a period of twelve months or less. Fed Land secured these loans by entering into a Mortgage Trust Indenture with MBTC.

c) Unsecured loan amounting to ₱150.00 million which bears interest of 6.75% per annum subject to quarterly re-pricing. The loan will mature on January 28, 2013.

In 2013, Fed Land obtained an additional unsecured loan from a non-affiliated bank amounting to ₱100.00 million with an interest rate of 3.55%. Subsequently, said loan was fully paid on July 2013.

Loans from an affiliated local bank
In 2011, Fed Land obtained partially and fully secured peso-denominated loans with an aggregate amount of ₱2.00 billion from MBTC with interest at prevailing market rate of 7.10% with spread of 85-100 basis points, payable in lump sum after five (5) years. These loans are secured by Phil Exim Guarantee under a Mortgage Participation Certificate. In 2013, an additional loan amounting to ₱300.00 million was availed from the same affiliated bank at a prevailing interest rate of 3.5%. Subsequently, said loan was fully paid on July 8, 2013.

As of December 31, 2013 and 2012, Fed Land had complied with its loan covenants.

Loans payable - GBPC
As of December 31, 2013 and 2012, GBPC's loans payable are from the following entities:

	2013	2012
CEDC	**₱13,963,309,687**	₱15,547,801,856
PEDC	**12,975,217,639**	14,258,268,556
PPC	**696,180,966**	1,208,657,368
TPC	**2,350,000,000**	–
	29,984,708,292	31,014,727,780
Less current portion	**3,319,157,705**	3,226,958,699
	₱26,665,550,587	₱27,787,769,081

CEDC, PEDC and TPC
On June 18, 2009, CEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16.00 billion to partially finance the construction of its power plant. The agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement.

On February 26, 2010, PEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14.00 billion to partially finance the on-going construction of the Panay Expansion Project. The agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement.

On March 7, 2013, TPC entered into an Omnibus Agreement (the Agreement) with various lenders in the aggregate principal amount of up to ₱7.00 billion (the Facility) to partially finance the on-going construction of the expansion project. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement.

According to the agreements entered by CEDC and PEDC, CEDC and PEDC are required to meet certain financial ratios, such as debt-to-equity ratio and core equity ratio. As of December 31, 2013 and 2012, CEDC, PEDC and TPC have complied with all the required financial ratios.

Interest expense incurred in connection with the loans amounted to ₱1.40 billion and ₱1.50 billion in 2013 and 2012, respectively, for CEDC and ₱1.23 billion and ₱1.33 billion in 2013 and 2012, respectively, for PEDC. Interest expense capitalized as part of construction cost amounted to ₱47.97 million for TPC.

CEDC, PEDC and TPC's loans are secured by (i) a real estate mortgage on all present and future assets, including the parcels of land where their power plants are located owned by THC, a related party, (ii) chattel mortgage on all present and future movable properties, (iii) pledge agreement on the shares of Global Formosa and Abovant in CEDC and shares of PPHC in PEDC, and shareholder advances and subordinated loans, if any, (iv) assignment agreement on CEDC's and PEDC's future revenues and (v) grantee rights of TPC for special use agreement in protected areas no. 2008-003 issued by the DENR - regional office no. VII on March 18, 2009. The chattel mortgage shall cover to the extent of principal amount of ₱100.00 million, for CEDC and PEDC, respectively.

The total carrying value of the property, plant and equipment pledged as collateral for the above-mentioned loans amounted to ₱37.17 billion and ₱33.99 billion as of December 31, 2013 and 2012, respectively (Note 11).

As of December 31, 2013 and 2012, the movement of the deferred financing cost is as follows:

	2013	2012
Balances at beginning of year	**₱353,382,475**	₱351,148,361
Amortization	**(42,509,541)**	(36,620,329)
Balances at end of year	**₱310,872,934**	₱314,528,032

Among others, the agreements prohibit CEDC, PEDC and TPC to amend or modify its charter documents if any such amendment or modification would have a material adverse effect; assign or otherwise transfer, terminate, amend, or grant any waiver or forbearance or exercise any election under any material provision of the agreements or project document; make any prepayment, whether voluntary or involuntary, or repurchase of any long-term debt or make any repayment of any such long-term debt other than those allowed in the agreements unless, in any such case, it shall at the option of any lender contemporaneously make a proportionate prepayment or repayment of the principal amount then outstanding of the Lender's outstanding participation in the loan. The agreements also prohibit CEDC, PEDC and TPC to acquire by lease any property or equipment, or to acquire rights-of-way to any property, which may have a material adverse effect; enter into contract of indebtedness except those permitted under the agreement such as indebtedness incurred in the ordinary course of business; and form or have any subsidiaries, advances or investments and issue preferred shares, unless certain conditions are complied with. Moreover, CEDC, PEDC and TPC are prohibited from entering into contract of merger or consolidation unless CEDC, PEDC and TPC are the surviving entities and after giving effect to such event, no event of default will result), selling, leasing or disposing all or any of its property (unless in the ordinary course of the business) where such conveyance, sale or lease would have a material adverse effect to CEDC, PEDC and TPC.

Events of default include, among others, failure to pay when due the principal or interest due and any other amount payable under the Agreement; revocation, withdrawal, or modification of any government approval required to be obtained by CEDC, PEDC and TPC in a manner which would have a material adverse effect; Global Formosa and Abovant, and PPHC cease to maintain 51.00% of CEDC and PEDC, respectively, or cease to maintain management control over CEDC, PEDC and TPC, respectively; and failure to comply with the required financial ratios.

If any of the events of default occurs and is continuing, the trustee or the facility agent, as the case maybe, shall immediately give CEDC, PEDC and TPC written notice of such fact and inform the lenders. Without prejudice to the cure periods allowed under the Agreement, and upon written request by the majority lenders, the Facility Agent shall take one or more of the following actions:

i. declare the principal of, and all accrued interest on, payable with respect to the loan under the Facility to be, and the same shall thereupon become, immediately due and payable without any further notice and without any presentment, demand or protest; and/or

ii. declare any undrawn portion of the Facility to be terminated, whereupon such portion of the Facility shall be forthwith terminated.

The Group is in compliance with the loan covenants as of December 31, 2013 and 2012.

PPC

MBTC Loans

On November 6, 2009, PPC entered into a ₱300.00 million, Seven (7)-Year Term Loan Agreement with MBTC. Proceeds from the loan were used to settle the BDO loan in 2009. This loan bears interest at the 3-month T-bill rate published in PDST-F plus 2.00% spread and is covered by a Mortgage Trust Indenture. PPC's power plant is mortgaged for the aforementioned obligations.

As of December 31, 2013 and 2012, a portion of the long-term loan amounting to ₱42.86 million which will mature within one (1) year from the reporting date, is presented as current liability.

Interest charged to operations related to this loan amounted to ₱3.83 million and ₱7.90 million in 2013 and 2012, respectively.

On August 24, 2006, PPC entered into a ₱1.20 billion, Ten (10)-Year Term Loan Agreement with MBTC, for its general corporate requirements. This loan is covered by a Mortgage Trust Indenture. In March 2007, Section 1.01 of the ₱1.20 billion, 10-Year Term Loan Agreement was amended increasing loan facility from ₱1.20 billion to ₱1.36 billion and changing the reference rate from MART1 rate to PDST-F rate.

As of December 31, 2013 and 2012, a portion of the long-term loan amounting to ₱153.85 million which will mature within one (1) year from the reporting date, are presented as current liability.

Interest charged to operations related to this loan amounted to ₱14.77 million and ₱28.67 million in 2013 and 2012, respectively.

In accordance with the loan agreements with MBTC, PPC is restricted from performing certain corporate acts without the prior consent or approval of MBTC, the more significant of which relate to entering into merger or consolidation (where PPC is not the surviving entity), declaring dividends to stockholders, acting as guarantor or surety of obligation and acquiring treasury stock. PPC is also required to maintain certain financial ratios.

As of December 31, 2013 and 2012, PPC has complied with the required financial ratios.

TPC

FMIC Loans

The FMIC loan agreements consist of ten (10)-year promissory notes. The proceeds of these peso-denominated loans were used to fund the construction of the power plant. PPC's power plant is mortgaged for the aforementioned obligations.

The loan agreements provide events that constitute an event of default. The terms indicated that if any other obligations of PPC are not paid when due or a default in the performance or observance of any instrument or agreement, FMIC may consequently declare the commitment to be terminated and declare all unpaid amounts to be due and payable without presentment, demand, protest or further notice of any kind. PPC is also required to maintain certain financial ratios.

Of the ₱865.00 million principal loans from FMIC, ₱350.00 million was secured by way of pledge or mortgage of any asset or property of the Corporation. The ₱515.00 million balance was secured by a chattel mortgage.

As of December 31, 2013 and 2012, PPC met the required debt-to-equity and current ratio requirements of the loan agreements.

Current portion of the loans as of December 31, 2013 and 2012, presented as current liability, amounted ₱200.85 million and ₱173.00 million, respectively. Total interest charged to operations related to these loans amounted to ₱21.34 million and ₱33.81 million in 2013 and 2012, respectively.

Loans Payable- TMPC

As of December 31, 2013 and 2012, this account consists of unsecured long-term debt to the following:

TAPI	₱74,812,217
Others	159,088,487
	₱233,900,704

The loan from TAPI bears fixed interest rate at 4.2% per annum. This loan is for a period of five (5) years up to February 26, 2016 which is automatically renewed upon maturity for another period of five (5) to ten (10) years (Note 27).

The other long-term unsecured interest-bearing loans consist of a 2.7% interest-bearing ten (10)-year term loan which will mature on September 28, 2015 and a 2.7% interest-bearing ten (10)-year term loan which will mature on October 23, 2016. These loans are automatically renewed upon maturity for another period of ten (10) years.

The loan covenants restrict the Group from encumbering or disposing properties leased by the lenders during the respective terms of various loan agreements. Interest expense on these loans amounted to ₱7.8 million in 2013 and 2012, respectively.

18. Customers' Deposits

The Group requires buyers of condominium units to pay a minimum percentage of the total selling price before it enters into a sale transaction. In relation to this, the customers' deposits represent payment from buyers which have not reached the minimum required percentage. When the revenue recognition criteria are met, sales are recognized and these deposits and down payments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the repossessed value of deposit less charges and penalties incurred will be refunded to the buyer.

This account also includes excess of collections over the recognized receivables based on percentage of completion. As of December 31, 2013 and 2012, the balance of this account amounted to ₱1.84 billion and ₱974.33 million, respectively.

19. Other Current Liabilities

This account consists of:

	2013	2012
Due to holders of non-controlling interest (Note 27)	**₱378,463,322**	₱378,463,322
VAT payable	**250,358,476**	635,607,708
Withholding taxes payable	**225,449,595**	326,915,450
Deferred reinsurance commission	**36,163,708**	–
Unearned income	**3,380,613**	3,380,613
Others	**12,854,267**	25,877,114
	₱906,669,981	₱1,370,244,207

The amount due to holders of non-controlling interest pertains to advances of CEDC from Abovant Holdings, Inc. which owns 44.00% of CEDC. Others pertain to payables on utilities, contracted maintenance and security agencies and regulatory premium or contribution payable of the Group. These are normally payable within one (1) year.

20. Liabilities on Purchased Properties

Liabilities on purchased properties are payables to various real estate property sellers. Under the terms of the agreements executed by Fed Land covering the purchase of certain real estate properties, the titles of the subject properties shall be transferred to Fed Land only upon full payment of the real estate loans.

In 2013, various parcels of land were acquired by Fed Land for a total consideration aggregating ₱2.57 billion. The outstanding obligation pertaining to these transactions amounted to ₱1.70 billion as of December 31, 2013.

In 2012, Fed Land acquired certain land and investment properties aggregating ₱3.72 billion, with 20.00% downpayment amounting to ₱743.84 million. The outstanding balance amounting to ₱2.98 billion is payable in thirteen (13) years with 3.00% interest per annum. The outstanding balance was discounted at the prevailing market rate of 5.40% and the discounted liability as of December 31, 2013 and 2012 amounted to ₱2.62 billion and ₱2.58 billion, respectively.

Total outstanding liabilities on purchased properties (including current portion) amounted to ₱4.32 billion and ₱2.58 billion as of December 31, 2013 and 2012, respectively.

21. **Other Noncurrent Liabilities**

This account consists of:

	2013	2012
Provisions	**₱1,325,728,442**	₱–
Decommissioning liability	**192,660,472**	183,491,180
Refundable and other deposits	**114,017,770**	47,968,977
Finance lease obligation - net of discount amounting to ₱127.70 million in 2013 and 2012	**10,354,921**	11,106,215
	₱1,642,761,605	₱242,566,372

Provisions consist of:

	2013
Claims and assessments	₱666,701,662
Product warranties	288,752,780
Corporate social responsibility (CSR) activities	370,274,000
	₱1,325,728,442

PPC, PEDC, CEDC, TPC and GPRI have legal obligations to decommission or dismantle their power plant assets at the end of their useful lives. In this regard, PPC, PEDC, CEDC, TPC and GPRI established their respective provisions to recognize estimated decommissioning liability.

Changes in the decommissioning liability are as follows:

	2013	2012
Balances at beginning of year	**₱183,491,180**	₱–
Effect of business combination	–	61,656,006
Provisions during the year	**1,600,132**	113,753,507
Accretion expense for the year	**7,569,160**	8,081,667
Balances at end of year	**₱192,660,472**	₱183,491,180

In 2012, GBPC reassessed the amount of decommissioning liability using a risk adjusted rate. Accordingly, additional provision of ₱113.75 million was recognized as part of "Property and equipment".

Refundable and other deposits consist mainly of tenants' rental deposit from operating lease contracts with terms ranging from five (5) to ten (10) years. Rental deposits are obtained to secure faithful compliance of tenants' obligation under the lease contract and to answer for unpaid bills of lessees affecting the leased premises, any damage to the leased premises, and other similar costs. Rental deposits may also be applied for the unpaid rentals upon termination of the lease contract.

22. Equity

Capital stock and additional paid-in capital
As of December 31, 2013 and 2012, the paid-up capital consists of the following:

	2013	2012
Common stock - ₱10 par value		
Authorized - 500,000,000 shares		
Issued and outstanding	**₱1,743,000,000**	₱1,580,000,000
Additional paid-in capital	**46,694,658,660**	36,752,473,660
	₱48,437,658,660	₱38,332,473,660

The movements in the issued and outstanding common stock follow:

	2013		2012	
	Number of shares	**Amount**	Number of shares	Amount
Balance at beginning of year	**158,000,000**	**₱1,580,000,000**	125,000,000	₱1,250,000,000
Issuance of shares of stocks	**16,300,000**	**163,000,000**	33,000,000	330,000,000
Balance at end of year	**174,300,000**	**₱1,743,000,000**	158,000,000	₱1,580,000,000

On January 10, 2013, the Parent Company conducted an overnight equity placement wherein Grand Titan sold 23,027,000 shares of the Parent Company to institutional investors at a price of ₱620.00 per share. Subsequently, Grand Titan subscribed to 16,300,000 million new shares of the Parent Company at the same price.

The placement raised ₱10.11 billion of primary proceeds for the Parent Company and reduced Grand Titan's ownership interest in the Parent Company from 69.68% in 2012 to 59.30% in 2013.

Movements in additional paid-in capital in 2013 follows:

Balance at beginning of year		₱36,752,473,660
Amount in excess of par value of shares issued in the private placement		
Number of shares issued	16,300,000	
Offer Price	₱620	
Total proceeds from share issuance	₱10,106,000,000	
Less par value of shares issued	163,000,000	9,943,000,000
Amount of expenses charged to equity		(815,000)
Balance at end of year		₱46,694,658,660

On April 20, 2012, the Parent Company's common shares with par value of ₱10.00 were listed on the Philippine Stock Exchange raising gross proceeds amounting to ₱15.02 billion based on the primary offering of 33,000,000 new common shares at an offer price of ₱455.00 per share. Total proceeds raised by the Parent Company amounted to ₱13.86 billion, net of direct transaction costs of ₱1.17 billion.

Movements in additional paid-in capital in 2012 follows:

Balances at beginning of year		₱23,071,664,419
Amount in excess of par value of shares issued in the		
Initial Public Offering (IPO)		
Number of shares issued	33,000,000	
Offer Price	₱455	
Total proceeds from share issuance	₱15,015,000,000	
Less par value of shares issued	330,000,000	14,685,000,000
Amount of IPO expenses allocated to equity		(1,004,190,759)
Balance at end of year		₱36,752,473,660

In 2012, IPO related expenses amounting to ₱165.18 million were charged directly to 'General and administrative expenses' account in the consolidated statement of income (Note 26).

As of December 31, 2013 and 2012, the total number of stockholders of the Parent Company is 74 and 37, respectively.

In a special stockholders' meeting held on October 26, 2012, the stockholders of the Parent Company approved the amendment to Article VII of the Articles of Incorporation whereby the stockholders of the Parent Company shall be denied pre-emptive right to the issue or disposition of any class of share of the Parent Company. The amendment was previously approved by the BOD of the Parent Company on September 7, 2012.

Retained earnings

Details of the Parent Company's dividend distributions out of the Parent Company's retained earnings as approved by the Parent Company's BOD follow:

Date of declaration	Per share	Total amount (in millions)	Record date	Payment date
August 12, 2013	₱3.00	₱522.90	September 10, 2013	October 2, 2013
September 12, 2012	3.17	500.86	September 28, 2012	October 22, 2012
August 5, 2011	4.00	500.00	August 31, 2011	September 9, 2011
April 8, 2010	2.00	250.00	March 25, 2010	April 15, 2010
October 12, 2010	2.00	250.00	October 31, 2010	November 22, 2010

The computation of retained earnings available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the Parent Company's retained earnings as of December 31, 2013 and 2012.

Details of dividend declarations of the Group's subsidiaries follow:

	Date of declaration	Total amount (in millions)	Record date	Payment date
Fed Land	February 18, 2013	₱100.00	December 31, 2012	March 20, 2013
	December 23, 2011	180.00	November 30, 2011	December 23, 2011
GBPC	December 2, 2013	2,000.00	October 31, 2013	June 30, 2014
	December 17, 2012	2,870.00	December 3, 2012	March 31, 2013
	August 11, 2012	1,050.00	July 31, 2012	August 31, 2012
Toyota	April 11, 2013	2,994.11	December 31, 2012	April 12, 2013

Treasury shares
Treasury shares of the Group pertain to 10,000 shares of the Parent Company held by Ping An with original acquisition cost of ₱6.13 million.

Other equity adjustments
GBPC
On June 27, 2013, First Metro Investment Corporation (FMIC), the investment banking arm of MBTC, concluded a Share Sale and Purchase Agreement with Orix Corporation (ORIX) covering the sale of 200.00 million shares of GBPC owned by FMIC to ORIX at a price of ₱7.15 billion. Subsequently on October 22, 2013, FMIC and Meralco PowerGen Corporation (MGen) signed a Shareholders' Agreement to complete the sale of an additional 200.00 million shares of GBPC from FMIC to MGen for a total consideration of ₱7.15 billion. The transactions reduced the Parent Company's indirect ownership over GBPC from 12.23% to 2.27%.

The disposals were accounted as equity transactions in the consolidated financial statements since the Parent Company did not lose control over GBPC even after the sale of the indirect interests. The Group recognized other equity adjustments totaling ₱1.41 billion, presented under equity attributable to equity holders of the Parent Company in the consolidated statement of financial position, representing the excess of the considerations received over the carrying amount of the indirect interests sold.

On May 2, 2012, the Parent Company exercised its option to acquire 25,520,700 common shares of GBPC representing 4.59% of GBPC's outstanding capital stock, at a fixed price of ₱35.00 per share for a total cost of ₱893.20 million. This increased the Parent Company's direct ownership over GBPC from 34.41% to 39.00% (Note 31). This also resulted in the recognition of negative equity adjustment amounting to ₱54.78 million representing the excess of cost consideration over the carrying amount of non-controlling interest acquired (Note 31).

On September 12, 2012, the Parent Company acquired from a third party an additional 66,145,700 GBPC common shares, representing 11.89% of GBPC's outstanding capital stock from the holders of the non-controlling interest, at a fixed price of ₱35.13 per share for a total cost of ₱2.32 billion. The acquisition increased the Parent Company's direct holdings in GBPC from 39.00% to 50.89%. This acquisition resulted to a negative equity adjustment amounting to ₱112.93 million representing the excess of the cost consideration over the carrying amount of non-controlling interest acquired (Note 31).

Fed Land
On May 3, 2012, the Parent Company acquired the remaining 20.00 million common shares of Fed Land representing 20.00% of Fed Land's outstanding capital stock from the holders of the non-controlling interest for a total cost of ₱2.70 billion, thereby increasing the direct holdings of the Parent Company in Fed Land from 80.00% to 100.00%. As of May 3, 2012, the carrying amount of the 20.00% non-controlling interest in Fed Land amounted to ₱2.20 billion. The acquisition of 20.00% of Fed Land also resulted in the recognition of a negative equity adjustment amounting to ₱513.36 million representing the excess of cost consideration over the carrying amount of non-controlling interest (Notes 2 and 31).

Effect of uniting of interest on HLRC and CRDC
The net effect of uniting of interest on the acquisition of HLRC and CRDC amounted to ₱104.26 million as of December 31, 2011. This represents the difference between the Fed Land's aggregate consideration transferred on the acquisition and the respective HLRC and CRDC's equity as of December 31, 2010 attributable to parent and to non-controlling interest as of the time of the combination (Note 31).

The aggregate cost of investment of ₱420.00 million is presented as a reduction to the net assets pooled to the Group's financial statements at the time of combination for the year ended December 31, 2011.

Non-controlling interests
The following table presents the rollforward of non-controlling interests:

	2013	2012
Beginning balance	**₱11,294,157,537**	₱2,205,318,605
Total comprehensive income:		
Net income	**3,890,464,362**	2,057,582,765
Other comprehensive income	**(28,984,106)**	(66,253,122)
Issuance of capital stock	**959,350,239**	639,809,982
Cash dividends paid to non-controlling interests	**(3,456,348,554)**	(3,545,093,065)
Effect of business combination (Note 31)	**7,222,853,016**	15,238,649,131
Acquisition of non-controlling interests in consolidated subsidiaries	**–**	(5,235,856,759)
Sale of indirect interest in a subsidiary	**2,156,827,165**	–
	₱22,038,319,659	₱11,294,157,537

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong and healthy consolidated statement of financial position to support its current business operations and drive its expansion and growth in the future.

The Group maintains its current capital structure, and will make adjustments, if necessary, in order to generate a reasonable level of returns to shareholders over the long term. Equity, which the Group considers as capital, pertains to the equity attributable to equity holders of the Parent Company excluding effect of uniting of interest. The Group's sources of capital are capital stock and retained earnings. No changes were made in the objectives, policies or processes in 2013 and 2012.

The Parent Company considers total equity as its capital amounting to ₱52.83 billion and ₱40.71 billion as of December 31, 2013 and 2012, respectively.

The Parent Company maintains equity at a level that is compliant with its loan covenants.

23. Interest and Other Income

Interest Income
This account consists of:

	2013	2012	2011
Interest income on:			
Installment contract receivable (Note 5)	**₱749,146,595**	₱279,445,937	₱195,924,132
Short-term investments (Note 4)	**310,626,708**	–	–
Deposit (Note 12)	**263,850,062**	257,736,632	337,707,830
Cash and cash equivalents (Note 4)	**92,743,951**	325,248,088	64,595,737
AFS debt instruments	**12,613,367**	–	–
Others	**48,533**	4,000,354	–
	₱1,429,029,216	₱866,431,011	₱598,227,699

Interest on deposit represents reimbursement of interest expense incurred by Fed Land from option money granted to affiliates (Notes 12 and 27).

Other Income

This account consists of:

	2013	2012	2011
Real estate forfeitures, charges and penalties	**₱123,201,267**	₱88,118,947	₱92,926,119
Management fee (Note 27)	**85,211,246**	41,142,177	36,834,278
Dividend income	**77,277,481**	23,304,907	25,200
Recovery from insurance	**38,008,663**	–	–
Refund of rental payments	**21,228,274**	–	–
Gain on sale of fixed asset	**15,998,480**	8,316,148	–
Gain on sale of shares	**8,522,850**	–	2,304,422
Other underwriting income	**7,658,264**	–	–
Disposal of defective units	**7,074,435**	–	–
Membership fees	**2,172,316**	–	–
Reimbursement from a contractor	–	16,903,454	–
Processing fee	–	10,052,364	–
Others	**151,288,740**	74,612,801	56,455,173
	₱537,642,016	₱262,450,798	₱188,545,192

Real estate forfeitures, charges and penalties are earned when a buyer is delinquent on his payment or cancels his purchase of condominium units, after deducting any cash surrender value.

Management fee pertains to services rendered by Fed Land in the administration of different projects related to the joint venture (Note 27).

Other underwriting income pertains to the fronting fees earned by the Charter Ping An for fronting arrangements made during the year with several agencies and intermediaries.

Others include charges from tenants of Fed Land pertaining to electricity and other utilities; these were recorded by Fed Land as other income upon receipt of the payments from the tenants.

24. Power Plant Operation and Maintenance Expenses

This account consists of:

	2013	2012
Power plant operations expenses	**₱7,836,783,183**	₱4,855,731,852
Repairs and maintenance	**540,907,411**	1,304,733,409
Purchased power	**567,745,347**	550,584,212
	₱8,945,435,941	₱6,711,049,473

25. Cost of Goods Manufactured and Cost of Goods and Services Sold

Cost of goods manufactured consists of:

	2013
Raw materials, beginning	₱567,478,665
Purchases	17,531,617,445
Total materials available for production	18,099,096,110
Less: Raw materials, end	528,430,068
Raw materials placed in process	17,570,666,042
Direct labor	229,166,773
Manufacturing overhead	1,980,663,593
Total cost of goods placed in process	19,780,496,408
Work-in-process, beginning	79,583,854
Total Cost of goods in process	19,860,080,262
Less: Work-in-process, ending	53,027,159
Total cost of goods manufactured	19,807,053,103
Finished goods, beginning	252,177,779
Total goods available for sale/transfer	20,059,230,882
Less: Finished goods, ending	42,685,755
Other transfers	30,444,994
	₱19,986,100,133

Cost of goods and services sold consists of:

	2013	2012	2011
Beginning inventory			
Automotive	**₱4,340,087,864**	₱–	₱–
Gasoline, retail and petroleum products	**9,786,694**	8,367,927	10,014,263
Food	**2,351,541**	2,160,335	1,990,935
	4,352,226,099	10,528,262	12,005,198
Add: Net purchases	**43,419,704,745**	642,162,033	665,201,705
Total inventories available for sale	**47,771,930,844**	652,690,295	677,206,903
Less: ending inventory (Note 6)			
Automotive	**2,899,063,311**	–	–
Gasoline, retail and petroleum products	**7,940,644**	9,786,694	8,367,927
Food	**1,310,005**	2,351,541	2,160,335
	44,863,616,884	640,552,060	666,678,641
Cost adjustments	**(20,203,084)**	–	–
Internal and other transfers	**(142,500,998)**	–	–
Direct labor	**18,856,187**	16,173,326	15,196,150
Overhead (Note 30)	**749,690,677**	24,185,460	27,851,792
	₱45,469,459,666	₱680,910,846	₱709,726,583

Overhead includes rent expense and common usage and service area charges.

26. General and Administrative Expenses

This account consists of:

	2013	2012 (As restated - Note 2)	2011
Advertising and promotions	**₱2,167,375,730**	₱165,656,540	₱102,547,029
Salaries, wages and employee benefits (Notes 27 and 28)	**1,838,461,064**	956,203,320	231,469,966
Taxes and licenses	**1,086,336,724**	502,873,719	137,666,355
Depreciation and amortization (Note 11)	**944,239,902**	373,981,589	71,352,576
Commissions	**480,685,180**	189,703,924	168,976,570
Outside services	**344,401,523**	91,369,952	54,291,761
Administrative and management fees	**336,429,533**	248,497,988	54,236,786
Light, water and other utilities	**256,713,734**	101,664,069	77,958,384
Delivery and Handling	**212,067,754**	–	–
Repairs and maintenance	**198,128,553**	69,575,384	13,080,654
Professional fees	**194,519,779**	173,760,643	102,053,104
Insurance	**182,788,839**	111,422,840	1,827,228
Provisions for claims and assessments	**168,366,015**	–	–
Transportation and travel	**121,320,096**	45,834,907	7,678,012
Office supplies	**69,824,602**	26,589,448	12,197,808
Entertainment, amusement and recreation	**66,470,881**	51,924,135	18,014,503
Participation fee	**59,659,478**	–	–
Rent	**52,084,746**	52,366,000	18,338,131
Unrealized foreign exchange loss	**42,309,137**	7,113,039	193,784
Communications	**41,284,806**	10,850,899	232,332
Provisions for inventory obsolescence (Note 7)	**26,912,531**	–	–
Provision for credit losses (Note 5)	**22,557,768**	849,036	879,708
Dealer's incentive, support and promotions	**17,396,388**	–	–
Royalty and service fees	**13,582,752**	5,865,917	5,600,385
IPO - related expenses (Note 22)	**–**	165,183,396	–
Loss from initial recognition of financial asset	**275,000**	94,224,170	–
Others	**449,518,579**	113,510,012	31,151,972
	₱9,393,711,094	₱3,559,020,927	₱1,109,747,048

Other expenses include membership and subscription fees, dealer development, corporate events and contractual services.

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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities. These related parties include subsidiaries, associates, jointly controlled entities, key management personnel, stockholders and other related parties which include affiliates.

An entity is considered an affiliate if such entity and the Parent Company have common shareholders. In effect, such entity is a sister company of the Parent Company by virtue of ownership and common control. It is neither a subsidiary nor associate of the Group.

The Group, in its regular conduct of its business, has entered into transactions with its associate and other related parties principally consisting of cash advances for reimbursement of expenses, merger and acquisitions and capital infusion, leasing agreements, management agreements and dividends received from associates. Transactions with related parties are made at normal market prices.

As of December 31, 2013 and 2012, the Group has not made any provision for probable losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

The following table shows the related party transactions included in the consolidated financial statements.

	December 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Subsidiaries			
Due from related parties	**₱300,000,000**		Non-interest bearing; due and demandable
Other current assets	**861,123**	**₱861,123**	Receivable from subsidy of expenses; non-interest bearing; due and demandable
Associates			
Cash and cash equivalents	**8,545,042,319**	**15,952,344,446**	Savings, current and time deposit account with annual interest ranging 0.5% to 5%; Unsecured; no impairment
Interest income	**124,126,178**		Interest income from cash and cash equivalents
Rental deposits	**12,226,933**		Guarantee Deposit on Properties
Due from related parties	**4,523,347**		Receivable on sale of property; unremitted collections
Investments in associates and joint ventures	**502,243,750**	**23,578,612,738**	Purchase of additional investment in associate
AFS equity securities		**29,843,988**	Unsecured; no impairment
Accrued expense	**51,866**	**51,866**	Retainer's fee of an associate as stock and transfer agent and group life insurance premium of an associate
Accrued interest payable	**1,776,667**	**1,776,667**	Accrued interest on loans with an annual interest ranging from 2.60% to 10.35% per annum
Loans payable	**8,293,073,727**	**300,000,000**	Short term loans from an associate at 2.6-3.5% per annum; secured
Interest income	**287,445,669**		Interest bearing at prevailing market rate; due and demandable; unsecured, no impairment

(Forward)

Category	December 31, 2013 Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
Dividend income	₱263,107		Dividend income from investments in Metrobank
Management fee income	58,807,050		Management fee earned from MBTC and FMIC
Interest expense	83,058,611		Interest bearing at prevailing market rate; due and demandable
Miscellaneous expense	1,344,866		Retaineers fees and trust fees incurred
Jointly controlled entities			
Dividend receivable	240,000,000	₱240,000,000	Dividend receivable from FLOC
Accounts payable	6,961,000	6,961,000	Payable to TMBC 30 to 60 days, non-interest-bearing
Other related parties			
Cash and cash equivalents	326,595,093		Interest bearing at prevailing market rate; due and demandable; Unsecured with no impairment.
Interest income	5,066,377		Interest income from cash and cash equivalents
Due from related parties	24,661,448	845,695,500	Non-interest bearing; due and demandable
Deposits	805,354	–	With interest of 7.34%; option agreement will expire on December 31, 2013; Unsecured with no impairment.
AFS debt securities		29,704,509	7 years, 5.68% to 5.75%; 10 years, 7.1875%; Unsecured; no impairment
Interest income	1,729,316		Interest income from AFS securities
Accrued expense	17,790,333	45,000	Telemarketing Charges with Metrobank Card Corporation
Loans payable	1,037,320,579	2,000,000,000	With interest ranging from 3.75% to 4%; Payable in 2015
Interest expense	76,799,829		Interest expense from loans payable
Due to related parties		188,385,414	Non-interest bearing; due and demandable
Liabilities on purchased properties	2,570,937,500	4,320,376,123	Unsecured with interest rate of 3.15% payable on 2022; no impairment.
Interest expense	117,206,668		Interest expense on purchased properties
Dividend income	982,200,000		Dividend income earned from FMIC and ORIX
Miscellaneous expense	59,693,036		Participation fee paid to the ultimate parent company in the private placement exercise
Key management personnel			
Rent income	310,982		Income from employees for car plans
Salaries and employee benefits	68,948,180		Salaries and benefits to employees
Director's fee	11,795,000		Per diems and bonuses to directors

Category	December 31, 2012 Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
Subsidiaries			
Prepaid expenses	₱44,196	₱44,196	Prepaid portion of the leased parking space from FedLand for January to March
Accounts payable	24,984	24,984	Reimbursement to FedLand
Associates			
Cash and cash equivalents	7,857,677,097	7,929,533,745	Savings, current and time deposit account with annual interest ranging 1.75% to 4.13%
Receivables	700,498	700,498	Interest bearing – MBTC
Deposits	20,000,000	20,000,000	Option price for the acquisition of additional investment in associates
Investments	4,500,000,965	29,048,058,992	Purchase of additional investment in associate
Land for development	785,520,000	785,520,000	Land acquired from MBTC
Accrued interest payable	79,058,738	79,058,738	Accrued interest on loans with an annual interest ranging from 3.80% to 10.35% per annum

(Forward)

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2012		
Loans payable	(₱5,014,270,680)	₱14,897,848,551	Unsecured - ₱0.85 billion, Secured - ₱1.99 billion; short term loans with prevailing interest rate ranging from 3.80% to 4.53% per annum. Secured - ₱12.06 billion, interest-bearing Payment of ₱4.76 billion was made for secured loans and ₱0.25 billion for unsecured loans.
Due to related parties	50,000	50,000	Non-interest bearing; due and demandable; Unsecured and with no impairment.
Dividend income	1,188,983,183		See discussion in Note 8
Interest income from banks	264,753,826		Income on savings and time deposit
Interest expense	1,359,177,608		Interest expense incurred on loans payable with MBTC and TCITRC
Jointly controlled entities			
Cash and cash equivalents	78,680,699	78,680,699	Interest bearing cash equivalents
Interest income	2,644,434		Income from loans from short-term investments
Interest expense	3,352,247		Interest on loans from SBC Properties and PBC Capital
Other related parties			
Cash and cash equivalents	820,656,572	820,656,572	Interest bearing at prevailing market rate; due and demandable; Unsecured with no impairment.
Long term loans receivable	610,775,830	610,775,830	Unsecured loans receivable with interest rate of 3.15% payable on 2022; no impairment.
Advances to officers and employees	32,218,151	32,218,151	Unsecured, non-interest bearing advances to officers and employees
Due from related parties	489,042,589	489,042,589	Non-interest bearing; due and demandable
Deposits	(2,000,000,000)	2,085,000,000	With interest of 7.34%; option agreement will expire on December 31, 2013; Unsecured with no impairment.
Land for development	776,006,920	776,006,920	Land acquired from World Trade Center and Titan Resources Corporation (see additional information below).
Other current assets	9,089,308	9,089,308	Interest bearing at prevailing market rate and will mature on 2013; Unsecured with no impairment.
Accrued interest payable	30,880,013	30,880,013	Interest accrued on loans
Loans payable	(141,289,916)	1,691,072,542	Secured, interest bearing loans, which bears annual interest ranging 10.27% to 10.35%, based on a three month MART1 rate plus 4.00% spread
Due to related parties	191,264,721	191,264,721	Non interest bearing; due and demandable
Liabilities on purchased properties	2,580,574,771	2,580,574,771	Unsecured with interest rate of 3.15% payable on 2022; no impairmet.
Management fee income	15,982,007		Non-interest bearing; due and demandable
Interest income from banks	41,272,862		Interest income from savings deposit and cash equivalents
Interest on deposits	257,736,632		Income from option deposit (Note 12)
Interest expense	136,037,184		Interest expense incurred on loans from FMIC and receivable from CFI.
Due to holders of non-controlling interest	378,463,322	378,463,322	Non-interest bearing operational advances; due and demandable
Key management personnel			
Accounts payable	174,250	174,250	Payable to director representing per diem and bonus
Rent income	183,750		Income from employees for car plans
Salaries and employee benefits	202,679,471		Salaries and benefits to employees
Director's fee	4,450,000		Per diems and bonuses to directors

Details of the transactions with affiliates are as follows:

Land for development
In 2012, Fed Land purchased (a) parcel of land located at Reclamation Area, Central Business Park 1-A, Pasay City at a total consideration of ₱234.66 million from WTCC, (b) parcel of land located at Taguig City for a total consideration of ₱785.52 million from MBTC (c) parcel of land located at Pasay City for a total consideration of ₱541.35 million from TRC. These parcels of land were acquired at their fair market value at the time of acquisition.

Operating advances
Due from and to related parties consist mostly of operating advances which are noninterest-bearing and due and demandable.

Long-term cash investment
On April 13, 2011, Fed Land invested long-term cash investments with a local bank to secure a loan obtained by an affiliate amounting to ₱2.44 billion. Fed Land recognized interest income from the assigned long-term cash investment amounting to ₱40.08 million in 2011.

In 2012, the said long-term cash investment was terminated and used to fully settle Fed Land's short-term loans.

Long-term loans receivable
In 2012, Fed Land entered into a loan agreement with Cathay International Resources Corp. (Borrower). Fed Land agrees to lend to the Borrower a total amount of ₱705.00 million with nominal interest rate of 3.15% annually. This loan will mature on the tenth year anniversary from the date of the execution of the agreement. The outstanding balance of long-term loans receivable as of December 31, 2012 amounted to ₱610.78 million.

The interest expense from day 1 difference recorded under "General and administrative expenses" in the consolidated statement of income amounted to ₱94.22 million.

Deposits
Parent Company
In October 22, 2012, the Parent Company and MBTC entered into MOU related to the acquisition of MBTC's 30.00% ownership interest in TMPC. Pursuant to the MOU, an option payment amounting to ₱20.00 million was given by the Parent Company to MBTC for the exclusive option to acquire the shares under the second tranche.

Fed Land
In 2011, Fed Land entered into an option agreement with its various affiliates (Grantor), whereby the Grantor grants and gives Fed Land the exclusive rights, for a period of three years to either (a) purchase the Property, (b) purchase the shares of stock of the Grantor which owns the Property, (c) to develop the property as Developer in joint venture with the Grantor's affiliates or (d) to undertake combination of any of the foregoing, as may be agreed upon the parties. The Group has outstanding deposits amounting to nil and ₱2.09 billion with 7.34% interest in 2013 and 2012, respectively.

In addition, the Grantor will reimburse Fed Land for its interest expense, borrowing cost and related expenses incurred in obtaining the option money. The Group recognized interest income amounting to ₱263.85 million and ₱257.74 million in 2013 and 2012, respectively.

Affiliated bank loans
The Group's loans payable to an affiliated commercial bank bears interest rates ranging from 3.75% to 4.50% per annum in 2011 and 6.52% to 6.78% per annum in 2010 and 2009, respectively.

Management fee
Management fee amounting to ₱70.18 million, ₱41.14 million and ₱36.83 million in 2013, 2012 and 2011, respectively, pertains to the income received from a joint venture of Fed Land with Fed Land Orix Corporation (FLOC) and MBTC (Note 23).

Lease agreements
In 2011, Fed Land also leased its mall to some of its associates and affiliates. The lease term ranged from 5 to 10 years. The rental income on these leases amounted to ₱10.03 million and ₱8.57 million for 2011 and 2010, respectively (Note 30).

Compensation of key management personnel for the years ended December 31, 2013, 2012 and 2011 follow:

	2013	2012	2011
Short-term employee benefits	**₱111,560,155**	₱195,072,227	₱58,406,499
Post employment benefits	**49,782,006**	7,607,244	3,469,682
	₱161,342,161	₱202,679,471	₱61,876,181

Transactions with the Group Retirement Funds
The retirement funds of the subsidiaries' employees are being managed and maintained by MBTC as trustee bank. The total carrying amount and fair value of the retirement funds as of December 31, 2013 and 2012 amounted to ₱1.10 billion and ₱98.70 million, respectively. The assets and investments of the fund include cash and cash equivalents, investments in government securities and equity securities, among others.

The following tables show the amounts of related party transactions of the Group with the retirement funds of the subsidiaries' employees as of December 31, 2013 and 2012:

	December 31, 2013		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Associate			
Savings deposit		**₱276,533**	Savings account with annual interest of 1%, 1 - 3 months; Unsecured and no impairment;
Time deposit		**14,100,000**	With annual interest of 3.88%, 1 - 3 months maturity; Unsecured and no impairment
Investment in equity securities		**7,101,096**	Unsecured with no impairment
Interest income	**₱219,568**		Income earned from savings deposit
Gain on sale of shares	**1,370,769**		Income from sale of shares
Mark-to-market gain	**287,396**		Gain from mark-to-market of shares
Parent			
Investment in equity securities	**–**	**5,087,480**	Unsecured with no impairment
Gain on sale	**2,877,808**		Income from sale of shares
Mark-to-market gain	**310,175**		Gain from mark-to-market of shares

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2012		
Associate			
Savings deposit		₱69,884	Savings account with annual interest of 1%, 1 - 3 months; Unsecured and no impairment;
Time deposit		6,030,000	With annual interest of 3.88%, 1 - 3 months maturity; Unsecured and no impairment
Investment in equity securities		734,400	Unsecured with no impairment
Interest income	₱112,032		Income earned from savings deposit
Gain on sale of shares	9,672		Income from sale of shares
Mark-to-market gain	67,396		Gain from mark-to-market of shares

Transactions relating to the retirement plans are approved by the subsidiaries' respective Retirement Committees. The voting rights over the investments in the shares of entities within the Group are exercised by the Retirement Committee, whom are either officers or directors of the subsidiaries.

28. Pension Plan

The Group provides defined benefit pension plans for substantially all of its employees. Provisions for pension obligations are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. Actuarial valuations are made at least every one to three years.

