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)

Mr. Joshua E. Naing
(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

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Ernst & Young

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil J. Puyat
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, 2012 and 2011 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, 2012, 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 in 2012 and 2011 and Philippine Financial Reporting Standards for the Parent Company in 2012 and 2011 and for the Group and the Parent Company in 2010 as described in Note 2 to the financial statements and for such internal control as 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.

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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, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements and its financial performance and its cash flows for the year ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2012 and 2011 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012 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. 3669696, January 2, 2013, Makati City

February 27, 2013

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Millions)

	Consolidated		Parent Company	
	As of December 31			
	2012	2011	**2012**	2011
ASSETS				
Cash and Other Cash Items (Note 16)	**₱24,382**	₱20,954	**₱21,540**	₱16,985
Due from Bangko Sentral ng Pilipinas (Note 16)	**131,278**	156,537	**111,515**	146,636
Due from Other Banks (Note 16)	**22,557**	32,095	**7,873**	13,310
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 33)	**23,392**	24,367	**15,046**	3,222
Financial Assets at Fair Value Through Profit or Loss (Notes 8 and 29)	**66,721**	6,188	**57,635**	4,597
Available-for-Sale Investments (Notes 8, 16 and 29)	**122,958**	143,057	**102,574**	115,976
Held-to-Maturity Investments (Note 8)	**51,451**	47,457	**21,491**	17,464
Loans and Receivables (Note 9)	**525,703**	457,422	**398,563**	352,042
Investments in Subsidiaries (Note 11)	**–**	–	**24,922**	25,399
Investments in Associates and a Joint Venture (Note 11)	**16,705**	17,641	**578**	1,263
Property and Equipment (Note 10)	**15,345**	13,937	**10,321**	9,408
Investment Properties (Note 12)	**15,422**	15,471	**11,898**	11,044
Non-Current Asset Held For Sale (Note 13)	**1,102**	–	**336**	–
Deferred Tax Assets (Note 28)	**7,876**	7,597	**6,333**	6,065
Goodwill (Note 11)	**6,409**	6,413	**1,203**	1,203
Other Assets (Note 14)	**9,279**	9,248	**6,285**	7,198
	₱1,040,580	₱958,384	**₱798,113**	₱731,812
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
Demand	**₱106,229**	₱77,589	**₱94,516**	₱71,667
Savings	**305,034**	283,011	**293,934**	272,331
Time	**327,431**	320,393	**245,969**	237,638
	738,694	680,993	**634,419**	581,636
Bills Payable and Securities Sold Under Repurchase Agreements (Notes 17 and 31)	**97,108**	99,657	**16,223**	13,600
Derivative Liabilities (Notes 8 and 31)	**6,692**	2,819	**6,425**	2,689
Manager's Checks and Demand Drafts Outstanding	**3,489**	2,610	**2,732**	1,955
Income Taxes Payable	**1,326**	597	**912**	322
Accrued Interest and Other Expenses (Note 18)	**8,342**	7,200	**5,907**	4,547
Bonds Payable (Note 19)	**11,834**	4,875	**–**	–
Subordinated Debt (Note 20)	**14,243**	19,735	**9,977**	18,442
Deferred Tax Liabilities (Note 28)	**244**	157	**–**	–
Other Liabilities (Note 21)	**31,588**	23,237	**22,318**	16,878
	913,560	841,880	**698,913**	640,069
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 23)	**42,228**	42,228	**42,228**	42,228
Hybrid capital securities (Note 23)	**6,351**	6,351	**6,351**	6,351
Capital paid in excess of par value	**19,312**	19,312	**19,312**	19,312
Surplus reserves (Note 24)	**1,108**	1,002	**1,108**	1,002
Surplus (Notes 23 and 24)	**48,692**	35,986	**29,882**	21,427
Net unrealized gain on available-for-sale investments (Note 8)	**2,438**	4,458	**1,613**	2,377
Equity in net unrealized gain on available-for-sale investments of associates (Note 11)	**758**	435	**–**	–
Translation adjustment and others	**(869)**	26	**(1,294)**	(954)
	120,018	109,798	**99,200**	91,743
Non-controlling Interest	**7,002**	6,706	**–**	–
	127,020	116,504	**99,200**	91,743
	₱1,040,580	₱958,384	**₱798,113**	₱731,812