Principal actuarial assumptions used to determine pension obligations follow:

		January 1, 2013 Actuarial Assumptions		
	Date of Actuarial Valuation	**Expected Return on Plan Assets**	**Salary Rate Increase**	**Discount Rate**
Real estate	**December 31, 2013**	**3.50%**	**6.25%**	**5.65%**
Power	**-do-**	**5.00%**	**8.00%**	**4.66% - 6.14%**
Non-life insurance	**-do-**	**7.00%**	**10.00%**	**4.99%**
Automotive	**-do-**	**9.00%**	**5.00%-7.00%**	**4.90%-6.11%**
Financial	**-do-**	–	**8%**	**5.43%**

		January 1, 2012 Actuarial Assumptions		
	Date of Actuarial Valuation	Expected Return on Plan Assets	Salary Rate Increase	Discount Rate
Real estate	December 31, 2012	6.00%	5.00%-8.00%	5.26%-6.24%
Power	-do-	6.00%	10.00%	5.35% - 6.12%
Financial	-do-	–	8%	5.89%

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

The net pension liability and asset recognized in the Group's statements of financial position are as follows:

	2013													
				Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2013	Effect of business combination	Balance after business combination	Current service cost	Net 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, 2013
Present value of defined benefit obligation	₱631,313,168	₱2,157,293,976	₱2,788,607,144	₱227,983,529	₱146,203,647	₱374,187,176	(₱72,836,781)	₱–	₱4,751,767	(₱94,712,871)	(₱183,216,067)	(₱273,178,171)	₱–	₱2,816,779,368
Fair value of plan assets	(98,701,895)	(873,565,502)	(972,267,397)	–	(44,725,426)	(44,725,426)	20,163,736	(8,102,940)	–	–	–	(8,102,940)	(108,214,980)	(1,113,147,007)
Net defined benefit liability	₱532,611,273	₱1,283,728,474	₱1,816,339,747	₱227,983,529	₱101,478,221	₱329,461,750	(₱52,673,045)	(₱8,102,940)	₱4,751,767	(₱94,712,871)	(₱183,216,067)	(₱281,281,111)	(₱108,214,980)	₱1,703,632,361

	2012											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2012	Current service cost	Net 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	₱566,356,367	₱71,118,800	₱35,853,035	₱106,971,835	(₱16,489,496)	₱–	(₱8,827,101)	(₱13,415,900)	(₱3,282,537)	(₱25,525,538)	₱–	₱631,313,168
Fair value of plan assets	(90,728,412)	–	(1,244,189)	(1,244,189)	7,607,244	(14,336,538)	–	–	–	(14,336,538)	–	(98,701,895)
Net defined benefit liability	₱475,627,955	₱71,118,800	₱34,608,846	₱105,727,646	(₱8,882,252)	(₱14,336,538)	(₱8,827,101)	(₱13,415,900)	(₱3,282,537)	(₱39,862,076)	₱–	₱532,611,273

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 follows:

	2013	2012
Cash and cash equivalents	**₱74,857,144**	₱4,749,087
Investment in government securities	**693,457,738**	75,060,979
Investment in equity securities	**162,728,547**	8,840,166
Investment in debt and other securities	**63,800,661**	3,878,895
Investment in mutual funds	**15,241,230**	–
Receivables	**7,851,213**	301,462
Others	**95,210,474**	5,871,306
	₱1,113,147,007	₱98,701,895

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	
	Possible Fluctuations	**Increase (Decrease)**
Discount rates	+1%	**(₱489,919,722)**
	-1%	**607,053,371**
Turnover rate	+1%	**(34,624,950)**
	-1%	**38,705,250**
Future salary increase rate	+1%	**599,310,655**
	-1%	**(490,661,296)**

The Group expects to contribute ₱105.85 million to its defined benefit pension plan in 2014.

The average duration of the defined benefit retirement liability at the end of the reporting period is 17.87 years for the Group.

29. Income Taxes

Provision for income tax account consists of:

	2013	2012 (As restated - Note 2)	2011
Current	**₱1,736,415,071**	₱120,152,710	₱59,934,300
Deferred	**17,579,768**	144,923,530	76,273,791
Final	**49,275,282**	22,574,356	12,571,044
	₱1,803,270,121	₱287,650,596	₱148,779,135

The components of the Group's deferred taxes as of December 31, 2013 and 2012 are as follow:

Net deferred tax asset:

	2013	2012 (As restated - Note 2)
Deferred tax asset on:		
Retirement benefit obligation	**₱485,285,082**	₱124,108,933
Warranties payable and other provisions	**269,892,617**	17,258,550
Allowance for probable losses	**229,086,607**	1,835,950
Capitalized commissioning income	**115,734,529**	91,880,136
NOLCO	**97,235,999**	112,574,052
Decommissioning liability	**57,798,142**	32,616,214
Unearned premiums	**42,523,751**	–
Accrued expenses	**40,316,088**	20,076,902
Allowance for impairment losses	**39,970,139**	674,073
Others	**40,527,930**	9,838,740
	1,418,370,884	410,863,550
Deferred tax liability on:		
Costs of generation capitalized during construction	**90,013,982**	–
Deferred financing cost	**69,834,890**	58,084,306
Deferred acquisition costs	**64,912,883**	–
Dismantling costs	**36,125,990**	22,094,745
Fair value adjustment on acquisition - by Parent	**33,707,943**	–
Others	**14,603,810**	–
	309,199,498	80,179,051
Net deferred tax asset	**₱1,109,171,386**	₱330,684,499

Net deferred liability:

	2013	2012 (As restated - Note 2)
Deferred tax asset on:		
Fair value adjustment on acquisition - by Parent	**₱34,087,631**	₱–
Retirement benefit obligation	**32,109,122**	31,368,525
Unamortized discount on receivables	**26,061,686**	34,541,983
Deferred gross profit	**10,974,011**	–
NOLCO	**102,179**	101,033,995
Others	**13,414,146**	67,565,437
	116,748,775	234,509,940
Deferred tax liability on:		
Fair value adjustment on acquisition - by Parent	**2,850,921,020**	560,826,095
Fair value adjustment on acquisition - by subsidiaries	**226,373,419**	246,058,064
Deferred financing cost	**154,611,358**	169,592,581
Earned interest income	**61,457,003**	23,198,482
Capitalized net income	**11,738,793**	66,335,015
Deferred gross profit	–	49,256,057
Others	**63,388,028**	54,750,356
	3,368,489,621	1,170,016,650
Net deferred tax liability	**₱3,251,740,846**	₱935,506,710

The Group has deductible temporary differences for which deferred tax asset has not been recognized since management believes that it is not probable that sufficient taxable income will be available against which the said deductible temporary differences can be utilized.

As of December 31, 2013, 2012 and 2011, the Group's unrecognized deductible temporary differences pertain to its NOLCO and MCIT with details as follows:

NOLCO

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2013	₱1,052,769,050	₱–	₱1,052,769,050	2016
2012	968,338,310	–	968,338,310	2015
2011	632,568,376	–	632,568,376	2014
2010	331,942,224	331,942,224	–	2013
	₱2,985,617,960	₱331,942,224	₱2,653,675,736	

MCIT

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2013	₱217,786	₱–	₱217,786	2016
2012	446,800	–	446,800	2015
2011	17,559	–	17,559	2014
2010	1,587,387	1,587,387	–	2013
	₱2,269,532	₱1,587,387	₱682,145	

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2013	2012 (As restated)	2011
Provision for income tax computed at statutory rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Interest income subjected to final tax	**(0.22)**	(0.18)	(0.57)
Nondeductible interest and other expenses	**(3.51)**	(0.03)	0.23
Change in unrecognized deferred tax asset	**2.50**	–	5.56
Nontaxable income	**(16.19)**	(26.57)	(31.09)
	12.58%	3.22%	4.13%

Board of Investments (BOI) Incentives of Fed Land

On various dates in 2009 and 2008, the BOI issued Certificates of Registration as a New Developer of Mass Housing Project for its two (2) real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the registered projects have been granted Income Tax Holiday (ITH) for a period of three (3) to four (4) years. The projects namely: Marquinton-Cordova Tower and The Oriental Place are entitled to ITH in years 2008 to 2012. The projects namely: The Capital Towers-Beijing, Marquinton Gardens Terraces-Toledo, Oriental Gardens-Lilac and Peninsula Garden Midtown Homes-Tower A are entitled to ITH in years 2009 to 2013. Oriental Garden Heights - A, B and C in 2010 to 2014 and Marquinton Garden Terraces - Valderrama Tower in 2010 to 2013.

30. Lease Commitment

The Group as a lessee
The Group is a party under various lease agreements including the lease of premises occupied by the head office, land leased for the Group's mall and gasoline station as well as office space leased for the Group's branches. Lease terms under these agreements range from 1 to 10 years. These lease agreements also include rent of parking space for a lease term of three years. The Group's rentals incurred on the lease for its mall and gasoline stations are presented as 'Overhead' and included in the cost of goods and services sold account, amounting to ₱30.97 million, ₱24.19 million and ₱27.85 million in 2013, 2012 and 2011, respectively (Note 25).

As of December 31, 2013 and 2012, the future minimum rental payments are as follows:

	2013	2012
Within one year	**₱39,201,598**	₱42,170,417
After one year but not more than five years	**98,891,027**	92,897,086
	₱138,092,625	₱135,067,503

The Group as a lessor
Fed Land leases its mall to different parties as well as Toyota Motors which leases its land through non-cancellable leases to various counterparties. The lease term ranges from 5 to 10 years. The Group's rental income on these leases amounted to ₱592.04 million, ₱233.44 million, and ₱238.00 billion in 2013, 2012 and 2011, respectively (Note 9).

As of December 31, 2013 and 2012, the future minimum receipts from these lease commitments are as follows:

	2013	2012
Within one year	**₱527,362,863**	₱487,926,149
After one year but not more than five years	**1,202,054,987**	1,256,010,629
More than five years	**254,680,118**	75,908,411
	₱1,984,097,968	₱1,819,845,189

31. Business Combinations

2013
Acquisition of Toyota
On January 17, 2013, the Parent Company and MBTC executed a Deed of Absolute Sale for the acquisition of 2,324,117 common shares of stock of Toyota from MBTC as provided in the MOU for a total consideration of ₱4.54 billion. This represented an additional 15.00% of Toyota's outstanding capital stock and increased the Parent Company's shareholdings in Toyota to 51.00%.

The acquisition of Toyota was accounted for as a business combination achieved in stages, wherein the cost of consideration included the cash consideration paid for acquiring direct interests, fair value of previously held interest and the cost of indirect interest. The Parent Company's 36.00% direct ownership interest over Toyota was regarded as the previously held interest and remeasured at fair value.

The Group engaged a third party valuer, FTI Consulting, Inc., to conduct a purchase price allocation. The Group elected to measure the non-controlling interest in Toyota at the proportionate share of the non-controlling interest in the fair value of the identifiable net assets of Toyota, amounting to ₱6.88 billion.

As of January 31, 2013, the fair values of the identifiable assets and liabilities of Toyota were finalized as follows:

Assets	
Cash and cash equivalents	₱8,581,503,619
Receivables	2,384,910,913
Inventories	5,256,937,104
AFS investments	560,349,347
Prepayments and other current assets	657,124,867
Property, plant and equipment	3,168,629,863
Investment properties	2,251,349,832
Deferred tax assets	421,764,219
Other non-current assets	337,258,975
Intangible assets - customer relationship (Note 13)	3,883,238,361
	27,503,067,100
Liabilities	
Accounts payable and accrued expenses	10,873,614,987
Loans payable	290,000,000
Income tax payable	51,952,821
Long-term debt	229,481,790
Deferred tax liability	2,232,084,208
	13,677,133,806
Total identifiable net assets at fair value	₱13,825,933,294

The gross contractual amount of receivable acquired amounted to ₱2.44 billion.

The aggregate consideration transferred consists of:

Amount of non-controlling interest	₱6,879,802,794
Fair value of previously held interest	8,006,101,371
Cash consideration	4,536,985,322
	₱19,422,889,487

The fair value of the previously held interest of ₱1,435.33 per share was based on the valuation of a third party valuer. The Company recognized gain on the revaluation of the previously held interest amounting to ₱1.99 billion and is reported under the 'Gain (loss) on revaluation of previously held interest' account in the consolidated statement of income.

The business combination resulted in a goodwill amounting to ₱5.60 billion computed as follows:

Total consideration transferred	₱19,422,889,487
Less: Fair value of identifiable net assets including intangible assets	13,825,933,294
Goodwill	₱5,596,956,193

Goodwill arising from the acquisition of Toyota Group is allocated entirely to the operations of Toyota. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, Toyota Group has contributed gross revenues totaling ₱75.13 billion and net income amounting to ₱3.94 billion to the Group. If the business combination with Toyota has taken place at the beginning of the year, total revenues and net income attributable to equity holders of the Parent Company in 2013 would have been ₱111.04 billion and ₱8.67 billion, respectively.

Acquisition of Charter Ping An

On October 10, 2013, GT Capital acquired 2,334,434 common shares of Ping An from Ty family investment holding companies at a fixed price of Php614.3 per share for a total of ₱1.4 billion. The acquisition represented 66.7% of the non-life insurance firm's outstanding capital stock. The Parent Company has effective ownership over Ping An of 74.97% (66.67% direct holdings and 8.30% indirect ownership). The Parent Company's 8.30% indirect ownership came from its 25.11% direct interest in MBTC which has 99.23% direct interest in FMIC. FMIC, in turn, has 33.33% direct interest in Ping An.

On June 19, 2012 and April 23, 2013, the BOD and the stockholders of Ping An approved the amendment of the Articles of Incorporation for the purpose of increasing the authorized capital stock and the declaration of 1.62 million stock dividends equivalent to ₱162.50 million. On October 18, 2013, the Securities and Exchange Commission approved the application for the increase in Ping An's authorized capital stock from ₱350.00 million to ₱1.00 billion consisting of 10.00 million common shares with par value of ₱100.00 per share. The ₱162.50 million stock dividend equivalent to 1.62 million common shares represented the minimum 25.00% subscribed and paid-up capital for the above-mentioned increase in authorized capital stock.

The acquisition of Ping An was accounted for as a business combination achieved in stages, wherein the cost of consideration included the cash consideration paid for acquiring direct interests, fair value of previously held interest and the cost of indirect interest. The Parent Company's indirect ownership interest over Ping An through its associate MBTC which owns 99.23% of FMIC which in turn owns 33.33% of Ping An before the business combination date was regarded as the previously held interest and remeasured at fair value. The accounting for the business combination was determined provisionally as the Parent Company has to finalize the information with respect to the recognition of the fair value of identifiable assets and liabilities and deferred income tax assets and liabilities arising from the acquisition. The Group elected to measure the non-controlling interest in Ping An at the proportionate share of the non-controlling interest in the identifiable net assets of Ping An.

As of October 1, 2013, the provisional fair values of the identifiable assets and liabilities of Ping An is as follows:

Assets	
Cash and cash equivalents	₱52,376,512
Short-term investments	874,410,676
Receivables	1,615,879,399
Reinsurance assets	3,701,512,371
Deferred acquisition cost	221,204,997
Prepayments and other current assets	25,589,459
AFS investments	1,208,433,444

(Forward)

Property, plant and equipment	₱195,469,447
Other non-current assets	18,736,582
	7,913,612,887
Liabilities	
Accounts payable and accrued expenses	618,336,186
Insurance contract liabilities	5,326,709,306
Insurance payable	373,629,735
Deferred reinsurance commission	44,005,499
Income tax payable	43,944,818
Other current liabilities	68,066,431
Pension liability	29,707,977
Deferred tax liability	38,535,272
	6,542,935,224
Total identifiable net assets at fair value	₱1,370,677,663

Total contractual amount of receivables amounted to ₱1.64 billion.

The aggregate consideration transferred consists of:

Amount of non-controlling interest	₱343,050,222
Fair value of previously held interest	162,160,900
Cash consideration	1,419,620,522
	₱1,924,831,644

Based on preliminary valuation, the fair value of the previously held interest is ₱557.84 per share. The Company recognized a gain on the revaluation of the previously held interest amounting to ₱59.5 million reported under the 'Gain (loss) on revaluation of previously held interest' account in the consolidated statement of income.

The business combination resulted in a goodwill amounting to ₱554.15 million computed as follows:

Total consideration transferred	₱1,924,831,644
Less: Fair value of identifiable net assets	1,370,677,663
Goodwill	₱554,153,981

None of the goodwill is expected to be deductible for income tax purposes. Goodwill arising from the acquisition of Charter Ping An is allocated to the operations of Charter Ping An.

From the date of acquisition, Charter Ping An has contributed gross revenues totaling ₱547.84 million and net income amounting to ₱34.58 million to the Group. If the business combination with Charter Ping An has taken place at the beginning of the year, total revenues and net income attributable to equity holders of the Parent Company in 2013 would have been ₱106.70 billion and ₱8.76 billion, respectively.

Common Control Business Combination

On February 18, 2013, the BOD approved the merger of Federal Land with its two subsidiaries namely: Fedsales Marketing, Inc. and Omni-Orient Marketing Network, Inc. wherein Federal Land will be the surviving entity and the two (2) subsidiaries will be the absorbed entities. The application for merger was filed and approved by the Philippine SEC on November 29, 2013.

As a result of the merger, non-controlling interest amounting to ₱2.59 million arising from the previous consolidation of OOMNI in Fed Land was reversed and reflected as part of 'Other equity adjustment' account in the consolidated statement of financial position.

Also on May 8, 2013, the BOD of HLRDC, SHDC and HLPDC approved the merger of the three (3) entities where HLPDC will be the surviving entity and HLRDC and SHDC will be the absorbed entities. The application for merger was filed and approved by the Philippine SEC on October 21, 2013.

2012

Acquisition of GBPC

As of December 31, 2011, the Parent Company had an indirect interest of 7.61% over GBPC through its investment in MBTC-FMIC. The Parent Company also had deposits for future subscription (DFS) amounting to ₱3.40 billion while FMIC had DFS to GBPC amounting to ₱5.59 billion.

On December 9, 2011, as part of the Parent Company's plan to acquire control over GBPC, the Parent Company and GBPC entered into a Subscription Agreement which provided that of the planned increase of ₱760.00 million in GBPC's authorized capital stock, the Parent Company shall subscribe to and purchase, and GBPC agrees to issue and sell, 117,067,800 shares with par value of ₱100.00 per share, for a total consideration of ₱3.40 billion.

On January 16, 2012, the SEC approved the application for the increase in authorized capital stock and reduction in the par value of common shares of GBPC from ₱100.00 per share to ₱1.00 per share. Upon approval of the increase, the Parent Company's DFS in GBPC was converted into 117,067,800 common shares representing interest of 21.04% in GBPC while FMIC's DFS was converted to 195,058,600 common shares representing interest of 35.06% in GBPC and a corresponding increase of 4.48% in the Parent Company's indirect interest over GBPC.

On February 15 and 16, 2012, the Parent Company entered into a Deed of Absolute Sale with a third party to acquire and transfer 35,504,900 and 38,863,000 common shares of GBPC, respectively, with the third party as the seller and the Parent Company as the buyer for a consideration amounting to ₱1.24 billion and ₱1.36 billion, respectively. Such shares aggregating to 74,367,900 common shares represent 13.37% interest over GBPC.

The Parent Company acquired an additional 11.89% direct interest over GBPC for a total direct interest of 50.89%.

The acquisition of GBPC was accounted for as a business combination achieved in stages, wherein the cost of consideration included the cash consideration paid for acquiring direct interests, fair value of previously held interest and the cost of indirect interest. The Parent Company's indirect ownership interest over GBPC through its associate MBTC which owns 98.06% of FMIC which in turn owns 38.09% of GBPC before the business combination date was regarded as the previously held interest and remeasured at fair value.

The Group engaged a third party valuer, FTI Consulting, Inc., to conduct a purchase price allocation. The fair value of the identifiable assets and liabilities was finalized in April 2013. The Group elected to measure the non-controlling interest in GBPC at the proportionate share of the non-controlling interest in the identifiable net assets of GBPC.

As of April 30, 2013, the fair values of the identifiable assets and liabilities of GBPC were finalized as follows:

Assets	
Cash and cash equivalents	₱10,506,427,392
Receivables	3,935,964,042
Inventories	895,882,766
Prepayments and other current assets	1,212,354,008
Receivables from affiliates	427,605,411
Property, plant and equipment	33,492,302,035
Investments and other non-current assets	3,077,687,617
Intangible assets (Note 13)	8,995,160,191
	62,543,383,462
Liabilities	
Accounts payable and accrued expenses	3,103,143,856
Long-term debt	34,260,023,586
Other liabilities	854,225,652
Deferred tax liability	593,256,587
	38,810,649,681
Total identifiable net assets at fair value	₱23,732,733,781

The aggregate consideration transferred consists of:

Amount of non-controlling interest	₱15,238,649,131
Fair value of previously held interest	690,643,951
Cash consideration and cost of indirect interest	7,375,910,045
	₱23,305,203,127

The fair value of the previously held interest of ₱37.81 per share was based on the valuation of FTI Consulting, Inc. The Company recognized a loss on the revaluation of the previously held interest amounting to ₱53.95 million.

The business combination resulted in a gain on bargain purchase amounting to ₱427.53 million computed as follows:

Total consideration transferred	₱23,305,203,127
Less: Fair value of identifiable net assets including intangible assets	(23,732,733,781)
Gain on bargain purchase	(₱427,530,654)

Acquisition of Non-Controlling Interest

GBPC

On May 2, 2012, the Parent Company exercised its option to acquire 25,520,700 common shares of GBPC representing 4.59% of GBPC's outstanding capital stock, at a fixed price of ₱35.00 per share for a total cost of ₱893.20 million. This increased the Parent Company's direct ownership over GBPC to 39.00%.

On September 12, 2012, the Parent Company acquired from a third party an additional 66,145,700 GBPC common shares, representing 11.89% of GBPC's outstanding capital stock from the holders of the non-controlling interest, at a fixed price of ₱35.13 per share for a total cost of ₱2.32 billion. The acquisition increased the Parent Company's direct holdings in GBPC to 50.89%.

Fed Land
On May 3, 2012, the Parent Company acquired the remaining 20.00 million common shares of Fed Land representing 20.00% of Fed Land's outstanding capital stock from the holders of the non-controlling interest for a total cost of ₱2.70 billion, thereby increasing the direct holdings of the Parent Company in Fed Land from 80.00% to 100.00%.

These acquisitions were accounted for as change in ownership without loss of control and are accounted for as equity transactions. Total negative other equity adjustments recognized from these acquisitions amounted to ₱681.07 million (Note 22).

32. Fair Value Measurement

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

Cash and cash equivalents and Other current assets (short-term cash investments)
The fair value of cash and cash equivalents approximate the carrying amounts at initial recognition due to the short-term maturities these instruments.

Receivables
The fair value of receivables due within one year approximates its carrying amounts. The fair values of installment contracts receivable are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 8.00% to 12.00% as of December 31, 2013 and 2012. For the long-term loan receivable, the Group used discounted cash flow analyses to measure the fair value of the loan and determined that the carrying amount of the loans receivable was not materially different from its calculated fair value.

Due from and to related parties
The carrying amounts approximate fair values due to short term in nature. Related party receivables and payables are due and demandable.

AFS investments unquoted
These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

AFS investments quoted
Fair value of quoted AFS investment is based on the quoted market bid prices at the close of business on the reporting date.

Accounts and other payables
The fair values of accounts and other payables and loans payable approximate the carrying amounts due to the short-term nature of these transactions.

Loans payable
Current portion of loans payable approximates its fair value due to its short-term maturity. Long-term portion of loans payable subjected to quarterly repricing is not discounted. The interest rates used ranged from 3.75% to 7.10% for the year ended December 31, 2013 and 2012.

Liabilities on purchased properties
Estimated fair value was based on the discounted value of future cash flows using the applicable interest rates for similar types of loans as of reporting date. Long-term payable was incurred on December 20, 2012 with 3.00% interest per annum.

The following tables summarize the carrying amount and fair values of financial assets and liabilities, as well as nonfinancial assets, analyzed based on the fair value hierarchy (see accounting policy on Fair Value Measurement), except for assets and liabilities where the carrying values as reflected in the consolidated statements of financial position and related notes approximate their respective fair values.

		2013			
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets					
Loans and receivables					
Installment contracts receivable	**₱5,819,661,101**	**₱–**	**₱–**	**₱7,690,378,192**	**₱7,690,378,192**
AFS investments					
Government securities	**480,269,424**	**–**	**480,269,424**	**–**	**480,269,424**
Quoted debt securities	**1,153,068,021**	**1,153,068,021**	**–**	**–**	**1,153,068,021**
Quoted equity securities	**1,505,540,179**	**1,505,540,179**	**–**	**–**	**1,505,540,179**
Total Financial Assets	**₱8,958,538,725**	**₱2,658,608,200**	**₱480,269,424**	**₱–**	**₱10,829,255,816**
Non-Financial Assets					
Investment properties	**₱8,328,668,533**	**₱–**	**₱–**	**₱7,690,378,192**	**₱7,690,378,192**
Financial Liabilities					
Loans payable	**₱45,692,608,996**	**₱–**	**₱47,609,127,777**	**₱–**	**₱47,609,127,777**
Bonds payable	**9,903,088,308**	**–**	**9,994,354,200**	**–**	**9,994,354,200**
Total Financial Liabilities	**₱55,595,697,304**	**₱–**	**₱57,603,481,977**	**₱–**	**₱57,603,481,977**

		2012			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables					
Installment contracts receivable	₱3,925,822,347	₱–	₱–	₱3,925,822,347	₱3,925,822,347
AFS investments					
Government securities	9,921,760	–	9,921,760	–	9,921,760
Quoted equity securities	1,050,165,533	1,050,165,533	–	–	1,050,165,533
Total Financial Assets	₱4,985,909,640	₱1,050,165,533	₱9,921,760	₱3,925,822,347	₱4,985,909,640
Non-Financial Assets					
Investment properties	₱8,328,668,533	₱–	₱–	₱13,121,349,832	₱13,121,349,832
Financial Liabilities					
Loans payable	₱55,753,027,791	₱–	₱60,456,580,305	₱–	₱60,456,580,305

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 fair value of the Group's investment properties has been determined based on valuations performed by third party valuers. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison. Valuation of the Group's investment properties are done every three years with the latest valuation report issued in February 2012.

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

	Valuation Techniques	Significant Unobservable Inputs
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence
Building and Land Improvements	Cost Approach and Market Data Approach	Lineal and square meter, current cost of materials, labor and equipment, contractor's profits, overhead, taxes and fees

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group'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	A process of determining the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation on physical wear and tear, and obsolescence.

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.

33. Financial Risk Management and Objectives

The Group's principal financial instruments comprise cash and cash equivalents, receivables, due from related parties, AFS investments, accounts and other payable, due to/from related parties, and loans payable.

Exposure to credit, liquidity and foreign currency risks, interest rate arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The use of financial derivative instruments (if any) is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

Credit Risk

The Group's credit risks are primarily attributable to its financial assets. To manage credit risks, the Group maintains defined credit policies and monitors on a continuous basis its exposure to credit risks. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

Financial assets comprised cash and cash equivalents, receivables, due from related parties and AFS investments. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations.

In respect of installment receivables from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. Customer payments are facilitated through various collection modes including the use of post dated checks and auto-debit arrangements. Exposure to bad debts is not significant and the requirement for remedial procedures is minimal given the profile of buyers.

a. *Maximum exposure to credit risk after taking into account collateral held or other credit enhancements*

As of December 31, 2013 and 2012, the maximum exposure to credit risk of the Group's financial assets is equal to its carrying value except for installment contracts receivable with nil exposure to credit risk since the fair value of the related condominium units collateral is greater than the carrying value of the installment contracts receivable.

As of December 31, 2011, the maximum exposure to credit risk of the Group's financial assets is equal to its carrying value except for installment contracts receivable and loans receivable. The maximum exposure to credit risk of the installment contracts receivable is nil since the fair value of the condominium units collateral is greater than the carrying value of the installment contracts receivable. The maximum exposure to credit risk of the loans receivable amounted to ₱1.24 billion since ₱1.36 billion of the loans receivable was secured by the shares of GBPC with fair value amounting to ₱1.47 billion.

b. *Credit quality per class of financial assets*

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents and long term cash investment-based on the nature of the counterparty and the Group's internal rating system.

Receivables - high grade pertains to receivables that had no default in payment; medium grade pertains to receivables with a history of being 30 to 90 days past due; and low grade pertains to receivables with a history of being over 120 days past due.

AFS investments - quoted AFS investments is based on the quoted market bid prices at the close of business on the reporting date while the unquoted financial assets are unrated.

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

	December 31, 2013						
	Neither Past Due Nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	
	High Grade	**Medium Grade**	**Low Grade**	**Total**			**Total**
Cash and cash equivalents* (Note 4)	**₱27,161,145,896**	**₱–**	**₱–**	**₱27,161,145,896**	**₱–**	**₱–**	**₱27,161,145,896**
Short-term Investments	**1,466,463,867**	–	–	**1,466,463,867**	–	–	**1,466,463,867**
Receivables (Note 5)							
Trade receivables	**7,412,130,179**			**7,412,130,179**	**610,924,329**	**9,923,816**	**8,032,978,324**
Installment contracts receivable	**2,301,427,513**	**2,412,942,503**	**628,024,445**	**5,342,394,461**	**475,615,793**	**1,650,847**	**5,819,661,101**
Insurance receivables	**1,622,829,840**	–	–	**1,622,829,840**	–	–	**1,622,829,840**
Accrued rent and commission income	**335,682,637**	–	–	**335,682,637**	–	–	**335,682,637**
Loans receivable	**719,934,106**	–	–	**719,934,106**	–	–	**719,934,106**
Dividends receivable	**240,000,000**	–	–	**240,000,000**	–	–	**240,000,000**
Nontrade receivables	**198,940,565**			**198,940,565**			**198,940,565**
Others	**309,890,868**	**15,183,102**	**835,903**	**325,909,873**	**77,028,664**	**30,028,493**	**432,967,030**
Due from related parties (Note 27)	**849,398,310**	–	–	**849,398,310**	–	–	**849,398,310**
AFS investments (Note 10)							
Equity securities							
Quoted	**1,497,970,179**	–	–	**1,497,970,179**	–	–	**1,497,970,179**
Unquoted	**480,269,424**	–	–	**480,269,424**	–	–	**480,269,424**
Quoted debt securities	**1,132,556,640**	–	–	**1,132,556,640**	–	–	**1,132,556,640**
	₱45,728,640,024	**₱2,428,125,605**	**₱628,860,348**	**₱48,785,625,977**	**₱1,163,568,786**	**₱41,603,156**	**₱49,990,797,919**

**Excludes cash on hand amounting to ₱5,742,556*

	December 31, 2012						
	Neither Past Due Nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	
	High Grade	Medium Grade	Low Grade	Total			Total
Cash and cash equivalents (Note 4)	₱11,546,836,848	₱–	₱–	₱11,546,836,848	₱–	₱–	₱11,546,836,848
Receivables (Note 5)							
Trade receivables	2,855,506,580	918,642,474	–	3,774,149,054	774,218,711	–	4,548,367,765
Installment contracts receivable	3,532,379,328	–	–	3,532,379,328	393,443,019	–	3,925,822,347
Loans receivable	742,819,163	–	–	742,819,163	–	–	742,819,163
Accrued rent and commission income	148,605,645			148,605,645			148,605,645
Others	298,220,802	–	–	298,220,802	–	4,617,424	302,838,226
Due from related parties (Note 27)	489,042,589	–	–	489,042,589	–	–	489,042,589
AFS investments (Note 10)							
Quoted	1,050,165,533	–	–	1,050,165,533	–	–	1,050,165,533
Unquoted	9,921,760	–	–	9,921,760	–	–	9,921,760
	₱20,673,498,248	₱918,642,474	₱–	₱21,592,140,722	₱1,167,661,730	₱4,617,424	₱22,764,419,876

**Excludes cash on hand amounting to ₱6,451,650*

As of December 31, 2013 and 2012, the aging analysis of past due but not individually impaired financial assets presented per class, is as follows:

	December 31, 2013								
	Neither Past Due nor Individually Impaired	Past Due but not Individually Impaired						Individually Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total		
Cash and cash equivalents (Note 4)	₱27,166,888,452	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱27,166,888,452
Short-term investment	1,466,463,867	–	–	–	–	–	–	–	1,466,463,867
Receivables (Note 5)									
Trade receivable	7,521,518,936	209,793,262	108,323,500	3,326,557	181,297,997	6,474,437	509,215,753	2,243,635	8,032,978,324
Installment contracts receivable	5,342,394,460	96,681,907	52,542,331	61,146,857	27,909,477	237,335,220	475,615,792	1,650,849	5,819,661,101
Insurance Receivables	1,051,504,220	92,906,206	39,502,507	41,582,476	359,865,628	–	533,856,817	37,468,803	1,622,829,840
Loans receivable	719,934,106	–	–	–	–	–	–	–	719,934,106
Dividend receivable	240,000,000	–	–	–	–	–	–	–	240,000,000
Accrued rent and commission income	335,682,637	–	–	–	–	–	–	–	335,682,637
Non-trade receivable	198,940,565	–	–	–	–	–	–	–	198,940,565
Others	413,486,694	738,053	1,440,010	1,269,083	13,717,989	2,315,201	19,480,336	–	432,967,030
Due from related parties (Note 27)	849,398,310	–	–	–	–	–	–	–	849,398,310
AFS investments (Note 10)									
Equity securities									
Quoted	1,497,970,179	–	–	–	–	–	–	–	1,497,970,179
Unquoted	480,269,424	–	–	–	–	–	–	–	480,269,424
Quoted debt securities	1,124,248,174	–	–	–	–	–	–	8,308,466	1,132,556,640
	₱48,408,700,024	₱400,119,428	₱201,808,348	₱107,324,973	₱582,791,091	₱246,124,858	₱1,538,168,698	₱49,671,753	₱49,996,540,475

	December 31, 2012								
	Neither Past Due nor Individually Impaired	Past Due but not Individually Impaired						Individually Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total		
Cash and cash equivalents (Note 4)	₱11,553,288,498	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱11,553,288,498
Receivables (Note 5)									
Trade receivable	3,774,149,054	273,650,902	111,349,644	78,761,201	304,074,602	6,382,362	774,218,711	–	4,548,367,765
Installment contracts receivable	3,532,379,328	75,835,456	39,504,499	40,690,797	44,921,009	192,491,258	393,443,019	–	3,925,822,347
Loans receivable	742,819,163	–	–	–	–	–	–	–	742,819,163
Accrued rent and commission income	148,605,645	–	–	–	–	–	–	–	148,605,645
Others	298,220,802	–	–	–	–	–	–	4,617,424	302,838,226
Due from related parties (Note 27)	489,042,589	–	–	–	–	–	–	–	489,042,589
AFS investments (Note 10)									
Quoted	1,050,165,533	–	–	–	–	–	–	–	1,050,165,533
Unquoted	9,921,760	–	–	–	–	–	–	–	9,921,760
	₱21,598,592,372	₱349,486,358	₱150,854,143	₱119,451,998	₱348,995,611	₱198,873,620	₱1,167,661,730	₱4,617,424	₱22,770,871,526

Liquidity risk
The Group monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt, to give financing flexibility while continuously enhancing the Group's businesses. To serve as back-up liquidity, management develops variable funding alternatives either by issuing debt or raising capital.

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on undiscounted contractual payments:

	December 31, 2013			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents (Note 4)	₱28,416,018,465	₱–	₱–	₱28,416,018,465
Short-term investments (Note 4)	2,016,387,817	–	–	2,016,387,817
Receivables (Note 5)				
Trade receivable	8,032,978,324	–	–	8,032,978,324
Installment contracts receivable	2,771,155,157	3,859,481,354	52,862,327	6,683,498,838
Insurance receivables	1,622,829,840	–	–	1,622,829,840
Loans receivable	30,091,649	156,598,649	804,630,064	991,320,362
Dividends receivable	240,000,000	–	–	240,000,000
Accrued commission income	335,682,637	–	–	335,682,637
Nontrade receivables	198,940,565	–	–	198,940,565
Others	432,967,030	–	–	432,967,030
Due from related parties (Note 27)	849,398,310	–	–	849,398,310
AFS investments (Note 10)				
Equity Securities				
Quoted	–	–	1,497,970,179	1,497,970,179
Unquoted	–	–	480,269,424	480,269,424
Debt	31,074,450	285,979,794	836,013,777	1,153,068,021
Total undiscounted financial assets	₱44,977,524,244	₱4,302,059,797	₱3,671,745,771	₱52,951,329,812
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade	₱7,590,142,735	₱–	₱–	₱7,590,142,735
Telegraphic Transfers and drafts and acceptance payable	5,819,661,101	–	–	5,819,661,101
Accrued expenses	3,698,807,355	–	–	3,698,807,355
Deferred output tax	2,454,049,984	–	–	2,454,049,984
Retentions payable	500,417,643	–	–	500,417,643
Accrued interest	389,752,174	–	–	389,752,174
Accrued commission	367,772,684	–	–	367,772,684
Insurance payable	296,242,243	–	–	296,242,243
Others	1,046,599,001	–	–	1,046,599,001
Loans payable (Note 17)	1,092,492,332	36,613,052,569	17,335,750,224	55,041,295,125
Bonds payable (Note 17)	489,175,200	1,956,700,800	11,268,212,840	13,714,088,840
Due to related parties (Note 27)	188,385,414	–	–	188,385,414
Liabilities on purchased properties	–	1,486,916,469	3,873,645,362	5,360,561,831
Total undiscounted financial liabilities	₱23,933,497,866	₱40,056,669,838	₱32,477,608,426	₱96,467,776,130
Liquidity Gap	₱21,044,026,378	(₱35,754,610,041)	(₱28,805,862,655)	(₱43,516,446,318)

**Excludes cash on hand amounting to ₱5,742,556*

	December 31, 2012			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents (Note 4)	₱11,561,739,415	₱–	₱–	₱11,561,739,415
Receivables (Note 5)				
Trade receivable	3,957,368,507	673,056,989	5,745,676	4,636,171,172
Installment contracts receivable	2,247,979,452	2,129,597,469	40,338,458	4,417,915,379
Loans receivable	22,207,500	220,873,333	816,037,500	1,059,118,333
Accrued rent and commission income	148,605,645	–	–	148,605,645
Others	140,815,196	–	–	140,815,196
Due from related parties (Note 27)	489,042,589	–	–	489,042,589
AFS investments (Note 10)				
Quoted	–	–	1,050,165,533	1,050,165,533
Unquoted	–	–	9,921,760	9,921,760
Total undiscounted financial assets	₱18,567,758,304	₱3,023,527,791	₱1,922,208,927	₱23,513,495,022
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade	₱3,986,382,998	₱7,500,000	₱–	₱3,993,882,998
Deferred output tax	1,373,645,486	–	–	1,373,645,486
Accrued expenses	1,203,694,170	–	–	1,203,694,170
Accrued interest	346,055,359	–	–	346,055,359
Retentions payable	294,632,748	–	–	294,632,748
Accrued commission	42,917,890	–	–	42,917,890
Others	119,030,223	2,859,970	–	121,890,193
Dividends payable	1,948,727,265	–	–	1,948,727,265
Loans payable (Note 17)	18,668,326,386	32,742,778,554	19,349,562,698	70,760,667,638
Due to related parties (Note 27)	191,264,721	–	–	191,264,721
Liabilities on purchased properties	–	888,140,064	2,313,741,028	3,201,881,092
Total undiscounted financial liabilities	₱28,174,677,246	₱33,641,278,588	₱21,663,303,726	₱83,479,259,560
Liquidity Gap	(₱9,606,918,942)	(₱30,617,750,797)	(₱19,741,094,799)	(₱59,965,764,538)

**Excludes cash on hand amounting to ₱6,451,650*

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate.

The Group's foreign currency-denominated financial instruments are included in cash and cash equivalents and short-term investments. Cash and cash equivalents denominated in foreign currency amounted to US$8.55 million and JP¥3.24 million as of December 31, 2013 and US$6.24 million and nil as of December 31, 2012. Short-term investments denominated in foreign currency amounted to US$27.31 million and JP¥76.00 million as of December 31, 2013 and nil as of December 31, 2012.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱44.40 to US$1.00 and ₱41.05 to US$1.00, the Philippine peso-U.S. dollar exchange rates, and ₱0.42 to JP¥1.00 and nil, the Philippine peso-Japan Yen exchange rates as at December 31, 2013 and 2012, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2013 and 2012. There is no other impact on the Group's equity other than those already affecting the statements of comprehensive income.

		Increase (Decrease) in Income Before Tax		
Reasonably Possible Change		**2013**	2012	2011
US$	**₱1.00**	**(₱2,510,102,063)**	₱6,236,619	₱7,207
	(1.00)	**2,510,102,063**	(6,236,619)	(7,207)
JP¥	**1.00**	**(1,853,268)**	–	–
	(1.00)	**1,853,268**	–	–

Interest rate risk
The Group's interest rate exposure management policy centers on reducing the Group's overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve and degree of variability of cash flows.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all variables held constant, of the Group's income before tax (through the impact on floating rate borrowings).

	Increase (decrease) in income before tax		
Reasonably Possible Changes in Interest Rates	**2013**	2012	2011
100 basis points (bps)	**(₱155,702,489)**	(₱174,197,246)	(₱817,461,000)
100 bps	**155,702,489**	174,197,246	817,461,000

The Group follows a prudent policy in managing its assets and liabilities so as to ensure that exposure to fluctuation in interest rates are kept within acceptable limits.

Equity price risk
Equity price risk is the risk that the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity securities price risk because of AFS investments held by the Group.

The table below shows the sensitivity to a reasonably possible change in the Philippine Stock Exchange index (PSEi), with all other variables held constant, of the Group's equity (through other comprehensive income) due to changes in the carrying value of the Group's AFS investments. The analysis links PSEi changes, which proxies for general market movements, to individual stock prices through their betas. Betas are coefficients depicting the sensitivity of individual prices to market movements.

The sensitivity range is based on the historical volatility of the PSEi for the past year. The analysis is based on the assumption that last year's PSEi volatility will be more or less the same in the following year.

	Percentage change in PSEi	Increase (decrease) in total comprehensive income
2013	**Increase by 23.31%**	**₱79,769,658**
	Decrease by 23.31%	**79,769,658**
2012	Increase by 14.01%	97,559,778
	Decrease by 14.01%	(97,559,778)

34. Basic/Diluted Earnings Per Share

The basic/diluted earnings per share amounts for the years ended December 31, 2013 and 2012 were computed as follows:

	2013	2012 (As restated - Note 2)	2011
Net income attributable to Parent Company	**₱8,640,186,114**	₱6,589,727,953	₱3,324,399,379
Weighted average number of shares	**173,853,425**	148,081,967	125,000,000
	₱49.70	₱44.50	₱26.60

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

35. Operating Segments

Segment Information
For management purposes, the Group is organized into business units based on their products and activities and has four reportable segments as follows:

- Real estate is engaged in real estate and leasing, development and selling of properties of every kind and description, as well as ancillary trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintenance of a petroleum service station, engaging in food and restaurant service and acting as a marketing agent for and in behalf of any real estate development company or companies;
- Financial institutions are engaged in the banking and insurance industry;
- Power is engaged mainly in the generation and distribution of electricity; and
- Automotive operations is engaged in the assembly, manufacture, importation, sale and distribution of all kinds of automobiles including automobile parts, accessories, and instruments;

Others pertain to other corporate activities of the Group (i.e., capital raising activities, acquisitions and investments).

The chief operating decision maker (CODM) monitors the operating results of the Group for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, earnings before interest, taxes and depreciation/amortization (EBITDA) and pretax income which are measured similarly under PFRS, except for EBITDA. EBITDA is computed by reconciling net interest income (expense) and provision for income taxes to the net income and adding back depreciation and amortization expenses for the period.

Segment Assets
Segment assets are resources owned by each of the operating segments that are employed in its operating activities.

Segment Liabilities
Segment liabilities are obligations incurred by each of the operating segments from its operating activities.