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					
	2012	2011	2010	2012	2011	2010
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 31)	**₱32,704**	₱29,022	₱27,216	**₱17,652**	₱15,656	₱15,679
Trading and investment securities (Note 8)	**10,458**	9,883	9,553	**7,118**	5,146	5,588
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**551**	458	938	**269**	311	729
Deposits with banks and others	**1,266**	5,674	3,757	**499**	4,498	3,031
	44,979	45,037	41,464	**25,538**	25,611	25,027
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	**8,756**	10,234	9,713	**5,679**	7,010	7,070
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debt and others (Notes 17, 19, 20 and 31)	**5,417**	5,396	5,361	**1,389**	1,460	1,868
	14,173	15,630	15,074	**7,068**	8,470	8,938
NET INTEREST INCOME	**30,806**	29,407	26,390	**18,470**	17,141	16,089
Service charges, fees and commissions (Note 31)	**8,228**	7,711	6,853	**3,527**	3,558	3,608
Trading and securities gain - net (Notes 8 and 31)	**5,485**	6,118	6,122	**1,706**	3,710	2,546
Foreign exchange gain - net (Note 31)	**3,636**	1,623	2,855	**3,380**	1,539	2,588
Gain on sale of non-current asset held for sale (Notes 13 and 31)	**3,403**	–	–	**4,164**	–	–
Leasing (Notes 12, 27 and 31)	**1,380**	1,017	824	**207**	196	217
Profit from assets sold (Note 12)	**1,119**	897	1,172	**1,118**	826	1,091
Income from trust operations (Notes 24 and 29)	**853**	695	480	**841**	687	473
Dividends (Note 11)	**88**	96	118	**1,773**	2,777	2,142
Miscellaneous (Note 25)	**870**	1,416	1,668	**373**	420	281
TOTAL OPERATING INCOME	**55,868**	48,980	46,482	**35,559**	30,854	29,035
Compensation and fringe benefits (Notes 26 and 31)	**14,405**	13,310	11,452	**10,385**	9,308	7,618
Taxes and licenses	**5,260**	4,601	4,391	**3,162**	2,609	2,634
Provision for credit and impairment losses (Note 15)	**4,478**	3,823	7,285	**777**	1,186	4,485
Depreciation and amortization (Notes 10, 12 and 14)	**2,188**	2,104	2,061	**1,028**	1,080	1,258
Occupancy and equipment-related cost (Note 27)	**2,107**	1,959	1,758	**1,215**	1,139	1,083
Amortization of software costs (Note 14)	**236**	230	199	**120**	120	89
Miscellaneous (Note 25)	**9,154**	8,476	7,957	**5,964**	5,382	5,157
TOTAL OPERATING EXPENSES	**37,828**	34,503	35,103	**22,651**	20,824	22,324
INCOME BEFORE SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE	**18,040**	14,477	11,379	**12,908**	10,030	6,711
SHARE IN NET INCOME OF ASSOCIATES AND A JOINT VENTURE (Note 11)	**2,833**	1,437	1,618	–	–	–
INCOME BEFORE INCOME TAX	**20,873**	15,914	12,997	**12,908**	10,030	6,711
PROVISION FOR INCOME TAX (Note 28)	**3,826**	3,524	3,731	**1,760**	2,119	1,927
NET INCOME	**₱17,047**	₱12,390	₱9,266	**₱11,148**	₱7,911	₱4,784
Attributable to:						
Equity holders of the Parent Company (Note 32)	**₱15,399**	₱11,031	₱8,366			
Non-controlling Interest	**1,648**	1,359	900			
	₱17,047	₱12,390	₱9,266			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱7.07**	₱5.02	₱4.11*			

*Restated to show the effects of stock rights granted in 2010 (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					
	2012	2011	2010	**2012**	2011	2010
Net Income	**₱17,047**	₱12,390	₱9,266	**₱11,148**	₱7,911	₱4,784
Other Comprehensive Income for the Year, Net of Tax						
Change in net unrealized gain on available-for-sale investments (Note 8)	**(2,517)**	3,730	896	**(764)**	1,555	849
Change in equity in net unrealized gain on available-for-sale investments of associates (Note 11)	**330**	154	183	**–**	–	–
Translation adjustment and others (Notes 8 and 11)	**(1,230)**	463	(707)	**(340)**	(10)	(200)
	(3,417)	4,347	372	**(1,104)**	1,545	649
Total Comprehensive Income for the Year	**₱13,630**	₱16,737	₱9,638	**₱10,044**	₱9,456	₱5,433
Attributable to:						
Equity holders of the Parent Company	**₱12,807**	₱14,931	₱9,079			
Non-controlling Interest	**823**	1,806	559			
	₱13,630	₱16,737	₱9,638			

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 on Available-for-Sale Investments (Note 8)	Equity in Net Unrealized Gain on Available-for-Sale Investments of Associates (Note 11)	Translation Adjustment and Others	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2012	**₱42,228**	**₱6,351**	**₱19,312**	**₱1,002**	**₱35,986**	**₱4,458**	**₱435**	**₱26**	**₱109,798**	**₱6,706**	**₱116,504**
Total comprehensive income for the year	–	–	–	–	15,399	(2,020)	323	(895)	12,807	823	13,630
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**	**₱48,692**	**₱2,438**	**₱758**	**(₱869)**	**₱120,018**	**₱7,002**	**₱127,020**
Balance at January 1, 2011	₱38,228	₱6,351	₱13,484	₱912	₱27,640	₱1,238	₱284	(₱503)	₱87,634	₱5,383	₱93,017
Total comprehensive income for the year	–	–	–	–	11,031	3,220	151	529	14,931	1,806	16,737
Issuance of shares of stock	4,000	–	5,828	–	–	–	–	–	9,828	–	9,828
Transfer to surplus reserves	–	–	–	90	(90)	–	–	–	–	–	–
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	₱1,002	₱35,986	₱4,458	₱435	₱26	₱109,798	₱6,706	₱116,504
Balance at January 1, 2010	₱36,145	₱6,351	₱10,638	₱843	₱20,942	₱230	₱103	(₱27)	₱75,225	₱5,093	₱80,318
Total comprehensive income for the year	–	–	–	–	8,366	1,008	181	(476)	9,079	559	9,638
Issuance of shares of stock	2,083	–	2,846	–	–	–	–	–	4,929	–	4,929
Transfer to surplus reserves	–	–	–	69	(69)		–	–	–	–	–
Cash dividends	–	–	–	–	(1,084)	–	–	–	(1,084)	(269)	(1,353)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(515)	–	–	–	(515)	–	(515)
Balance at December 31, 2010	₱38,228	₱6,351	₱13,484	₱912	₱27,640	₱1,238	₱284	(₱503)	₱87,634	₱5,383	₱93,017

	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)	Translation Adjustment and Others	Total Equity
Balance at January 1, 2012	**₱42,228**	**₱6,351**	**₱19,312**	**₱1,002**	**₱21,427**	**₱2,377**	**(₱954)**	**₱91,743**
Total comprehensive income for the year	–	–	–	–	**11,148**	**(764)**	**(340)**	**10,044**
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**	**₱29,882**	**₱1,613**	**(₱1,294)**	**₱99,200**
Balance at January 1, 2011	₱38,228	₱6,351	₱13,484	₱912	₱16,201	₱822	(₱944)	₱75,054
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	₱21,427	₱2,377	(₱954)	₱91,743
Balance at January 1, 2010	₱36,145	₱6,351	₱10,638	₱843	₱13,085	(₱27)	(₱744)	₱66,291
Total comprehensive income for the year	–	–	–	–	4,784	849	(200)	5,433
Issuance of shares of stock	2,083	–	2,846	–	–	–	–	4,929
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–
Cash dividends	–	–	–	–	(1,084)	–	–	(1,084)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(515)	–	–	(515)
Balance at December 31, 2010	₱38,228	₱6,351	₱13,484	₱912	₱16,201	₱822	(₱944)	₱75,054