The following tables present the financial information of the operating segments of the Group (amounts in thousands) as of and for the years ended December 31, 2013, 2012 and 2011:

	December 31, 2013					
	Real Estate	Financial Institution	Automotive Operations	Power*	Others	Total
Revenue	₱5,359,112	₱504,585	₱74,358,719	₱16,944,069	₱–	₱97,166,485
Other income	1,042,486	43,263	109,054	100,182	2,069,099	3,364,084
Equity in net income of associates and joint ventures	410,249	3,058,216	119,345	–	–	3,587,810
	6,811,847	3,606,064	74,587,118	17,044,251	2,069,099	104,118,379
Cost of goods and services sold	619,600	–	44,849,860	–	–	45,469,460
Cost of goods manufactured	–	–	19,986,100	–	–	19,986,100
Cost of real estate sales	3,666,932	–	–	–	–	3,666,932
Power plant operation and maintenance	–	–	–	8,945,436	–	8,945,436
Net insurance benefits	–	289,525	–	–	–	289,525
General and administrative expenses	1,732,919	235,939	4,282,206	2,842,079	300,568	9,393,711
	6,019,451	525,464	69,118,166	11,787,515	300,568	87,751,164
Earnings before interest and taxes	792,396	3,080,600	5,468,952	5,256,736	1,768,531	16,367,215
Depreciation and amortization	164,248	5,785	190,432	2,492,320	4,489	2,857,274
EBITDA	956,644	3,086,385	5,659,384	7,749,056	1,773,020	19,224,489
Interest income	1,043,592	16,252	177,061	133,561	58,563	1,429,029
Interest expense	(620,928)	(420)	(87,282)	(2,153,906)	(599,787)	(3,462,323)
Depreciation and amortization	(164,248)	(5,785)	(190,432)	(2,492,320)	(4,489)	(2,857,274)
Pretax income	1,215,060	3,096,432	5,558,731	3,236,391	1,227,307	14,333,921
Provision for income tax	203,969	3,640	1,506,595	77,353	11,713	1,803,270
Net income	₱1,011,091	₱3,092,792	₱4,052,136	₱3,159,038	₱1,215,594	₱12,530,651
Segment assets	₱27,310,535	₱8,239,989	₱29,179,086	₱50,586,094	₱77,044,142	₱192,359,846
Segment liabilities	₱24,655,375	₱7,897,017	₱17,957,456	₱38,519,309	₱10,766,934	₱99,796,091

** Energy fees are presented net of adjustments (e.g. discounts) amounting to ₱196.97 million*

	December 31, 2012 (As restated - Note 2)					
	Real Estate	Financial Institution	Automotive Operations	Power*	Others	Total
Revenue	₱2,861,738	₱–	₱–	₱12,845,110	₱–	₱15,706,848
Other income	2,058,724	–	–	69,879	373,765	2,502,368
Equity in net income of associates and joint ventures	225,651	3,045,293	631,152	–	–	3,902,096
	5,146,113	3,045,293	631,152	12,914,989	373,765	22,111,312
Cost of real estate sales	1,342,018	–	–	–	–	1,342,018
Cost of goods and services sold	680,911	–	–	–	–	680,911
Power plant operation and maintenance	–	–	–	6,711,049	–	6,711,049
General and administrative expense	1,323,984	–	–	1,958,632	276,406	3,559,022
	3,346,913	–	–	8,669,681	276,406	12,293,000
Earnings before interest and taxes	1,799,200	3,045,293	631,152	4,245,308	97,359	9,818,312
Depreciation and amortization	67,898	–	–	1,559,179	2,039	1,629,116
EBITDA	1,867,098	3,045,293	631,152	5,804,487	99,398	11,447,428
Interest income	576,922	–	–	212,631	76,878	866,431
Interest expense	(326,942)	–	–	(825,487)	(597,352)	(1,749,781)
Depreciation and amortization	(67,898)	–	–	(1,559,179)	(2,039)	(1,629,116)
Pretax income	2,049,180	3,045,293	631,152	3,632,452	(423,115)	8,934,962
Provision for income tax	60,939	–	–	211,337	15,375	287,651
Net income	₱1,988,241	₱3,045,293	₱631,152	₱3,421,115	(₱438,490)	₱8,647,311
Segment assets	₱19,817,046	₱33,420,735	₱5,901,464	₱53,513,011	₱24,332,799	₱136,985,055
Segment liabilities	₱11,805,462	₱–	₱–	₱34,982,606	₱25,143,295	₱71,931,363

* *Energy fees are presented net of adjustments (e.g. discounts) amounting to ₱353.11 million*

	December 31, 2011 (As restated - Note 2)					
	Real Estate	Financial Institution	Automotive Operations	Power	Others	Total
Revenue	₱3,276,862	₱–	₱–	₱–	₱–	₱3,276,862
Other income	15,955	–	–	–	506,563	522,518
Equity in net income of associates and joint ventures	87,552	3,018,484	461,837	–	–	3,567,873
	3,380,369	3,018,484	461,837	–	506,563	7,367,253
Cost of real estate sales	1,553,768	–	–	–	–	1,553,768
Cost of goods and services sold	709,727	–	–	–	–	709,727
General and administrative expense	574,498	–	–	–	535,248	1,109,746
	2,837,993	–	–	–	535,248	3,373,241
Earnings before interest and taxes	542,376	3,018,484	461,837	–	(28,685)	3,994,012
Depreciation and amortization	29,346	–	–	–	42,006	71,352
EBITDA	571,722	3,018,484	461,837	–	13,321	4,065,364
Interest income	591,314	–	–	–	6,914	598,228
Interest expense	(432,809)				(556,941)	(989,750)
Depreciation and amortization	(29,346)	–	–	–	(42,006)	(71,352)
Pretax income	700,881	3,018,484	461,837	–	(578,712)	3,602,490
Provision for income tax	138,339	–	–	–	10,440	148,779
Net income	₱562,542	₱3,018,484	₱461,837	₱–	(₱589,512)	₱3,453,711
Segment assets	₱28,953,681	₱32,196,747	₱2,071,712	₱3,397,121	₱3,110,222	₱69,729,483
Segment liabilities	₱18,299,016	₱–	₱–	₱–	₱14,944,612	₱33,243,628

Geographical Information
The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

	2013
Domestic	₱95,441,206,420
Foreign	10,106,201,620
	₱105,547,408,040

In 2012 and 2011, all of the Group's consolidated revenues to external customers are derived from the domestic market.

36. Contingencies

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

In order to partially guarantee the completion of Fed Land's ongoing projects, the Parent Company issued Letters of Guarantee (LG) in favor of the Housing and Land Use Regulatory Board for a total guarantee amount of ₱901.82 million and ₱868.17 million as of December 31, 2013 and 2012, respectively.

37. Events after the Reporting Date

Equity call from GBPC
On January 7, 2014 and February 26, 2014, the Parent Company disbursed funds totaling ₱681.67 million representing its pro rata share in response to capital calls from GBPC upon its stockholders to support the Project Panay Energy Development Corporation Unit 3 Expansion Project.

Acquisition of Charter Ping An shares from FMIC
On January 27, 2014, the Parent Company completed the acquisition of 100.00% ownership interest in Charter Ping An. The Parent Company purchased an additional 1.7 million common shares of Charter Ping An from FMIC for a total consideration of ₱712.00 million. The acquisition represents the remaining 33.33% of the non-life insurance firm's outstanding capital stock.

Acquisition of TMBC shares from FMIC
On March 4, 2014 the Parent Company acquired 48.12 million common shares of TMBC owned by FMIC for a total purchase price of ₱237.26 million. The acquisition represents 19.25% of the TMBC's outstanding capital stock and raised the Parent Company's ownership interest in TMBC to 60.00%.

Declaration of Cash Dividends of the Parent Company
On March 11, 2014, the BOD of the Parent Company approved the declaration of cash dividends of ₱3.00 per share to all stockholders of record as of April 8, 2014 which shall be payable on May 2, 2014.

Appropriation of Retained Earnings of the Parent Company
On March 11, 2014, the BOD of the Parent Company approved the appropriation of retained earnings amounting to ₱3.00 billion. The appropriation is earmarked for the following:

Project Name	Timeline	Amount
Equity call from GBPC for plant expansions	2014	₱2.00 billion
Acquisition of investments	2014-2015	1.00 billion
		₱3.00 billion

38. Approval for the Release of the Financial Statements

The accompanying financial statements of the Company were approved and authorized for issue by the Company's BOD on March 11, 2014.

39. Notes to Cash Flows Statements

Below are the noncash operating, investing and financing transactions of the Company:

	2013	2012	2011
Transfers from investment property to inventories (Note 6)	**₱1,765,346,107**	₱368,314,414	₱117,980,714
Transfers from property and equipment to inventories (Note 6)	–	855,240	–
Borrowing cost capitalized to inventories (Note 6)	**299,265,598**	332,926,798	141,978,879
Conversion of deposit for future stock subscription (Note 8)	–	3,397,120,759	–
Indirect interest included in the consideration for the business combination:			
Fair value of previously held interest (Note 31)	**8,168,271,296**	690,643,951	–
Additional indirect interest (Note 8)	–	1,375,910,045	–
Fair value of net assets acquired from business combinations (Note 31):			
Assets			
Receivables	**4,000,790,312**	3,935,964,042	–
Inventories	**5,256,937,104**	895,882,766	–
Reinsurance assets	**3,701,512,371**	–	–
Prepayments and other current assets	**903,919,323**	1,212,354,008	–

(Forward)

	2013	2012	2011
Due from related parties	**₱–**	₱427,605,411	₱–
Available-for-sale investments	**2,643,193,467**	–	–
Investment properties	**2,251,349,832**	–	–
Property, plant and equipment	**3,364,099,310**	33,492,302,035	–
Investments in associates and joint ventures	**–**	3,077,687,617	–
Intangible assets	**10,034,348,535**	8,995,160,191	–
Deferred tax assets	**421,764,219**	–	–
Other non-current assets	**356,077,960**	–	–
Liabilities			
Accounts payable and accrued expenses	**11,865,580,908**	3,103,143,854	–
Other current liabilities	**207,969,569**	–	–
Long-term debt	**229,481,790**	34,260,023,586	–
Other noncurrent liabilities	**(29,707,977)**	854,225,652	–
Deferred tax liability - from fair value change	**2,270,619,482**	593,256,587	–

SGV
Building a better working world

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ey.com/ph

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

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and The Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International
Ayala Avenue corner H.V. dela Costa St.
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of GT Capital Holdings, Inc. and Subsidiaries as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 included in this Form 17-A and have issued our report thereon dated March 11, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1, As Amended (2011) and Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

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

March 11, 2014

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

DECEMBER 31, 2013

GT CAPITAL HOLDINGS, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2013

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		₱2,378,031,267
Add: Net income actually earned during the period		
Net income during the period closed to Retained earnings	₱2,541,340,936	
Less: Non-actual/unrealized income net of tax	–	
Add: Non actual losses	–	2,541,340,936
Subtotal		4,919,372,203
Add (Less):		
Dividend declaration during the period	(522,900,000)	
Effect of retrospective application of PAS 19	(492,832)	(523,392,832)
Total Retained Earnings, end available for dividend declaration		₱4,395,979,371

Note: On March 11, 2014, the board of directors of the GT Capital Holdings, Inc. approved the appropriation of retained earnings amounting to ₱3.00 billion. The appropriation is earmarked for the following:

Project Name	Timeline	Amount
Equity call from Global Business Power Corporation for plant expansions	2014	₱2.00 billion
Acquisition of investments	2014-2015	1.00 billion
		₱3.00 billion

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS

FOR THE YEAR ENDED DECEMBER 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards		✓			
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓	
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓	
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
PFRS 2	Share-based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
PFRS 3 (Revised)	Business Combinations	✓			
PFRS 4	Insurance Contracts	✓			
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓			
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓	
	Amendments to PFRS 7: Disclosures – Offsetting	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, [illegible]		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Financial Assets and Financial Liabilities				
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 7: Additional Hedge Accounting Disclosures (and consequential amendments) Resulting From the Introduction of the Hedge Accounting Chapter in PFRS 9				✓
PFRS 8	Operating Segments	✓			
PFRS 9	Financial Instruments	✓			
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Reissue to Incorporate a Hedge Accounting Chapter and Permit Early Application of the Requirements for Presenting in Other Comprehensive Income the "Own Credit" Gains or Losses on Financial Liabilities Designated under the Fair Value Option without Early Applying the Other Requirements of PFRS 9				✓
PFRS 10	Consolidated Financial Statements	✓			
	Amendments to PFRS 10: Investment Entities	✓			
PFRS 11	Joint Arrangements	✓			
PFRS 12	Disclosure of Interests in Other Entities	✓			
	Amendments to PFRS 12: Investment Entities	✓			
PFRS 13	Fair Value Measurement	✓			
Philippine Accounting Standards		✓			
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosures	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓			
	Amendment to PAS 1: Comparative Information	✓			
PAS 2	Inventories	✓			
PAS 7	Statement of Cash Flows	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Balance Sheet Date	✓			
PAS 11	Construction Contracts	✓			
PAS 12	Income Taxes	✓			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 16	Property, Plant and Equipment	✓			
PAS 17	Leases	✓			
PAS 18	Revenue	✓			
PAS 19	Employee Benefits	✓			
	Amendments to PAS 19: Employee Benefits	✓			
PAS 19 (Amended)	Employee Benefits	✓			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation			✓	
PAS 23 (Revised)	Borrowing Costs	✓			
PAS 24 (Revised)	Related Party Disclosures	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓	
PAS 27 (Amended)	Separate Financial Statements	✓			
PAS 28 (Amended)	Investments in Associates	✓			
	Investments in Associates and Joint Ventures	✓			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 31	Interests in Joint Ventures (Replaced by PFRS 11)	✓			
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendment to PAS 32: Classification of Rights Issues	✓			
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓			
PAS 33	Earnings per Share	✓			
PAS 34	Interim Financial Reporting	✓			
PAS 36	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
PAS 39	Financial Instruments: Recognition and Measurement	✓			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓	
	Amendments to PAS 39: The Fair Value Option	✓			
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓			
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓			
	Amendment to PAS 39: Eligible Hedged Items	✓			
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓			
PAS 40	Investment Property	✓			
PAS 41	Agriculture			✓	
Philippine Interpretations		✓			
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓			
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓			
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓			
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 8	Scope of PFRS 2			✓	
IFRIC 9	Reassessment of Embedded Derivatives	✓			
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓			
IFRIC 10	Interim Financial Reporting and Impairment	✓			
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓	
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes	✓			
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓			
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓			
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable	Not Early Adopted
IFRIC 17	Distributions of Non-cash Assets to Owners	✓			
IFRIC 18	Transfers of Assets from Customers	✓			
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓			
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies			✓	
SIC-7	Introduction of the Euro			✓	
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓	
SIC-12	Consolidation - Special Purpose Entities	✓			
	Amendment to SIC - 12: Scope of SIC 12	✓			
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓			
SIC-15	Operating Leases - Incentives	✓			
SIC-21	Income Taxes - Recovery of Revalued Non- Depreciable Assets	✓			
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓			
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓			
SIC-29	Service Concession Arrangements: Disclosures.			✓	
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓	
SIC-32	Intangible Assets - Web Site Costs	✓			

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-E
FOR THE YEAR ENDED DECEMBER 31, 2013

Schedule A. Financial Assets

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income received and accrued
Equity securities				
Quoted	Various	₱1,497,970,179	₱1,497,970,179	₱–
Unquoted	Various	480,269,424	480,269,424	–
Quoted debt securities	Various	1,132,556,640	1,132,556,640	–

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)

Loan Type	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
Employee loan	₱3,313,969	₱5,916,563	₱5,865,113	₱–	₱3,975,434	₱107,987	₱3,365,419
Car plan	11,906,915	2,444,619	1,918,151	–	2,114,457	3,561,193	12,433,383
Financial assistance	103,182	–	–	–	–	–	103,182
Housing loan	10,164,936	–	–	–	–	–	10,164,936
	₱25,489,002	₱8,361,182	₱7,783,264	₱–	₱6,089,891	₱3,669,180	₱26,066,920

Schedule C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements:

Name and Designation of debtor	Balance at beginning of period	Net Transaction	Current	Not Current	Balance at end of period	Eliminations	GT Capital Balance
Federal Land, Inc.	₱–	₱103,400	₱103,400	₱–	₱103,400	(₱103,400)	₱–
GBPC	–	1,017,800,000	1,017,800,000	–	1,017,800,000	(1,017,800,000)	–
Baywatch Project Management Corp.	15,208,738	2,427,343	12,781,394	–	12,781,394	(12,781,394)	–
Harbour Land	1,933,173,142	–	1,933,173,142	–	1,933,173,142	(1,933,173,142)	–
Top Leader Mgt. Corp	2,000,000	–	2,000,000	–	2,000,000	(2,000,000)	–
Central Realty & Dev't Corp.	482,500,000	35,000,000	447,500,000	–	447,500,000	(447,500,000)	–
Fedsales Marketing, Inc.	19,116,139	(182,963)	19,299,101	–	19,299,101	(19,299,101)	–
OMNI Orient Marketing, Inc.	25,974,802	15,000	25,959,802	–	25,959,802	(25,959,802)	–
Horizon Land Property Development Corp.	–	(1,665,000,000)	1,665,000,000	–	1,665,000,000	(1,665,000,000)	–
FLI Management Consultancy Inc.	9,779,679	1,309,000	8,470,679	–	8,470,679	(8,470,679)	–
Toyota Makati	427,344,571	–	427,344,571	–	427,344,571	(427,344,571)	–
Toyota San Fernando	260,008,395	–	260,008,395	–	260,008,395	(260,008,395)	–
Lexus Manila, Inc.	21,339,857	–	21,339,857	–	21,339,857	(21,339,857)	–
Horizon Land Property Development Corp.	–	–	3,978	–	3,978	(3,978)	–

(Forward)

Name and Designation of debtor	Balance at beginning of period	Net Transaction	Current	Not Current	Balance at end of period	Eliminations	GT Capital Balance
THC	₱164,786,842	₱12,350,038	₱20,160,000	₱156,976,879	₱177,136,879	(₱177,136,879)	₱–
CEDC	485,837,631	1,035,465,237	1,521,691,377	–	1,521,691,377	(1,521,691,377)	–
GESC	-	118,599,889	118,599,889	–	118,599,889	(118,599,889)	–
PEDC	134,972,933	1,115,755,791	1,250,728,723	–	1,250,728,723	(1,250,728,723)	–
PPHC	–	1,026,950,000	1,026,950,000	–	1,026,950,000	(1,026,950,000)	–
GFPHI	–	939,456,000	939,456,000	–	939,456,000	(939,456,000)	–
TCITRC	32,500,000	42,467,720	74,967,720	–	74,967,720	(74,967,720)	–
PPC	18,791,357	57,947,129	76,738,485	–	76,738,485	(76,738,485)	–
GBH	–	917,868	917,868	–	917,868	(917,868)	–
	₱4,033,334,087	₱3,741,381,452	₱10,870,994,382	₱156,976,880	₱11,027,971,262	(₱11,027,971,262)	₱–

Schedule D. Intangible Assets - Other Assets

Description (i)	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Power purchase agreements	₱8,676,723,532	₱–	(₱477,654,989)	₱–	₱–	₱8,199,068,543
Goodwill	24,201,028	6,151,110,174	–	–	–	6,175,311,202
Customer Relationship	–	3,883,238,361	–	–	–	3,883,238,361
Software cost and license	14,286,161	7,643,629	(7,609,854)	–	1,494,679	15,814,615
	₱8,715,210,721	₱10,041,992,164	(₱485,264,843)	₱–	₱1,494,679	₱18,273,432,721
Franchise	₱–	₱1,700,000	(₱116,667)	₱–	₱–	₱1,583,333

Schdedule E. Long Term Debt

Title of issue and type of obligaiton	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet
Bonds payable	₱10,000,000,000	₱–	₱9,883,088,308
Note Facility Agreement	₱6,600,000,000	₱–	₱6,600,000,000
Note Facility Agreement	5,000,000,000	–	5,000,000,000
Loans payable	2,000,000,000	–	2,000,000,000
CEDC Omnibus Loan Agreement	16,000,000,000	1,296,045,835	11,277,313,214
PEDC Omnibus Loan Agreement	14,000,000,000	1,052,074,172	10,518,754,108
PPC Loan Agreement (for Panay)	1,269,271,600	153,851,103	269,239,430
PPC Loan Agreement (for Panay)	300,000,000	42,857,143	85,714,286
PPC Loan Agreement (for Avon)	515,000,000	200,849,980	-
TPC Loan Agreement	2,350,000,000	–	2,311,410,324
Toyota Autoparts Philippines, Inc	78,626,700	78,626,700	78,626,700
TRP, Inc.	91,000,000	91,000,000	91,000,000
Philippine HKR, Inc.	76,200,000	76,200,000	76,200,000
	₱58,280,098,300	₱2,991,504,933	₱38,308,258,062

Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period
Metropolitan Bank & Trust Co.	₱2,000,000,000	₱2,000,000,000
Metropolitan Bank & Trust Co.	10,056,548,551	7,993,073,727
First Metro Investment Corporation	1,691,072,542	1,037,320,579

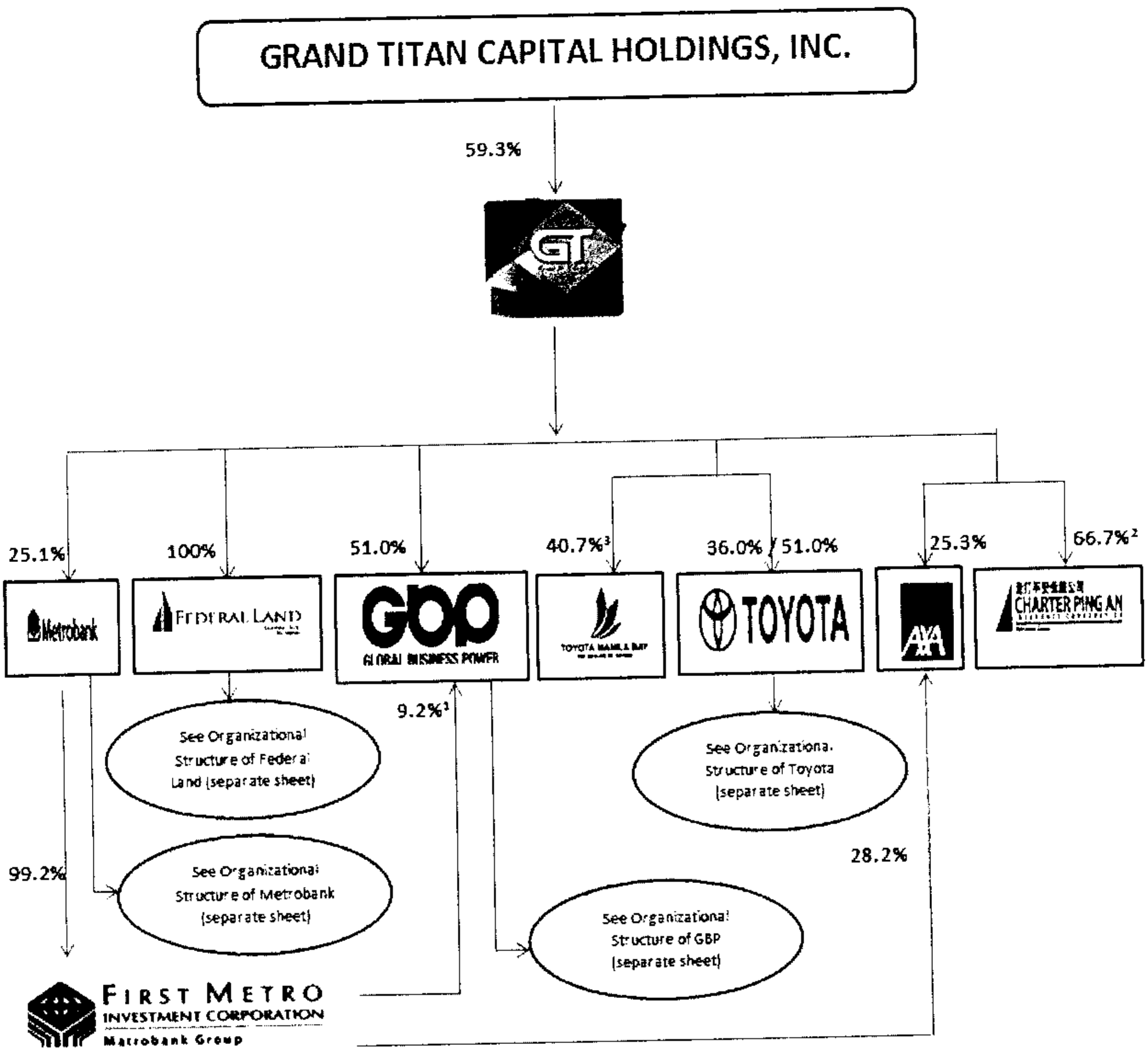
Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
None				

Schedule H. Capital Stock

Title of issue	Number of Shares authorized	Number of Shares issued and outstanding and shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common	500,000,000	174,300,000	–	10,000	590,400	–

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
MAP OF RELATIONSHIP BETWEEN AND AMONG THE PARENT COMPANY AND ITS ULTIMATE PARENT, SUBSIDIARIES AND ASSOCIATES
FOR THE YEAR ENDED DECEMBER 31, 2013

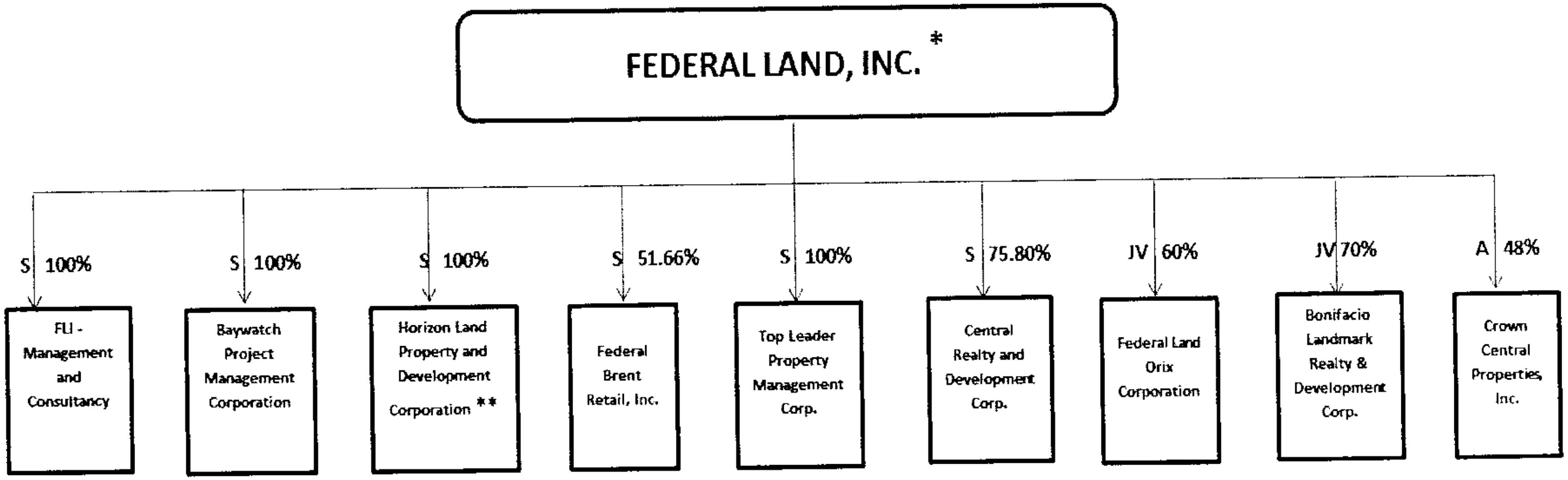


1 Originally 49%, 20% sold to Orix in June 2013;
20% sold to Meralco PowerGen in October 2013

2 Acquired 66.7% in October 2013

3 Acquired 40.7% in December 2013

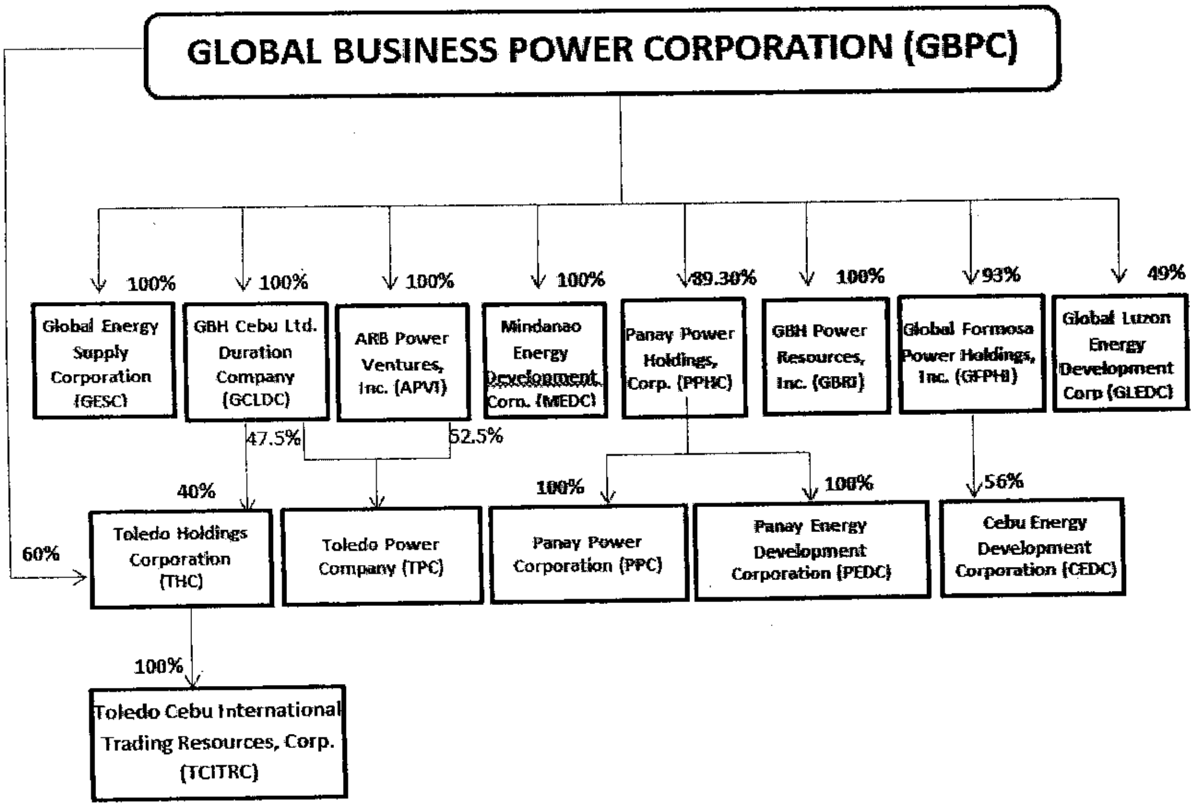
FEDERAL LAND, INC.
SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES
AS OF DECEMBER 31, 2013



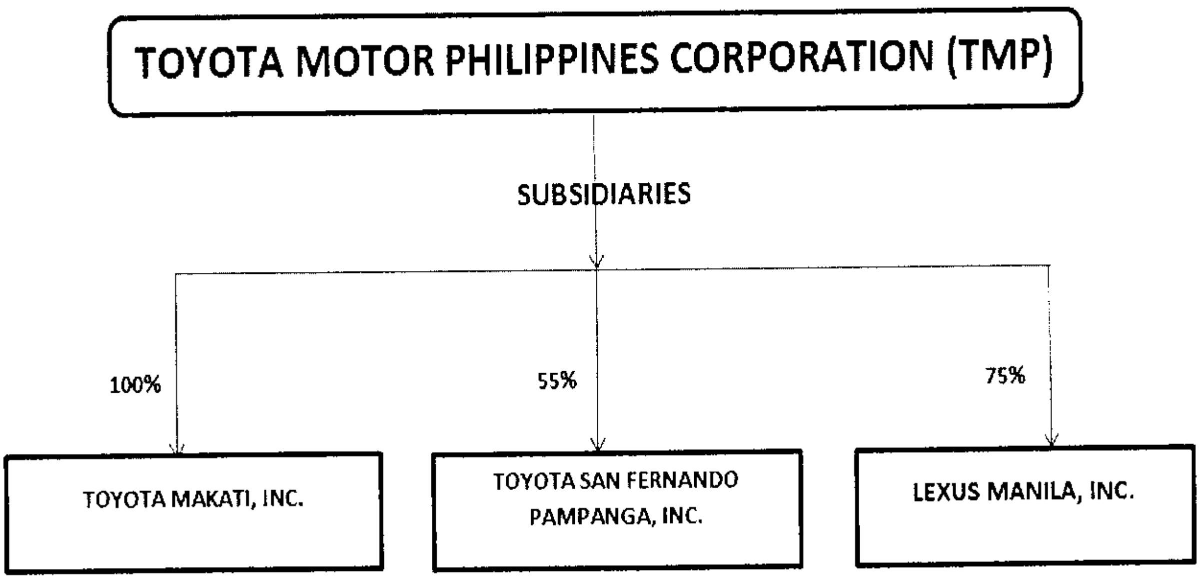
LEGEND:
Subsidiary (S)
Associate (A)
Joint Venture (JV)

NOTES:
*On February 18, 2013, the board of directors (BOD) of Fed land approved the merger of Fed Land and its two subsidiaries namely Fedsales Marketing, Inc.(FMI) and Omni-Orient Marketing Network, Inc. (OOMNI), where Fed Land will be the surviving entity and the two subsidiaries will be the absorbed entities. The merger was approved by the Philippine Securities Exchange Commission (SEC) on November 29, 2013.
** On May 8, 2013, the BOD of Horizon Land Property and Development Corporation (HLPDC), Harbour Land Realty and Development Corporation (HLRDC) and Southern Horizon Development Corporation (SHDC) approved the merger of the three entities where HLPDC will be the surviving entity and HLRDC and SHDC will be the absorbed entities. The merger was approved by the SEC on October 21, 2013.

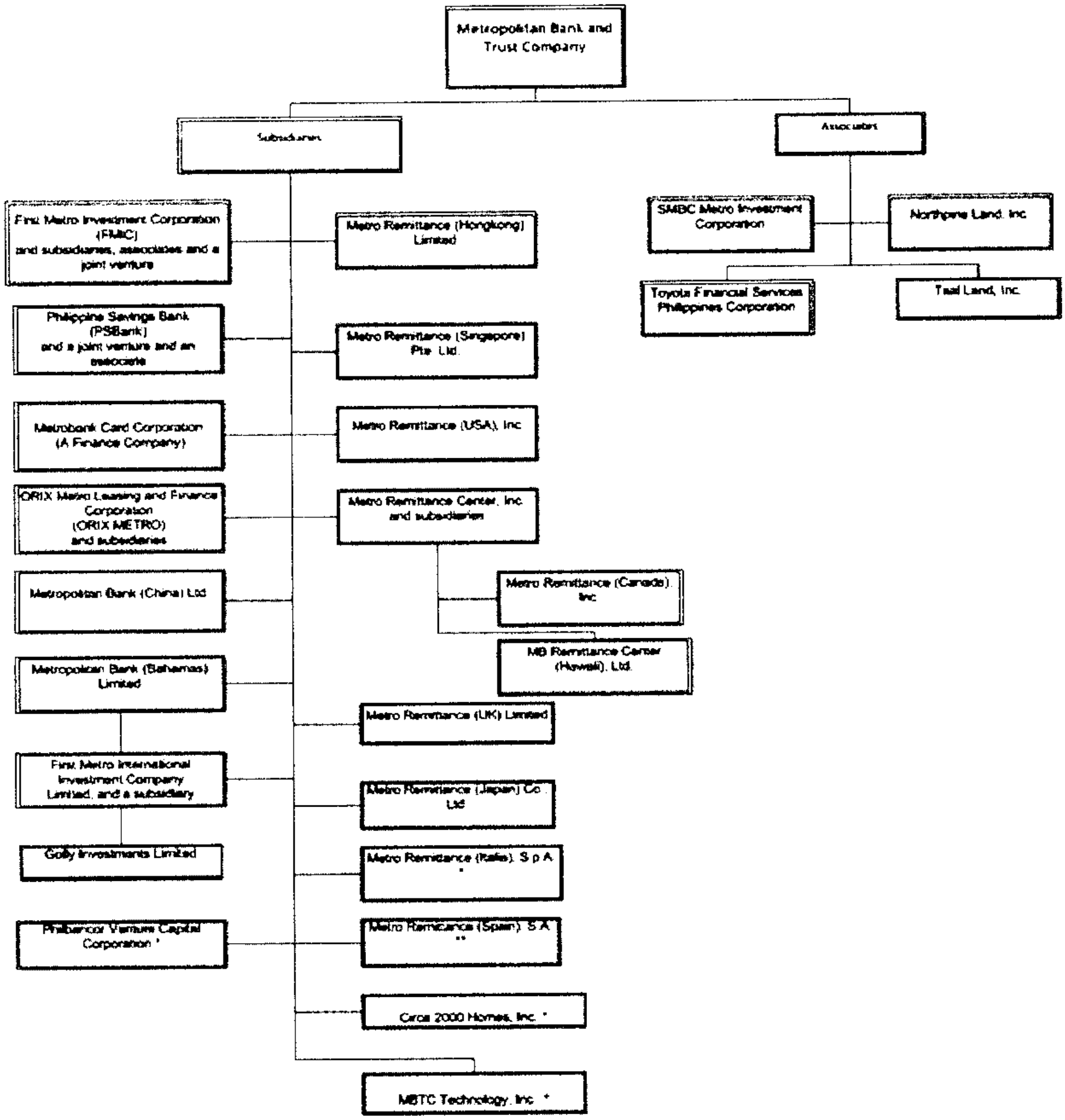
GLOBAL BUSINESS POWER CORPORATION
SUBSIDIARIES AND ASSOCIATE
AS OF DECEMBER 31, 2013



TOYOTA MOTOR PHILIPPINES CORPORATION
SUBSIDIARIES
AS OF DECEMBER 31, 2013



METROPOLITAN AND BANK TRUST COMPANY
SUBSIDIARIES
AS OF DECEMBER 31, 2013



** In the process of dissolution*

*** Liquidated in July 2013*

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
FOR THE YEAR ENDED DECEMBER 31, 2013

(Amounts in millions except %)	2013	2012 (As restated)
Liquidity Ratio		
Current ratio	**1.88**	1.29
Current assets	**₱73,671**	₱36,822
Current liabilities	**39,193**	28,452
Solvency Ratio		
Total liabilities to total equity ratio	**1.08**	1.11
Total liabilities	**99,796**	71,931
Total equity	**92,564**	65,054
Debit to equity ratio	**0.54**	0.90
Total debt	**50,013**	58,334
Total equity	**92,564**	65,054
Asset to Equity Ratio		
Asset equity ratio	**2.73**	2.55
Total assets	**192,360**	136,985
Equity attributable to Parent Company	**70,525**	53,760
Interest Rate Coverage Ratio*		
Interest rate coverage ratio	**5.14**	6.11
Earnings before interest and taxes (EBIT)	**17,797**	10,685
Interest expense	**3,462**	1,750
Profitability Ratio		
Return on average assets	**5.25%**	6.38%
Net income attributable to Parent Company	**8,640**	6,590
Average assets	**164,672**	103,357
Return on Average Equity	**13.90%**	14.97%
Net income attributable to Parent Company	**8,640**	6,590
Average equity attributable to Parent Company	**62,142**	44,020
Income before income tax	**14,334**	8,935
Interest expense	**3,463**	1,750
EBIT	**17,796**	10,685

*computed as EBIT/Interest Expense

COVER SHEET

2 0 5 7 3

SEC Registration Number

METROPOLITAN BANK & TRUST COMPANY
AND SUBSIDIARIES

(Company's Full Name)

Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City

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

Ms. Marilou C. Bartolome

(Contact Person)

898-8000

(Company Telephone Number)

1 2 — 3 1

Month *Day*

(Fiscal Year)

A A F S

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2013 and 2012 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 38 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225187, January 2, 2014, Makati City

February 18, 2014

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Millions)

	Consolidated			Parent Company		
	December 31		January 1,	December 31		January 1,
	2013	2012 (As Restated - Note 2)	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)	2012 (As Restated - Note 2)
ASSETS						
Cash and Other Cash Items	**₱29,742**	₱24,382	₱20,954	**₱26,532**	₱21,540	₱16,985
Due from Bangko Sentral ng Pilipinas (Note 16)	**166,774**	131,278	156,537	**143,724**	111,515	146,636
Due from Other Banks	**26,275**	22,996	32,761	**8,947**	7,873	13,310
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 33)	**122,011**	23,392	24,367	**96,872**	15,046	3,222
Financial Assets at Fair Value Through Profit or Loss (Notes 8, 17 and 29)	**55,441**	72,920	8,908	**36,140**	57,635	4,597
Available-for-Sale Investments (Note 8)	**273,429**	123,041	143,223	**226,943**	102,574	115,976
Held-to-Maturity Investments (Note 8)	**38,425**	51,451	47,457	**38,358**	21,491	17,464
Loans and Receivables (Note 9)	**611,064**	525,895	457,556	**456,895**	398,563	352,042
Investments in Subsidiaries (Note 11)	**–**	–	–	**24,882**	24,922	25,399
Investments in Associates and a Joint Venture (Note 11)	6,274	14,868	16,660	**578**	578	1,263
Property and Equipment (Note 10)	**15,756**	15,345	13,937	**10,296**	10,321	9,408
Investment Properties (Note 12)	**13,125**	15,422	15,471	**9,504**	11,898	11,044
Non-Current Asset Held For Sale (Note 13)	–	1,102	–	**–**	336	–
Deferred Tax Assets (Note 28)	**7,190**	8,871	8,577	**6,333**	7,276	7,008
Goodwill (Note 11)	**5,206**	6,409	6,413	–	1,203	1,203
Other Assets (Note 14)	**7,857**	9,271	9,255	**4,696**	6,285	7,198
	₱1,378,569	₱1,046,643	₱962,076	**₱1,090,700**	₱799,056	₱732,755
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 16 and 31)						
Demand	**₱150,694**	₱106,229	₱77,589	**₱134,788**	₱94,516	₱71,667
Savings	**362,915**	305,034	283,011	**348,244**	293,934	272,331
Time	**502,659**	327,431	320,393	**407,722**	245,969	237,638
	1,016,268	738,694	680,993	**890,754**	634,419	581,636
Bills Payable and Securities Sold Under Repurchase Agreements (Notes 17 and 31)	127,204	97,108	99,657	**45,993**	16,223	13,600
Derivative Liabilities (Notes 8 and 31)	**4,452**	6,692	2,826	**4,452**	6,425	2,689
Manager's Checks and Demand Drafts Outstanding	**3,927**	3,489	2,610	**2,816**	2,732	1,955
Income Taxes Payable	**676**	1,326	597	**267**	912	322
Accrued Interest and Other Expenses (Note 18)	**8,507**	8,341	7,199	**6,002**	5,907	4,547
Bonds Payable (Note 19)	**11,643**	11,556	4,678	–	–	–
Subordinated Debt (Note 20)	**8,628**	14,243	19,735	**4,497**	9,977	18,442
Deferred Tax Liabilities (Note 28)	**479**	244	157	–	–	–
Other Liabilities (Note 21)	**54,080**	40,241	28,876	**28,860**	25,450	19,491
	1,235,864	921,934	847,328	**983,641**	702,045	642,682

(Forward)

	Consolidated			Parent Company		
	December 31		January 1,	December 31		January 1,
	2013	2012 (As Restated - Note 2)	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)	2012 (As Restated - Note 2)
EQUITY						
Equity Attributable to Equity Holders of the Porent Company						
Common stock (Note 23)	**₱54,896**	₱42,228	₱42,228	**₱54,896**	₱42,228	₱42,228
Hybrid capital securities (Note 23)	**6,351**	6,351	6,351	**6,351**	6,351	6,351
Capital paid in excess of par value	**19,312**	19,312	19,312	**19,312**	19,312	19,312
Surplus reserves (Note 24)	**1,235**	1,108	1,002	**1,235**	1,108	1,002
Surplus (Notes 23 and 24)	**55,525**	48,418	35,712	**30,903**	29,570	21,115
Remeasurement losses on retirement plan (Note 26)	**(2,870)**	(2,011)	(1,460)	**(2,617)**	(1,877)	(1,358)
Net unrealized gain (loss) on available-for-sale investments (Note 8)	**(481)**	2,439	4,460	**(2,133)**	1,613	2,377
Equity in net unrealized gain on available-for-sale investments of associates (Note 11)	**272**	757	433	**–**	–	–
Translation adjustment and others	**647**	(869)	26	**(888)**	(1,294)	(954)
	134,887	117,733	108,064	**107,059**	97,011	90,073
Non-controlling Interest	**7,818**	6,976	6,684	**–**	–	–
	142,705	124,709	114,748	**107,059**	97,011	90,073
	₱1,378,569	₱1,046,643	₱962,076	**₱1,090,700**	₱799,056	₱732,755

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Millions, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 31)	**₱35,537**	₱32,728	₱29,035	**₱18,156**	₱17,652	₱15,656
Trading and investment securities (Note 8)	**11,415**	10,463	9,893	**9,106**	7,118	5,146
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**2,417**	551	458	**1,705**	269	311
Deposits with banks and others (Note 16)	**523**	1,274	5,682	**282**	499	4,498
	49,892	45,016	45,068	**29,249**	25,538	25,611
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	**7,556**	8,756	10,234	**4,975**	5,679	7,010
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debt and others (Notes 17, 19, 20 and 31)	**4,067**	5,406	5,397	**873**	1,389	1,460
	11,623	14,162	15,631	**5,848**	7,068	8,470
NET INTEREST INCOME	**38,269**	30,854	29,437	**23,401**	18,470	17,141
Trading and securities gain - net (Notes 8 and 31)	**17,182**	6,680	6,246	**8,586**	1,706	3,710
Service charges, fees and commissions (Note 31)	**8,640**	8,123	7,666	**3,555**	3,527	3,558
Gain on sale of investment in an associate (Note 11)	**7,388**	–	370	–	–	–
Gain on sale of non-current asset held for sale (Notes 13 and 31)	**3,440**	3,403	–	**4,201**	4,164	–
Leasing (Notes 12, 27 and 31)	**1,638**	1,380	1,017	**243**	207	196
Income from trust operations (Notes 24 and 29)	**1,071**	853	695	**1,057**	841	687
Profit from assets sold (Note 12)	**894**	1,119	886	**643**	1,118	826
Dividends (Note 11)	**435**	156	136	**10,006**	1,773	2,777
Foreign exchange gain (loss) - net (Note 31)	**(2,266)**	3,636	1,623	**(2,575)**	3,380	1,539
Miscellaneous (Note 25)	**2,233**	874	1,057	**421**	373	420
TOTAL OPERATING INCOME	**78,924**	57,078	49,133	**49,538**	35,559	30,854
Compensation and fringe benefits (Notes 26 and 31)	**15,634**	14,406	13,310	**11,018**	10,385	9,308
Provision for credit and impairment losses (Note 15)	**10,722**	4,478	3,823	**5,294**	777	1,186
Taxes and licenses	**8,131**	5,268	4,606	**4,167**	3,162	2,609
Depreciation and amortization (Notes 10, 12 and 14)	**2,400**	2,188	2,104	**1,112**	1,028	1,080
Occupancy and equipment-related cost (Note 27)	**2,225**	2,107	1,959	**1,286**	1,215	1,139
Amortization of software costs (Note 14)	**284**	236	230	**139**	120	120
Miscellaneous (Note 25)	**10,101**	9,170	8,491	**6,162**	5,964	5,382
TOTAL OPERATING EXPENSES	**49,497**	37,853	34,523	**29,178**	22,651	20,824
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE	**29,427**	19,225	14,610	**20,360**	12,908	10,030
SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE (Note 11)	**1,477**	2,548	1,423	–	–	–
INCOME BEFORE INCOME TAX	**30,904**	21,773	16,033	**20,360**	12,908	10,030
PROVISION FOR INCOME TAX (Note 28)	**6,748**	3,856	3,542	**3,646**	1,760	2,119
NET INCOME	**₱24,156**	₱17,917	₱12,491	**₱16,714**	₱11,148	₱7,911
Attributable to:						
Equity holders of the Parent Company (Note 32)	**₱22,488**	₱15,399	₱11,031			
Non-controlling Interest	**1,668**	2,518	1,460			
	₱24,156	₱17,917	₱12,491			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱8.02**	₱5.44*	₱3.86*			

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

See accompanying Notes to Financial Statements.

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

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Net Income	**₱24,156**	₱17,917	₱12,491	**₱16,714**	₱11,148	₱7,911
Other Comprehensive Income for the Year, Net of Tax						
Items that may not be reclassified to profit or loss:						
Change in remeasurement loss of retirement liability	**(897)**	(556)	–	**(740)**	(519)	–
Items that may be reclassified to profit or loss:						
Change in net unrealized gain on available-for-sale investments (Note 8)	**(2,917)**	(2,517)	3,732	**(3,746)**	(764)	1,555
Change in equity in net unrealized gain on available-for-sale investments of associates (Note 11)	**(498)**	330	152	–	–	–
Translation adjustment and others (Notes 8 and 11)	**1,746**	(2,099)	362	**406**	(340)	(10)
	(1,669)	(4,286)	4,246	**(3,340)**	(1,104)	1,545
Total Comprehensive Income for the Year	**₱21,590**	₱13,075	₱16,737	**₱12,634**	₱9,525	₱9,456
Attributable to:						
Equity holders of the Parent Company	**₱19,740**	₱12,256	₱14,931	**₱12,634**	₱9,525	₱9,456
Non-controlling Interest	**1,850**	819	1,806	–	–	–
	₱21,590	₱13,075	₱16,737	**₱12,634**	₱9,525	₱9,456

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

	Consolidated											
	Equity Attributable to Equity Holders of the Parent Company											
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 24)	Surplus (Notes 23 and 24)	Net Unrealized Gain/(Loss) on Available-for-Sale Investments (Note 8)	Equity in Net Unrealized Gain on Available-for-Sale Investments of Associates (Note 11)	Remeasurement Losses on Retirement Plan (Note 26)	Translation Adjustment and Others	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2013, as previously reported	**₱42,228**	**₱6,351**	**₱19,312**	**₱1,188**	**₱48,692**	**₱2,438**	**₱758**	**₱–**	**(₱869)**	**₱128,818**	**₱7,002**	**₱127,020**
Effect of change in accounting for (Note 2):												
Retirement benefits (PAS 19)	–	–	–	–	(274)	–	–	(2,011)	–	(2,285)	(26)	(2,311)
Consolidated financial statements (PFRS 10)	–	–	–	–	–		(1)	–	–	–	–	–
Balance as at January 1, 2013, as restated	42,228	6,351	19,312	1,188	48,418	2,439	757	(2,811)	(869)	117,733	6,976	124,709
Total comprehensive income for the year	–	–	–	–	22,488	(2,920)	(485)	(859)	1,516	19,740	1,858	21,590
Transfer to surplus reserves	–	–	–	127	(127)	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,111)	–	–	–	–	(2,111)	(1,008)	(3,119)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(475)	–	–	–	–	(475)	–	(475)
Stock dividends	12,668	–	–	–	(12,668)	–	–	–	–	–	–	–
Balance at December 31, 2013	**₱54,896**	**₱6,351**	**₱19,312**	**₱1,235**	**₱55,525**	**(₱481)**	**₱272**	**(₱2,870)**	**₱647**	**₱134,887**	**₱7,818**	**₱142,785**
Balance at January 1, 2012, as previously reported	₱42,228	₱6,351	₱19,312	₱1,802	₱35,986	₱4,458	₱435	₱–	₱26	₱109,798	₱6,706	₱116,504
Effect of change in accounting for (Note 2):												
Retirement benefits (PAS 19)	–	–	–	–	(274)	–	–	(1,460)	–	(1,774)	(22)	(1,756)
Consolidated financial statements (PFRS 10)	–	–	–	–	–	2	(2)	–	–	–	–	–
Balance as at January 1, 2012, as restated	42,228	6,351	19,312	1,002	35,712	4,460	433	(1,460)	26	108,064	6,684	114,748
Total comprehensive income for the year	–	–	–	–	15,399	(2,021)	324	(551)	(895)	12,256	819	13,075
Transfer to surplus reserves	–	–	–	106	(106)	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,111)	–	–	–	–	(2,111)	(527)	(2,638)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(476)	–	–	–	–	(476)	–	(476)
Balance at December 31, 2012	₱42,228	₱6,351	₱19,312	₱1,108	₱48,418	₱2,439	₱757	(₱2,011)	(₱869)	₱117,733	₱6,976	₱124,709

(Forward)

	Consolidated											
	Equity Attributable to Equity Holders of the Parent Company											
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid In Excess of Par Value	Surplus Reserves (Note 24)	Surplus (Notes 23 and 24)	Net Unrealized Gain on Available-for-Sale Investments (Note 8)	Equity in Net Unrealized Gain on Available-for-Sale Investments of Associates (Note 11)	Remeasurement Losses on Retirement Plan (Note 26)	Translation Adjustment and Others	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2011, as previously reported	₱38,228	₱6,351	₱13,484	₱912	₱27,640	₱1,238	₱284	₱–	(₱503)	₱87,634	₱5,383	₱93,017
Effect of change in accounting for retirement benefits (PAS 19) (Note 2)	–	–	–	–	(274)	–	–	(1,460)	–	(1,734)	(22)	(1,756)
Balance as at January 1, 2011, as restated	38,228	6,351	13,484	912	27,366	1,238	284	(1,460)	(503)	85,900	5,361	91,261
Total comprehensive income for the year	–	–	–	–	11,031	3,222	149	–	529	14,931	1,806	16,737
Transfer to surplus reserves	–	–	–	90	(90)	–	–	–	–	–	–	–
Issuance of shares of stock	4,000	–	5,828	–	–	–	–	–	–	9,828	–	9,828
Cash dividends	–	–	–	–	(2,111)	–	–	–	–	(2,111)	(483)	(2,594)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(484)	–	–	–	–	(484)	–	(484)
Balance at December 31, 2011	₱42,228	₱6,351	₱19,312	₱1,802	₱35,712	₱4,460	₱433	(₱1,460)	₱26	₱108,064	₱6,684	₱114,748

	Parent Company								
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid In Excess of Par Value	Surplus Reserves (Note 24)	Surplus (Notes 23 and 24)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 26)	Translation Adjustment and Others	Total Equity
Balance at January 1, 2013, as previously reported	**₱42,228**	**₱6,351**	**₱19,312**	**₱1,108**	**₱29,882**	**₱1,613**	**₱–**	**(₱1,294)**	**₱99,200**
Effect of change in accounting for retirement benefits (PAS 19) (Note 2)	–	–	–	–	**(312)**	–	**(1,877)**	–	**(2,189)**
Balance at January 1, 2013, as restated	**42,228**	**6,351**	**19,312**	**1,108**	**29,578**	**1,613**	**(1,877)**	**(1,294)**	**97,811**
Total comprehensive income for the year	–	–	–	–	**16,714**	**(3,746)**	**(748)**	**486**	**12,634**
Transfer to surplus reserves	–	–	–	**127**	**(127)**	–	–	–	–
Cash dividends	–	–	–	–	**(2,111)**	–	–	–	**(2,111)**
Stock dividends	**12,668**	–	–	–	**(12,668)**	–	–	–	–
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	**(475)**	–	–	–	**(475)**
Balance at December 31, 2013	**₱54,896**	**₱6,351**	**₱19,312**	**₱1,235**	**₱30,903**	**(₱2,133)**	**(₱2,617)**	**(₱888)**	**₱107,059**
Balance at January 1, 2012, as previously reported	₱42,228	₱6,351	₱19,312	₱1,002	₱21,427	₱2,377	₱–	(₱954)	₱91,743
Effect of change in accounting for retirement benefits (PAS 19) (Note 2)	–	–	–	–	(312)	–	(1,358)	–	(1,670)
Balance at January 1, 2012, as restated	42,228	6,351	19,312	1,002	21,115	2,377	(1,358)	(954)	90,073
Total comprehensive income for the year	–	–	–	–	11,148	(764)	(519)	(340)	9,525
Transfer to surplus reserves	–	–	–	106	(106)	–		–	
Cash dividends	–		–	–	(2,111)	–	–	–	(2,111)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(476)		–		(476)
Balance at December 31, 2012	₱42,228	₱6,351	₱19,312	₱1,108	₱29,570	₱1,613	(₱1,877)	(₱1,294)	₱97,011
Balance at January 1, 2011, as previously reported	₱38,228	₱6,351	₱13,484	₱912	₱16,201	₱822	₱–	(₱944)	₱75,054
Effect of change in accounting for retirement benefits (PAS 19) (Note 2)	–	–	–	–	(312)	–	(1,358)	–	(1,670)
Balance at January 1, 2011, as restated	38,228	6,351	13,484	912	15,889	822	(1,358)	(944)	73,384
Total comprehensive income for the year	–		–	–	7,911	1,555	–	(10)	9,456
Issuance of shares of stock	4,000	–	5,828	–	–	–	–	–	9,828
Transfer to surplus reserves	–	–	–	90	(90)	–		–	–
Cash dividends	–	–	–		(2,111)		–	–	(2,111)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(484)	–	–	–	(484)
Balance at December 31, 2011	₱42,228	₱6,351	₱19,312	₱1,002	₱21,115	₱2,377	(₱1,358)	(₱954)	₱90,073

See accompanying Notes to Financial Statements.

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

	Consolidated			Parent Company		
	Years Ended December 31					
	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	**₱30,904**	₱21,773	₱16,033	**₱20,360**	₱12,908	₱10,030
Adjustments for:						
Provision for credit and impairment losses (Note 15)	**10,722**	4,478	3,823	**5,294**	777	1,186
Trading and securities gain on available-for-sale investments (Note 8)	**(12,833)**	(7,096)	(5,831)	**(4,816)**	(4,004)	(3,671)
Depreciation and amortization (Notes 10, 11, 12 and 14)	**2,400**	2,188	2,104	**1,112**	1,028	1,080
Share in net income of associates and a joint venture (Note11)	**(1,477)**	(2,548)	(1,423)	**–**	-	–
Profit from assets sold (Notes 10 and 12)	**(894)**	(1,119)	(886)	**(643)**	(1,118)	(826)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	**(649)**	(139)	(238)	**(61)**	(122)	(135)
Amortization of software costs (Note 14)	**284**	236	230	**139**	120	120
Amortization of discount on subordinated debt and bonds payable	**29**	42	62	**20**	35	36
Unrealized market valuation loss (gain) on financial assets and liabilities at FVPL	**(4,624)**	3,747	944	**(3,691)**	3,721	968
Dividends (Note 11)	**(435)**	(156)	(136)	**(10,006)**	(1,773)	(2,777)
Gain on sale of non-current asset held for sale (Notes 13 and 31)	**(3,440)**	(3,403)	–	**(4,201)**	(4,164)	–
Net loss on sale/dissolution of investment in subsidiaries (Note 11)	**–**		–	**1**	14	–
Gain on sale of investment in an associate (Note 11)	**(7,388)**	–	(370)	**–**	-	–
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	**19,958**	(63,989)	4,200	**23,201**	(53,016)	3,518
Loans and receivables	**(95,041)**	(73,989)	(68,937)	**(61,553)**	(48,037)	(60,620)
Other assets	**245**	(2,217)	(1,293)	**1,191**	(1,257)	(1,160)
Increase (decrease) in:						
Deposit liabilities	**277,574**	57,701	29,731	**256,335**	52,783	17,828
Manager's checks and demand drafts outstanding	**438**	879	567	**84**	777	561
Accrued interest and other expenses	**166**	1,142	2,003	**95**	1,360	1,775
Other liabilities	**12,920**	11,191	3,587	**2,366**	5,612	(1,278)
Net cash generated from (used in) operations	**228,859**	(51,279)	(15,830)	**225,227**	(34,356)	(33,365)
Dividends received	**716**	2,981	1,454	**10,006**	1,773	2,741
Income taxes paid	**(5,482)**	(3,706)	(3,397)	**(3,347)**	(1,437)	(1,569)
Net cash provided by (used in) operating activities	**224,093**	(52,004)	(17,773)	**231,886**	(34,020)	(32,193)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(982,284)**	(481,008)	(483,687)	**(882,101)**	(408,144)	(360,008)
Held-to-maturity investments	**(23,798)**	(21,577)	(30,811)	**(23,798)**	(19,303)	(18,953)
Property and equipment (Note 10)	**(3,295)**	(3,841)	(2,783)	**(1,560)**	(2,208)	(1,228)
Investments in subsidiaries, associates and a joint venture (Note 11)	**(959)**	(644)	(1,278)	**(41)**	(41)	–
Proceeds from sale of:						
Available-for-sale investments	**877,988**	503,669	477,238	**759,206**	424,436	345,574
Property and equipment	**1,301**	585	313	**954**	430	206

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011	2013	2012 (As Restated - Note 2)	2011
Investments in subsidiaries and associates (Note 11)	**₱14,308**	₱314	₱175	**₱–**	₱71	₱–
Investment properties (Note 12)	**3,059**	4,090	4,424	**2,402**	3,287	4,084
Non-current asset held for sale (Notes 13 and 31)	**4,537**	4,500	–	**4,537**	4,500	–
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements (Note 33)	**(492)**	(3,380)	1,768	**(492)**	(3,380)	1,768
Proceeds from maturity of held-to-maturity investments	**6,932**	17,583	16,017	**6,932**	15,277	15,434
Net cash provided by (used in) investing activities	**(102,703)**	20,291	(18,624)	**(133,961)**	14,925	(13,123)
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlements of bills payable	**(1,767,989)**	(983,041)	(1,001,574)	**(1,271,929)**	(467,160)	(249,712)
Availments of bills payable and securities sold under repurchase agreement	**1,798,085**	980,491	1,015,718	**1,301,699**	469,783	252,907
Proceeds from issuance of shares of stock (Note 23)	**–**	–	9,828	**–**	–	9,828
Repayments of subordinated debt (Note 20)	**(6,800)**	(8,500)	(2,000)	**(5,500)**	(8,500)	–
Proceeds from issuance of:						
Bonds payable (Note 19)	**–**	6,958	–	**–**	–	–
Subordinated debt (Note 20)	**1,170**	2,968	–	**–**	–	–
Cash dividends paid (Note 23)	**(3,119)**	(2,638)	(2,594)	**(2,111)**	(2,111)	(2,111)
Coupon payment of hybrid capital securities (Note 23)	**(475)**	(476)	(484)	**(475)**	(476)	(484)
Net cash provided by (used in) financing activities	**20,872**	(4,238)	18,894	**21,684**	(8,464)	10,428
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**142,262**	(35,951)	(17,503)	**119,609**	(27,559)	(34,888)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**24,382**	20,954	20,201	**21,540**	16,985	16,996
Due from Bangko Sentral ng Pilipinas	**131,278**	156,537	168,402	**111,515**	146,636	162,391
Due from other banks	**22,996**	32,761	38,780	**7,873**	13,310	19,416
Interbank loans receivable and securities purchased under resale agreements (Note 33)	**19,048**	23,403	23,775	**10,702**	2,258	15,274
	197,704	233,655	251,158	**151,630**	179,189	214,077
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**29,742**	24,382	20,954	**26,532**	21,540	16,985
Due from Bangko Sentral ng Pilipinas	**166,774**	131,278	156,537	**143,724**	111,515	146,636
Due from other banks	**26,275**	22,996	32,761	**8,947**	7,873	13,310
Interbank loans receivable and securities purchased under resale agreements (Note 33)	**117,175**	19,048	23,403	**92,036**	10,702	2,258
	₱339,966	₱197,704	₱233,655	**₱271,239**	₱151,630	₱179,189

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2013	2012 (As Restated - Note 2)	2011	2013	2012 (As Restated - Note 2)	2011
Interest paid	**₱11,663**	₱14,371	₱15,432	**₱5,904**	₱7,316	₱8,255
Interest received	**48,836**	44,714	44,193	**27,985**	25,133	25,059

See accompanying Notes to Financial Statements.

1. Corporate Information

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

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

The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 1,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies. As a bank, the Parent Company provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City.

2. Summary of Significant Accounting Policies

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

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

The accompanying financial statements provide comparative information in respect of the previous years. An additional statement of financial position at the beginning of the earliest year presented is included when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. A statement of financial position as at January 1, 2012 is presented in the 2013 financial statements due to the retrospective application of certain accounting policies as discussed in this Note.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation.

The application of PFRS 10 affected the accounting for the Group's interest in First Metro Save and Learn Balance Fund, Inc. (FMSALBF) and First Metro Save and Learn Equity Fund, Inc. (FMSALEF), subsidiaries of FMIC, collectively referred to as the Funds. FMIC holds 17.97% and 22.58% equity interests, respectively, and for all financial years up to December 31, 2012, the Funds were considered to be associates under the previously existing PAS 28, *Investments in Associates*, and were accounted for using the equity method. At the date of initial application of PFRS 10, the Group assessed that it controls the Funds based on the factors explained in Note 3, *Judgments and Estimates.*

As a result of the adoption of PFRS 10, the Group retrospectively consolidated the accounts of FMSALBF and FMSALEF. Non-controlling interests have been recognized at the proportionate share of the net assets of the subsidiaries. The opening balances at January 1, 2012 and comparative information for the year ended December 31, 2012 have been restated accordingly.

The following tables show the significant increase (decrease) in the following accounts in the consolidated statements of comprehensive income, net equity, and statements of cash flows as a result of the adoption of PFRS 10:

Statements of comprehensive income

	Years Ended December 31	
	2012	2011
Other income	**₱1,161**	₱123
Operating expenses	**25**	20
Share in net income of associates and a joint venture	**(285)**	(14)
Net income	**870**	101
Total comprehensive income	**870**	101
Attributable to non-controlling interest	**870**	101

Statements of financial position

	December 31	
	2012	2011
Financial assets at FVPL	**₱6,199**	₱2,720
Total assets	**5,076**	2,721
Other liabilities	**5,355**	2,913
Total liabilities	**5,076**	2,721
Net impact on equity	**–**	–

Statements of cash flows

	Years Ended December 31	
	2012	2011
Net cash provided by (used in) operating activities	**(₱40)**	(₱138)
Net cash provided by (used in) investing activities	**(187)**	332
Net cash provided by (used in) financing activities	**–**	–
Net increase (decrease) in cash and cash equivalents	**(₱227)**	₱194

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Note 11.

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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 5.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)* (Amendments)
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

PAS 19, *Employee Benefits* (Amendment) (PAS 19R)
PAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in OCI and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. Further, the transition to PAS 19R had an impact on the net defined benefit plan obligations due to the difference in accounting for interest on plan assets and unvested past service costs. The effect of the adoption of PAS 19R is explained below.

The Group operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. PAS 19R has been applied retrospectively from January 1, 2011. As a result, expected returns on plan assets of defined benefit plans are not recognized in profit or loss. Instead, interest on net defined benefit obligation (net of the plan assets) is recognized in profit or loss, calculated using the discount rate used to measure the net pension obligation or asset. Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when amendment occurs and when the Group recognizes related restructuring or termination costs. Until 2011, the Group's unvested service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to PAS 19R, past service costs are recognized immediately if the benefits have vested immediately following the introduction of, or changes to, a pension plan.

The impact of PAS 19R on the statements of financial position of the Group and the Parent Company follows:

	Consolidated			Parent Company		
	As restated	As previously reported	Change	As restated	As previously reported	Change
As at December 31, 2012						
Retirement liability	₱4,278	₱972	₱3,306	₱3,891	₱758	₱3,133
Deferred tax asset	1,287	292	995	1,171	227	944
Equity	(2,991)	(680)	(2,311)	(2,720)	(531)	(2,189)
As at January 1, 2012						
Retirement liability (asset)	₱2,581	₱68	₱2,513	₱2,290	(₱101)	₱2,391
Deferred tax asset (liability)	778	21	757	691	(30)	721
Equity	(1,803)	(47)	(1,756)	(1,599)	71	(1,670)

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities,* what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Amendments to PFRS 1 covering first time adoption of PFRS on government loans and Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* are not applicable to the Group.

Significant Accounting Policies

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

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

FCDU, foreign branches and subsidiaries
As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the Philippine peso) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDS weighted average rate (PDSWAR) for the year. Exchange differences arising on translation are taken to statement of comprehensive income. Upon disposal of a foreign entity or when the Parent Company ceases to have control

over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

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

Determination of fair value

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

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

'Day 1' difference

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

Derivatives recorded at FVPL

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

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

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

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

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

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

Hedge effectiveness testing
To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80.0% to 125.0%. Any hedge ineffectiveness is recognized in the statement of income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a

shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment in a JV
A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the 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. Investment in a JV is accounted for under the equity method of accounting. The Group's investment in a JV represents the 40.00% interest of PSBank in Sumisho Motor Finance Corporation (SMFC).

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

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

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

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

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

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

Non-Current Assets Held for Sale
Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification (Note 13).

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

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

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

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

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

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

Goodwill

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

Impairment of Nonfinancial Assets

Property and equipment, investments in subsidiaries, associates and a JV, investment properties, and chattel mortgage properties

At each statement of financial position date, the Group assesses whether there is any indication that its 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 recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

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

Intangible assets

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

Goodwill

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

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

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

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

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

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

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

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

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

Retirement Cost

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

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

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

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

Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

Equity

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

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

Surplus represents accumulated earnings of the Group less dividends declared.

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

Provisions

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

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

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

Deferred taxes

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

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

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

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

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

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

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

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

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

<u>Earnings Per Share</u>

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. The Group does not have dilutive potential common shares.

<u>Dividends on Common Shares</u>

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

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

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

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

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

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

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

Standards Issued but not yet Effective

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

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 fair value through profit or loss. 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)
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.

The Group will assess the impact of these amendments on its financial position or performance when they become effective.

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 fair value

through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted) The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after 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. This amendment has no impact on the Group's financial position or performance.

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

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

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

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

Mandatory Date Yet to Be Determined
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 interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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 fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For 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 profit or loss, 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 profit or loss. 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 non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a 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 conducted an evaluation of the financial impact of the adoption of PFRS 9 based on the audited financial statements as of December 31, 2012 and decided not to early adopt PFRS 9 in its 2013 financial reporting.

3. Significant Accounting Judgments and Estimates

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

Judgments

a. *Consolidation of subsidiaries*
The determination whether the Group has control over an investee company requires significant judgment. The Group considers that the following criteria are all met, including: (a) an investor has the power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's return.

As discussed in Note 2, in accordance with PFRS 10, the Group included the accounts of FMSALBF and FMSALEF in its consolidated financial statements. The Group re-assessed the control conclusion for these Funds. Although the ownership is less than half of the voting power of these investees, the Group has control due to its power to direct the relevant activities of the Funds through First Metro Asset Management Inc. (FAMI), a subsidiary of FMIC, which acts as the fund manager of the Funds. Further, the Group has the exposure to variable returns from its investments and its ability to use its power over the Funds to affect their returns.

b. *Existence of significant influence over an associate with less than 20.0% ownership*
As discussed in Note 11, 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 in the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

c. *HTM investments*
The classification under HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost. In 2013 and 2012, the Group follows Philippine GAAP for banks in accounting for HTM investments in the consolidated financial statements (Notes 2 and 8).

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

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

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

f. *Embedded derivatives*
Where a hybrid instrument is not classified as financial assets or liabilities at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

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

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

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

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

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

Estimates

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

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

The carrying values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Note 9. In 2013 , 2012 and 2011, provision for credit losses on loans and receivables amounted to ₱8.69 billion, ₱4.31 billion and ₱3.38 billion, respectively, for the Group and ₱3.26 billion, ₱0.72 billion and ₱0.46 billion, respectively, for the Parent Company.

b. *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques such as discounted cash flow analysis and standard option pricing models. The models incorporate various inputs including the credit quality of counterparties. Where valuation techniques are used to determine fair values, they are reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used and to the extent practicable, models use only observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments. As of December 31, 2013, credit valuation adjustments (CVA) are applied to over-the-counter derivative instruments where the theoretical base spread is discounted using the relevant yield curve as discount rate. The effect of such CVA on the marked-to-market value of derivatives is not material. Refer to Note 5 for the information on the fair values of these investments and Note 8 for information on the carrying values of these instruments.

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

As of December 31, 2013 and 2012, the carrying value of unquoted AFS equity securities amounted to ₱3.5 billion and ₱0.3 billion, respectively, for the Group and ₱0.1 billion for both years for the Parent Company (Note 8).

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

As of December 31, 2013 and 2012, allowance for impairment losses on AFS equity securities amounted to ₱568.3 million and ₱572.8 million, respectively, for the Group and ₱178.0 million and ₱176.2 million, respectively, for the Parent Company. As of December 31, 2013 and 2012, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱6.4 billion and ₱2.6 billion, respectively, for the Group and ₱325.1 million and ₱455.8 million, respectively, for the Parent Company (Notes 8 and 15).

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

f. Present value of retirement liability
The cost of defined retirement pension plan and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 26.

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

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group estimated the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the CGU. Average growth rate was derived from the average increase in annual income during the last 5 years. The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. In 2013 and 2012, the applicable pre-tax discount rate applied to cash flow projections is 16.78% and 14.92%, respectively. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The Parent Company has undergone reorganizations of various units and has changed its business plans which affected the recoverable amount of the CGUs to which the goodwill relates. As of December 31, 2013, the Parent Company has fully impaired its goodwill amounting to ₱1.2 billion.

As of December 31, 2013 and 2012, goodwill amounted to ₱5.2 billion and ₱6.4 billion respectively, for the Group. As of December 31, 2012, ₱1.2 billion pertained to the Parent Company (Note 11).

4. Financial Risk and Capital Management

Introduction

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

Risk management framework

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

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

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

Credit Risk

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

Management of credit risk

The 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 enter into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;

- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation; and
- Monitoring compliance with approved exposure limits.

The ICRRS contains the following:

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

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

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

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

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum credit risk exposure relating to on balance sheet assets is shown below:

	Consolidated							
	2013				2012 (As Restated - Note 2)			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
Interbank loans receivable and SPURA	**₱94,548**	**₱95,623**	**₱94,476**	**₱72**	₱4,993	₱4,989	₱4,989	₱4
Loans and receivables - net								
Receivables from customers								
Commercial loans	**139,551**	**254,828**	**125,884**	**13,667**	116,322	278,710	71,842	44,480
Residential mortgage loans	**62,369**	**135,727**	**62,232**	**137**	51,972	117,116	51,858	114
Auto loans	**53,933**	**91,979**	**53,532**	**401**	45,689	80,165	45,327	362
Trade	**29,678**	**–**	**–**	**29,678**	21,476	-	–	21,476
Others	**1,336**	**78**	**49**	**1,287**	3,769	7,555	3,589	180
	286,867	**482,612**	**241,697**	**45,170**	239,228	483,546	172,616	66,612
Accounts receivable	**1**	**1**	**–**	**1**	–	-	–	
Accrued interest receivable	**1,986**	**2,042**	**1,440**	**546**	1,289	647	647	642
Sales contract receivable	**408**	**882**	**368**	**40**	579	1,276	527	52
	289,262	**485,537**	**243,505**	**45,757**	241,096	485,469	173,790	67,306
Total	**₱383,810**	**₱581,160**	**₱337,981**	**₱45,829**	₱246,089	₱490,458	₱178,779	₱67,310

	Parent Company							
	2013				2012 (As Restated - Note 2)			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
Interbank loans receivable and SPURA	**₱79,872**	**₱79,938**	**₱79,800**	**₱72**	₱6,182	₱7,770	₱6,182	₱–
Loans and receivables - net								
Receivables from customers								
Commercial loans	**116,239**	**224,374**	**103,622**	**12,617**	100,016	257,266	57,488	42,528
Residential mortgage loans	**34,355**	**81,393**	**34,218**	**137**	29,588	67,159	29,473	115
Auto loans	**15,970**	**36,338**	**15,579**	**391**	14,557	33,145	14,254	303
Trade	**29,678**	**–**	**–**	**29,678**	21,476	–	–	21,476
Others	**1,287**	**–**	**–**	**1,287**	120	–	–	120
	197,529	**342,105**	**153,419**	**44,110**	165,757	357,570	101,215	64,542
Accrued interest receivable	**1,354**	**809**	**809**	**545**	627	450	450	177
Sales contract receivable	**136**	**319**	**101**	**35**	213	436	166	47
	199,019	**343,233**	**154,329**	**44,690**	166,597	358,456	101,831	64,766
Total	**₱278,891**	**₱423,171**	**₱234,129**	**₱44,762**	₱172,779	₱366,226	₱108,013	₱64,766

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

				Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) affsetting criteria		
Financial assets recognized by type	**Gross Carrying Amounts (before offsetting)**	**Gross Amounts Offset in Accordance with the Offsetting Criteria**	**Net Amount Presented in Statement of Financial Position**	**Financial Instruments**	**Fair Value of Financial Collateral**	**Net Exposure**
Consolidated						
2013						
Derivative assets	**₱114,506**	**₱110,734**	**₱3,772**	**₱1,298**	**₱–**	**₱2,474**
SPURA	**94,548**	**–**	**94,548**	**–**	**94,476**	**72**
	₱209,054	**₱110,734**	**₱98,320**	**₱1,298**	**₱94,476**	**₱2,546**
2012						
Derivative assets	₱102,287	₱100,246	₱2,041	₱892	₱	₱1,149
SPURA	4,993	–	4,993	–	4,989	4
	₱107,280	₱100,246	₱7,034	₱892	₱4,989	₱1,153
Parent Company						
2013						
Derivative Assets	**₱112,264**	**₱108,506**	**₱3,758**	**₱1,298**	**₱–**	**₱2,460**
SPURA	**79,324**	**–**	**79,324**	**–**	**79,252**	**72**
	₱191,588	**₱108,506**	**₱83,082**	**₱1,298**	**₱79,252**	**₱2,532**
2012						
Derivative Assets	₱102,287	₱100,246	₱2,041	₱892	₱–	₱1,149
	₱102,287	₱100,246	₱2,041	₱892	₱–	₱1,149

				Effect af Remaining Rights of Set-Off (including rights to set-off financial collateral) offsetting criteria		
Financial liabilities recognized by type	**Gross Carrying Amounts (before offsetting)**	**Gross Amounts Offset in Accordance with the Offsetting Criteria**	**Net Amount Presented in Statement of Financial Position**	**Financial Instruments**	**Fair Value of Financial Collateral**	**Net Exposure**
Consolidated						
2013						
Derivative liabilities	**₱115,897**	**₱111,466**	**₱4,431**	**₱1,298**	**₱–**	**₱3,133**
SSURA	**25,117**	**–**	**25,117**	**–**	**25,098**	**19**
	₱141,014	**₱111,466**	**₱29,548**	**₱1,298**	**₱25,098**	**₱3,152**
2012						
Derivative liabilities	₱127,580	₱120,903	₱6,677	₱892	₱–	₱5,785
SSURA	9,267	–	9,267	–	9,267	
	₱136,847	₱120,903	₱15,944	₱892	₱9,267	₱5,785
Parent Company						
2013						
Derivative liabilities	**₱115,897**	**₱111,466**	**₱4,431**	**₱1,298**	**₱**	**₱3,133**
SSURA	**22,180**		**22,180**	**–**	**22,180**	**-**
	₱138,077	**₱111,466**	**₱26,611**	**₱1,298**	**₱22,180**	**₱3,133**
2012						
Derivative liabilities	₱124,589	₱118,180	₱6,409	₱892	₱–	₱5,517
SSURA	5,066	–	5,066		5,066	–
	₱129,655	₱118,180	₱11,475	₱892	₱5,066	₱5,517

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

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

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2013					
Concentration by Industry					
Financial intermediaries	**₱38,353**	**₱315,062**	**₱16,614**	**₱10,764**	**₱380,793**
Manufacturing (various industries)	**124,090**	–	**1,891**	**9,652**	**135,633**
Wholesale and retail trade	**96,062**	–	**99**	**9,402**	**105,563**
Real estate, renting and business activities	**102,998**	–	**3,124**	**563**	**106,685**
Private households	**130,305**	–	**868**	**69,611**	**200,784**
Transportation, storage and communication	**36,505**	–	**3,197**	**4,936**	**44,638**
Electricity, gas and water	**42,953**	–	**7,830**	**408**	**51,191**
Other community, social and personal activities	**3,066**	–	**58**	**34**	**3,158**
Construction	**16,462**	–	**524**	**6,160**	**23,146**
Hotel and restaurants	**12,764**	–	–	**82**	**12,846**
Agricultural, hunting and forestry	**6,258**	–	–	**47**	**6,305**
Public administration and defense, compulsory social security	**1,912**	–	–	–	**1,912**
Mining and quarrying	**1,049**	–	**202**	**234**	**1,485**
Others****	**12,861**	–	**333,456**	**1,908**	**348,225**
	625,638	**315,062**	**367,863**	**113,801**	**1,422,364**
Less allowance for credit losses	**16,626**	**2**	**568**	**9,956**	**27,152**
	₱609,012	**₱315,060**	**₱367,295**	**₱103,845**	**₱1,395,212**
Concentration by Location					
Philippines	**₱603,058**	**₱270,127**	**₱328,670**	**₱111,403**	**₱1,313,258**
Asia	**22,075**	**34,245**	**15,445**	**2,047**	**73,812**
USA	**328**	**4,281**	**15,973**	**351**	**20,933**
Europe	**102**	**4,258**	**4,038**	–	**8,398**
Others	**75**	**2,151**	**3,737**	–	**5,963**
	625,638	**315,062**	**367,863**	**113,801**	**1,422,364**
Less allowance for credit losses	**16,626**	**2**	**568**	**9,956**	**27,152**
	₱609,012	**₱315,060**	**₱367,295**	**₱103,845**	**₱1,395,212**
2012 (As Restated - Note 2)					
Concentration by Industry					
Financial intermediaries	₱47,505	₱177,668	₱36,231	₱10,516	₱271,920
Manufacturing (various industries)	99,704	–	659	8,779	109,142
Wholesale and retail trade	93,057	–	210	8,812	102,079
Real estate, renting and business activities	87,974	–	1,397	2,557	91,928
Private households	69,276	–	–	40	69,316
Transportation, storage and communication	39,683	–	2,648	4,307	46,638
Electricity, gas and water	40,697	–	2,475	533	43,705
Other community, social and personal activities	18,183	–	1	39	18,223
Construction	9,772	–	–	5,804	15,576
Hotel and restaurants	11,454	–	–	2	11,456
Agricultural, hunting and forestry	5,636	–	–	13	5,649
Public administration and defense, compulsory social security	2,930	–	–	–	2,930

(Forward)

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Mining and quarrying	₱824	₱–	₱411	₱237	₱1,472
Others****	13,204	–	203,953	57,429	274,586
	539,899	177,668	247,985	99,068	1,064,620
Less allowance for credit losses	15,726	2	573	9,583	25,884
	₱524,173	₱177,666	₱247,412	₱89,485	₱1,038,736
Concentration by Location					
Philippines	₱529,711	₱145,819	₱217,419	₱96,841	₱989,790
Asia	9,300	25,794	17,459	1,697	54,250
USA	644	4,649	4,519	530	10,342
Europe	229	1,294	4,148	–	5,671
Others	15	112	4,440	–	4,567
	539,899	177,668	247,985	99,068	1,064,620
Less allowance for credit losses	15,726	2	573	9,583	25,884
	₱524,173	₱177,666	₱247,412	₱89,485	₱1,038,736

	Parent Company				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
2013					
Concentration by Industry					
Financial intermediaries	**₱32,007**	**₱249,543**	**₱10,384**	**₱10,354**	**₱302,288**
Manufacturing (various industries)	**114,839**	**–**	**166**	**9,651**	**124,656**
Wholesale and retail trade	**88,753**	**–**	**22**	**9,402**	**98,177**
Real estate, renting and business activities	**70,242**	**–**	**4**	**557**	**70,803**
Private households	**50,273**	**–**	**868**	**16**	**51,157**
Electricity, gas and water	**40,872**	**–**	**3,532**	**408**	**44,812**
Transportation, storage and communication	**28,577**	**–**	**2,121**	**4,936**	**35,634**
Construction	**12,174**	**–**	**–**	**6,106**	**18,280**
Hotel and restaurants	**12,120**	**–**	**–**	**82**	**12,202**
Agricultural, hunting and forestry	**4,125**	**–**	**–**	**47**	**4,172**
Mining and quarrying	**829**	**–**	**45**	**234**	**1,108**
Other community, social and personal activities	**512**	**–**	**48**	**15**	**575**
Public administration and defense, compulsory social security	**121**	**–**	**–**	**–**	**121**
Others****	**9,049**	**–**	**284,429**	**1,194**	**294,672**
	464,493	**249,543**	**301,619**	**43,002**	**1,058,657**
Less allowance for credit losses	**9,650**	**–**	**178**	**9,956**	**19,784**
	₱454,843	**₱249,543**	**₱301,441**	**₱33,046**	**₱1,038,873**
Concentration by Location					
Philippines	**₱460,238**	**₱224,024**	**₱265,173**	**₱40,842**	**₱990,277**
Asia	**3,615**	**15,051**	**12,876**	**1,811**	**33,353**
USA	**421**	**4,118**	**15,795**	**349**	**20,683**
Europe	**144**	**4,199**	**4,038**	**–**	**8,381**
Others	**75**	**2,151**	**3,737**	**–**	**5,963**
	464,493	**249,543**	**301,619**	**43,002**	**1,058,657**
Less allowance for credit losses	**9,650**	**–**	**178**	**9,956**	**19,784**
	₱454,843	**₱249,543**	**₱301,441**	**₱33,046**	**₱1,038,873**
2012 (As Restated - Note 2)					
Concentration by Industry					
Financial intermediaries	₱34,179	₱134,434	₱27,683	₱9,974	₱206,270
Manufacturing (various industries)	95,433	–	494	8,780	104,707
Wholesale and retail trade	71,517	–	91	8,810	80,418
Real estate, renting and business activities	61,509	–	3	947	62,459
Private households	45,335	–	–	40	45,375
Electricity, gas and water	35,228	–	2,073	531	37,832
Transportation, storage and communication	30,815	–	2,404	4,306	37,525
Construction	6,386	–	–	5,749	12,135
Hotel and restaurants	10,358	–	–	3	10,361
Agricultural, hunting and forestry	4,324	–	–	13	4,337
Mining and quarrying	517	–	53	237	807

(Forward)

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Other community, social and personal activities	₱770	₱–	₱–	₱	₱770
Public administration and defense, compulsory social security	142	–	–		142
Others****	8,561	–	149,075	1,272	158,908
	405,074	134,434	181,876	40,662	762,046
Less allowance for credit losses	8,233		176	9,583	17,992
	₱396,841	₱134,434	₱181,700	₱31,079	₱744,054
Concentration by Location					
Philippines	₱402,313	₱119,731	₱152,268	₱38,486	₱712,798
Asia	1,694	8,958	16,749	1,646	29,047
USA	788	4,442	4,273	530	10,033
Europe	265	1,192	4,147	–	5,604
Others	14	111	4,439	–	4,564
	405,074	134,434	181,876	40,662	762,046
Less allowance for credit losses	8,233	–	176	9,583	17,992
	₱396,841	₱134,434	₱181,700	₱31,079	₱744,054

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

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

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

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

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

Standard Grade

3 - Good

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

4 - Satisfactory

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

5 - Acceptable

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

Substandard Grade

6 - Watchlist

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

7 - Especially Mentioned

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

Impaired

8 - Substandard

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

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

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

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

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

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

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

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

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

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

Impaired
Poor repossessed
This rating is given to accounts whose collaterals were repossessed.

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

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

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

The following table shows the credit quality of financial assets:

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2013					
Neither past due nor impaired	**₱598,241**	**₱315,062**	**₱366,000**	**₱103,845**	**₱1,383,148**
Past due but not impaired	**13,164**	–	–	–	**13,164**
Impaired	**14,233**	–	**1,863**	**9,956**	**26,052**
Gross	**625,638**	**315,062**	**367,863**	**113,801**	**1,422,364**
Less allowance for credit losses	**16,626**	**2**	**568**	**9,956**	**27,152**
Net	**₱609,012**	**₱315,060**	**₱367,295**	**₱103,845**	**₱1,395,212**
2012 (As Restated - Note 2)					
Neither past due nor impaired	₱513,058	₱177,668	₱246,316	₱89,132	₱1,026,174
Past due but not impaired	11,965	–	–	–	11,965
Impaired	14,876	–	1,669	9,936	26,481
Gross	539,899	177,668	247,985	99,068	1,064,620
Less allowance for credit losses	15,726	2	573	9,583	25,884
Net	₱524,173	₱177,666	₱247,412	₱89,485	₱1,038,736

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2013					
Neither past due nor impaired	**₱454,309**	**₱249,543**	**₱301,366**	**₱33,046**	**₱1,038,264**
Past due but not impaired	**623**	–	–	–	**623**
Impaired	**9,561**	–	**253**	**9,956**	**19,770**
Gross	**464,493**	**249,543**	**301,619**	**43,002**	**1,058,657**
Less allowance for credit losses	**9,650**	–	**178**	**9,956**	**19,784**
Net	**₱454,843**	**₱249,543**	**₱301,441**	**₱33,046**	**₱1,038,873**
2012 (As Restated - Note 2)					
Neither past due nor impaired	₱393,358	₱134,434	₱181,530	₱30,726	₱740,048
Past due but not impaired	289	–	–	–	289
Impaired	11,427	–	346	9,936	21,709
Gross	405,074	134,434	181,876	40,662	762,046
Less allowance for credit losses	8,233		176	9,583	17,992
Net	₱396,841	₱134,434	₱181,700	₱31,079	₱ 744,054

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

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

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2013					
Loans and advances to banks					
Due from BSP	₱148,132	₱18,642	₱–	₱–	₱166,774
Due from other banks	19,279	6,734	–	262	26,275
Interbank loans receivable and SPURA	105,332	12,647	–	4,034	122,013
	272,743	38,023	–	4,296	315,062
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	30,494	8,873	–	–	39,367
Private	1,177	684	–	471	2,332
BSP	19	–	–	–	19
Equity securities - quoted	4,610	4,938	89	–	9,637
Derivative assets	1,547	211	–	2,328	4,086
	37,847	14,706	89	2,799	55,441
AFS investments					
Debt securities					
Government	202,368	37,027	31	6,094	245,520
Private	8,976	4,319	–	8,236	21,531
Subtotal	211,344	41,346	31	14,330	267,051
Equity securities					
Quoted	453	889	–	247	1,589
Unquoted	–	3,277	148	69	3,494
Subtotal	453	4,166	148	316	5,083
	211,797	45,512	179	14,646	272,134
HTM investments					
Government bonds	37,437	22	–	921	38,380
Private bonds	–	–	–	–	–
Treasury notes	45	–	–	–	45
	37,482	22	–	921	38,425
Loans and receivables					
Receivables from customers					
Commercial loans	120,700	231,249	35,302	–	387,251
Residential mortgage loans	19,458	38,694	1,811	–	59,963
Auto loans	28,541	19,755	120	–	48,416
Trade	6,650	21,632	1,490	–	29,772
Others	51,895	6,714	208	98	58,915
	227,244	318,044	38,931	98	584,317
Unquoted debt securities	1,620	2,342	–	133	4,095
Accrued interest receivable	4,731	964	755	246	6,696
Accounts receivable	872	17	12	1,510	2,411
Sales contract receivable	231	–	18	161	410
Other receivables	–	183	–	129	312
	234,698	321,550	39,716	2,277	598,241
Others	70,091	6	–	33,748	103,845
	₱864,658	₱419,819	₱39,984	₱58,687	₱1,383,148
2012 (As Restated - Note 2)					
Loans and advances to banks					
Due from BSP	₱–	₱131,278	₱	₱–	₱131,278
Due from other banks	11,164	11,312	400	120	22,996
Interbank loans receivable and SPURA	8,462	7,369	–	7,563	23,394
	19,626	149,959	400	7,683	177,668
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	1,037	60,611	–	–	61,648
Private	368	111	–	322	801
Equity securities - quoted	508	7,334	290	–	8,132
Derivative assets	1,404	730	–	205	2,339
	3,317	68,786	290	527	72,920

(Forward)

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
AFS investments					
Debt securities					
Government	₱7,222	₱86,288	₱27	₱10,299	₱103,836
Private	15,557	–	–	1,055	16,612
Subtotal	22,779	86,288	27	11,354	120,448
Equity securities					
Quoted	297	623	–	299	1,219
Unquoted	17	–	51	210	278
Subtotal	314	623	51	509	1,497
	23,093	86,911	78	11,863	121,945
HTM investments					
Government bonds	4,200	29,795	–	3,486	37,481
Private bonds	4,335	–	–	–	4,335
Treasury notes	42	9,593	–	–	9,635
	8,577	39,388	–	3,486	51,451
Loans and receivables					
Receivables from customers					
Commercial loans	100,887	178,643	49,896	–	329,426
Residential mortgage loans	18,843	30,389	428	–	49,660
Auto loans	28,626	13,304	19	–	41,949
Trade	3,228	14,416	3,893	–	21,537
Others	20,612	7,188	150	26,593	54,543
	172,196	243,940	54,386	26,593	497,115
Unquoted debt securities	4,806	1,562	–	–	6,368
Accrued interest receivable	1,392	3,343	218	167	5,120
Accounts receivable	105	55	–	2,263	2,423
Sales contract receivable	301	–	–	240	541
Other receivables	9	1,279	–	203	1,491
	178,809	250,179	54,604	29,466	513,058
Others	–	2,010	15	87,107	89,132
	₱233,422	₱597,233	₱55,387	₱140,132	₱1,026,174

	Parent Company				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
2013					
Loans and advances to banks					
Due from BSP	**₱143,724**	**₱–**	**₱–**	**₱–**	**₱143,724**
Due from other banks	**8,785**	**57**	–	**105**	**8,947**
Interbank loans receivable and SPURA	**92,838**	–	–	**4,034**	**96,872**
	245,347	**57**	–	**4,139**	**249,543**
Financial assets at FVPL					
HFT debt securities					
Government	**30,421**	–	–	–	**30,421**
Private	**781**	**464**	–	**472**	**1,717**
BSP	**19**	–	–	–	**19**
Derivative assets	**1,547**	**107**	–	**2,329**	**3,983**
	32,768	**571**	–	**2,801**	**36,140**
AFS investments					
Debt securities					
Government	**199,959**	–	**31**	**6,093**	**206,083**
Private	**8,062**	**4,237**	–	**8,236**	**20,535**
Subtotal	**208,021**	**4,237**	**31**	**14,329**	**226,618**
Equity securities					
Quoted	–	**7**	–	**182**	**189**
Unquoted	–	–	–	**61**	**61**
Subtotal	–	**7**	–	**243**	**250**
	208,021	**4,244**	**31**	**14,572**	**226,868**
HTM investments					
Government bonds	**37,437**	–	–	**921**	**38,358**
Private bonds	–	–	–	–	–
	37,437	–	–	**921**	**38,358**

(Forward)

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and receivables					
Receivables from customers					
Commercial loans	**₱92,510**	**₱220,978**	**₱34,536**	**₱–**	**₱348,024**
Residential mortgage loans	**801**	**34,802**	**641**	–	**36,244**
Auto loans	**1,348**	**14,700**	**21**	–	**16,069**
Trade	**6,420**	**21,632**	**1,490**	–	**29,542**
Others	**16,623**	**429**	–	–	**17,052**
	117,702	**292,541**	**36,688**	–	**446,931**
Unquoted debt securities	–	–	–	**133**	**133**
Accrued interest receivable	**4,248**	**376**	**741**	**246**	**5,611**
Accounts receivable	–	–	–	**1,461**	**1,461**
Sales contract receivable	–	–	–	**145**	**145**
Other receivables	–	–	–	**28**	**28**
	121,950	**292,917**	**37,429**	**2,013**	**454,309**
Others	**266**	–	–	**32,780**	**33,046**
	₱645,789	**₱297,789**	**₱37,460**	**₱57,226**	**₱1,038,264**
2012 (As Restated - Note 2)					
Loans and advances to banks					
Due from BSP	₱	₱111,515	₱–	₱–	₱111,515
Due from other banks	7,668	102		103	7,873
Interbank loans receivable and SPURA	6,458	1,026		7,562	15,046
	14,126	112,643	–	7,665	134,434
Financial assets at FVPL					
HFT debt securities					
Government	970	53,615		–	54,585
Private	368	111	–	322	801
Derivative assets	1,404	640	–	205	2,249
	2,742	54,366		527	57,635
AFS investments					
Debt securities					
Government	6,777	69,073	27	10,299	86,176
Private	14,887		–	1,055	15,942
Subtotal	21,664	69,073	27	11,354	102,118
Equity securities					
Quoted	12	–	–	213	225
Unquoted	–	–		61	61
Subtotal	12	–	–	274	286
	21,676	69,073	27	11,628	102,404
HTM investments					
Government bonds	4,200	9,471		3,486	17,157
Private bonds	4,334	–	–	–	4,334
	8,534	9,471	–	3,486	21,491
Loans and receivables					
Receivables from customers					
Commercial loans	86,766	168,215	49,711	–	304,692
Residential mortgage loans	803	29,322	400		30,525
Auto loans	1,405	13,252	18		14,675
Trade	3,165	14,416	3,893	–	21,474
Others	15,174	394	39	–	15,607
	107,313	225,599	54,061	–	386,973
Unquoted debt securities	123			–	123
Accrued interest receivable	537	2,954	217	166	3,874
Accounts receivable	–	–	–	1,994	1,994
Sales contract receivable	–	–	–	227	227
Other receivables	–		–	167	167
	107,973	228,553	54,278	2,554	393,358
Others	–		–	30,726	30,726
	₱155,051	₱474,106	₱54,305	₱56,586	₱740,048

Notes:

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

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

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
Commercial loans	₱3,326	₱5,982	₱2,830	₱5,282
Residential mortgage loans	605	174	525	71
Auto loans	1	1	–	–
Others	69	16	–	4
	₱4,001	₱6,173	₱3,355	₱5,357

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

	Consolidated					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2013						
Receivables from customers						
Commercial loans	₱173	₱137	₱68	₱47	₱232	₱657
Residential mortgage loans	2,191	664	224	135	1,018	4,232
Auto loans	3,261	1,193	472	373	988	6,287
Trade	–	–	–	1	–	1
Others	589	420	28	86	442	1,565
Receivables from customers - net of unearned discounts and capitalized interest	6,214	2,414	792	642	2,680	12,742
Accrued interest receivable	40	20	11	12	35	118
Accounts receivable	3	4	1	3	274	285
Sales contract receivable	–	–	–	6	13	19
	₱6,257	₱2,438	₱804	₱663	₱3,002	₱13,164
2012 (As Restated - Note 2)						
Receivables from customers						
Commercial loans	₱669	₱54	₱30	₱24	₱98	₱875
Residential mortgage loans	2,140	652	199	37	143	3,171
Auto loans	2,479	955	389	298	619	4,740
Trade	–	–	–	1	11	12
Others	239	515	390	92	1,465	2,701
Receivables from customers - net of unearned discounts and capitalized interest	5,527	2,176	1,008	452	2,336	11,499
Accrued interest receivable	39	15	8	6	38	106
Accounts receivable	17	2	1	2	278	300
Sales contract receivable	30	10	5	4	11	60
	₱5,613	₱2,203	₱1,022	₱464	₱2,663	₱11,965

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

(Forward)

	Parent Company					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2012 (As Restated - Note 2)						
Receivables from customers						
Commercial loans	₱5	₱12	₱25	₱12	₱64	₱118
Residential mortgage loans	6	–		–	114	120
Auto loans	–	–	–	–	46	46
Trade	–	–		2	–	2
Others	–		–	–	–	–
Receivables from customers - net of unearned discounts and capitalized interest	11	12	25	14	224	286
Accrued interest receivable	–	–		–	3	3
	₱11	₱12	₱25	₱14	₱227	₱289

The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2013 and 2012.

Liquidity Risk

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

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

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

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

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

Financial assets

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

Financial liabilities

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

	Consolidated						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
2013							
Financial Assets							
Cash and other cash items	₱29,742	₱–	₱–	₱–	₱–	₱–	₱29,742
Due from BSP	166,474	300	–	–	–	–	166,774
Due from other banks	17,836	914	150	233	53	7,097	26,283
Interbank loans receivable and SPURA	–	111,517	6,258	1,937	2,495	–	122,207
Financial assets at FVPL							
HFT investments	185	18,914	30,032	–	26	–	49,157
Derivative assets*							
Trading:							
Receive	–	19,372	17,062	6,085	7,497	2,539	52,555
Pay	–	(18,985)	(16,866)	(5,671)	(7,200)	(2,022)	(50,744)
	–	387	196	414	297	517	1,811
AFS investments	–	542	437	1,306	3,769	333,181	339,235
HTM investments	–	220	–	–	990	62,746	63,956
Loans and receivables:							
Receivables from customers	23,585	90,017	75,012	50,796	54,884	387,833	682,127
Unquoted debt securities	–	5	22	405	1,452	4,340	6,224
Accounts receivable	2,889	133	8	5	338	448	3,821
Accrued interest receivable	7,235	1	6	1	480	691	8,414
Sales contract receivable	42	9	30	22	48	323	474
Other receivables	12	112	–	–	190	–	314
Other assets							
Returned checks and other cash items	14	–	54	–	–	–	68
Residual value of leased assets	6	4	36	39	98	529	712
Pledged certificate of time deposit	–		–	–	–	266	266
Miscellaneous	1	5	4	8	18	63	99
	₱248,021	₱223,080	₱112,245	₱55,166	₱65,138	₱798,034	₱1,501,684
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱150,694	₱–	₱–	₱–	₱–	₱–	₱150,694
Savings	362,915	–	–	–	–	–	362,915
Time	–	304,575	129,551	21,459	21,077	32,039	508,701
	513,609	304,575	129,551	21,459	21,077	32,039	1,022,310
Bills payable and SSURA	–	69,120	30,295	9,176	5,612	13,906	128,109
Manager's checks and demand drafts outstanding	3,927	–	–	–	–	–	3,927
Accrued interest payable	246	499	301	50	282	391	1,769
Accrued other expenses	5,304	97	3	–	153	–	5,557
Bonds payable	–	–	87	169	338	25,953	26,547
Subordinated debt	–	–	127	4,628	86	8,579	13,420
Other liabilities							
Bills purchased - contra	16,637	–	–	–	–	–	16,637
Accounts payable	1,382	5,002	–	1,067	886	–	8,337
Outstanding acceptances	–	365	551	59	26	–	1,001
Marginal deposits	–	–	324	6,495	–	–	6,819
Deposits on lease contracts	–	8	55	52	197	679	991
Dividends payable	–	3	–	–	26	–	29
Notes payable	–	–	–	–	–	517	517
Miscellaneous	3	–	–	–	48	–	51
	541,108	379,669	161,294	43,155	28,731	82,064	1,236,021
Derivative liabilities*							
Trading:							
Pay	–	42,859	11,022	22,358	3,138	2,099	81,476
Receive	–	(40,270)	(9,877)	(21,596)	(1,470)	(1,684)	(74,897)
	–	2,589	1,145	762	1,668	415	6,579
Loan commitments and financial guarantees	2,114	2,133	9,508	7,258	7,570	73,653	102,236
	₱543,222	₱384,391	₱171,947	₱51,175	₱37,969	₱156,132	₱1,344,836

(Forward)

	Consolidated						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
2012 (As Restated - Note 2)							
Financial Assets							
Cash and other cash items	₱24,382	₱–	₱	₱–	₱–	₱	₱24,382
Due from BSP	115,278	16,005	–	-	–	–	131,283
Due from other banks	20,762	1,876	281	68	10	–	22,997
Interbank loans receivable and SPURA	2,548	12,943	3,905	3,436	616	–	23,448
Financial assets at FVPL							
HFT investments	57	15,070	56,364	67	–	·	71,558
Derivative assets*							
Trading:							
Receive	–	45,525	27,930	4,817	2,627	1,447	82,346
Pay	–	(45,052)	(27,271)	(4,537)	(2,421)	(1,125)	(80,406)
	–	473	659	280	206	322	1,940
AFS investments	–	3,115	2,203	5,155	14,511	131,301	156,285
HTM investments	–	840	1,434	3,103	5,182	87,278	97,837
Loans and receivables:							
Receivables from customers	4,863	113,106	67,941	34,819	35,435	331,557	587,721
Unquoted debt securities	-	16	42	101	1,472	8,383	10,014
Accounts receivable	3,706	76	9	1	6	262	4,060
Accrued interest receivable	6,442	331	288	45	135	118	7,359
Sales contract receivable	37	7	53	26	53	804	980
Other receivables	40	395	1,058	–	–		1,493
Other assets							
Returned checks and other cash items	18	–	62		–	–	80
Residual value of leased assets	6	27	21	32	83	440	609
Pledged certificate of time deposit	-	–	-	–	–	452	452
Miscellaneous	·	7	4	5	14	492	522
	₱178,139	₱164,287	₱134,324	₱47,138	₱57,723	₱561,409	₱1,143,020
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱106,229	₱–	₱–	₱–	₱–	₱–	₱106,229
Savings	305,034		–	–	–	–	305,034
Time	·	228,853	56,046	12,872	17,094	17,734	332,599
	411,263	228,853	56,046	12,872	17,094	17,734	743,862
Bills payable and SSURA	–	51,223	22,326	5,284	3,846	15,023	97,702
Manager's checks and demand drafts outstanding	3,489	·	–	–	·	–	3,489
Accrued interest payable	-	879	249	232	87	363	1,810
Accrued other expenses	4,100	117	–	595	2	17	4,831
Bonds payable		–	–		602	14,590	15,192
Subordinated debt	–	106	156	263	6,027	10,450	17,002
Other liabilities							
Bills purchased - contra	15,217		–	-	–	–	15,217
Accounts payable	23	3,996	–	1,569	606	–	6,194
Outstanding acceptances	–	395	346	111	107	9	968
Marginal deposits	–		152	–	-	1,694	1,846
Deposits on lease contracts	–	8	27	42	167	588	832
Dividends payable	26	40		–	-	–	66
Notes payable		–	–		–	517	517
Deposits for keys	1	–	–		–	–	1
Miscellaneous	2	53	–	-	-	–	55
	434,121	285,670	79,302	20,968	28,538	60,985	909,584
Derivative liabilities*							
Trading:							
Pay		24,933	13,554	3,115	6,584	5,237	53,423
Receive		(24,239)	(13,081)	(2,809)	(5,933)	(3,932)	(49,994)
	-	694	473	306	651	1,305	3,429
Loan commitments and financial guarantees	56,930	4,589	8,277	5,579	6,278	5,301	86,954
	₱491,051	₱290,953	₱88,052	₱26,853	₱35,467	₱67,591	₱999,967

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
2013							
Financial Assets							
Cash and other cash items	₱26,532	₱–	₱–	₱–	₱	₱–	₱26,532
Due from BSP	143,424	300		–	–	–	143,724
Due from other banks	6,440	2,075	190	198	49	2	8,954
Interbank loans receivable and SPURA	–	88,128	4,051	1,937	2,943	–	97,059
Financial assets at FVPL							
HFT investments	–	–	29,958	–	–		29,958
Derivative assets*							
Trading:							
Receive		21,142	17,068	6,097	7,938	2,539	54,784
Pay	–	(20,763)	(16,869)	(5,678)	(7,654)	(2,022)	(52,986)
	–	379	199	419	284	517	1,798
AFS investments	–	411	191	522	2,636	283,074	286,834
HTM investments		220	–	–	990	62,674	63,884
Loans and receivables							
Receivables from customers	2,365	88,182	72,137	43,377	34,131	280,968	521,160
Unquoted debt securities	–	–	–	133	–	1,113	1,246
Accounts receivable	2,360	–	–		–	–	2,360
Accrued interest receivable	6,910	–	–	–	–		6,910
Sales contract receivable	22	8	30	21	40	49	170
Other receivables	12	18	–	–	–		30
Other assets							
Returned checks and other cash items	–	–	54	–	–	–	54
Pledge certificate of time deposit	–	–		–	–	266	266
Miscellaneous	–	–	–	–	–	–	–
	₱188,065	₱179,721	₱106,810	₱46,607	₱41,073	₱628,663	₱1,190,939
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱134,788	₱–	₱–	₱–	₱	₱–	₱134,788
Savings	348,244		–	–		–	348,244
Time	–	250,440	121,833	19,886	6,805	9,780	408,744
	483,032	250,440	121,833	19,886	6,805	9,780	891,776
Bills payable and SSURA	–	45,996	–	–		–	45,996
Manager's checks and demand drafts outstanding	2,816	–	–	–	–		2,816
Accrued interest payable	–	469	185	28	9	212	903
Accrued other expenses	4,031	–	–		–	–	4,031
Subordinated debt		–	84	4,584	–	–	4,668
Other liabilities							
Bills purchased - contra	16,587		–		–	–	16,587
Accounts payable	–	4,674	–	–		–	4,674
Outstanding acceptances	–	365	551	59	26	–	1,001
Marginal deposits	–	–	324	–	–	–	324
	506,466	301,944	122,977	24,557	6,840	9,992	972,776
Derivative liabilities*							
Trading:							
Pay	–	42,859	11,022	22,358	3,138	2,099	81,476
Receive		(40,270)	(9,877)	(21,595)	(1,470)	(1,684)	(74,896)
	–	2,589	1,145	763	1,668	415	6,580
Loan commitments and financial guarantees	2,114	2,079	9,506	7,011	7,569	4,058	32,337
	₱508,580	₱306,612	₱133,628	₱32,331	₱16,077	₱14,465	₱1,011,693
2012 (As Restated - Note 2)							
Financial Assets							
Cash and other cash items	₱21,540	₱–	₱	₱–	₱–	₱–	₱21,540
Due from BSP	96,014	15,504		–	–	–	111,518
Due from other banks	7,873	–	–		–	–	7,873
Interbank loans receivable and SPURA	–	9,887	821	2,728	1,661	–	15,097
Financial assets at FVPL							
HFT investments	–		56,364	–		–	56,364
Derivative assets*							
Trading:							
Receive		45,525	27,930	4,817	2,627	1,447	82,346
Pay		(45,052)	(27,271)	(4,537)	(2,421)	(1,125)	(80,406)
	–	473	659	280	206	322	1,940

(Forward)

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
AFS investments	₱-	₱2,718	₱2,036	₱4,544	₱13,864	₱97,165	₱120,327
HTM investments		822	1,371	2,298	4,111	24,890	33,492
Loans and receivables							
Receivables from customers	2,643	93,291	65,137	28,940	26,569	236,595	453,175
Unquoted debt securities		–	–		357	1,173	1,530
Accounts receivable	3,070	–	–		–	–	3,070
Accrued interest receivable	5,646	–	–		–	–	5,646
Sales contract receivable	34	7	18	24	50	141	274
Other receivables	168	–		–	–	-	168
Other assets							
Returned checks and other cash items	–		63	–	–	–	63
Pledge certificate of time deposit	–		–	–	–	452	452
Miscellaneous	–	-	–	–		426	426
	₱136,988	₱122,702	₱126,469	₱38,814	₱46,818	₱361,164	₱832,955
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱94,516	₱–	₱	₱–	₱–	₱–	₱94,516
Savings	293,934	–		–	–	–	293,934
Time	–	177,043	50,727	11,443	6,374	897	246,484
	388,450	177,043	50,727	11,443	6,374	897	634,934
Bills payable and SSURA	–	16,228		–	–	-	16,228
Manager's checks and demand drafts outstanding	2,732	–		–	–	–	2,732
Accrued interest payable	–	597	112	23	13	214	959
Accrued other expenses	3,338	–	–	–		–	3,338
Subordinated debt	–	107	84	191	5,882	4,669	10,933
Other liabilities							
Bills purchased – contra	15,156	–	–	–	–	–	15,156
Accounts payable	–	3,690	–	-	–	–	3,690
Outstanding acceptances	–	395	346	111	107	9	968
Marginal deposits	–	–	152		–		152
	409,676	198,060	51,421	11,768	12,376	5,789	689,090
Derivative liabilities*							
Trading:							
Pay	–	24,933	13,524	2,648	6,523	2,805	50,433
Receive	–	(24,239)	(13,073)	(2,388)	(5,908)	(1,664)	(47,272)
	-	694	451	260	615	1,141	3,161
Loan commitments and financial guarantees	1,682	3,373	8,269	5,564	5,788	4,860	29,536
	₱411,358	₱202,127	₱60,141	₱17,592	₱18,779	₱11,790	₱721,787

*Does not include derivatives embedded in financial and nonfinancial contracts.

Market Risk

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

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

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

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

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

	Parent Company					
	Jan - May 22[1]			May 23 - December 31[2]		
	Rates and FX	Fixed Income	FX Options	Rates and FX	Fixed Income	FX Options
As of December 31, 2012						
December 28				₱189.12	₱260.93	₱7.71
Average	₱176.59	₱161.33	₱1.63	191.81	149.81	3.94
Highest	234.62	292.02	6.15	273.07	384.04	14.42
Lowest	143.40	32.67	0.00	135.79	60.79	0.02

1/Correlated Rates and FX VaR and FX Options VaR; Uncorrelated Fixed Income VaR
2/Fully correlated VaR across all trading products

Rates and Foreign Exchange (FX) VaR is the correlated VaR of the following products: FX Spot, Outright Forward, NDF, FX Swaps, IRS and CCS. The Fixed Income VaR is the correlated VaR of these products: peso and foreign currency bonds, bond forwards and credit default swaps. A correlated VaR can give a better measure of the probable portfolio losses as it takes into account the natural hedging existing within the portfolio.

The financial institution subsidiaries with trading portfolios adopted the Parent Company methodology in 2011. Below is the summary of the VaR levels of FMIC and PSBank.

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

* January 1 to May 31
** June 1 to December 31

	FMIC			PSBank		
		Bonds		Bonds		
	EQUITIES	PHP	USD	PHP	USD	FX
As of December 31, 2012						
December 28	₱37.40	₱23.34	USD 1.17	₱	₱–	₱1.03
Average	36.31	34.55	0.23	3.65	2.51	1.04
Highest	49.50	216.58	1.21	13.14	10.39	1.95
Lowest	18.40	1.62	0.00	0.01	0.22	0.02

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

The Parent Company and PSBank perform stress testing on a quarterly basis while FMIC performs stress testing on a daily basis to complement the VaR methodology. The stress testing results of the Parent Company are reported to the ALCO and subsequently to the ROC and the BOD.

Market risk - banking book
The Group uses Earnings-at-Risk Methodology to measure the potential effect of interest rate movements to net interest earnings. The measurement and monitoring of exposures are done on a monthly basis.

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

The table below shows the earnings-at-risk profile of the Parent Company and certain subsidiaries as of December 31, 2013 and 2012:

	Parent Company	**FMIC**	**PSBank**	**MCC**	**ORIX Metro**	**Total**
2013	**(₱1,656.51)**	**(₱268.10)**	**(₱54.13)**	**₱45.42**	**(₱0.47)**	**(₱1,933.79)**
2012	(₱1,106.96)	(₱169.02)	(₱82.05)	(₱27.86)	(₱0.17)	(₱1,386.06)

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

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

	Consolidated						Parent Company					
	2013			2012			2013			2012		
Currency	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+1.00%	(₱23.24)	(₱359.67)	+1.00%	(₱76.13)	₱1.01	+1.00%	(₱25.35)	(₱0.87)	+1.00%	(₱78.14)	₱0.94
EUR	+1.00%	19.00	–	+1.00%	18.02	–	+1.00%	18.87	–	+1.00%	18.02	–
JPY	+1.00%	(6.21)	–	+1.00%	12.87	–	+1.00%	(6.21)	–	+1.00%	12.87	–
GBP	+1.00%	0.78	–	+1.00%	2.02	–	+1.00%	0.78	–	+1.00%	2.02	
Others	+1.00%	9.09	–	+1.00%	89.06		+1.00%	9.09	–	+1.00%	89.06	
USD	-1.00%	23.24	359.67	-1.00%	76.13	(1.01)	-1.00%	23.35	0.87	-1.00%	78.14	(0.94)
EUR	-1.00%	19.00	–	-1.00%	(18.02)	–	-1.00%	(18.87)	–	-1.00%	(18.02)	
JPY	-1.00%	6.21	–	-1.00%	(12.87)	–	-1.00%	6.21	–	-1.00%	(12.87)	–
GBP	-1.00%	(0.78)	–	-1.00%	(2.02)	–	-1.00%	(0.78)	–	-1.00%	(2.02)	
Others	-1.00%	(9.09)	–	-1.00%	(89.06)	–	-1.00%	(9.09)	–	-1.00%	(89.06)	–

Information relating to Parent Company's currency derivatives is included in Note 8. As of December 31, 2013 and 2012, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱8.4 billion and ₱9.2 billion, respectively (sold), and ₱9.6 billion and ₱8.6 billion, respectively (bought).

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

Capital Management

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

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

Regulatory Qualifying Capital

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

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both stand-alone basis (head office and branches) and consolidated basis (the Parent Company and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The details of CAR as of December 31, as reported to the BSP, based on BSP Circular 538 or Basel II follow:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Tier 1 capital	**₱123,895**	₱100,056	**₱118,183**	₱96,180
Less: Required deductions	**1,380**	1,187	**24,721**	20,725
Sub-total	**122,515**	98,869	**93,462**	75,455
Excess from Tier 2 deducted to Tier 1 Capital*	**–**	–	**(15,868)**	(7,061)
Net Tier 1 Capital	**122,515**	98,869	**77,594**	68,394
Tier 2 capital	**15,021**	19,588	**8,853**	13,664
Less: Required deductions	**1,380**	1,187	**24,721**	20,725
Sub-total	**13,641**	18,401	**(15,868)**	(7,061)
Excess of Tier 2 deducted to Tier 1 Capital*	**–**	–	**15,868**	7,061
Net Tier 2 Capital	**13,641**	18,401	**–**	–
Total Qualifying Capital	**₱136,156**	₱117,270	**₱77,594**	₱68,394

**Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.*

Credit RWA	**₱665,376**	₱571,063	**₱483,969**	₱424,347
Market RWA	**58,196**	62,586	**52,222**	48,903
Operational RWA	**94,240**	86,227	**55,791**	53,184
Total RWA	**817,812**	719,876	**591,981**	526,434
Tier 1 capital ratio	**14.98%**	13.73%	**13.11%**	12.99%
Total capital ratio	**16.65%**	16.29%	**13.11%**	12.99%

The regulatory qualifying capital of the Parent Company consists of Tier 1 (core) capital, which comprises paid-up common stock, HT1 Capital, surplus including current year profit, surplus reserves and non-controlling interest less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill. 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 unsecured subordinated debt, general loan loss provision, and net unrealized gains on AFS equity securities.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations, Corporates.

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

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

In December 2010, the Basel Committee for Banking Supervision published the Basel III framework (revised in June 2011) to strengthen global capital standards, with the aim of promoting a more resilient banking sector. On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Group is required to comply with this circular effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratios of 7.5% with effect from January 1, 2014. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. BSP existing requirement for Total CAR remains unchanged at 10% 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), 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.

5. Fair Value Measurement

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

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

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

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

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

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

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

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

	2013				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱39,367	₱39,294	₱73	₱–	₱39,367
Private	2,332	2,306	26	–	2,332
BSP	19	19	–	–	19
	41,718	41,619	99	–	41,718
Equity securities					
Quoted	9,637	9,637	–	–	9,637
Derivative assets					
Currency forwards	1,059	–	1,059	–	1,059
Interest rate swaps	1,061	–	1,061	–	1,061
Cross currency swaps	1,652	–	1,652	–	1,652
Put option	215	–	215	–	215
Call option	93	–	93	–	93
Embedded derivatives in non-financial contract	6	–	6	–	6
Derivative assets	4,086	–	4,086	–	4,086
	55,441	51,256	4,185	–	55,441
AFS investments					
Debt securities					
Government	245,520	241,566	3,954	–	245,520
Private	21,531	21,012	519	–	21,531
	267,051	262,578	4,473		267,051
Equity Securities					
Quoted	2,882	2,882	–	–	2,882
	269,933	265,460	4,473	–	269,933
	₱325,374	₱316,716	₱8,658	₱–	₱325,374
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	₱38,380	₱41,176	₱25	₱–	₱41,201
Treasury notes	45	46	–	–	46
	38,425	41,222	25	–	41,247
Loans and receivables-net					
Receivables from customers					
Commercial loans	385,251	–	383,705	–	383,705
Residential mortgage loans	64,496	–	64,782	–	64,782
Auto loans	54,101	–	58,082	–	58,082
Trade	29,847	–	29,854	–	29,854
Others	60,767	–	60,922	–	60,922
	594,462	–	597,345	–	597,345
Unquoted debt securities	4,639	–	5,067	–	5,067
Sales contract receivable	421	–	442	–	442
	599,522	–	602,854	–	602,854

(Forward)

	2013				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Other assets					
Residual value of leased assets	₱712	₱–	₱680	₱–	₱680
Miscellaneous	97	–	104	–	104
	809	–	784	–	784
	638,756	41,222	603,663	–	644,885
Non-financial assets					
Investment properties	13,125	–	22,941	–	22,941
	₱651,881	₱41,222	₱626,604	₱–	₱667,826
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱1,365	₱–	₱1,365	₱–	₱1,365
Interest rate swaps	1,407	–	1,407	–	1,407
Cross currency swaps	1,641	–	1,641	–	1,641
Call option (FX option)	11	–	11	-	11
Credit default swaps	10	–	10	–	10
Embedded derivatives in non-financial contact	18	–	18	–	18
	4,452	–	4,452	–	4,452
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit Liabilities					
Time	₱502,659	₱–	₱509,097	₱–	₱509,097
Bills payable and SSURA	127,204	–	127,768	–	127,768
Bonds payable	11,643		12,820	–	12,820
Subordinated debt	8,628	4,561	4,832	–	9,393
Other liabilities					
Deposits on lease contracts	991	–	951	–	951
	₱651,125	₱4,561	₱655,468	₱–	₱660,029

	2013				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱30,421	₱30,421	₱–	₱–	₱30,421
Private	1,717	1,717	–	–	1,717
BSP	19	19	–	–	19
	32,157	32,157	–	–	32,157
Derivative assets					
Currency forwards	1,059	–	1,059	–	1,059
Interest rate swaps	1,061	–	1,061	–	1,061
Cross currency swaps	1,639	–	1,639	–	1,639
Put option purchased - warrants	215	–	215	-	215
Call option	3	–	3	–	3
Embedded derivatives in non-financial contract	6	–	6	–	6
	3,983	-	3,983	–	3,983
	36,140	32,157	3,983	–	36,140

(Forward)

	2013				
	Parent Company				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
AFS investments					
Debt Securities					
Government	**₱206,083**	**₱205,895**	**₱188**	**₱–**	**₱206,083**
Private	**20,535**	**20,311**	**224**	**–**	**20,535**
	226,618	**226,206**	**412**	**–**	**226,618**
Equity Securities					
Quoted	**264**	**264**	**–**	**–**	**264**
	226,882	**226,470**	**412**	**–**	**226,882**
	₱263,022	**₱258,627**	**₱4,395**	**₱–**	**₱263,022**
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments - Government	**₱38,358**	**₱41,176**	**₱–**	**₱–**	**₱41,176**
Loans and receivables-net					
Receivables from customers					
Commercial loans	**347,808**	**–**	**344,300**	**–**	**344,300**
Residential mortgage loans	**36,482**	**–**	**36,709**	**–**	**36,709**
Auto loans	**16,120**	**–**	**16,208**	**–**	**16,208**
Trade	**29,617**	**–**	**29,625**	**–**	**29,625**
Others	**17,056**	**–**	**17,056**	**–**	**17,056**
	447,083	**–**	**443,898**	**–**	**443,898**
Unquoted debt securities	**534**	**–**	**534**	**–**	**534**
Sales contract receivable	**148**	**–**	**148**	**–**	**148**
	447,765	**–**	**444,580**	**–**	**444,580**
	486,123	**41,176**	**444,580**	**–**	**485,756**
Non-Financial Assets					
Investment properties	**9,504**	**–**	**18,264**	**–**	**18,264**
	₱495,627	**₱41,176**	**₱462,844**	**₱–**	**₱504,020**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	**₱1,365**	**₱–**	**₱1,365**	**₱–**	**₱1,365**
Interest rate swaps	**1,407**	**–**	**1,407**	**–**	**1,407**
Cross currency swaps	**1,641**	**–**	**1,641**	**–**	**1,641**
Call option	**11**	**–**	**11**	**–**	**11**
Credit default swaps	**10**	**–**	**10**	**–**	**10**
Embedded derivatives in non-financial contract	**18**	**–**	**18**	**–**	**18**
	₱4,452	**₱–**	**₱4,452**	**₱–**	**₱4,452**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposits	**₱407,722**	**₱–**	**₱407,722**	**₱–**	**₱407,722**
Bills payable and SSURA	**45,993**	**–**	**45,993**	**–**	**45,993**
Subordinated debt	**4,497**	**4,561**	**–**	**–**	**4,561**
Total financial liabilities	**₱458,212**	**₱4,561**	**₱453,715**	**₱–**	**₱458,276**

	2012 (As Restated - Note 2)			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL (Note 8)				
HFT investments				
Debt securities				
Government	₱61,648	₱61,648	₱54,585	₱54,585
Private	801	801	801	801
Equity securities - quoted	8,132	8,132	–	–
Derivative assets	2,339	2,339	2,249	2,249
	72,920	72,920	57,635	57,635
AFS investments (Note 8)				
Debt securities				
Government	103,836	103,836	86,176	86,176
Private	16,612	16,612	15,942	15,942
Equity securities				
Quoted	2,314	2,314	395	395
Unquoted	279	279	61	61
	123,041	123,041	102,574	102,574

(Forward)

	2012 (As Restated - Note 2)			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
HTM investments (Note 8)				
Government	₱37,481	₱45,795	₱17,157	₱21,498
Treasury notes	9,635	12,162		–
Private	4,335	4,333	4,334	4,333
	51,451	62,290	21,491	25,831
Loans and receivables				
Cash and other cash items	24,382	24,382	21,540	21,540
Due from BSP	131,278	131,278	111,515	111,515
Due from other banks	22,996	22,996	7,873	7,873
Interbank loans receivable and SPURA (Note 7)				
Interbank loans receivable	18,399	18,399	15,046	15,046
SPURA	4,993	4,993		–
	23,392	23,392	15,046	15,046
Loans and receivables - net (Note 9)				
Receivables from customers				
Commercial loans	331,937	335,687	307,057	309,454
Residential mortgage loans	53,137	53,423	30,753	31,030
Auto loans	45,837	46,849	14,705	14,705
Trade	21,377	21,377	21,346	21,346
Others	54,871	56,435	15,615	15,615
	507,159	513,771	389,476	392,150
Unquoted debt securities	6,992	8,107	831	831
Accounts receivable	2,605	2,605	2,169	2,169
Accrued interest receivable	5,324	5,324	3,963	3,963
Sales contract receivable	602	598	236	236
Other receivables	1,491	1,491	166	166
	524,173	531,896	396,841	399,515
Other assets (Note 14)				
Interoffice float items	928	928	665	665
Residual value of leased assets	609	559	–	–
Returned checks and other cash items	80	80	63	63
Other investments	13	13	10	10
Pledged certificate of time deposit	452	452	452	452
Miscellaneous	449	424	353	353
Total financial assets	₱976,164	₱994,651	₱736,058	₱743,072
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱6,692	₱6,692	₱6,425	₱6,425
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	106,229	106,229	94,516	94,516
Savings	305,034	305,034	293,934	293,934
Time	327,431	330,682	245,969	245,969
	738,694	741,945	634,419	634,419
Bills payable and SSURA	97,108	97,213	16,223	16,223
Managers checks and demand drafts outstanding	3,489	3,489	2,732	2,732
Accrued interest and other expenses (Note 18)	6,642	6,642	4,297	4,297
Bonds payable (Note 19)	11,556	12,224	–	–
Subordinated debt (Note 20)	14,243	14,686	9,977	9,866
Other liabilities (Note 21)				
Bills purchased - contra	15,217	15,217	15,156	15,156
Accounts payable	6,195	6,195	3,691	3,691
Marginal deposits	1,846	1,846	152	152
Outstanding acceptances	968	968	968	968
Deposits on lease contracts	832	769	–	–
Dividends payable	66	66	–	–
Miscellaneous	543	543	–	–
	25,667	25,604	19,967	19,967
Total financial liabilities	₱904,091	₱908,495	₱694,040	₱693,929

	Consolidated			
	Level 1	Level 2	Level 3	Total
2012 (As Restated - Note 2)				
Financial Assets				
Financial assets at FVPL				
HFT investments				
Debt securities				
Government	₱61,581	₱67	₱–	₱61,648
Private	801	–	–	801
Equity securities	8,132	–	–	8,132
Derivative assets	–	2,339	–	2,339
Total financial assets at FVPL	₱70,514	₱2,406	₱–	₱72,920
AFS investments				
Debt securities				
Government	₱102,240	₱1,596	₱–	₱103,836
Private	15,449	1,163	–	16,612
Equity securities - quoted	2,314	–	–	2,314
Total AFS investments	₱120,003	₱2,759	₱–	₱122,762
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱6,692	₱–	₱6,692

	Parent Company			
	Level 1	Level 2	Level 3	Total
2012 (As Restated - Note 2)				
Financial Assets				
Financial assets at FVPL				
HFT investments				
Debt securities				
Government	₱54,585	₱–	₱–	₱54,585
Private	801	–	–	801
Derivative assets	–	2,249	–	2,249
Total financial assets at FVPL	₱55,386	₱2,249	₱–	₱57,635
AFS investments				
Debt securities				
Government	₱86,062	₱114	₱–	₱86,176
Private	15,110	832	–	15,942
Equity securities - quoted	395	–	–	395
Total AFS investments	₱101,567	₱946	₱–	₱102,513
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱6,425	₱–	₱6,425

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

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

6. Segment Information

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

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

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

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2013							
Results of Operations							
Net interest income (expense)							
Third party	₱7,851	₱7,999	(₱44)	₱11,148	₱9,994	₱1,321	₱38,269
Intersegment	(280)	(4,014)	–	(5,995)	12,443	(2,154)	–
Net interest income (expense) after intersegment transactions	7,571	3,985	(44)	5,153	22,437	(833)	38,269
Non-interest income	4,068	382	731	13,426	3,646	18,402	40,655
Revenue - net of interest expense	11,639	4,367	687	18,579	26,083	17,569	78,924
Non-interest expense	8,307	1,573	149	2,547	17,123	19,798	49,497
Income (loss) before share in net income of associates and a JV	3,332	2,794	538	16,032	8,960	(2,229)	29,427
Share in net income of associates and a JV	–	110	–	–	–	1,367	1,477
Provision for income tax	(862)	(370)	(52)	(3,242)	64	(2,286)	(6,748)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(1,668)	(1,668)
Net income (loss)	₱2,470	₱2,534	₱486	₱12,790	₱9,024	(₱4,816)	₱22,488
Statement of Financial Position							
Total assets	₱97,439	₱202,740	₱861	₱503,490	₱321,033	₱253,006	₱1,378,569
Total liabilities	₱41,792	₱197,033	₱6	₱481,636	₱377,608	₱137,789	₱1,235,864
Other Segment Information							
Capital expenditures	₱409	₱212	₱–	₱105	₱328	₱2,599	₱3,653
Depreciation and amortization	₱293	₱103	₱–	₱7	₱949	₱1,332	₱2,684
Provision for credit and impairment losses	₱3,665	(₱157)	₱–	₱426	₱1,886	₱4,902	₱10,722

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2012 (As restated - Note 2)							
Results of Operations							
Net interest income (expense)							
Third party	₱6,785	₱8,860	(₱66)	₱6,730	₱7,392	₱1,153	₱30,854
Intersegment	(217)	(5,672)	·	(3,837)	10,979	(1,253)	–
Net interest income (expense) after intersegment transactions	6,568	3,188	(66)	2,893	18,371	(100)	30,854
Non-interest income	3,435	234	739	8,193	3,106	10,517	26,224
Revenue - net of interest expense	10,003	3,422	673	11,086	21,477	10,417	57,078
Non-interest expense	7,007	1,342	106	1,220	13,918	14,260	37,853
Income (loss) before share in net income of associates and a JV	2,996	2,080	567	9,866	7,559	(3,843)	19,225
Share in net income of associates and a JV		1	–		–	2,547	2,548
Provision for income tax	(796)	(155)	(29)	(1,844)	(232)	(800)	(3,856)
Non-controlling interest in net income of consolidated subsidiaries	..	–	–		–	(2,518)	(2,518)
Net income (loss)	₱2,200	₱1,926	₱538	₱8,022	₱7,327	(₱4,614)	₱15,399
Statement of Financial Position							
Total assets	₱64,184	₱208,115	₱2,210	₱306,726	₱264,946	₱200,462	₱1,046,643
Total liabilities	₱33,952	₱205,180	₱2,302	₱278,774	₱295,235	₱106,491	₱921,934
Other Segment Information							
Capital expenditures	₱446	₱281	₱–	₱75	₱229	₱3,472	₱4,503
Depreciation and amortization	₱311	₱81	₱-	₱15	₱879	₱1,138	₱2,424
Provision for credit and impairment losses	₱3,051	₱83	₱	₱–	₱572	₱772	₱4,478
2011 (As restated - Note 2)							
Results of Operations							
Net interest income (expense)							
Third party	₱5,809	₱8,643	(₱59)	₱8,973	₱3,943	₱2,128	₱29,437
Intersegment	(76)	(2,327)	–	(2,722)	5,697	(572)	-
Net interest income (expense) after intersegment transactions	5,733	6,316	(59)	6,251	9,640	1,556	29,437
Non-interest income	2,919	214	460	6,696	3,138	6,269	19,696
Revenue - net of interest expense	8,652	6,530	401	12,947	12,778	7,825	49,133
Non-interest expense	5,946	1,447	113	1,932	13,105	11,980	34,523
Income (loss) before share in net income of associates and a JV	2,706	5,083	288	11,015	(327)	(4,155)	14,610
Share in net income of associates and a JV	–	8	·	–		1,415	1,423
Provision for income tax	(750)	(154)	(31)	(1,490)	(113)	(1,004)	(3,542)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–		–	(1,460)	(1,460)
Net income (loss)	₱1,956	₱4,937	₱257	₱9,525	(₱440)	(₱5,204)	₱11,031
Statement of Financial Position							
Total assets	₱55,060	₱197,713	₱1,131	₱344,522	₱228,735	₱134,915	₱962,076
Total liabilities	₱47,350	₱188,735	₱1,125	₱333,810	₱230,033	₱46,275	₱847,328
Other Segment Information							
Capital expenditures	₱504	₱108	₱–	₱139	₱100	₱2,148	₱2,999
Depreciation and amortization	₱251	₱67	₱	₱199	₱654	₱1,163	₱2,334
Provision for credit and impairment losses	₱1,979	₱272	₱–	₱7	₱430	₱1,135	₱3,823

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

Geographical Information

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

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
2013					
Interest income	**₱48,614**	**₱1,243**	**₱35**	**₱–**	**₱49,892**
Interest expense	**11,155**	**462**	**6**	–	**11,623**
Net interest income	**37,459**	**781**	**29**	–	**38,269**
Non-interest income	**39,130**	**1,000**	**411**	**114**	**40,655**
Provision for credit and impairment losses	**10,630**	**92**	–	–	**10,722**
Total external net operating income	**₱65,959**	**₱1,689**	**₱440**	**₱114**	**₱68,202**
Non-current assets	**₱30,985**	**₱667**	**₱25**	**₱13**	**₱31,690**
2012 (As Restated - Note 2)					
Interest income	₱44,264	₱708	₱44	₱–	₱45,016
Interest expense	13,940	215	7	–	14,162
Net interest income	30,324	493	37	–	30,854
Non-interest income	24,637	1,118	329	140	26,224
Provision for credit and impairment losses	4,444	34	–	–	4,478
Total external net operating income	₱50,517	₱1,577	₱366	₱140	₱52,600
Non-current assets	₱33,775	₱550	₱31	₱13	₱34,369
2011 (As Restated - Note 2)					
Interest income	₱44,285	₱729	₱54	₱–	₱45,068
Interest expense	15,479	146	6	–	15,631
Net interest income	28,806	583	48	–	29,437
Non-interest income	17,948	1,198	352	198	19,696
Provision for credit and impairment losses	3,822	1	–	–	3,823
Total external net operating income	₱42,932	₱1,780	₱400	₱198	₱45,310
Non-current assets	₱32,970	₱391	₱110	₱19	₱33,490

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

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Interbank loans receivable (Note 31)	**₱27,465**	₱18,401	**₱17,548**	₱15,046
SPURA	**94,548**	4,993	**79,324**	–
	122,013	23,394	**96,872**	15,046
Less allowance for impairment losses (Note 15)	**2**	2	–	–
	₱122,011	₱23,392	**₱96,872**	₱15,046

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

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012
Financial assets at FVPL (Note 29)	**₱55,441**	₱72,920	**₱36,140**	₱57,635
AFS investments (Notes 11, 29 and 31)	**273,429**	123,041	**226,943**	102,574
HTM investments (Note 31)	**38,425**	51,451	**38,358**	21,491
	₱367,295	₱247,412	**₱301,441**	₱181,700

Financial assets at FVPL consist of the following:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012
HFT investments (Note 31)				
Debt securities				
Government (Note 17)	**₱39,367**	₱61,648	**₱30,421**	₱54,585
Private	**2,332**	801	**1,717**	801
BSP	**19**	–	**19**	–
	41,718	62,449	**32,157**	55,386
Equity securities - quoted	**9,637**	8,132	–	–
	51,355	70,581	**32,157**	55,386
Derivative assets (Note 31)	**4,086**	2,339	**3,983**	2,249
	₱55,441	₱72,920	**₱36,140**	₱57,635

Derivative Financial Instruments

The following are fair values of derivative financial instruments of the Parent Company recorded as derivative assets/liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2013 and 2012 and are not indicative of either market risk or credit risk.

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2013				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	**₱769**	**₱181**	**USD 754**	**₱43.6032**
CNY	**182**	**2**	**CNY 1,664**	**CNY 0.1612**
TWD	**17**	–	**TWD 933**	**TWD 0.0338**
EUR	**7**	–	**EUR 14**	**EUR 1.3687**
JPY	–	**2**	**JPY 1,141**	**JPY 0.0096**
CHF	**1**	–	**CHF 3**	**CHF 1.1160**
THB	–	**1**	**THB 10**	**THB 0.0312**
AUD	–	–	**AUD 3**	**AUD 0.8888**
SOLD:				
USD	**57**	**1,078**	**USD 1,723**	**₱43.7730**
CNY	**15**	**94**	**CNY 2,922**	**CNY 0.1632**

(Forward)

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
JPY	**₱11**	**₱3**	**JPY 2,827**	**JPY 0.0097**
EUR	–	**1**	**EUR 1**	**EUR1.3699**
THB	–	–	**THB 29**	**THB 0.0304**
SGD	–	–	**SGD 11**	**SGD 0.7900**
AUD	–	**3**	**AUD 5**	**AUD 0.8925**
Put option purchased-warrants	**215**	–	**USD 645**	
Interest rate swaps - PHP	**892**	**857**	**₱55,694**	
Interest rate swaps - FX	**169**	**550**	**USD 1,270**	
Cross currency swaps	**1,639**	**234**	**USD 1,154**	
Cross currency swaps - PHP	–	**1,407**	**₱13,632**	
Credit default swaps	–	**10**	**USD 35**	
Over-the-counter FX Option	**3**	**11**	**USD 89**	
Embedded derivatives in:				
Financial contract*	–	**18**	**USD 1**	
Nonfinancial contract**	**6**	–	**USD 0**	
	₱3,983	**₱4,452**		
December 31, 2012				
(As Restated - Note 2)				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱39	₱1,280	USD 1,324	₱41.9696
CNY	47	3	CNY 2,283	CNY 0.1577
EUR	25	1	EUR 31	EUR 1.3223
JPY	–	1	JPY 16	JPY 0.0125
TWD	–	–	TWD 116	TWD 0.0344
SOLD:				
USD	1,098	28	USD 2,101	₱41.5060
CNY	5	109	CNY 2,138	CNY 0.1572
JPY	1	–	JPY 191	JPY 0.0117
EUR	–	50	EUR 13	EUR 1.2278
AUD	–	50	AUD 80	AUD 1.0010
NZD	–	–	NZD 1	NZD 0.8328
SGD	–	–	–	SGD 0.8166
THB	–	–	THB 12	THB 0.0326
Put option purchased-warrants	199	–	USD 645	
Interest rate swaps - PHP	791	1,050	₱38,972	
Interest rate swaps - FX	21	654	USD 710	
Cross currency swaps	8	3,163	USD 961	
Cross currency swaps - PHP	5	–	₱500	
Credit default swaps	–	1	USD 10	
Over-the-counter FX Option	3	15	USD 48	
Embedded derivatives in:				
Financial contract*	–	20	USD 2	
Nonfinancial contract**	7	–	USD 0	
	₱2,249	₱6,425		

* As of December 31, 2013 and 2012, derivative liabilities pertain to interest rate derivatives embedded in structured debt instrument with outstanding notional amount of USD 1.1 million and USD 1.7 million, respectively.

** Nonfinancial host contracts include foreign currency derivatives with average notional amounts of USD 1,440 and USD 1,415 per month as of December 31, 2013 and 2012, respectively (with maturities until 2021).

As of December 31, 2013 and 2012, the Group's derivative assets include embedded call option in a financial contract amounting to ₱90.4 million and ₱27.4 million, respectively; currency forwards and derivative assets from Put Option Purchased Warrants of ₱1.4 million and ₱63.4 million, respectively, as of December 31, 2012; and interest rate swaps of ₱13.3 million as of December 31, 2013.

Derivatives designated as accounting hedges
MCC has two cross-currency swap agreements with a certain bank to hedge the foreign exchange and interest rate risks arising from its dollar-denominated loan with the same bank. Under the agreements, MCC, on a quarterly basis, pays fixed annual interest rates ranging from 4.1% to 5.5% in 2013 and 2012, respectively, on the peso principals and receives floating interest at 3 months LIBOR on the USD principals. As of December 31, 2013 and 2012, the swaps which are designated as hedging instruments under cash flow hedges have an aggregate positive and negative fair value of ₱13.3 million and ₱267.3 million, respectively. Cash outflows relating to the hedged item amounting to ₱2.2 billion and ₱2.9 billion are expected to be settled within one year and beyond one year, respectively. MCC assessed the hedge relationship of the swaps and the hedged loans as highly effective. The effective fair value changes on the swaps that were deferred in equity under 'Translation adjustment and others' as of December 31, 2013 and 2012 amounted to ₱17.7 million and ₱81.9 million, respectively. This is to recognize the offsetting effect of the change in fair value of the swaps and that of the hedged loans in the statement of income due to movements in the foreign exchange rates. No ineffectiveness was recognized in 2013 and 2012.

AFS investments consist of the following:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Debt securities:				
Government (Note 17)	**₱245,520**	₱103,836	**₱206,083**	₱86,176
Private (Note 14)	**21,531**	16,612	**20,535**	15,942
	267,051	120,448	**226,618**	102,118
Equity securities:				
Quoted	**3,182**	2,619	**356**	485
Unquoted	**3,764**	547	**147**	147
	6,946	3,166	**503**	632
	273,997	123,614	**227,121**	102,750
Less allowance for impairment losses (Note 15)	**568**	573	**178**	176
	₱273,429	₱123,041	**₱226,943**	₱102,574

AFS investments include net unrealized gains (losses) as follows:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	**2013**	2012
Balance at the beginning of year	**₱2,546**	₱5,063	**₱1,613**	₱2,377
Unrealized gains recognized in other comprehensive income	**9,910**	4,684	**1,163**	3,269
Amounts realized in profit or loss	**(12,833)**	(7,096)	**(4,816)**	(4,004)
	(377)	2,651	**(2,040)**	1,642
Tax (Note 28)	**6**	(105)	**(93)**	(29)
Balance at end of year	**(₱371)**	₱2,546	**(₱2,133)**	₱1,613

HTM investments consist of the following:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012
Government bonds (Note 17)	**₱38,380**	₱37,481	**₱38,358**	₱17,157
Treasury notes	**45**	9,635	**–**	
Private bonds	**–**	4,335	**–**	4,334
	₱38,425	₱51,451	**₱38,358**	₱21,491

HTM investments include US government securities with carrying value of USD 1.0 million (with peso equivalent of ₱45.1 million and ₱41.6 million as of December 31, 2013 and 2012, respectively) which are pledged by MR USA to the State Treasury Office pursuant to the California Financial Code and in accordance with the requirements of the California Department of Financial Institutions relative to its license as a transmitter of money.

Bond Exchange Transaction

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 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 investment under PAS 39, on June 28, 2011, the SEC granted all holders of eligible bonds currently classified as HTM that will exchange more than 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) the date of the exchange, (ii) amount of eligible bonds exchanged, (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 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 738 issued exemption from tainting provision for prudential reporting on certain securities booked under HTM category which are covered by an offer and accepted tender offer pursuant to liability management transactions of the ROP, among others.

In July 2011, given its nature of business, FMIC participated in the domestic bond exchange covering its ₱3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings (from maturity date of December 16, 2020 to July 19, 2031) and benefit from the higher yields (from 5.875% to 8.00%). FMIC has complied with the disclosure and other requirements of the SEC as follows:

a. total HTM Investments portfolio of FMIC before and after the exchange remain the same while the gain on exchange of ₱14.5 million is deferred and amortized over the term of the new bonds; and
b. as disclosed in Note 2, the related financial statements of the Group have been prepared in accordance with Philippine GAAP for banks.

Reporting under PFRS
As of December 31, 2013 and 2012, had the Group accounted for the transaction under PFRS, the unamortized balance of the deferred gain on exchange of ₱0.2 million and ₱13.4 million, respectively, would have been credited to the Group's 2011 net income and the entire HTM investments portfolio of the Group with amortized cost of ₱38.4 billion and ₱51.5 billion, respectively, would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱2.8 billion and ₱10.8 billion, respectively, being recognized in other comprehensive income.

Reclassification of HTM Portfolio in 2013
In 2013, PSBank and FMIC reclassified its HTM investments totaling to ₱13.3 billion (consisting of dollar denominated bonds amounting to US$73.5 million and peso denominated bonds of ₱10.3 billion) and ₱16.3 billion, respectively, to AFS investments as they no longer intend to hold them up to maturity but rather stands ready to sell such investments. The change in intention was primarily driven by the need to increase capital position in view of the following directions set forth in BSP Circular No. 781:

- Significant increase in the industry's regulatory capital requirements in view of the early implementation of Basel III effective 2014;
- Inclusion of "loss absorbency" feature in the issuance of additional Tier 2 capital; and
- For PSBank, disqualification of its ₱3.0 billion subordinated debt as Tier 2 Capital under Basel III.

The change in intention and eventual disposal of the said HTM investment portfolio in response to the significant increase in regulatory capital requirements is one of the conditions permitted under PAS 39 thus, not covered by the tainting rule.

As of December 31, 2013, out of the reclassified securities of PSBank, bonds originally costing ₱12.6 billion (dollar denominated bonds of US$73.5 million and peso denominated bonds of ₱9.6 billion) have been sold with total trading gain of ₱4.0 billion. For FMIC, bonds totaling ₱11.3 billion have been sold with total trading gain of ₱3.8 billion.

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012	2011
Financial assets at FVPL	**₱1,775**	₱1,326	₱476	**₱1,495**	₱1,190	₱382
AFS investments	**8,119**	5,743	6,270	**6,469**	4,840	3,683
HTM investments	**1,521**	3,394	3,147	**1,142**	1,088	1,081
	₱11,415	₱10,463	₱9,893	**₱9,106**	₱7,118	₱5,146

In 2013, 2012 and 2011, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.54% to 10.63%, 0.88% to 11.63% and 0.80% to 10.63%, respectively, for the Group and from 0.63% to 10.63%, 0.88% to 11.63% and 0.80% to 9.88%, respectively, for the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 1.70% to 14.60%, 3.30% to 18.25% and 3.70% to 18.25%, respectively, for the Group and from 1.70% to 14.60%, 3.30% to 11.50% and 3.70% to 14.00%, respectively, for the Parent Company.

Trading and securities gain - net consists of:

	Consolidated			Parent Company		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	2013	2012	2011
HFT investments	₱992	₱3,699	₱1,338	₱409	₱1,791	₱1,007
AFS investments	12,833	7,096	5,831	4,816	4,004	3,671
Derivative asset/liabilities - net	3,357	(4,115)	(923)	3,361	(4,089)	(968)
	₱17,182	₱6,680	₱6,246	₱8,586	₱1,706	₱3,710

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

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012
Receivables from customers (Note 31):				
Commercial loans	₱393,676	₱338,830	₱354,064	₱311,618
Residential mortgage loans	65,686	53,838	36,910	31,184
Auto loans	57,734	52,109	16,568	15,852
Trade loans	30,186	21,715	29,956	21,684
Others	63,937	59,052	17,099	15,671
	611,219	525,544	454,597	396,009
Less unearned discounts and capitalized interest	3,942	7,180	580	1,376
	607,277	518,364	454,017	394,633
Unquoted debt securities (Note 17):				
Government	1,609	1,910	191	494
Private	3,745	6,076	829	819
	5,354	7,986	1,020	1,313
Accounts receivable (Note 31)	5,873	5,782	4,412	4,792
Accrued interest receivable (Note 31)	8,414	7,359	6,910	5,646
Sales contract receivable	458	637	156	244
Other receivables (Note 31)	314	1,493	30	168
	627,690	541,621	466,545	406,796
Less allowance for credit losses (Note 15)	16,626	15,726	9,650	8,233
	₱611,064	₱525,895	₱456,895	₱398,563

Receivables from customers consist of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Loans and discounts	₱564,374	₱488,645	₱407,870	₱358,992
Less unearned discounts and capitalized interest	3,942	7,180	580	1,376
	560,432	481,465	407,290	357,616
Customers' liabilities under letters of credit (LC)/trust receipts	30,186	21,715	29,956	21,684
Bills purchased (Note 21)	16,659	15,184	16,771	15,333
	₱607,277	₱518,364	₱454,017	₱394,633

Receivables from customers-others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱32.6 billion, ₱4.7 billion and ₱4.0 billion, respectively, as of December 31, 2013 and ₱27.8 billion, ₱4.6 billion and ₱3.8 billion, respectively, as of December 31, 2012.

As of December 31, 2013 and 2012, other receivables include dividends receivable of ₱206.9 million and ₱1.4 billion, respectively, for the Group, and ₱18.0 million and ₱158.5 million, respectively, for the Parent Company. Dividends receivable of FMIC from its investee companies amounted to ₱188.9 million and ₱1.4 billion as of December 31, 2013 and 2012, respectively.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)	**2013**	2012	2011
Receivables from customers	**₱25,853**	₱23,548	₱21,097	**₱16,953**	₱16,293	₱14,323
Receivables from cardholders	**6,500**	5,810	4,803	–	–	–
Lease contract receivables	**1,372**	1,156	1,495	–	–	–
Customer liabilities under LC/trust receipts	**713**	848	697	**713**	808	697
Restructured loans	**268**	413	427	**207**	335	340
Unquoted debt securities and others	**831**	953	516	**283**	216	296
	₱35,537	₱32,728	₱29,035	**₱18,156**	₱17,652	₱15,656

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

BSP Reporting

As of December 31, 2013 and 2012, 76.81% and 79.81% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. In 2013 and 2012, the remaining peso receivables from customers earn annual fixed interest rates ranging from 3.00% to 42.00% while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.25% to 36.00% and from 1.37% to 36.00%, respectively.

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

	Cansolidated				Parent Campany			
	2013		2012		**2013**		2012	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Real estate	**₱103,936**	**17.00**	₱87,756	16.70	**₱57,835**	**12.72**	₱61,407	15.51
Chattel	**69,775**	**11.42**	62,820	11.95	**17,539**	**3.86**	17,594	4.44
Equity securities	**13,674**	**2.24**	10,785	2.05	**11,421**	**2.51**	8,510	2.15
Deposit hold-out	**11,530**	**1.88**	7,788	1.48	**10,798**	**2.37**	6,932	1.75
Other securities	**98,491**	**16.11**	73,200	13.93	**98,491**	**21.67**	73,200	18.48
Others	**6,999**	**1.15**	6,485	1.24	**3,624**	**0.80**	2,255	0.57
	304,405	**49.80**	248,834	47.35	**199,708**	**43.93**	169,898	42.90
Unsecured	**306,814**	**50.20**	276,710	52.65	**254,889**	**56.07**	226,111	57.10
	₱611,219	**100.00**	₱525,544	100.00	**₱454,597**	**100.00**	₱396,009	100.00

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

	Cansolidated				Parent Campany			
	2013		2012		**2013**		2012	
	Amaunt	**%**	Amount	%	**Amount**	**%**	Amount	%
Manufacturing (various industries)	**₱122,513**	**20.04**	₱99,022	18.84	**₱113,451**	**24.96**	₱95,036	24.00
Real estate, renting and business activities	**100,861**	**16.50**	85,548	16.28	**69,937**	**15.39**	61,232	15.46
Wholesale and retail trade	**98,897**	**16.18**	96,322	18.33	**88,618**	**19.49**	71,374	18.02
Private households	**82,578**	**13.51**	73,655	14.02	**49,886**	**10.97**	45,675	11.53
Other community, social and personal activities	**52,385**	**8.57**	19,733	3.75	**512**	**0.11**	772	0.19
Electricity, gas and water	**41,443**	**6.78**	37,175	7.07	**40,104**	**8.82**	34,941	8.82

(Forward)

	Consolidated				Parent Company			
	2013		2012		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial intermediaries	₱34,743	5.68	₱37,866	7.21	₱29,710	6.54	₱31,216	7.88
Transportation, storage and communication	33,793	5.53	37,760	7.18	28,224	6.21	30,192	7.62
Construction	16,615	2.72	9,882	1.88	12,156	2.67	6,379	1.61
Hotel and restaurants	12,738	2.08	11,512	2.19	12,111	2.66	10,359	2.62
Agricultural, hunting and forestry	6,401	1.05	5,756	1.10	4,120	0.91	4,321	1.09
Public administration and defense, compulsory social security	1,872	0.31	3,972	0.76	121	0.03	141	0.04
Mining and quarrying	1,073	0.18	861	0.16	829	0.18	519	0.13
Others	5,307	0.87	6,480	1.23	4,818	1.06	3,852	0.99
	₱611,219	100.00	₱525,544	100.00	₱454,597	100.00	₱396,009	100.00

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

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

	Consolidated		Parent Company	
	2013	2012	2013	2012
Total NPLs	₱7,808	₱9,596	₱3,125	₱4,193
Less NPLs fully covered by allowance for credit losses	2,506	4,992	1,389	2,496
	₱5,302	₱4,604	₱1,736	₱1,697

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

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

10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2013						
Cost						
Balance at beginning of year	₱5,103	₱7,740	₱15,198	₱2,406	₱601	₱31,048
Additions	11	119	2,695	134	334	3,293
Disposals	(52)	(334)	(1,244)	–	–	(1,630)
Reclassification/others	796	200	24	142	(895)	267
Balance at end of year	5,858	7,725	16,673	2,682	40	32,978

(Forward)

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
Accumulated depreciation and amortization						
Balance at beginning of year	₱–	₱3,406	₱10,787	₱1,508	₱–	₱15,701
Depreciation and amortization	–	316	1,537	228	–	2,081
Disposals	–	(233)	(490)	–	–	(723)
Reclassification/others	–	140	80	(59)	–	161
Balance at end of year	–	3,629	11,914	1,677	–	17,220
Allowance for impairment losses (Note 15)	–	–	2	–	–	2
Net book value at end of year	₱5,858	₱4,096	₱4,757	₱1,005	₱40	₱15,756
2012						
Cost						
Balance at beginning of year	₱4,998	₱7,530	₱13,847	₱2,195	₱288	₱28,858
Additions	124	94	2,837	224	562	3,841
Disposals	(45)	(74)	(1,390)	–	–	(1,509)
Reclassification/others	26	190	(96)	(13)	(249)	(142)
Balance at end of year	5,103	7,740	15,198	2,406	601	31,048
Accumulated depreciation and amortization						
Balance at beginning of year	–	3,136	10,421	1,352	–	14,909
Depreciation and amortization	–	271	1,365	213	–	1,849
Disposals	–	(49)	(939)	–	–	(988)
Reclassification/others	–	48	(60)	(57)	–	(69)
Balance at end of year	–	3,406	10,787	1,508	–	15,701
Allowance for impairment losses (Note 15)						
Balance at beginning of year	–	–	12	–	–	12
Accounts charged off/others	–	–	(10)	–	–	(10)
Balance at end of year	–	–	2	–	–	2
Net book value at end of year	₱5,103	₱4,334	₱4,409	₱898	₱601	₱15,345

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2013						
Cost						
Balance at beginning of year	₱4,508	₱5,608	₱9,996	₱1,502	₱601	₱22,215
Additions	–	26	1,174	26	334	1,560
Disposals	(52)	(50)	(819)	–	–	(921)
Reclassification/others	86	690	(7)	144	(895)	18
Balance at end of year	4,542	6,274	10,344	1,672	40	22,872
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,937	8,010	947	–	11,894
Depreciation and amortization	–	258	592	109	–	959
Disposals	–	(30)	(232)	–	–	(262)
Reclassification/others	–	(7)	49	(57)	–	(15)
Balance at end of year	–	3,158	8,419	999	–	12,576
Net book value at end of year	₱4,542	₱3,116	₱1,925	₱673	₱40	₱10,296
2012						
Cost						
Balance at beginning of year	₱4,436	₱5,458	₱9,337	₱1,401	₱288	₱20,920
Additions	90	28	1,458	70	562	2,208
Disposals	(45)	(8)	(784)	–	–	(837)
Reclassification/others	27	130	(15)	31	(249)	(76)
Balance at end of year	4,508	5,608	9,996	1,502	601	22,215
Accumulated depreciation and amortization						
Balance at beginning of year		2,713	7,918	881	–	11,512
Depreciation and amortization	–	225	534	106	–	865
Disposals	–	(6)	(433)	–	–	(439)
Reclassification/others	–	5	(9)	(40)	–	(44)
Balance at end of year	–	2,937	8,010	947	–	11,894
Net book value at end of year	₱4,508	₱2,671	₱1,986	₱555	₱601	₱10,321

Building under construction pertains to bank premises yet to be completed and used by the Parent Company. The capital expenditures of the Parent Company related to the construction amounted to ₱333.5 million and ₱562.4 million in 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the cost of fully depreciated property and equipment still in use amounted to ₱1.8 billion and ₱1.1 billion, respectively, for the Group and ₱600.9 million and ₱78.4 million, respectively, for the Parent Company.

11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consists of:

	2013	2012
Acquisition cost:		
FMIC	**₱11,751**	₱11,751
MBCL	**8,658**	8,658
PSBank	**3,626**	3,626
Circa	**837**	837
ORIX Metro	**265**	265
MCC	**214**	214
MTI	**200**	200
MR USA	**158**	158
MRCI	**131**	131
MR Italia	**66**	66
MR Japan	**41**	–
MR UK	**31**	31
MRHL	**26**	26
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
MR Spain	**–**	42
	26,046	26,047
Allowance for impairment losses (Note 15)		
Circa	**(733)**	(719)
MTI	**(185)**	(153)
MRCI	**(127)**	(115)
MR USA	**(53)**	(53)
MR Italia	**(66)**	(41)
MR UK	–	(3)
MR Spain	–	(41)
	(1,164)	(1,125)
Carrying Value		
FMIC	**11,751**	11,751
MBCL	**8,658**	8,658
PSBank	**3,626**	3,626
Circa	**104**	118
ORIX Metro	**265**	265
MCC	**214**	214
MTI	**15**	47
MR USA	**105**	105
MRCI	**4**	16
MR Italia	–	25
MR Japan	**41**	–
MR UK	**31**	28
MRHL	**26**	26
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
MR Spain	–	1
	₱24,882	₱24,922

The following subsidiaries have material non-controlling interests as of December 31, 2013.

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

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

	PSBank	MCC	ORIX Metro
Statement of Financial Position			
Total assets	₱130,026	₱39,468	₱19,401
Total liabilities	113,763	33,352	16,239
Non-controlling interest	3,907	2,446	1,270
Statement of Income			
Gross income	15,025	9,983	2,972
Operating income	12,684	8,821	2,557
Net income	2,928	2,006	602
Net income attributable to NCI	704	802	242
Total comprehensive income	2,677	2,146	601
Statement of Cash Flows			
Net cash used in operating activities	(1,915)	(3,478)	(604)
Net cash provided by (used in) investing activities	16,327	(178)	(949)
Net cash provided by (used in) financing activities	(1,263)	4,240	1,939
Net increase in cash and cash equivalents	13,149	584	386
Cash and cash equivalents at beginning of year	20,428	4,628	2,198
Cash and cash equivalents at end of year	33,577	5,212	2,584

Investment in associates and a JV consists of:

	Consolidated		Parent Company	
	2013	2012 (As Restated – Note 2)	2013	2012 (As Restated – Note 2)
Acquisition cost:				
Lepanto Consolidated Mining Company (LCMC) (16.80% owned in 2013;16.82% owned in 2012)	**₱2,397**	₱2,397	**₱–**	₱–
SMFC* (30.39% owned)	**800**	800	**–**	–
Toyota Financial Services Philippines Corporation (TFSPC) (34.00% owned)	**420**	420	**150**	150
Northpine Land, Inc. (NLI) (20.00% owned)	**232**	232	**232**	232
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	**180**	180	**180**	180
Taal Land Inc. (TLI) (35.00% owned)	**178**	178	**178**	178
Cathay International Resources Corporation (CIRC) (34.73% owned in 2013; 34.72% owned in 2012)	**175**	175	**–**	–

(Forward)

	Consolidated		Parent Company	
	2013	2012 (As Restated – Note 2)	**2013**	2012 (As Restated – Note 2)
Philippine AXA Life Insurance Corporation (PALIC) (27.96% owned)	**₱172**	₱172	**₱–**	₱–
Charter Ping An Insurance Corporation (CPAIC) (33.07% owned)	**60**	60	**–**	–
Global Business Power Corporation (GBPC) (48.72% owned in 2012)	**–**	7,281	**–**	–
Others	**33**	33	**–**	–
	4,647	11,928	**740**	740
Accumulated equity in net income (loss):				
Balance at beginning of year				
LCMC	**(58)**	(83)		
SMFC	**(135)**	(85)		
TFSPC	**487**	407		
NLI	**96**	55		
SMBC Metro	**69**	71		
TLI	**(84)**	(85)		
CIRC	**9**	(2)		
PALIC	**573**	545		
CPAIC	**263**	196		
TMPC	**–**	1,327		
GBPC	**1,062**	1,735		
Others	**(22)**	(22)		
	2,260	4,059		
Share in net income (loss)				
LCMC	**(29)**	25		
SMFC	**–**	(50)		
TFSPC	**176**	80		
NLI	**15**	43		
SMBC Metro	**22**	20		
TLI	**–**	1		
CIRC	**–**	11		
PALIC	**349**	252		
CPAIC	**68**	67		
GBPC	**876**	1,252		
TMPC	**–**	847		
	1,477	2,548		
Dividends				
NLI	**(12)**	(2)		
SMBC Metro	**(18)**	(22)		
PALIC	**(251)**	(224)		
BPC	**–**	(1,925)		
TMPC	**–**	(653)		
	(281)	(2,826)		
Divestments/reclassification				
GBPC	**(1,938)**	–		
MPC	**–**	(1,521)		
	(1,938)	(1,521)		
Balance at end of year				
LCMC	**(87)**	(58)		
SMFC	**(135)**	(135)		
TFSPC	**663**	487		
NLI	**99**	96		
SMBC Metro	**73**	69		
TLI	**(84)**	(84)		
CIRC	**9**	9		
PALIC	**671**	573		
CPAIC	**331**	263		
GBPC	**–**	1,062		
Others	**(22)**	(22)		
	1,518	2,260		
Equity in net unrealized gain (loss) on AFS investments				
LCMC	**(59)**	(58)		
TFSPC	**(1)**	–		
SMBC Metro	**12**	13		

(Forward)

	Consolidated		Parent Company	
	2013	2012 (As Restated – Note 2)	2013	2012 (As Restated – Note 2)
TLI	**(₱3)**	(₱3)		
PALIC	**301**	356		
CPAIC	**23**	41		
GBPC	**–**	417		
	273	766		
Translation adjustment and others				
LCMC	**–**	31		
SMFC	**(2)**	–		
TFSPC	**–**	16		
CPAIC	**–**	29		
	(2)	76		
Allowance for impairment losses (Note 15)				
NLI	**–**	(58)	**₱–**	(₱58)
TLI	**(162)**	(104)	**(162)**	(104)
	(162)	(162)	**(162)**	(162)
Carrying Value				
LCMC	**2,251**	2,312	**–**	
SMFC	**663**	665	**–**	
TFSPC	**1,082**	923	**150**	150
NLI	**331**	270	**232**	174
SMBC Metro	**265**	262	**180**	180
TLI	**(71)**	(13)	**16**	74
CIRC	**184**	184	**–**	–
PALIC	**1,144**	1,101	**–**	–
CPAIC	**414**	393	**–**	–
GBPC	**–**	8,760	**–**	–
Others	**11**	11	**–**	–
	₱6,274	₱14,868	**₱578**	₱578

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

As of December 31, 2013 and 2012, carrying amount of goodwill amounted to ₱5.2 billion and ₱6.4 billion, respectively, for the Group and nil and ₱1.2 billion, respectively, for the Parent Company. The goodwill of the Parent Company amounting to ₱1.2 billion was fully impaired in 2013 (Note 3).

In 2012, the Parent Company invested an additional USD 1.0 million in MR USA which was approved by the BSP on October 1, 2012.

Investment in FMIC
Relative to the amended rule on minimum public ownership, on October 12, 2012, the BOD of FMIC in its special meeting approved the voluntary delisting of FMIC's shares from the PSE and the buy-back of all of its publicly-owned shares through a tender offer. On October 15, 2012, FMIC published its Notice to its Shareholders of the proposed voluntary delisting and the intent to buy back the publicly-owned common shares through a tender offer at ₱89.00 per share. It filed its initial tender offer report with the SEC and submitted the said report to the PSE on October 17, 2012. On December 12, 2012, the PSE's BOD approved such request effective on December 21, 2012. As required, the FMIC's shares were suspended for trading for 3 days before the delisting date or on December 18, 2012. As a result of FMIC's buyback of its own shares, the Parent Company's ownership in FMIC increased from 98.06% to 99.23% and 99.21% as of December 31, 2013 and 2012, respectively.

Investment of FMIC in GBPC
Following the SEC approval on the increase in authorized capital stock of GBPC to ₱1.0 billion and the reduction of the par value per share of stock from ₱100.00 to ₱1 a share, the deposit for future stock subscription of FMIC amounting to ₱5.6 billion as of December 31, 2011 had been used to subscribe additional 199,058,600 shares of GBPC in January 2012. This resulted in an increase in percentage of direct ownership to 49.11% from 30.00%. Further, in July 2012, FMIC

subscribed to 18,212,638 shares amounting to ₱639.8 million, representing deposit for future stock subscription (included in its investment in GBPC as of December 31, 2012) in response to a capital call made by GBPC. A total of additional equity infusion of ₱1.6 billion representing the proportionate share of FMIC on such capital call was approved by its BOD on June 29, 2012. The remaining balance of the capital call was paid on February 15 and March 15, 2013 amounting to ₱736.7 million and ₱222.7 million, respectively.

On June 27, 2013, FMIC sold 20.0% of its ownership in GBPC to ORIX Corporation of Tokyo, Japan at a consideration of ₱7.2 billion which resulted in a gain of ₱3.1 billion. Further, on October 22, 2013, FMIC sold another 20.0% to Meralco PowerGen Corporation, a wholly-owned subsidiary of Manila Electric Company at a consideration of ₱7.2 billion which resulted in a gain of ₱4.3 billion. As of December 31, 2013, FMIC owned 9.11% of GBPC which warranted the reclassification of the investment to AFS investments. The sale of GBPC shares was in line with the Group's capital raising initiatives in preparation for the implementation of Basel III in the Philippines on January 1, 2014.

Investment of FMIC in CIRC

As of December 31, 2011, FMIC's investments include deposit for future stock subscription amounting to ₱314.0 million which was returned in December 2012.

Investment of FMIC in LCMC

In May 2011, FMIC partially disposed its ownership in LCMC to a third party which resulted in a gain of ₱370.0 million. FMIC holds less than 20.00% of the ownership interest and voting control in LCMC but holds 2 out of 9 board seats (or 22.20%) and has the ability to exercise significant influence through its nominated directors' active participation in the board and management sub-committee. As of December 31, 2013 and 2012, the fair value of the investment which is equivalent to the bid price of the shares in the PSE amounted to ₱2.2 billion and ₱7.4 billion, respectively.

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

	Statement of Financial Position		Statement of Income		
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)
December 31, 2013					
PALIC	**₱54,931**	**₱50,863**	**₱10,617**	**₱1,388**	**₱1,192**
TFSPC	**29,576**	**26,850**	**1,931**	**611**	**437**
LCMC	**8,706**	**1,370**	**2,025**	**(250)**	**(258)**
CPAIC	**9,134**	**7,776**	**1,653**	**228**	**193**
CIRC	**2,390**	**1,829**	**117**	**0**	**1**
NLI	**2,174**	**647**	**234**	**57**	**69**
SMFC	**1,739**	**77**	**347**	**3**	**6**
SMBC Metro	**890**	**81**	**148**	**102**	**72**
TLI	47	–	1	1	1
December 31, 2012					
PALIC	₱44,851	₱40,891	₱4,581	₱1,048	₱915
TFSPC	22,361	19,962	1,791	332	197
LCMC	15,096	6,558	2,282	378	251
CPAIC	6,343	5,122	1,632	288	214
CIRC	2,580	2,020	230	95	51
NLI	1,984	467	328	254	180
SMFC	1,729	73	326	(96)	(103)
SMBC Metro	884	85	117	85	66
TLI	46	0	1	1	1

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

	2013	2012
PALIC		
Cash and cash equivalents	**₱3,158**	₱2,066
Loans and receivables - net	**735**	536
Financial assets at FVPL	**994**	1,286
AFS investments	**6,305**	6,653
Investment in unit-linked funds	**43,323**	33,758
Property and equipment	**221**	203
TFSPC		
Cash and cash equivalents	**4,138**	3,548
Receivables - net	**19,952**	14,897
LCMC		
Inventories	**317**	477
Investments and advances	**813**	812
Property, plant and equipment - net	**6,741**	6,748
CPAIC		
Receivables - net	**5,960**	1,247
Investments	**1,763**	1,125
CIRC		
Receivables - net	**–**	355
Investment properties - net	**439**	207
NLI		
Cash and cash equivalents	**456**	574
Real estate properties	**1,074**	962
Receivables - net	**505**	348
SMFC		
Cash and cash equivalents	**716**	790
Receivables - net	**845**	750
SMBC Metro		
Cash and cash equivalents	**230**	234
Due from other banks	**–**	150
AFS investments	**194**	70
Receivables - net	**462**	424
TLI		
Investments	**46**	46
GBPC		
Cash and cash equivalents		10,588
Receivables - net		5,150
Property, plant and equipment - net		35,946
Prepaid expenses		2,385

The following tables summarize dividends declared by investee companies of the Parent Company:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2013						
Subsidiaries						
Cash Dividend						
FMIC	August 23, 2013	₱8.06	₱3,003	October 8, 2013	September 30, 2013	October 10, 2013
FMIC	November 5, 2013	13.42	5,001	December 12, 2013	December 20, 2013	December 26, 2013
MCC	February 28, 2013	1.50	1,500	April 11, 2013	April 12, 2013	April 24, 2013
PSBank	October 22, 2013	3.00	721	November 12, 2013	November 29, 2013	December 16, 2013
PSBank	October 22, 2013	0.75	180	November 12, 2013	November 29, 2013	December 16, 2013
PSBank	July 18, 2013	0.75	180	August 8, 2013	September 4, 2013	September 19, 2013
PSBank	April 19, 2013	0.75	180	May 28, 2013	June 18, 2013	July 3, 2013
PSBank	January 22, 2013	0.75	180	February 8, 2013	March 5, 2013	March 20, 2013
MRSPL	July 5, 2013	SGD2.00	34	Not required	July 5, 2013	July 23, 2013

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
Associates						
NLI	December 10, 2012	₱4.89	₱60	Not required	March 22, 2013	April 2, 2013
SMBC	December 9, 2013	10.00	60	Not required	December 9, 2013	January 8, 2013
Subsidiary						
Stock Dividend						
ORIX Metro	October 23, 2013	100.00	253	Note 36b	October 23, 2013	

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2012						
Subsidiaries						
Cash Dividend						
MCC	March 22, 2012	₱0.89	₱886	August 1, 2012	August 7, 2012	August 8, 2012
PSBank	October 23, 2012	0.75	180	November 21, 2012	December 27, 2012	January 14, 2013
PSBank	July 23, 2012	0.75	180	August 13, 2012	September 11, 2012	September 26, 2012
PSBank	April 27, 2012	0.75	180	May 15, 2012	June 7, 2012	June 25, 2012
PSBank	January 24, 2012	0.15	36	February 9, 2012	March 8, 2012	March 23, 2012
Metrobank Bahamas	April 12, 2012	USD 0.18	39	Not required	April 27, 2012	April 27, 2012
MRSPL	May 3, 2012	SGD 2.00	34	Not required	May 3, 2012	May 3, 2012
MRHK	May 2, 2012	HKD 0.39	17	Not required	May 2, 2012	May 24, 2012
Associates						
TMPC	May 10, 2012	₱140.58	2,178	Not required	December 31, 2011	May 11, 2012/ June 21, 2012
NLI	March 1, 2012	0.82	10	Not required	March 1, 2012	March 21, 2012
SMBC	December 13, 2012	12.00	72	Not required	December 13, 2012	January 8, 2013
Subsidiary						
Stock Dividend						
ORIX Metro	November 29, 2012	20.00	253		November 29, 2012	February 4, 2013

Dividends declared by significant investee companies of FMIC follow:

Subsidiary/ Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2013						
Subsidiary						
Cash Dividend						
FAMI	July 12, 2013	₱85.00	₱20	Not required	July 12, 2013	October 22, 2013
Associate						
Cash Dividend						
PALIC	October 16, 2013	89.10	891	Not required	October 16, 2013	November 13, 2013
Stock Dividend						
PALIC	April 16, 2013	100.00	341	Not required	April 16, 2013	May 30, 2013
ORIX Metro	October 23, 2013	100.00	253	Note 36b	October 23, 2013	
2012						
Subsidiary						
Stock Dividend						
FMSBC*	December 28, 2012	100.00	39	Not required	December 28, 2012	January 25, 2013
Associates						
Cash Dividend						
GBPC	December 17, 2012	5.16	2,870	Not required	December 3, 2012	March 31, 2013
GBPC	August 11, 2012	1.89	1,050	Not required	July 31, 2012	August 30, 2012
PALIC	October 24, 2012	120.57	795	Not required	October 24, 2012	November 9, 2012

* First Metro Securities Brokerage Corporation

12. Investment Properties

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

	Consolidated					
	2013			2012		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱14,603**	**₱5,495**	**₱20,098**	₱14,929	₱5,236	₱20,165
Additions	**436**	**652**	**1,088**	622	1,064	1,686
Disposals	**(2,471)**	**(872)**	**(3,343)**	(2,873)	(843)	(3,716)
Reclassification/others	**(252)**	**(192)**	**(444)**	1,925	38	1,963
Balance at end of year	**12,316**	**5,083**	**17,399**	14,603	5,495	20,098

(Forward)

	Consolidated					
	2013			2012		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Accumulated depreciatinn and amortization						
Balance at beginning of year	₱–	₱2,036	₱2,036	₱–	₱2,168	₱2,168
Depreciation and amortization	–	207	207	–	226	226
Disposals	–	(322)	(322)	–	(362)	(362)
Reclassification/others	–	(137)	(137)	–	4	4
Balance at end of year	–	1,784	1,784	–	2,036	2,036
Allowance for impairment losses (Note 15)						
Balance at beginning of year	2,487	153	2,640	2,452	74	2,526
Provision for impairment loss	312	88	400	246	94	340
Disposals	(401)	(13)	(414)	(373)	(15)	(388)
Reclassification/others	(111)	(25)	(136)	162	–	162
Balance at end of year	2,287	203	2,490	2,487	153	2,640
Net book value at end of year	₱10,029	₱3,096	₱13,125	₱12,116	₱3,306	₱15,422

	Parent Company					
	2013			2012		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	₱12,019	₱3,456	₱15,475	₱11,442	₱3,378	₱14,820
Additions	165	170	335	395	595	990
Disposals	(2,124)	(567)	(2,691)	(2,395)	(554)	(2,949)
Reclassification/others	(252)	2	(250)	2,577	37	2,614
Balance at end of year	9,808	3,061	12,869	12,019	3,456	15,475
Accumulated depreciation and amortization						
Balance at beginning of year	–	1,575	1,575	–	1,732	1,732
Depreciation and amortization	–	143	143	–	157	157
Disposals	–	(276)	(276)	–	(318)	(318)
Reclassification/others	–	7	7	–	4	4
Balance at end of year	–	1,449	1,449	–	1,575	1,575
Allowance fnr impairment losses (Note 15)						
Balance at beginning of year	1,937	65	2,002	1,998	46	2,044
Provision for impairment loss	290	36	326	26	31	57
Disposals	(400)	(5)	(405)	(275)	(12)	(287)
Reclassification/others	20	(27)	(7)	188	–	188
Balance at end of year	1,847	69	1,916	1,937	65	2,002
Net book value at end of year	₱7,961	₱1,543	₱9,504	₱10,082	₱1,816	₱11,898

As of December 31, 2013 and 2012, foreclosed investment properties still subject to redemption period by the borrower amounted to ₱1.0 billion and ₱719.1 million, respectively, for the Group and ₱271.1 million and ₱227.7 million, respectively, for the Parent Company.

As of December 31, 2013 and 2012, aggregate market value of investment properties amounted to ₱22.9 billion and ₱24.7 billion, respectively, for the Group and ₱18.3 billion and ₱20.1 billion, respectively, for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱20.0 billion and ₱21.9 billion, respectively, for the Group and ₱18.1 billion and ₱20.1 billion, respectively, for the Parent Company. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

Rental income on investment properties (included in 'Leasing income' in the statement of income) in 2013, 2012 and 2011 amounted to ₱83.1 million, ₱96.1 million and ₱222.1 million, respectively, for the Group and ₱37.0 million, ₱30.4 million and ₱144.0 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2013, 2012 and 2011 amounted to ₱5.4 million, ₱28.5 million and ₱18.0 million, respectively, for the Group and ₱5.2 million, ₱27.2 million and ₱17.9 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2013, 2012 and 2011 amounted to ₱281.6 million, ₱288.1 million and ₱333.2 million, respectively, for the Group and ₱226.3 million, ₱227.7 million and ₱296.9 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statement of income) in 2013, 2012 and 2011 amounted to ₱451.7 million, ₱1.0 billion and ₱807.2 million, respectively, for the Group and ₱393.4 million, ₱1.0 billion and ₱800.4 million, respectively, for the Parent Company (Note 31).

13. Non-Current Asset Held For Sale

On October 22, 2012, the respective BOD of the Parent Company and GT Capital on separate meetings, upon the endorsement of their respective Related Party Transaction Committees, have approved in principle the sale of the former's 30% ownership in TMPC to GT Capital at a consideration of ₱9.0 billion. This amount was arrived at after an independent valuation exercise and subjected to third party fairness opinions. The divestment of TMPC shares was undertaken by the Parent Company to enhance its regulatory capital position in preparation for the implementation of Basel III. Accordingly, in December 2012, the Parent Company sold its 15% ownership in TMPC and recognized a gain on sale of ₱3.4 billion and ₱4.2 billion for the Group and the Parent Company, respectively (Note 31). The remaining 15.0% ownership of the Parent Company in TMPC was sold in January 2013 wherein the Group and the Parent Company recognized gain on sale of ₱3.4 billion and ₱4.2 billion, respectively (Note 31).

14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	**2013**	2012 (As Restated - Note 2)
Creditable withholding tax	**₱1,428**	₱1,749	**₱1,028**	₱1,331
Assets held under joint operations	**1,361**	1,189	**1,361**	1,189
Interoffice float items	**1,127**	1,550	**1,061**	1,288
Software costs – net	**896**	832	**431**	514
Residual value of leased assets	**712**	609	–	–
Chattel properties acquired in foreclosure – net	**552**	479	**28**	19
Prepaid expenses	**365**	385	**47**	79
Documentary and postage stamps on hand	**166**	132	**139**	110
Returned checks and other cash items	**68**	80	**54**	63
Other investments	3	13	–	10
Retirement asset* (Note 26)	**28**	–	**2**	–
Investments in SPVs – net	–	–	–	–
Miscellaneous	**3,062**	3,114	**2,420**	2,496
	9,768	10,132	**6,571**	7,099
Less allowance for impairment losses (Note 15)	**1,911**	861	**1,875**	814
	₱7,857	₱9,271	**₱4,696**	₱6,285

* Includes retirement asset of a foreign branch in 2013.

Assets held under joint operations are parcels of land and former branch sites of the Parent Company with net realizable value of ₱1.4 billion and ₱1.2 billion as of December 31, 2013 and 2012, respectively, which were contributed to separate joint operations with Federal Land, Inc. and Federal Land Orix Corporation (Note 31).

Movements in software costs account follow:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Cost				
Balance at beginning of year	**₱1,793**	₱1,445	**₱1,097**	₱688
Additions	**360**	662	**61**	476
Disposals/others	**(12)**	(314)	**(5)**	(67)
Balance at end of year	**2,141**	1,793	**1,153**	1,097
Accumulated amortization				
Balance at beginning of year	**961**	1,003	**583**	501
Amortization	**284**	236	**139**	120
Disposals/others	**–**	(278)	**–**	(38)
Balance at end of year	**1,245**	961	**722**	583
Net book value at end of year	**₱896**	₱832	**₱431**	₱514

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Cost				
Balance at beginning of year	**₱587**	₱566	**₱28**	₱73
Additions	**1,112**	904	**34**	22
Disposals/others	**(1,023)**	(883)	**(17)**	(67)
Balance at end of year	**676**	587	**45**	28
Accumulated depreciation and amortization				
Balance at beginning of year	**95**	127	**6**	53
Depreciation and amortization	**112**	113	**10**	6
Disposals/others	**(95)**	(145)	**(4)**	(53)
Balance at end of year	**112**	95	**12**	6
Allowance for impairment losses (Note 15)				
Balance at beginning of year	**13**	9	**3**	3
Provision for impairment loss	**4**	4	**3**	–
Disposals	**(5)**	–	**(1)**	–
Balance at end of year	**12**	13	**5**	3
Net book value at end of year	**₱552**	₱479	**₱28**	₱19

Investments in SPVs represent subordinated notes issued by Cameron Granville 3 Asset Management, Inc. and LNC 3 Asset Management, Inc. with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the nonperforming assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. As of December 31, 2013 and 2012, the estimated fair value of the subordinated notes, which is the present value of the estimated cash flows from such notes (derived from the sale of the underlying collaterals of the NPAs, net of the payment to senior notes by the SPV) amounted to nil, after deducting allowance for impairment losses of ₱8.8 billion.

Miscellaneous account includes certificates of deposits totaling USD 6 million and USD 11 million as of December 31, 2013 and 2012, respectively (with peso equivalent of ₱266.4 million and ₱451.6 million as of December 31, 2013 and 2012, respectively) that are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation and the Office of the Controller of the Currency in New York. Of the USD 11 million pledged certificate of deposits as of December 31, 2012, USD 5 million matured in August 2013 and were invested in Floating Rate notes booked under AFS investments as part of the pledged securities (Note 8).

Further, miscellaneous account includes downpayment to a real estate company, a related party, amounting to ₱1.1 billion relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City (Note 31) and a receivable from a third party of ₱425.7 million pertaining to the final tax withheld on PEACe bonds which matured on October 18, 2011 (Note 30).

15. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	Consolidated		Parent Company	
	December 31			
	2013	2012	**2013**	2012
Balance at beginning of year:				
Interbank loans and receivable (Note 7)	**₱2**	₱–	**₱–**	₱–
AFS investments (Note 8)				
Equity securities				
Quoted	**305**	337	**90**	90
Unquoted	**268**	224	**86**	86
Loans and receivables (Note 9)	**15,726**	14,884	**8,233**	8,666
Investments in subsidiaries (Note 11)	**–**	–	**1,125**	754
Investments in associates (Note 11)	**162**	150	**162**	150
Property and equipment (Note 10)	**2**	12	**–**	–
Investment properties (Note 12)	**2,640**	2,526	**2,002**	2,044
Other assets* (Note 14)	**9,731**	9,850	**9,675**	9,601
	28,836	27,983	**21,373**	21,391
Provisions for credit and impairment losses**	**9,519**	4,478	**4,091**	777
Reversal of allowance on assets sold/settled	**(2,761)**	(376)	**(1,725)**	(275)
Accounts written off/others	**(4,964)**	(3,249)	**68**	(520)
Balance at end of year:				
Interbank loans and receivable (Note 7)	**2**	2	**–**	–
AFS investments (Note 8)				
Equity securities				
Quoted	**300**	305	**92**	90
Unquoted	**268**	268	**86**	86
Loans and receivables (Note 9)	**16,626**	15,726	**9,650**	8,233
Investments in subsidiaries (Note 11)	**–**	–	**1,164**	1,125
Investments in associates (Note 11)	**162**	162	**162**	162
Property and equipment (Note 10)	**2**	2	**–**	–
Investment properties (Note 12)	**2,490**	2,640	**1,916**	2,002
Other assets* (Note 14)	**10,780**	9,731	**10,737**	9,675
	₱30,630	₱28,836	**₱23,807**	₱21,373

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

** The amount presented excludes impairment loss on goodwill.

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

	Consolidated			Parent Company		
	December 31					
	2013	2012	2011	**2013**	2012	2011
Interbank loans and receivable (Notes 7 and 33)	**₱–**	₱2	₱–	**₱–**	₱–	₱–
AFS investments	**2**	(32)	17	**2**	–	–
Loans and receivables	**8,689**	4,311	3,378	**3,255**	720	460
Investments in subsidiaries	**–**	–	36	**79**	–	403
Investments in associates	**–**	–	(203)	**–**	–	–
Property and equipment (Note 10)	**–**	–	10	**–**	–	–
Investment properties (Note 12)	**400**	340	341	**326**	57	291
Chattel properties acquired in foreclosure (Note 14)	**4**	4	–	**3**	–	–
Goodwill	**1,203**	–	–	**1,203**	–	–
Other assets	**424**	(147)	244	**426**	–	32
	₱10,722	₱4,478	₱3,823	**₱5,294**	₱777	₱1,186

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

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

	Consolidated							
	Commercial Loans	**Residential Mortgage Loans**	**Auto Loans**	**Trade**	**Others**	**Subtotal**	**Other Receivables***	**Total**
Balance at January 1, 2013	**₱6,169**	**₱700**	**₱736**	**₱338**	**₱3,262**	**₱11,205**	**₱4,521**	**₱15,726**
Provisions during the year	**3,410**	**493**	**1,364**	**–**	**3,144**	**8,411**	**278**	**8,689**
Accounts written off	**(42)**	**(3)**	**(621)**	**(3)**	**(3,889)**	**(4,558)**	**(37)**	**(4,595)**
Reclassifications/reversals/ others	**(1,894)**	**–**	**(261)**	**4**	**(92)**	**(2,243)**	**(951)**	**(3,194)**
Balance at December 31, 2013	**₱7,643**	**₱1,190**	**₱1,218**	**₱339**	**₱2,425**	**₱12,815**	**₱3,811**	**₱16,626**
Individual impairment	**₱2,919**	**₱1,075**	**₱618**	**₱279**	**₱168**	**₱5,059**	**₱2,363**	**₱7,422**
Collective impairment	**4,724**	**115**	**600**	**60**	**2,257**	**7,756**	**1,448**	**9,204**
	₱7,643	**₱1,190**	**₱1,218**	**₱339**	**₱2,425**	**₱12,815**	**₱3,811**	**₱16,626**
Gross amount of loans individually determined to be impaired	**₱6,502**	**₱1,491**	**₱619**	**₱413**	**₱1,193**	**₱10,218**	**₱4,015**	**₱14,233**
Balance at January 1, 2012	₱5,508	₱628	₱511	₱389	₱3,009	₱10,045	₱4,839	₱14,884
Provisions during the year	887	92	173	27	2,858	4,037	274	4,311
Accounts written off	(131)	–	–	(76)	(2,591)	(2,798)	(160)	(2,958)
Reclassifications/reversals/ others	(95)	(20)	52	(2)	(14)	(79)	(432)	(511)
Balance at December 31, 2012	₱6,169	₱700	₱736	₱338	₱3,262	₱11,205	₱4,521	₱15,726
Individual impairment	₱4,644	₱599	₱2	₱206	₱754	₱6,205	₱2,856	₱9,061
Collective impairment	1,525	101	734	132	2,508	5,000	1,665	6,665
	₱6,169	₱700	₱736	₱338	₱3,262	₱11,205	₱4,521	₱15,726
Gross amount of loans individually determined to be impaired	₱7,578	₱1,006	₱5	₱208	₱953	₱9,750	₱5,126	₱14,876

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

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2012	₱4,116	₱446	₱21	₱389	₱38	₱5,010	₱3,656	₱8,666
Provisions during the year	614	1	–	27	18	660	60	720
Accounts written off	(115)	–	–	(76)	(1)	(192)	(100)	(292)
Reclassifications/reversals/ others	(302)	(15)	(1)	(2)	(1)	(321)	(540)	(861)
Balance at December 31, 2012	₱4,313	₱432	₱20	₱338	₱54	₱5,157	₱3,076	₱8,233
Individual impairment	₱3,833	₱388	₱1	₱206	₱54	₱4,482	₱2,175	₱6,657
Collective impairment	480	44	19	132	–	675	901	1,576
	₱4,313	₱432	₱20	₱338	₱54	₱5,157	₱3,076	₱8,233
Gross amount of loans individually determined to be impaired	₱6,561	₱539	₱3	₱208	₱62	₱7,373	₱4,054	₱11,427

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

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

	Consolidated			Parent Company		
	AFS Investments - Equity Securities	**Other Assets***	**Total**	**AFS Investments - Equity Securities**	**Other Assets***	**Total**
Balance at January 1, 2013	**₱573**	**₱9,731**	**₱10,304**	**₱176**	**₱9,675**	**₱9,851**
Provisions for credit and impairment losses	**2**	**428**	**430**	**2**	**429**	**431**
Disposals	–	–	–	**(1)**	–	**(1)**
Reclassifications/reversals/others	**(7)**	**621**	**614**	**1**	**633**	**634**
Balance at December 31, 2013	**₱568**	**₱10,780**	**₱11,348**	**₱178**	**₱10,737**	**₱10,915**
Balance at January 1, 2012	₱561	₱9,850	₱10,411	₱176	₱9,601	₱9,777
Provisions for credit and impairment losses	(32)	(143)	(175)	–		–
Accounts written-off		(56)	(56)	–		–
Disposals	–	6	6	–	–	–
Reclassifications/reversals/others	44	74	118	–	74	74
Balance at December 31, 2012	₱573	₱9,731	₱10,304	₱176	₱9,675	₱9,851

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

16. Deposit Liabilities

Of the total interest-bearing deposit liabilities of the Group as of December 31, 2013 and 2012, 47.40% and 43.20%, respectively, are subject to periodic interest repricing. In 2013, 2012 and 2011, remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.59%, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 3.50%.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Demand	**₱340**	₱293	₱276	**₱208**	₱217	₱196
Savings	**799**	1,045	1,159	**734**	988	1,109
Time	**6,417**	7,418	8,799	**4,033**	4,474	5,705
	₱7,556	₱8,756	₱10,234	**₱4,975**	₱5,679	₱7,010

Composition of Reserves

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory/legal and liquidity reserves requirement on deposit liabilities and deposit substitutes. As such, effective the reserve week starting April 6, 2012, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to required reserves equivalent to 18.0%. On the other hand, non-FCDU deposit liabilities of PSBank are subject to required reserves equivalent to 6.0%. In compliance with this Circular, government securities which are used as compliance with the regular and/or liquidity reserve requirements shall continue to be eligible until they mature and cash in vault shall no longer be included as reserve. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP. Further, deposits maintained with the BSP in compliance with the reserve requirement no longer bear interest.

The Parent Company, PSBank, FMIC, MCC and ORIX Metro were in compliance with such regulations as of December 31, 2013 and 2012.

The total liquidity and statutory reserve, as reported to the BSP, are as follows:

	Due from BSP	
	2013	2012
Parent Company	**₱143,492**	₱96,014
PSBank	**7,133**	5,135
FMIC	**6,401**	8,000
MCC	**4,408**	3,832
Orix Metro	**2,239**	1,917
	₱163,673	₱114,898

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Deposit substitutes	**₱59,536**	₱59,607	**₱–**	₱–
Local banks	**21,767**	15,358	**5,327**	1,437
Foreign banks	**20,784**	12,876	**18,486**	9,720
SSURA	**25,117**	9,267	**22,180**	5,066
	₱127,204	₱97,108	**₱45,993**	₱16,223

Interbank borrowings with foreign and local banks are mainly short-term borrowings. The Group's peso borrowings are subject to annual fixed interest rates ranging from 1.00% to 8.54%, from 1.00% to 8.12% and from 1.00% to 8.54% in 2013, 2012 and 2011, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.16% to 2.63%, from 0.15% to 1.95% and from 0.10% to 2.90% in 2013, 2012 and 2011, respectively.

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

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

	Consolidated			
	2013		2012	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Government debt securities (Note 8)				
HFT investments	**₱3,314**	**₱2,974**	₱–	₱–
AFS investments	**17,916**	**14,303**	5,215	4,284
HTM investments	**6,712**	**7,270**	3,371	2,851
	27,942	**24,547**	8,586	7,135

(Forward)

	Consolidated			
	2013		2012	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Unquoted debt securities (Note 9)				
Government	**₱570**	**₱570**	₱1,320	₱1,320
Private	**–**	**–**	812	812
	570	**570**	2,132	2,132
	₱28,512	**₱25,117**	₱10,718	₱9,267

	Parent Company			
	2013		2012	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Government debt securities (Note 8)				
HFT investments	**₱3,314**	**₱2,974**	₱–	₱–
AFS investments	**12,574**	**11,936**	5,215	4,284
HTM investments	**6,712**	**7,270**	733	782
	₱22,600	**₱22,180**	₱5,948	₱5,066

Interest expense on bills payable (included in the 'Interest expense on bills payable and SSURA, subordinated debt and others' in the statement of income) in 2013, 2012 and 2011 amounted to ₱2.3 billion, ₱3.3 billion and ₱3.7 billion, respectively, for the Group and ₱109.6 million, ₱51.0 million and ₱57.2 million, respectively, for the Parent Company.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Accrued interest (Note 31)	**₱1,770**	₱1,810	**₱903**	₱959
Accrued other expenses (Note 31)	**6,737**	6,531	**5,099**	4,948
	₱8,507	₱8,341	**₱6,002**	₱5,907

Accrued other expenses include accruals for salaries and wages, fringe benefits, rentals, percentage and other taxes, professional fees, advertisements and information technology expenses.

19. Bonds Payable

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

Issue Date	Maturity Date	Interest Rate	Redemption Period	Face Value	Carrying value 2013	Carrying value 2012
November 25, 2011	February 25, 2017	5.675%	after 4th year	₱5,000	**₱4,823**	₱4,793
August 10, 2012	November 20, 2017	5.50%	after 4th year	4,000	**3,858**	3,790
August 10, 2012	August 10, 2019	5.75%	after 5th year	3,000	**2,962**	2,973
				₱12,000	**₱11,643**	₱11,556

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

As of December 31, 2013 and 2012, the carrying amount of the government securities assigned as collateral classified under AFS investments amounted to ₱11.5 billion, with market value of ₱12.7 billion as of December 31, 2013 and under HTM investments amounted to ₱10.0 billion, with market value of ₱12.5 billion in 2012. As of December 31, 2013 and 2012, FMIC has complied with the terms of the issuance.

Interest expense on bonds payable (included in 'Interest expense on bills payable and SSURA, subordinated debt and others') in 2013, 2012 and 2011 amounted to ₱665.9 million, ₱422.7 million and ₱26.6 million, respectively.

20. Subordinated Debt

This account consists of the following Peso Notes:

			Carrying Value		Market Value	
	Maturity Date	Face Value	2013	2012	2013	2012
Parent Company						
2018	October 3, 2018	₱5,500	**₱–**	₱5,490	**₱–**	₱5,451
2019	May 6, 2019	4,500	**4,497**	4,487	**4,561**	4,415
		10,000	**4,497**	9,977	**4,561**	9,866
MCC – 2019	June 30, 2019	1,300	**–**	1,296	**–**	1,423
MCC – 2023	December 20, 2023	1,170	**1,159**	–	**1,328**	–
PSBank – 2022	February 20, 2022	3,000	**2,972**	2,970	**3,504**	3,397
		₱15,470	**₱8,628**	₱14,243	**₱9,393**	₱14,686

Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank pari passu and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company. These Peso Notes have a term of 10 years and are redeemable at the option of the Parent Company (but not the holders) after the fifth year in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the date of redemption, subject to the prior consent of the BSP. Further, at any time within the first 5 years from respective issue dates of these Notes, upon (a) a change in tax status due to changes in laws and/or regulations or (b) the non-qualification as Lower Tier 2 capital as determined by BSP of these Notes, the Parent Company may, upon prior approval of BSP and at least 30-day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Peso Notes prior to stated maturity by paying the face value plus accrued interest at the interest rate. Also, the following shall be prohibited from purchasing and/or holding these Peso Notes: (1) subsidiaries and affiliates, including the subsidiaries and affiliates of the Parent Company's subsidiaries and affiliates; (2) unit investment trust funds managed by the Trust Department of the Parent Company, its subsidiaries and affiliates or other related entities; and (3) other funds being managed by the Trust Department of the Parent Company, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Peso Notes or (b) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Peso Notes are not fully documented.

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

On September 17, 2008, the BOD of the Parent Company approved the listing of the 2018 Peso Notes and the 2017 Peso Notes with the Philippine Dealing & Exchange Corporation (PDEx).

Specific terms of these Notes follow:

2018 Peso Notes – issued on October 3, 2008, at 100.00% of the principal amount of ₱5.5 billion

- Bear interest at 7.75% per annum from and including October 3, 2008 to but excluding October 3, 2013. Interest will be payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing January 3, 2009 up to and including October 3, 2013. Unless these are previously redeemed, the interest rate from and including October 3, 2013 to but excluding October 3, 2018 will be reset at the equivalent of the five-year PDST-F as of the Reset date multiplied by 80.00% plus a spread of 2.71% per annum. Interest will be payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing January 3, 2014 up to and including October 3, 2018.

  On October 4, 2013, the Parent Company exercised the call option on its ₱5.5 billion 7.75% Lower Tier 2 Notes, ahead of its original maturity on October 3, 2018. The redemption was approved by the BOD of the Parent Company and by the BSP on July 16, 2013 and August 15, 2013, respectively.

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

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

On April 15, 2013, the BOD approved the issuance of Basel III-compliant Tier 2 capital notes up to USD500 million in one or more tranches, issued as part of the Parent Company's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP and to proactively manage its capital base for growth and refinancing of maturing capital securities.

MCC

2019 Peso Notes – issued on June 30, 2009 at 100.00% of the principal amount of ₱1.3 billion

- Bear interest at 8.40% per annum from and including June 30, 2009 but excluding June 30, 2014 which is payable quarterly in arrears every 30th of September, December, March and June of each year, commencing on September 30, 2009.
- Constitute direct, unconditional, and unsecured obligations of MCC and claim in respect of the 2019 Notes shall be at all times pari passu and without any preference among themselves.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2019 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

On September 30, 2014 (the Reset date), the Step-up Interest Rate will be based on a 5-year PDST-F FXTN as of the Reset date multiplied by 80.00%, plus the Step-up Credit Spread on the twenty-first interest period up to the last interest period in the event that the issuer does not exercise the Call Option. The Step-up Credit Spread is equivalent to 4.92%.

MCC exercised the call option on its 2019 Peso Notes amounting to ₱1.3 billion on July 31, 2013, as approved by the BSP on June 6, 2013. The redemption fell under the call provisions which had an original maturity of ten years or until 2019.

2023 Peso Notes – issued on December 20, 2013 at 100.00% of the principal amount of ₱1.17 billion.

- Bear interest at 6.21% per annum payable quarterly in arrears every 20th of March, June, September and December each year, commencing on March 20, 2014.
- Basel III - Compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on February 17, 2013.
- In case of insolvency or liquidation of MCC, the notes will be subordinated in the right of payment of principal and interest to all depositors and other creditors of MCC, except those creditors expressed to rank equally with, or behind holders of the notes.
- If a non-viability trigger event occurs, MCC shall immediately write down some or all of the notes in accordance with the BSP's determination.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2019 Notes, at a redemption price equal to the face value together with the accrued and unpaid interest based on the interest rate.

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

- Bear interest at 5.75% per annum from and including February 20, 2012 but excluding February 20, 2017 which is payable quarterly in arrears every May 20, August 20, November 20 and February 20, commencing on February 20, 2012.
- Constitute direct, unconditional, and unsecured obligations of PSBank and claim in respect of the 2022 Notes shall be at all times pari passu and without any preference among themselves.
- Subject to satisfaction of certain regulatory approval requirements, PSBank may redeem all and not less than the entire outstanding 2022 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

As of December 31, 2013 and 2012, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2013, 2012 and 2011, interest expense on subordinated debt included in 'Interest expense on bills payable and SSURA, subordinated debt and others' amounted to ₱0.9 billion, ₱1.5 billion and ₱1.5 billion (including amortization of ₱24.3 million, ₱40.0 million and ₱62.3 million), respectively, for the Group, and ₱0.7 billion, ₱1.3 billion and ₱1.4 billion (including amortization of ₱19.7 million, ₱35.2 million and ₱36.7 million), respectively, for the Parent Company.

21. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated – Note 2)	2013	2012 (As restated – Note 2)
Bills purchased – contra (Note 9)	**₱16,637**	₱15,217	**₱16,587**	₱15,156
Non-equity non-controlling interests	**10,369**	6,807	**–**	–
Accounts payable (Note 31)	**8,337**	6,194	**4,674**	3,690
Marginal deposits	**6,819**	1,846	**324**	152
Retirement liability* (Note 26)	**4,830**	4,312	**4,162**	3,894
Outstanding acceptances	**1,001**	968	**1,001**	968
Deposits on lease contracts	**991**	832	**–**	–
Deferred revenues	**936**	708	**98**	78
Other credits	**680**	496	**382**	341
Withholding taxes payable	**412**	519	**270**	342
Miscellaneous	**3,068**	2,342	**1,362**	829
	₱54,080	₱40,241	**₱28,860**	₱25,450

* Includes retirement liability of a foreign subsidiary and a foreign branch in 2012.

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

Non-equity non-controlling interests arise when mutual funds are consolidated and where the Group holds less than 100% of the investment in these funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests in that the Group does not hold an equity stake in such funds.

As of December 31, 2013 and 2012, miscellaneous liabilities of the Group include dividends payable amounting to ₱28.6 million and ₱66.3 million, respectively, and notes payable amounting to ₱488.1 million.

22. Maturity Profile of Assets and Liabilities

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

	Consolidated					
	2013			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 – at gross						
Cash and other cash items	**₱29,742**	**₱–**	**₱29,742**	₱24,382	₱–	₱24,382
Due from BSP	**166,774**	**–**	**166,774**	131,278	–	131,278
Due from other banks	**26,275**	**–**	**26,275**	22,996	–	22,996
Interbank loans receivable and SPURA (Note 7)	**122,013**	**–**	**122,013**	23,394	–	23,394
Financial assets at FVPL (Note 8)	**55,441**	**–**	**55,441**	72,920	–	72,920
AFS investments (Note 8)	**7,363**	**266,634**	**273,997**	25,663	97,951	123,614
HTM investments (Note 8)	**1,141**	**37,284**	**38,425**	8,851	42,600	51,451
Loans and Receivables (Note 9)						
Receivables from customers	**308,961**	**302,258**	**611,219**	273,890	251,654	525,544
Unquoted debt securities	**2,111**	**3,243**	**5,354**	1,644	6,342	7,986
Accrued interest receivable	**8,414**	**–**	**8,414**	7,359	–	7,359
Accounts receivable	**3,821**	**–**	**3,821**	4,060	–	4,060
Sales contract receivable	**109**	**349**	**458**	133	504	637
Other receivables	**314**	**–**	**314**	1,493	–	1,493

(Forward)

	Consolidated					
	2013			2012 (As restated – Note 2)		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Other assets (Note 14)						
Interoffice float items	**₱1,127**	**₱–**	**₱1,127**	₱1,550	₱–	₱1,550
Returned checks and other cash items	**68**	**–**	**68**	80	–	80
Residual value of leased asset	**–**	**712**	**712**	383	226	609
Other investments	**–**	**3**	**3**	–	13	13
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Pledged certificate of time deposit	**266**	**–**	**266**	452	–	452
Miscellaneous assets	**–**	**426**	**426**	–	457	457
	742,797	**610,909**	**1,353,706**	609,385	399,747	1,009,132
Non-financial Assets – at gross						
Property and equipment (Note 10)	**–**	**32,978**	**32,978**	–	31,048	31,048
Investments in associates (Note 11)	**–**	**6,436**	**6,436**	–	15,030	15,030
Investment properties (Note 12)	**–**	**17,399**	**17,399**	–	20,098	20,098
Non-current asset held for sale (Note 13)	**–**	**–**	**–**	1,102	–	1,102
Deferred tax assets (Note 28)	**–**	**7,190**	**7,190**	–	8,871	8,871
Goodwill (Note 11)	**–**	**5,206**	**5,206**	–	6,409	6,409
Retirement asset (Note 26)	**–**	**28**	**28**	–	–	–
Assets held under joint operations (Note 14)	**–**	**1,361**	**1,361**	–	1,189	1,189
Accounts receivable (Note 9)	**–**	**2,052**	**2,052**	–	1,722	1,722
Other assets (Note 14)	**1,960**	**5,186**	**7,146**	2,266	4,585	6,851
	1,960	**77,836**	**79,796**	3,368	88,952	92,320
	₱744,757	**₱688,745**	**1,433,502**	₱612,753	₱488,699	₱1,101,452
Less:						
Unearned discounts and capitalized interest (Note 9)			**3,942**			7,180
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**20,361**			18,793
Allowance for credit and impairment losses (Note 15)			**30,630**			28,836
			₱1,378,569			₱1,046,643
Financial Liabilities						
Deposit liabilities						
Demand	**₱150,694**	**₱–**	**₱150,694**	₱106,229	₱–	₱106,229
Savings	**362,915**	**–**	**362,915**	305,034	–	305,034
Time	**475,521**	**27,138**	**502,659**	309,651	17,780	327,431
	989,130	**27,138**	**1,016,268**	720,914	17,780	738,694
Bills payable and SSURA (Note 17)	**114,199**	**13,005**	**127,204**	83,094	14,014	97,108
Derivative liabilities	**4,452**	**–**	**4,452**	6,692	–	6,692
Manager's checks and demand drafts outstanding	**3,927**	**–**	**3,927**	3,489	–	3,489
Accrued interest and other expenses	**7,326**	**–**	**7,326**	6,641	–	6,641
Bonds payable (Note 19)	**–**	**11,643**	**11,643**	–	11,556	11,556
Subordinated debt (Note 20)	**4,497**	**4,131**	**8,628**	4,266	9,977	14,243
Other liabilities (Note 21)						
Bills purchased contra	**16,637**	**–**	**16,637**	15,217	–	15,217
Accounts payable	**8,337**	**–**	**8,337**	6,194	–	6,194
Non-equity non-controlling interest	**10,369**	**–**	**10,369**	6,807	–	6,807
Marginal deposits	**6,819**	**–**	**6,819**	1,846		1,846
Outstanding acceptances	**1,001**	**–**	**1,001**	968	–	968
Deposits on lease contracts	**–**	**991**	**991**	243	589	832
Dividends payable	**29**	**–**	**29**	66	–	66
Miscellaneous	**–**	**488**	**488**	–	482	482
	1,166,723	**57,396**	**1,224,119**	856,437	54,398	910,835
Nonfinancial Liabilities						
Retirement liability (Note 26)	**–**	**4,830**	**4,830**	–	4,312	4,312
Income taxes payable	**676**	**–**	**676**	1,326	–	1,326
Accrued interest and other expenses	**1,181**	**–**	**1,181**	1,700	–	1,700
Withholding taxes payable (Note 21)	**412**	**–**	**412**	519		519
Deferred tax and other liabilities (Notes 21 and 28)	**3,473**	**1,173**	**4,646**	2,496	746	3,242
	5,742	**6,003**	**11,745**	6,041	5,058	11,099
	₱1,172,465	**₱63,399**	**₱1,235,864**	₱862,478	₱59,456	₱921,934

	Parent Company					
	2013			2012		
	Due Within One Year	Due Beyond One Year	Tatal	Due Within One Year	Due Beyond One Year	Total
Financial Assets – at grass						
Cash and other cash items	₱26,532	₱–	₱26,532	₱21,540	₱–	₱21,540
Due from BSP	143,724	–	143,724	111,515	–	111,515
Due from other banks	8,947	–	8,947	7,873	–	7,873
Interbank loans receivable and SPURA (Note 7)	96,872	–	96,872	15,046	–	15,046
Financial assets at FVPL (Note 8)	36,140	–	36,140	57,635	–	57,635
AFS investments (Note 8)	4,249	222,872	227,121	23,694	79,056	102,750
HTM investments (Note 8)	1,141	37,217	38,358	8,574	12,917	21,491
Loans and Receivables (Note 9)						
Receivables from customers	241,374	213,223	454,597	219,247	176,762	396,009
Unquoted debt securities	558	462	1,020	765	548	1,313
Accrued interest receivable	6,910	–	6,910	5,646	–	5,646
Accounts receivable	2,360	–	2,360	3,070	–	3,070
Sales contract receivable	80	76	156	111	133	244
Other receivables	30	–	30	168		168
Other assets (Note 14)						
Interoffice float items	1,061	–	1,061	1,288	–	1,288
Returned checks and other cash items	54	–	54	63	–	63
Other investments	–	–	–	–	10	10
Investments in SPVs	8,857	–	8,857	8,857	–	8,857
Pledged certificate of time deposit	266	–	266	452		452
Miscellaneous assets	–	426	426	–	457	457
	579,155	474,276	1,053,431	485,544	269,883	755,427
Nanfinancial Assets – at gross						
Property and equipment (Note 10)	–	22,872	22,872	–	22,215	22,215
Investment in subsidiaries (Note 11)	–	26,046	26,046	–	26,047	26,047
Investments in associates (Note 11)	–	740	740	–	740	740
Investment properties (Note 12)	–	12,869	12,869	–	15,475	15,475
Non-current asset held for sale (Note 13)	–	–	–	336		336
Deferred tax assets (Note 28)	–	6,333	6,333		7,276	7,276
Goodwill (Note 11)	–	–	–	–	1,203	1,203
Retirement asset (Note 26)	–	2	2	–	–	–
Assets held under joint operations (Note 14)	–	1,361	1,361	–	1,189	1,189
Accounts receivable (Note 9)	–	2,052	2,052	–	1,722	1,722
Other assets (Note 14)	1,214	2,926	4,140	1,520	2,713	4,233
	1,214	75,201	76,415	1,856	78,580	80,436
	₱580,369	₱549,477	1,129,846	₱487,400	₱348,463	835,863
Less:						
Unearned discounts and capitalized interest (Note 9)			580			1,376
Accumulated depreciation and amortization (Notes 10, 12 and 14)			14,759			14,058
Allowance for credit and impairment losses (Note 15)			23,807			21,373
			₱1,090,700			₱799,056
Financial Liabilities						
Deposit liabilities						
Demand	₱134,788	₱–	₱134,788	₱94,516	₱–	₱94,516
Savings	348,244	–	348,244	293,934	–	293,934
Time	398,497	9,225	407,722	245,135	834	245,969
	881,529	9,225	890,754	633,585	834	634,419
Bills payable and SSURA (Note 17)	45,993	–	45,993	16,223	–	16,223
Derivative liabilities	4,452	–	4,452	6,425	–	6,425
Manager's checks and demand drafts outstanding	2,816	–	2,816	2,732	—	2,732
Accrued interest and other expenses	4,934	–	4,934	4,297	—	4,297
Subordinated debt (Note 20)	4,497	–	4,497	–	9,977	9,977
Other liabilities (Note 21)						
Bills purchased – contra	16,587	–	16,587	15,156	–	15,156
Accounts payable	4,674	–	4,674	3,690	–	3,690
Marginal deposits	324	–	324	152	–	152
Outstanding acceptances	1,001	–	1,001	968	–	968
	966,807	9,225	976,032	683,228	10,811	694,039
Nonfinancial Liabilities						
Retirement liability (Note 26)	–	4,162	4,162	–	3,894	3,894
Income taxes payable	267	–	267	912	–	912
Accrued interest and other expenses	1,068	–	1,068	1,610	–	1,610
Withholding taxes payable (Note 21)	270	–	270	342	–	342
Other liabilities (Note 21)	1,444	398	1,842	907	341	1,248
	3,049	4,560	7,609	3,771	4,235	8,006
	₱969,856	₱13,785	₱983,641	₱686,999	₱15,046	₱702,045

23. Capital Stock

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

	Shares			Amount		
	2013	2012	2011	**2013**	2012	2011
Authorized						
Common stock – ₱20.00 par value	**4,000,000,000**	2,500,000,000	2,500,000,000			
Preferred stock ₱20.00 par value	**1,000,000,000**	–	–			
Issued and outstanding						
Balance at beginning of year	**2,111,386,017**	2,111,386,017	1,911,386,017	**₱42,228**	₱42,228	₱38,228
Issuance of stock dividends	**633,415,049**	–	–	**12,668**	–	
Issuance of common stock	–	–	200,000,000	**–**	–	4,000
Balance at end of year	**2,744,801,066**	2,111,386,017	2,111,386,017	**54,896**	42,228	42,228
HT1 Capital	**–**	–	–	**6,351**	6,351	6,351
	2,744,801,066	2,111,386,017	2,111,386,017	**₱61,247**	₱48,579	₱48,579

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2013 and 2012, the Parent Company's share price closed at ₱75.55 and ₱102.00 a share, respectively.

Following the approval of the BOD of the Parent Company on October 13, 2010, on January 24, 2011, the Parent Company has concluded the ₱10.0 billion stock rights offering, involving 200 million common shares with a par value of ₱20.00 priced at ₱50.00 per share which was computed based on the 10-trading day volume-weighted average price of the Parent Company's common shares on the PSE prior to the December 10, 2010 pricing date, subject to a discount of 30.50%. Stockholders were entitled to the rights as of December 20, 2010, the record date, at the ratio of one (1) right share for every 9.557 common shares held (Note 32).

On March 15, 2013, the BOD of the Bank approved (a) the amendment of the Articles of Incorporation (AOI) for the purpose of increasing the authorized capital stock and (b) the declaration of 30% stock dividend, which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2013. These were subsequently approved by the BSP on May 15, 2013 while the SEC approved the amended AOI on August 13, 2013.

Following this, the authorized capital stock of the Bank increased from ₱50.0 billion to ₱100.0 billion consisting of 4.0 billion Common Shares and 1.0 billion Preferred Shares, both with par value of ₱20 per share. Preferred shares are non-voting except as provided by law; have preference over Common Shares in the distribution of dividends; subject to such terms and conditions as may be determined by the BOD and to the extent permitted by applicable law, may or may not be redeemable; and shall have such other features as may be determined by the BOD at the time of issuance.

The 30% stock dividend equivalent to 633.4 million common shares amounting to ₱12.7 billion represents at least the minimum 25% subscribed and paid-up capital for the increase in the authorized capital stock referred to above. As delegated by the BOD, the President fixed the record and payment dates on September 3 and 16, 2013, respectively. On September 10, 2013, the PSE approved the listing of additional 633,415,805 common shares and on September 16, 2013, the Bank issued the stock dividend and paid the cash equivalent of the related fractional shares.

HT1 Capital represents USD 125.0 million, 9.00% non-cumulative step-up callable perpetual capital securities with liquidation preference of USD 100,000 per capital security issued by the Parent Company on February 15, 2006 pursuant to a trust deed with The Bank of New York (Trustee) and listed with the Singapore Exchange Securities Trading Limited. The HT1 Capital is governed by English law except on certain clauses in the Trust Deed which are governed by Philippine law. Basic features of the HT1 Capital follow:

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

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

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

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

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

The Parent Company paid the semi-annual coupon amounting to USD 5.6 million from 2006 to 2013 after obtaining their respective BSP approvals. Details of approvals and payments from 2011 to 2013 are as follows:

Date of BSP Approval	Date Paid
August 12, 2013	August 15, 2013
February 6, 2013	February 15, 2013
August 12, 2012	August 15, 2012
February 1, 2012	February 15, 2012
August 11, 2011	August 15, 2011
February 10, 2011	February 15, 2011

Details of the Parent Company's cash dividend distributions from 2011 to 2013 follow:

Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record date	Payment date
January 23, 2013	₱1.00	₱2,111	February 8, 2013	March 8, 2013	April 3, 2013
January 25, 2012	1.00	2,111	February 13, 2012	March 5, 2012	March 26, 2012
March 25, 2011	1.00	2,111	April 28, 2011	May 16, 2011	May 23, 2011

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

24. Surplus Reserves

This account consists of:

	2013	2012
Reserve for trust business	**₱862**	₱756
Reserve for self-insurance	**373**	352
	₱1,235	₱1,108

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

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

25. Miscellaneous Income and Expenses

In 2013, 2012 and 2011, miscellaneous income includes gain on initial recognition of investment properties and other nonfinancial assets amounting to ₱648.8 million, ₱138.9 million and ₱238.2 million, respectively, for the Group and ₱61.2 million, ₱121.9 million and ₱135.3 million, respectively, for the Parent Company and recovery on charged-off assets amounting to ₱455.4 million, ₱390.4 million and ₱324.8 million, respectively, for the Group and ₱27.9 million, ₱46.2 million and ₱31.3 million, respectively, for the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2013	2012 (As Restated - Note 2)	2011	2013	2012	2011
Security, messengerial and janitorial	**₱1,800**	₱1,630	₱1,374	**₱1,408**	₱1,304	₱1,141
Insurance	**1,672**	1,480	1,528	**1,333**	1,180	1,227
Advertising	**725**	580	714	**91**	105	55
Information technology	**718**	639	706	**576**	577	695
Litigation (Note 12)	**705**	776	656	**450**	542	473
Communication	**528**	474	503	**69**	96	127
Transportation and travel	**489**	447	395	**369**	342	282
Stationery and supplies used	**487**	404	356	**308**	248	203
Management and professional fees	**460**	465	502	**272**	255	255
Supervision fees	**448**	333	265	**362**	263	205
Repairs and maintenance	**409**	451	375	**249**	253	219
Entertainment, amusement and representation (EAR) (Note 28)	**236**	238	217	**198**	188	180
Others	**1,424**	1,253	900	**477**	611	320
	₱10,101	₱9,170	₱8,491	**₱6,162**	₱5,964	₱5,382

26. Retirement Plan and Other Employee Benefits

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

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

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

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

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
As of January 1, 2013					
Average remaining working life	**9 years**	**6 to 8 years**	**9 years**	**10 years**	**20 to 25 years**
Discount rate	**5.00%**	**5.23% to 5.50%**	**5.45%**	**5.89%**	**8.64%**
Future salary increases	**8.00%**	**10.00%**	**8.00%**	**8.00%**	**7.00%**
As of January 1, 2012					
Average remaining working life	9 years	6 to 8 years	9 years	11 years	25 years
Discount rate	5.74%	5.89% to 8.70%	6.30%	7.00%	8.60% to 10.00%
Future salary increases	8.00%	8.00% to 10.00%	8.00%	9.00%	7.00%

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

Discount rates used in computing for the present value of the defined benefit obligation (DBO) of the Parent Company and significant subsidiaries as of December 31, 2013 and 2012 follow:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2013	**4.33%**	**4.51% to 5.59%**	**4.86%**	**4.85%**	**6.11%**
2012	5.00%	5.23% to 5.50%	5.45%	5.89%	8.60% to 10.00%

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

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Retirement asset (Note 14)	**(₱26)**	₱–	**₱–**	₱–
Retirement liability (Note 21)	**4,830**	4,267	**4,162**	3,891
Net retirement liability	**₱4,804**	₱4,267	**₱4,162**	₱3,891

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

	Consolidated		Parent Company	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Due from BSP	**₱115**	₱12	**₱–**	₱–
Deposit in Banks	**697**	252	**550**	191
	812	264	**550**	191
FVPL - equity securities	**1,429**	717	**–**	–
AFS Investments – net				
Debt instruments				
Private	**327**	407	**304**	374
Government	**5,683**	4,958	**5,303**	4,607
	6,010	5,365	**5,607**	4,981
Equity securities				
Quoted	**778**	708	**1,415**	704
Unquoted	**200**	200	**13**	13
	978	908	**1,428**	717
Investment funds	**25**	11	**–**	–
Total AFS investments	**7,013**	6,284	**7,035**	5,698
Loans and discounts – net	**58**	131	**58**	108
Other receivables – net	**93**	62	**62**	66
Total Assets	**₱9,405**	₱7,458	**₱7,705**	₱6,063

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

Consolidated	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
Net Benefit Cost in Consolidated Statement of Income			
January 1, 2013	**₱11,725**	**(₱7,458)**	**₱4,267**
Current service cost	**1,006**	–	**1,006**
Past service cost	**25**	–	**25**
Net interest	**580**	**(411)**	**169**
Sub-total	**13,336**	**(7,869)**	**5,467**
Benefits paid	**(662)**	**662**	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	**(130)**	**(130)**

(Forward)

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
Actuarial changes arising from experience adjustments	₱573	(₱119)	₱454
Actuarial changes arising from changes in financial/demographic assumptions	962	(5)	957
Changes in the effect of asset ceiling	–	–	–
Sub-total	1,535	(254)	1,281
Contributions paid	–	(1,944)	(1,944)
December 31, 2013	₱14,209	(₱9,405)	₱4,804

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability (asset)
Net Benefit Cost in Consolidated Statement of Income			
January 1, 2013	₱9,954	(₱6,063)	₱3,891
Current service cost	791	–	791
Past service cost	–	–	–
Net interest	482	(333)	149
Sub-total	11,227	(6,396)	4,831
Benefits paid	(542)	542	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	(125)	(125)
Actuarial changes arising from experience adjustments	563	–	563
Actuarial changes arising from changes in financial/demographic assumptions	619	–	619
Sub-total	1,182	(125)	1,057
Contributions paid	–	(1,726)	(1,726)
December 31, 2013	₱11,867	(₱7,705)	₱4,162

Changes in net defined benefit liability of funded funds in 2012 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
Net Benefit Cost in Consolidated Statement of Income			
January 1, 2012	₱9,704	(₱7,140)	₱2,564
Current service cost	895	–	895
Past service cost	43	–	43
Net interest	554	(406)	148
Sub-total	11,196	(7,546)	3,650
Benefits paid	(715)	715	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	(450)	(450)
Actuarial changes arising from experience adjustments	506	(24)	482
Actuarial changes arising from changes in financial/demographic assumptions	738	–	738
Changes in the effect of asset ceiling	–	–	–
Sub-total	1,244	(474)	770
Contributions paid	–	(153)	(153)
December 31, 2012	₱11,725	(₱7,458)	₱4,267

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability (asset)
Net Benefit Cost in Consolidated Statement of Income			
January 1, 2012	₱8,349	(₱6,059)	₱2,290
Current service cost	726	–	726
Net interest	468	(335)	133
Sub-total	9,543	(6,394)	3,149
Benefits paid	(638)	638	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	(307)	(307)
Actuarial changes arising from experience adjustments	484	–	484
Actuarial changes arising from changes in financial/demographic assumptions	565	–	565
Sub-total	1,049	(307)	742
Contributions paid	–	–	–
December 31, 2012	₱9,954	(₱6,063)	₱3,891

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

	Parent Company	FMIC	PSBank	MCC
As of December 31, 2013				
Discount rate				
+100 basis points (bps)	**₱10,960**	**₱281**	**₱1,366**	**₱365**
-100 bps	**12,905**	**334**	**1,693**	**468**
Salary increase rate				
+100 bps	**12,646**	**331**	**1,681**	**451**
-100 bps	**11,159**	**283**	**1,373**	**378**
Turnover rate				
+100 bps	**11,396**	–	**1,448**	–
-100 bps	**12,418**	–	**1,587**	–
+200 bps	–	**298**	–	**374**
- 200 bps	–	**314**	–	**457**

The Group expects to contribute to the defined benefit retirement plans the required funding for normal cost in 2014.

The average duration of the defined benefit obligation of the Parent Company as of December 31, 2013 and 2012 are 12.54 years and 14 years, respectively.

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

	Parent Company	FMIC	PSBank	MCC	Orix
As of December 31, 2013					
Less than 1 year	**₱680**	**₱13**	**₱119**	**₱9**	**₱21**
More than 1 year to 5 years	**5,251**	**368**	**495**	**109**	**13**
More than 5 years to 10 years	**9,768**	**431**	**1,142**	**237**	**67**
More than 10 years to 15 years	**8,820**	**706**	**1,879**	**578**	**139**
More than 15 years to 20 years	**5,206**	**499**	**1,945**	**762**	**203**
More than 20 years	**6,408**	**575**	**3,813**	**1,314**	**2,035**
As of December 31, 2012					
Less than 1 year	₱472	₱6	₱125	₱8	₱–
More than 1 year to 5 years	4,468	70	433	68	23
More than 5 years to 10 years	8,714	255	952	213	13
More than 10 years to 15 years	9,501	265	1,470	421	135
More than 15 years to 20 years	4,831	309	1,606	688	201
More than 20 years	5,648	339	2,802	1,177	1,768

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2013 and 2012 amounted to ₱180.4 million and ₱134.3 million, respectively.

As of December 31, 2013 and 2012, the retirement fund of the Parent Company's employees amounting to ₱7.7 billion and ₱6.1 billion, respectively, is being managed by the Parent Company's Trust Banking Group, which has a Trust Committee, that is mandated to approve, the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee. The Trust Banking Group of the Parent Company manages the plan based on the mandate as defined in the trust agreement. Directors' fees and bonuses of the Parent Company in 2013, 2012 and 2011 amounted to ₱48.94 million, ₱61.8 million and ₱35.1 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱5.0 billion, ₱5.4 billion and ₱4.0 billion, respectively.

27. Long-term Leases

The Parent Company leases the premises occupied by some of its branches (about 44.62% and 46.05% of the branch sites in 2013 and 2012, respectively, are Parent Company-owned). Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%. As of December 31, 2013 and 2012, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2013, 2012 and 2011 amounted to ₱1.5 billion, ₱1.4 billion and ₱1.3 billion, respectively, for the Group and ₱812.6 million, ₱751.3 million and ₱721.0 million, respectively, for the Parent Company.

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

	Consolidated		**Parent Company**	
	2013	2012	**2013**	2012
Within one year	**₱520**	₱459	**₱344**	₱323
After one year but not more than five years	**1,793**	1,107	**985**	986
More than five years	**726**	259	**201**	259
	₱3,039	₱1,825	**₱1,530**	₱1,568

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and real and other properties acquired and finance lease agreements over various items of machinery and equipment which are non-cancelable and have remaining non-cancelable lease terms between 1 and 20 years. In 2013, 2012 and 2011, leasing income amounted to ₱1.6 billion, ₱1.4 billion and ₱1.0 billion respectively, for the Group and ₱243.2 million, ₱207.3 million and ₱196.1 million, respectively, for the Parent Company.

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

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Within one year	**₱943**	₱950	**₱157**	₱107
After one year but not more than five years	**1,494**	1,533	**271**	132
More than five years	**33**	468	**33**	–
	₱2,470	₱2,951	**₱461**	₱239

28. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33% of interest income subjected to final tax.

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

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

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

Foreign Branches	Tax Rates
USA – New York Branch	30.00% income tax ; Business taxes – 0.01% (New York State) and 0.26% (New York City)
Japan – Tokyo and Osaka Branches	28.05% income tax; Various rates for business taxes – income tax, local business, sheet value and sheet capital allocations
Korea – Pusan Branch	20.00% income tax; 0.50% education tax
Seoul Branch	21.00% income tax; 0.50% education tax
Taiwan – Taipei Branch	17.00% income tax; 2.00% gross business receipts tax; 5.00% VAT

The provision for income tax consists of:

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Current:						
Final tax	**₱2,546**	₱2,014	₱2,301	**₱1,906**	₱1,220	₱1,392
RCIT*	**1,377**	2,331	1,095	**115**	751	167
MCIT	**266**	13	268	**244**	–	263
	4,189	4,358	3,664	**2,265**	1,971	1,822
Deferred*	**2,559**	(502)	(122)	**1,381**	(211)	297
	₱6,748	₱3,856	₱3,542	**₱3,646**	₱1,760	₱2,119

* Includes income taxes of foreign subsidiaries.

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

	Consolidated		Parent Company	
	2013	2012 (As Restated – Note 2)	**2013**	2012 (As Restated – Note 2)
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱4,428**	₱6,201	**₱3,688**	₱4,664
NOLCO	**1,263**	–	**1,263**	–
Accrued retirement liability	**1,454**	1,293	**1,257**	1,171
Unamortized past service cost	**541**	311	**526**	298
Accumulated depreciation of investment properties	**464**	504	**401**	443
MCIT	**244**	–	**244**	–
Accrued expenses	**129**	172	**129**	130
Unrealized loss on AFS investments	**93**	–	**93**	–
Deferred membership/awards	**101**	185	–	–
Unearned rental income	**10**	10	**10**	10
Unrealized losses on financial assets at FVPL	–	993	–	993
Unrealized foreign exchange loss – net	–	22	–	24
Others	**263**	112	**26**	26
	8,990	9,803	**7,637**	7,759
Deferred tax liability on:				
Unrealized gain on financial assets at FVPL	**927**	–	**927**	–
Unrealized gain on initial measurement of investment properties	**618**	692	**371**	454
Unrealized foreign exchange gain - net	**20**	–	**6**	–
Unrealized gain on AFS investments (Note 8)	**99**	78	–	29
Deferred acquisition cost	–	55	–	–
Others	**136**	107	–	–
	1,800	932	**1,304**	483
Net deferred tax assets	**₱7,190**	₱8,871	**₱6,333**	₱7,276

Components of net deferred tax liabilities of the Group follow:

	2013	2012 (As Restated – Note 2)
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱75**	₱50
Unamortized past service cost	**6**	6
Accrued expenses	–	5
Accumulated depreciation of investment properties	**4**	5
Retirement liability	–	1
Others	**2**	2
	87	69

(Forward)

	2013	2012 (As Restated – Note 2)
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**₱340**	₱280
Unrealized gain on Financial Assets at FVPL	**12**	–
Unrealized gain on AFS investments (Note 8)	**–**	27
Retirement asset	**8**	6
Others	**206**	–
	566	313
Net deferred tax liabilities	**₱479**	₱244

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

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Allowance for credit and impairment losses	**₱13,494**	₱4,339	**₱9,283**	₱3,063
NOLCO	**55**	777	–	–
MCIT	**30**	34	–	–
Others	**204**	117	–	–

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

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

Details of the excess MCIT credits follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used	Balance	Expiry Year
2010	₱1	₱–	₱1	2013	₱–	₱ -	₱–	
2011	123	103	20	2014	103	103	–	2014
2012	13	–	13	2015	–	–	–	
2013	266	–	266	2016	244	–	244	2016
	₱403	₱103	₱300		₱347	₱103	₱244	

Details of the NOLCO follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used	Balance	Expiry Year
2010	₱718	₱	₱718	2013	₱–	₱–	₱–	
2011	17	–	17	2014	–	–	–	
2012	42	–	42	2015	–	–	–	
2013	4,211		4,211	2016	4,211	–	4,211	2016
	₱4,988	₱–	₱4,988		₱4,211	₱–	₱4,211	

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

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00**	30.00%	30.00%
Tax effect of:						
Tax-paid and tax-exempt income	**(27.66)**	(23.22)	(21.63)	**(30.37)**	(22.25)	(28.96)
Nondeductible interest expense	**7.83**	10.23	7.13	**2.75**	3.66	8.51
Nonrecognition of deferred tax asset	**6.77**	3.45	6.60	**7.98**	2.13	11.63
FCDU income	**(0.74)**	(1.81)	(4.12)	**(1.08)**	(2.34)	(6.69)
Others – net	**5.64**	(0.94)	4.12	**8.63**	2.44	6.64
Effective income tax rate	**21.84%**	17.71%	22.10%	**17.91%**	13.64%	21.13%

29. Trust Operations

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

In compliance with current banking regulations relative to the Parent Company and certain subsidiaries' trust functions, government securities classified under HFT and AFS investments are deposited with the BSP. Face value of such government securities follows:

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
HFT investments	**₱7**	₱4	**₱–**	₱–
AFS investments	**5,170**	5,153	**5,130**	5,113
	₱5,177	₱5,157	**₱5,130**	₱5,113

30. Commitments and Contingent Liabilities

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

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

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Trust Banking Group accounts (Note 29)	**₱324,839**	₱420,440	**₱323,174**	₱418,167
Commitments				
Credit card lines	**69,595**	55,247	**–**	–
Underwriting	**-**	1,200	**–**	–
Undrawn facilities to lend	**1,835**	415	**1,835**	-
Unused commercial letters of credit	**32,641**	29,284	**31,254**	28,309
Bank guaranty with indemnity agreement	**6,777**	4,071	**6,777**	4,071
Credit line certificate with bank commission	**5,206**	5,444	**5,206**	5,444
Late deposits/payments received	**2,082**	1,709	**2,018**	1,647
Outstanding shipside bonds/airway bills	**936**	1,147	**936**	1,147
Inward bills for collection	**903**	886	**885**	638
Outward bills for collection	**443**	520	**443**	518
Outstanding guarantees	**78**	80	**78**	80
Confirmed export letters of credits	**72**	69	**70**	65
Traveler's check unsold	**–**	11	**–**	11
Others	**12,360**	5,324	**340**	414
	₱457,767	₱525,847	**₱373,016**	₱460,511

In September 2008, the Parent Company filed petitions for rehabilitation against two Philippine subsidiaries of Lehman Brothers Holdings, Inc. (Lehman) in connection with a combined ₱2.4 billion loan exposure. These came as a result of the declaration of bankruptcy filed by Lehman, a surety under the loan agreements. The rehabilitation plans were duly approved by the Rehabilitation Court (RC). A Management Committee was created for each of the two (2) Lehman subsidiaries and these Management Committees oversaw and managed the company assets until their abolition in July 2012. In lieu thereof, the RC appointed a Comptroller who was nominated by the Parent Company. Earlier, in April 2012, the RC resolved to recognize the new equity holder in Philippine Investment One (SPV-AMC), Inc. (PI One) and Philippine Investment Two (SPV-AMC), Inc. (PI Two). On October 31, 2012, the Parent Company and PI One and PI Two (thru the new equity holder) entered into a universal compromise agreement to settle the issues among the parties. Said compromise bears the conformity of the Rehabilitation Receiver. On August 30, 2013, the RC issued an Order excluding another creditor bank as a creditor of PI Two entitled to payments under the approved Rehabilitation Plan. The Court of Appeals, however, issued a Temporary Restraining Order enjoining the RC from enforcing such Order upon a petition filed before it by this creditor bank. In November 2013, the Court of Appeals issued a resolution denying this creditor bank's application for the issuance of a writ of preliminary injunction and accordingly, upheld the RC's order excluding it as creditor of PI Two.

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

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

31. Related Party Transactions

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

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

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

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

	Consolidated		Parent Company	
	2013	2012	**2013**	2012
Total outstanding DOSRI accounts	**₱6,438**	₱12,721	**₱5,628**	₱9,602
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%	**0.00%**	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.05%**	2.42%	**1.24%**	2.42%
Percent of DOSRI accounts to total loans	**1.05%**	2.42%	**1.24%**	2.42%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**12.55%**	20.34%	**8.44%**	19.22%
Percent of past due DOSRI accounts to total DOSRI accounts	**1.31%**	3.92%	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**1.31%**	3.92%	**0.00%**	0.00%

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2013 and 2012, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, and the unsecured portion did not exceed 5.00% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 2.89% and 5.48%, respectively, of the Parent Company's net worth.

BSP issued Circular No. 654 allows a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2013 and 2012, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.50% of such net worth.

Total interest income on the DOSRI loans in 2013, 2012 and 2011 amounted to ₱275.5 million, ₱629.0 million and ₱593.5 million, respectively, for the Group and ₱184.0 million, ₱469.1 million and ₱528.8 million, respectively, for the Parent Company.

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

	Consolidated	
	December 31, 2013	
Category	**Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	**₱705**	Secured – ₱580.0 million and unsecured – ₱125.0 million, no impairment Short-term lending with interest rates ranging from 2.60% to 3.70% subject to regular repricing with maturity terms from 33 days to 98 days
Deposit liabilities*	**231**	With annual fixed rates ranging from 0.0% to 0.50%
Amount/Volume:		
Receivables from customers	**(2,548)**	Generally similar to terms and conditions above
Deposit liabilities	**173**	Generally similar to terms and conditions above
Interest income	**5**	Interest income on receivables from customers
Gain on sale of non-current asset held for sale	**3,440**	Gain on sale of 15.00% ownership in TMPC
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**1,882**	Foreign currency-denominated lending with annual fixed interest rates ranging from 1.13% to 1.62% and maturity terms from 7 days to 372 days, no impairment
Receivables from customers*	**1,061**	Unsecured with no impairment With annual fixed rates ranging from 3.70% to 5.59% and maturity terms from 7 days to 5 years
Accounts receivable	**322**	Outstanding information technology fees and remittance receivable, non-interest bearing
Deposit liabilities*	**3,906**	With annual fixed interest rates ranging from 0.0% to 1.50% including time deposits with maturity terms from 1 day to 360 days
Bills payable	**635**	Short-term foreign currency-denominated borrowings subject to annual fixed interest rate of 0.19% and maturity term of 34 days
Bonds payable	**309**	Issued by FMIC with interest rates ranging from 5.50% to 5.75% and maturity terms from 5 to 7 years
Accounts payable	**94**	Unpaid various transactional charges, non-interest bearing
Amount/Volume:		
Interbank loans receivable	**(6,933)**	Generally similar to terms and conditions above
Receivables from customers	**(293)**	Generally similar to terms and conditions above
Bills payable	**34**	Generally similar to terms and conditions above
Deposit liabilities	**(208)**	Generally similar to terms and conditions above
Interest income	**130**	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**14**	Income on transactional fees
Trading and securities gain - net	**4,635**	Income from securities transactions
Foreign exchange gain - net	**167**	Net gain from foreign exchange transactions
Leasing income	**35**	Income from leasing agreements with various lease terms
Dividend income	**9,971**	Dividend income from various investee companies
Miscellaneous income	**301**	Information technology fees
Interest expense	**46**	Interest expense on deposit liabilities and bills payable
Securities transactions		
Purchases	**293,797**	Outright purchases of HFT securities and AFS investments
Sales	**172,597**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**50,198**	Outright purchases of foreign currency
Sell	**42,666**	Outright sale of foreign currency

Category	Consolidated December 31, 2013 Amount	Terms and Conditions/Nature
Associates		
Outstanding Balance:		
Receivables from customers	**₱129**	Non-interest bearing domestic bills purchased
Deposit liabilities*	**2,507**	With annual fixed interest rates ranging from 0.0% to 1.50% including time deposits with maturity terms from 1 day to 358 days
Bonds payable	**10**	Issued by FMIC subject to annual fixed interest rate of 5.68% and maturity term of 5 years
Amount/Volume:		
Receivables from customers	**64**	Generally similar to terms and conditions above
Deposit liabilities	**(58)**	Generally similar to terms and conditions above
Trading and securities gain - net	**396**	Net gain from securities transactions
Foreign exchange loss - net	**(12)**	Net loss from foreign exchange transactions
Leasing income	**20**	Income from leasing agreements with various lease terms
Dividend income	**29**	Dividend income from an investee company
Interest expense	**18**	Interest expense on deposit liabilities
Outstanding derivatives	**118**	Forward exchange bought with various terms
Securities transactions		
Outright purchases	**590**	Outright purchases of HFT securities and AFS investments
Outright sales	**802**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**154**	Outright purchases of foreign currency
Sell	**293**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱14,134**	Secured - ₱13,546 million and unsecured - ₱588 million, no impairment. With annual fixed rates ranging from 1.50% to 10.37% and maturity terms from 7 days to 12 years
Assets held under joint operations	**1,361**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	**1,069**	Downpayment to a related party real estate company relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City
Deposit liabilities*	**15,174**	With annual fixed rates ranging from 0.0% to 2.00% including time deposits with maturity terms from 6 days to 360 days
Bills payable	**7,014**	Foreign currency-denominated borrowings with annual fixed interest rates ranging from 0.26% to 2.00% and maturity terms from 40 to 49 days and peso denominated borrowings with annual fixed interest rate of 0.01% to 1.75% and maturity terms from 15 days to five days
Amount/Volume:		
Receivables from customers	**(4,187)**	Generally similar to terms and conditions above
Bills payable	**4,093**	Generally similar to terms and conditions above
Deposit liabilities	**11,852**	Generally similar to terms and conditions above
Interest income	**1,035**	Interest income on receivables from customers
Foreign exchange loss - net	**(1,546)**	Net loss from foreign exchange transactions
Leasing income	**14**	Income from leasing agreements with various lease terms
Profit from assets sold	**217**	Net gain from sale of investment properties
Gain on sale of investment in an associate	**7,388**	Gain on sale of FMIC's 40% ownership in GBPC
Interest expense	**127**	Interest expense on deposit liabilities and bills payable
Contingent		
Unused commercial LCs	**33**	LC transactions with various terms
Others	**6**	Include outstanding shipside bonds/ airway bills and outstanding guarantees
Foreign currency		
Buy	**2,467**	Outright purchases of foreign currency
Sell	**42,895**	Outright sale of foreign currency

Category	Consolidated December 31, 2013 Amount	Terms and Conditions/Nature
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱67**	Secured - ₱54.0 million, unsecured - ₱13.0 million, no impairment, with annual fixed rate ranging from 0.0% to 10.0% and maturity terms from 5 years to 15 years
Deposit liabilities	**143**	With various terms and with minimum annual interest rate of 0.0%
Amount/Volume:		
Receivables from customers	**(17)**	Generally similar to terms and conditions above
Deposit liabilities	**32**	Generally similar to terms and conditions above
Interest income	**1**	Interest income on receivables from customers
Profit from assets sold	**7**	Net gain from sale of investment property

Category	Consolidated December 31, 2012 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	₱3,253	Secured - ₱2.3 billion and unsecured - ₱1.0 billion, no impairment Short-term lending with interest rate of 3.8% subject to regular repricing with maturity terms from 30 days to 94 days
Deposit liabilities	58	With annual fixed rates ranging from 0.0% to 0.38%
Amount/Volume:		
Receivables from customers	(3,839)	Generally similar to terms and conditions above
Deposit liabilities	(14)	Generally similar to terms and conditions above
Interest income	11	Interest income on receivables from customers
Gain on sale of non-current asset held for sale	3,403	Gain on sale of 15.00% ownership in TMPC
Securities transactions		
Purchases	75	Outright purchases of HFT securities and AFS investments
Sales	75	Outright sale of HFT securities and AFS investments
Foreign currency - sell	90	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱8,815	Peso and foreign currency lending with annual fixed interest rates ranging from 1.17% to 3.625% and maturity terms from five days to one year
Receivables from customers*	1,354	Unsecured with no impairment With annual fixed rates ranging from 4.00% to 5.59% and maturity terms from 30 days to 5 years
Accounts receivable	257	Uncollected information technology fees, non-interest bearing
Other receivable	142	Dividends receivable as disclosed in Note 11
Deposit liabilities*	4,113	With annual fixed interest rates ranging from 0.0% to 2.75% including time deposits with maturity terms from 5 days to 360 days
Bills payable	601	Short-term foreign currency borrowings with annual fixed interest rate of 0.15% and maturity term of 33 days
Accounts payable	126	Unpaid various transactional charges, non-interest bearing
Amount/Volume:		
Interbank loans receivable	6,602	Generally similar to terms and conditions above
Receivables from customers	(3,608)	Generally similar to terms and conditions above
Bills payable	(46)	Generally similar to terms and conditions above
Deposit liabilities	(4,467)	Generally similar to terms and conditions above
Interest income	187	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	75	Income on transactional fees
Trading and securities gain - net	1,550	Income from securities transactions
Foreign exchange gain - net	134	Income from foreign exchange transactions
Leasing income	27	Income from leasing agreements with various lease terms

(Forward)

Category	Consolidated December 31, 2012 Amount	 Terms and Conditions/Nature
Dividend income	₱1,112	See discussions on Note 11
Profit from assets sold	54	Net gain from sale of investment properties
Miscellaneous income	221	Information technology fees billed monthly
Interest expense	106	Interest expense on deposit liabilities and bills payable
Securities transactions		
Purchases	162,528	Outright purchases of HFT securities and AFS investments
Sales	164,498	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	18,211	Outright purchases of foreign currency
Sell	29,256	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivables from customers	₱65	Secured - ₱13.0 million and unsecured - ₱52.0 million, no impairment Non-interest bearing domestic bills purchased
Other receivable	1,437	Dividends receivable as disclosed in Note 11
Deposit liabilities*	2,565	With annual fixed interest rates ranging from 0.0% to 2.75% including time deposits with maturity terms from 4 days to 358 days
Amount/Volume:		
Receivables from customers	(58)	Generally similar to terms and conditions above
Deposit liabilities	(1,721)	Generally similar to terms and conditions above
Trading and securities loss - net	(9)	Income from securities transactions
Foreign exchange loss - net	(20)	Income from foreign exchange transactions
Leasing income	16	Income from leasing agreements with various lease terms
Dividend income	677	See discussions on Note 11
Interest expense	35	Interest expense on deposit liabilities
Outstanding derivatives	213	Forward exchange bought with various terms
Securities transactions		
Outright purchases	1,131	Outright purchases of HFT securities and AFS investments
Outright sales	1,549	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	178	Outright purchases of foreign currency
Sell	369	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱18,321	Secured - ₱16.9 billion and unsecured - ₱1.4 billion, no impairment With annual fixed rates ranging from 2.63% to 10.45% and maturity terms from 30 days to 12 years
Other receivable	26	Various uncollected service fees
Assets held under operations	1,189	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	1,078	Downpayment to a related party real estate company relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City
Deposit liabilities*	3,322	With annual fixed rates ranging from 0.0% to 2.88% including time deposits with maturity terms from 5 days to 92 days
Bills payable	2,921	Foreign currency-denominated notes with annual interest rates ranging from 1.0% to 2.0% and maturities from one month to three years
Amount/Volume:		
Receivables from customers	(2,166)	Generally similar to terms and conditions above
Bills payable	76	Generally similar to terms and conditions above
Deposit liabilities	(1,440)	Generally similar to terms and conditions above
Interest income	1,207	Interest income on receivables from customers
Service charges, fees and commissions	163	Income on transactional fees
Foreign exchange gain - net	931	Income from foreign exchange transactions
Leasing income	37	Income from leasing agreements with various lease terms

(Forward)

Category	Consolidated December 31, 2012 Amount	Terms and Conditions/Nature
Profit from assets sold	₱592	Net gain from sale of investment properties
Miscellaneous income	64	Income from various transactions
Interest expense	325	Interest expense on deposit liabilities and bills payable
Contingent		
Unused commercial LCs	270	LC transactions with various terms
Others	20	Include bank guaranty with indemnity agreement; inward bills for collection; outstanding shipside bonds/ airway bills; and outstanding guarantees
Foreign currency		
Buy	597	Outright purchases of foreign currency
Sell	32,838	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱84	Secured - ₱27.0 million and unsecured - ₱57.0 million, no impairment
Deposit liabilities	111	With annual fixed rates ranging from 8.0% to 9.0% and maturity terms from 5 years to 15 years
Bills payable	253	Various terms and with minimum annual interest rate of 0.0% Deposit substitutes of FMIC with various terms
Amount/Volume:		
Receivables from customers	(8)	Generally similar to terms and conditions above
Deposit liabilities	26	Generally similar to terms and conditions above
Interest income	1	Interest income on receivables from customers
Profit from assets sold	42	Net gain from sale of investment properties
Compensation expense	1,637	See related discussions below on compensation

Category	Parent Company December 31, 2013 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	**₱705**	Secured - ₱580.0 million and unsecured - ₱125.0 million, no impairment. Short-term lending with interest rates ranging from 2.60% to 3.70% subject to regular repricing with maturity terms from 33 days to 98 days
Deposit liabilities	**231**	With annual fixed rates ranging from 0.0% to 0.50%
Amount/Volume:		
Receivables from customers	**(2,548)**	Generally similar to terms and conditions above
Gain on sale of non-current asset held for sale	**4,201**	Gain on sale of 15.00% ownership in TMPC
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱1,882**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.13% to 1.62% with maturity terms from 7 days to 372 days, no impairment
Receivables from customers*	**1,061**	Unsecured with no impairment. With annual fixed rates ranging from 3.70% to 5.59% and maturity terms from 7 days to 5 years
Accounts receivable	**321**	Outstanding information technology fees and remittance receivable, non-interest bearing
Deposit liabilities*	**3,803**	With annual fixed interest rates ranging from 0.0% to 1.50% including time deposits with maturity terms from 1 day to 360 days
Bills payable	**635**	Short-term foreign currency-denominated borrowings subject to annual fixed interest rate of 0.19% and maturity term of 34 days
Accounts payable	**94**	Unpaid various transactional charges, non-interest bearing
Amount/Volume:		
Interbank loans receivable	**(6,433)**	Generally similar to terms and conditions above
Receivables from customers	**(243)**	Generally similar to terms and conditions above

(Forward)

Category	Parent Company December 31, 2013 Amount	Terms and Conditions/Nature
Bills payable	**₱49**	Generally similar to terms and conditions above
Deposit liabilities	**426**	Generally similar to terms and conditions above
Interest income	**127**	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**14**	Income on transactional fees
Trading and securities gain - net	**1,133**	Income from securities transactions
Foreign exchange loss - net	**167**	Net loss from foreign exchange transactions
Leasing income	**29**	Income from leasing agreements with various lease terms
Dividend income	**9,972**	Dividend income from various investee companies
Miscellaneous income	**301**	Information technology fees
Interest expense	**24**	Interest expense on deposit liabilities and bills payable
Securities transactions		
Purchases	**212,602**	Outright purchases of HFT securities and AFS investments
Sales	**86,283**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**50,198**	Outright purchases of foreign currency
Sell	**42,666**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivables from customers	**₱129**	Non-interest bearing domestic bills purchased
Deposit liabilities*	**2,251**	With annual fixed interest rates ranging from 0.0% to 1.25% including time deposits with maturity terms from 1 day to 358 days
Amount/Volume:		
Receivables from customers	**64**	Generally similar to terms and conditions above
Deposit liabilities	**400**	Generally similar to terms and conditions above
Trading and securities loss - net	**(15)**	Net loss from securities transactions
Foreign exchange loss - net	**(12)**	Net loss from foreign exchange transactions
Leasing income	**11**	Income from leasing agreements with various lease terms
Dividend income	**29**	Dividend income from an investee company
Outstanding derivatives	**118**	Forward exchange bought with various terms
Securities transactions		
Outright purchases	**84**	Outright purchases of HFT securities and AFS investments
Outright sales	**79**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**154**	Outright purchases of foreign currency
Sell	**293**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱13,018**	Secured - ₱12.5 billion and unsecured - ₱509 million, no impairment. With annual fixed rates ranging from 2.50% to 10.37% and maturity terms from 7 days to 12 years
Assets held under joint operations	**1,361**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	**1,068**	Downpayment to a related party real estate company relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City
Deposit liabilities*	**11,683**	With annual fixed rates ranging from 0.0% to 2.00% including time deposits with maturity terms from 6 days to 360 days
Amount/Volume:		
Receivables from customers	**(1,812)**	Generally similar to terms and conditions above
Deposit liabilities	**8,853**	Generally similar to terms and conditions above
Interest income	**930**	Interest income on receivables from customers
Foreign exchange loss - net	**(1,546)**	Net loss from foreign exchange transactions
Leasing income	**12**	Income from leasing agreements with various lease terms
Profit from assets sold	**217**	Net gain from sale of investment properties
Interest expense	**1**	Interest expense on deposit liabilities

(Forward)

Category	Parent Company December 31, 2013 Amount	Terms and Conditions/Nature
Contingent		
Unused commercial LCs	₱33	LC transactions with various terms
Others	6	Include outstanding shipside bonds/ airway bills and outstanding guarantees
Foreign currency		
Buy	2,467	Outright purchases of foreign currency
Sell	42,895	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱67	Secured - ₱54.0 million, unsecured - ₱13.0 million, no impairment, with annual fixed rate ranging from 0.0% to 10.0% and maturity terms from 5 years to 15 years
Deposit liabilities	143	With various terms and with minimum annual interest rate of 0.0%
Amount/Volume:		
Receivables from customers	(1)	Generally similar to terms and conditions above
Deposit liabilities	32	Generally similar to terms and conditions above
Interest income	1	Interest income on receivables from customers
Profit from assets sold	7	Net gain from sale of investment properties

Category	Parent Company December 31, 2012 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Receivables from customers*	₱3,253	Secured - ₱2.3 billion and unsecured - ₱1.0 billion, no impairment Short-term lending with interest rates subject to regular repricing and with maturity terms from 30 days to 94 days.
Deposit liabilities	58	Various terms with annual fixed rate ranging from 0.0% to 0.38%
Amount/Volume:		
Receivables from customers	(3,839)	Generally similar to terms and conditions above
Deposit liabilities	(14)	Generally similar to terms and conditions above
Interest income	11	Interest income on receivables from customers
Gain on sale of non-current asset held for sale	4,164	Gain on sale of 15.00% ownership in TMPC
Securities transactions		
Purchases	75	Outright purchases of HFT securities and AFS investments
Sales	75	Outright sale of HFT securities and AFS investments
Foreign currency - sell	90	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱8,315	Peso and foreign currency lending which earn annual fixed interest rates ranging from 1.17% to 3.625% with maturity terms from five days to one year.
Receivables from customers*	1,304	Unsecured, no impairment With annual fixed rates ranging from 4.00% to 5.59% with maturity terms from 30 days to 5 years
Accounts receivable	256	Uncollected information technology fees, non-interest bearing
Other receivable	137	Dividends receivable as disclosed in Note 11
Deposit liabilities*	3,376	With annual fixed interest rates ranging from 0.0% to 2.75% including time deposits with maturity terms from 5 days to 360 days
Bills payable	586	Short-term foreign currency borrowings subject to annual fixed interest rate of 0.15% with maturity term of 33 days
Accounts payable	126	Various transactional charges
Amount/Volume:		
Interbank loans receivable	6,097	Generally similar to terms and conditions above
Receivables from customers	(3,607)	Generally similar to terms and conditions above

(Forward)

Category	Parent Company December 31, 2012 Amount	Terms and Conditions/Nature
Bills payable	(₱39)	Generally similar to terms and conditions above
Deposit liabilities	(153)	Generally similar to terms and conditions above
Interest income	173	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	75	Income on transactional fees
Trading and securities gain - net	1,536	Income from securities transactions
Foreign exchange gain - net	134	Income from foreign exchange transactions
Leasing income	27	Income from leasing agreements with various lease terms
Dividend income	1,093	See discussions on Note 11
Profit from assets sold	54	Net gain from sale of investment properties
Miscellaneous income	221	Information technology fees billed monthly
Interest expense	45	Interest expense on deposit liabilities and bills payable
Securities transactions		
Purchases	115,596	Outright purchases of HFT securities and AFS investments
Sales	122,051	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	18,211	Outright purchases of foreign currency
Sell	29,256	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivables from customers	₱65	Secured - ₱13.0 million and unsecured ₱52.0 million, no impairment Non-interest bearing domestic bills purchased
Other receivable	22	Uncollected information technology fees, non-interest bearing
Deposit liabilities*	1,851	With annual fixed interest rates ranging from 0.0% to 2.75% with maturity terms from 4 days to 358 days
Amount/Volume:		
Receivables from customers	(58)	Generally similar to terms and conditions above
Deposit liabilities	(1,485)	Generally similar to terms and conditions above
Trading and securities loss - net	(9)	Securities transactions
Foreign exchange loss - net	(20)	Foreign exchange transactions
Leasing income	7	Income from leasing agreements with various lease terms
Dividend income	677	See discussion on Note 11
Miscellaneous expense	24	Expenses from various transactions
Securities transactions		
Outright purchases	250	Outright purchases of HFT securities and AFS investments
Outright sales	425	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	178	Outright purchases of foreign currency
Sell	369	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱14,830	Secured - ₱14.0 billion and unsecured - ₱1.0 billion, no impairment With annual fixed rates ranging from 2.63% to 10.45% and maturity terms from 30 days to 12 years
Assets held under joint operations	1,189	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	1,068	Downpayment to a related party real estate company relative to the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City
Deposit liabilities*	2,830	With annual fixed rates ranging from 0.0% to 2.88% including time deposits with maturity terms from 5 days to 92 days
Amount/Volume:		
Receivables from customers	(1,682)	Generally similar to terms and conditions above
Deposit liabilities	2,521	Generally similar to terms and conditions above
Interest income	964	Interest income on receivables from customers
Foreign exchange gain - net	931	Income from foreign exchange transactions
Leasing income	11	Income from leasing agreements with various lease terms
Profit from assets sold	592	Net gain from sale of investment properties
Interest expense	1	Interest expense on deposit liabilities
Contingent		
Unused commercial LC	270	LC transactions with various terms
Others	20	Include bank guaranty with indemnity agreement; inward bills for collection; outstanding shipside bonds/ airway bills; and outstanding guarantees

(Forward)

Category	Parent Company December 31, 2012 Amount	Terms and Conditions/Nature
Foreign currency		
Buy	₱597	Outright purchases of foreign currency
Sell	32,838	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱68	Secured - ₱27.0 million and unsecured - ₱41.0 million, no impairment With annual fixed rates ranging from 8.0% to 9.0% and maturity terms from 5 years to 15 years
Deposit liabilities	111	With various terms and minimum annual interest rate of 0.0%
Amount/Volume:		
Receivables from customers	(10)	Generally similar to terms and conditions above
Deposit liabilities	26	Generally similar to terms and conditions above
Profit from assets sold	42	Net gain from sale of investment properties
Compensation expense	1,101	See related discussion below on compensation

*including accrued interest

As discussed in Note 13, in December 2012, the Parent Company sold 15% of its ownership in TMPC to GT Capital which resulted in a gain amounting to ₱3.4 billion and ₱4.2 billion for the Group and Parent Company, respectively. The remaining 15% ownership was subsequently sold in January 2013 wherein the Group and the Parent Company recognized gain on sale of ₱3.4 billion and ₱4.2 billion, respectively .

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

As of December 31, 2013 and 2012, government bonds (classified under AFS investments) with total face value of ₱50.0 million are pledged by PSBank to the Parent Company to secure its payroll account with the Parent Company. Also, the Parent Company has assigned to PSBank government securities (classified under AFS investments) with total face value of ₱3.0 billion to secure PSBank deposits to the Parent Company.

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

	Consolidated			**Parent Company**		
	2013	2012	2011	**2013**	2012	2011
Short-term employee benefits	**₱1,866**	₱1,546	₱1,164	**₱1,282**	₱1,040	₱682
Post employment benefits	**142**	91	71	**68**	61	29
	₱2,008	₱1,637	₱1,235	**₱1,350**	₱1,101	₱711

Transactions with retirement plans
Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Certain trustees of the plans are either officers or directors of the Parent Company and/or the subsidiaries. Income earned by the Parent Company from such services amounted to ₱40.4 million and ₱32.2 million in 2013 and 2012, respectively. As of December 31, 2013 and 2012, the Parent Company sold securities totaling ₱2.8 billion and ₱3.1 billion, respectively, to its related party retirement plans and recognized net trading gain of ₱3.7 million and net trading loss of ₱1.0 million, respectively. The Parent Company also purchased securities totaling ₱1.3 billion and ₱1.1 billion as of December 31, 2013 and 2012, respectively. Further, as of December 31, 2013 and 2012, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱56.3 million and ₱343.9 million, respectively. Interest expense on deposit liabilities amounted to ₱2.5 million and ₱9.8 million in 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱874.7 million and ₱744.0 million, respectively, with unrealized trading gains of ₱445.5 million and ₱289.7 million, respectively. As of December 31, 2013 and 2012, the related party retirement plans also hold investments in mutual funds and trust funds of various companies within the Group amounting to ₱28.2 million and ₱11.0 million, respectively, with unrealized trading gains of ₱4.7 million and ₱5.5 million, respectively. As of December 31, 2013 and 2012, dividend income recognized from these securities amounted to ₱33.4 million and ₱9.2 million, respectively, and realized trading gains amounting to ₱54.2 million and ₱25.7 million, respectively.

32. Financial Performance

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

		2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
a.	Net income attributable to equity holders of the Parent Company	**₱22,488**	₱15,399	₱11,031
b.	Share of hybrid capital securities holders	**(475)**	(476)	(484)
c.	Net income attributable to common shareholders	**22,013**	14,923	10,547
d.	Weighted average number of outstanding common shares of the Parent Company, as previously reported		2,111	2,101
e.	Basic/diluted earnings per share, as previously reported (c/d)		₱7.07	₱5.02
f.	Weighted average number of outstanding common shares of the Parent Company, including effect of stock dividend issued in 2013 (Note 23)	**2,745**	2,745	2,731
g.	Basic/diluted earnings per share, as restated in 2012 and 2011 (c/f)	**₱8.02**	₱5.44	₱3.86

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

	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)
Return on average equity	**17.80%**	13.64%	11.27%	**16.35%**	11.68%	9.49%
Return on average assets	**1.85%**	1.53%	1.19%	**1.77%**	1.46%	1.11%
Net interest margin on average earning assets	**3.90%**	3.62%	3.53%	**3.17%**	2.92%	2.73%

33. Notes to Statements of Cash Flows

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

	Consolidated			Parent Company		
	2013	2012	2011	**2013**	2012	2011
Interbank loans receivable and SPURA	**₱122,011**	₱23,392	₱24,367	**₱96,872**	₱15,046	₱3,222
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(4,836)**	(4,344)	(964)	**(4,836)**	(4,344)	(964)
	₱117,175	₱19,048	₱23,403	**₱92,036**	₱10,702	₱2,258

Significant noncash transactions of the Group and the Parent Company include foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; reclassification of investment in GBPC amounting to ₱3.3 billion to AFS investments in 2013 as discussed in Note 11; and bond exchange transactions in 2011 as discussed in Note 8.

Further, in 2012, in addition to the reclassification of investment in associate as discussed in Note 13, the Parent Company also reclassified its land covered by a completed agreement from assets held under joint operations (under 'Other assets') to investments properties amounting to ₱1.98 billion; and rescinded its sales contract receivable amounting to ₱693.0 million (Note 31).

34. Foreign Exchange

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

	2013	2012	2011
PDS Closing	**₱44.40**	₱41.05	₱43.84
PDSWAR	**42.43**	42.24	43.31

35. Other Matters

The Group has no significant matters to report in 2013 on the following:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.
b. Explanatory comments about the seasonality or cyclicality of operations.

c. Issuances, repurchases and repayments of debt and equity securities except for the exercise of the call option on the 2018 Peso Notes and issuance of common stock by the Parent Company and for the exercise of the call option on the 2019 Peso Notes and the issuance of the 2023 Peso Notes by MCC (Notes 20 and 23).
d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividend and semi-annual coupons on the HT1 Capital as discussed in Note 23.
e. Effect of changes in the composition of the Group, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except for the establishment of MR Japan, a wholly-owned subsidiary, as discussed in Note 2 and sale of certain investees company as discussed in Note 11.

36. Subsequent Events

a. In January 2014, FMIC sold ₱3.8 billion of its AFS investments previously classified under HTM investments, as discussed in Note 8, and recognized trading gains of ₱526.3 million.

b. On October 23, 2013, the BOD of Orix Metro approved the declaration of a 20% stock dividend amounting to ₱252.9 million or ₱20.00 per share based on par value of ₱100.00 to all stockholders of record as of even date. This was approved by the BSP on January 14, 2014 and issued by ORIX Metro on January 15, 2014.

c. On January 24, 2014, the BOD of PSBank declared a 7.50% cash dividend for the fourth quarter of 2013 amounting to ₱180.2 million or ₱0.75 per share to all stockholders as of date to be determined upon BSP approval.

d. On January 27, 2014, FMIC sold 33.3% of its ownership in Charter Ping An to GT Capital at a consideration of ₱712.0 million which resulted in a gain of ₱210.0 million, as approved by the BOD on January 23, 2014.

e. On January 30, 2014, the BSP approved the amendment to the terms and conditions of the Parent Company's issuance of Basel III-compliant Tier 2 capital notes as discussed in Note 20. Specifically, the BSP approved the issuance of up to USD500 million equivalent in either USD or PHP or combination in one or more tranches over the course of one (1) year.

f. On February 10, 2014, the BSP approved the semi-annual coupon payment on HT1 Capital amounting to USD 5.6 million which the Parent Company paid on February 18, 2014.

g. On February 18, 2014, the BOD approved the Parent Company's exercise of the call option on its ₱4.5 billion Lower Tier 2 Peso Notes on May 6, 2014.

37. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on February 18, 2014.

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

Supplementary Information Under RR No. 19-2011

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

Revenues

Services/operations	₱17,214
Non-operating and taxable other income:	
Service charges, fees and commissions	₱3,381
Income from trust operations	1,057
Profit from assets sold	643
Trading and securities loss	(2,518)
Others	634
	₱3,197

Expenses

Cost of services:	
Compensation and fringe benefits	₱4,643
Others	3,559
	₱8,202
Itemized deductions:	
Compensation and fringe benefits	₱4,776
Taxes and licenses	2,786
Security, messengerial and janitorial	1,335
Depreciation	783
Rent	772
Communication, light and water	512
Information technology	501
Transportation and travel	349
Repairs and maintenance	236
Management and professional fees	212
EAR	187
Bad debts	99
Others	3,870
	₱16,418

Supplementary Information Under RR No. 15-2010
On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2013 included under 'Taxes and licenses' account in the statement of income:

GRT	₱2,132
DST	1,318
Capital gains tax	408
Local taxes	91
Real estate tax	62
Others	156
	₱4,167

Details of total withholding taxes remitted for the taxable year December 31, 2013 follow:

Taxes withheld on compensation	₱1,843
Final withholding taxes	1,289
Expanded withholding taxes	180
	₱3,312