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					
	2012	2011	2010	**2012**	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱20,873**	₱15,914	₱12,997	**₱12,908**	₱10,030	₱6,711
Adjustments for:						
Provision for credit and impairment losses (Note 15)	**4,478**	3,823	7,285	**777**	1,186	4,485
Trading and securities gain on available-for-sale investments (Note 8)	**(7,067)**	(5,787)	(5,982)	**(4,004)**	(3,671)	(2,825)
Depreciation and amortization (Notes 10, 12 and 14)	**2,188**	2,104	2,061	**1,028**	1,080	1,258
Share in net income of associates and a joint venture (Note 11)	**(2,833)**	(1,437)	(1,618)	**–**	–	–
Profit from assets sold (Note 12)	**(1,119)**	(897)	(1,172)	**(1,118)**	(826)	(1,091)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	**(139)**	(238)	(446)	**(122)**	(135)	(221)
Amortization of software costs (Note 14)	**236**	230	199	**120**	120	89
Amortization of discount on subordinated debt and bonds payable	**42**	62	39	**35**	36	34
Unrealized market valuation loss on financial assets and liabilities at FVPL (Note 8)	**3,747**	944	653	**3,721**	968	673
Dividends (Note 11)	**(88)**	(96)	(118)	**(1,773)**	(2,777)	(2,142)
Gain on sale of non-current asset held for sale (Notes 13 and 31)	**(3,403)**	–	–	**(4,164)**	–	–
Net loss (gain) on sale of investments in subsidiaries (Note 11)	**–**	(370)	(8)	**14**	–	(6)
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	**(60,511)**	5,449	3,813	**(53,016)**	3,518	4,931
Loans and receivables	**(73,932)**	(69,225)	(32,733)	**(48,037)**	(60,620)	(11,739)
Other assets	**(2,233)**	(1,267)	2,591	**(1,257)**	(1,160)	844
Increase (decrease) in:						
Deposit liabilities	**57,701**	29,731	35,562	**52,783**	17,828	22,945
Manager's checks and demand drafts outstanding	**879**	567	88	**777**	561	(64)
Accrued interest and other expenses	**1,142**	2,026	332	**1,360**	1,775	(91)
Other liabilities	**8,837**	2,795	(2,098)	**5,612**	(1,278)	(3,052)
Net cash generated from (used in) operations	**(51,202)**	(15,672)	21,445	**(34,356)**	(33,365)	20,739
Dividends received	**2,914**	1,414	627	**1,773**	2,741	2,142
Income taxes paid	**(3,676)**	(3,377)	(3,121)	**(1,437)**	(1,569)	(1,541)
Net cash provided by (used in) operating activities	**(51,964)**	(17,635)	18,951	**(34,020)**	(32,193)	21,340
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(481,008)**	(483,687)	(621,489)	**(408,144)**	(360,008)	(510,521)
Held-to-maturity investments	**(21,577)**	(30,811)	(9,481)	**(19,303)**	(18,953)	–
Property and equipment (Note 10)	**(3,841)**	(2,783)	(1,571)	**(2,208)**	(1,228)	(680)
Investments in subsidiaries, associates and a joint venture (Note 11)	**(1,238)**	(1,700)	(1,939)	**(41)**	–	(10,177)
Proceeds from sale of:						
Available-for-sale investments	**504,428**	477,328	657,950	**424,436**	345,574	534,820
Property and equipment	**585**	313	107	**430**	206	95

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011	2010	**2012**	2011	2010
Investments in subsidiaries and associates (Note 11)	**₱336**	₱175	₱5,226	**₱71**	₱–	₱6,023
Investment properties (Note 12)	**4,090**	4,424	4,555	**3,287**	4,084	4,035
Non-current asset held for sale (Notes 13 and 31)	**4,500**	–	–	**4,500**	–	–
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements (Note 33)	**(3,380)**	1,768	(542)	**(3,380)**	1,768	(542)
Proceeds from maturity of held-to-maturity investments	**17,583**	16,017	439	**15,277**	15,434	438
Net cash provided by (used in) investing activities	**20,478**	(18,956)	33,255	**14,925**	(13,123)	23,491
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlements of bills payable	**(983,041)**	(1,001,574)	(801,265)	**(467,160)**	(249,712)	(261,064)
Availments of bills payable and securities sold under repurchase agreement	**980,491**	1,015,718	790,910	**469,783**	252,907	244,785
Proceeds from issuance of shares of stock (Note 23)	**–**	9,828	4,929	**–**	9,828	4,929
Repayments of subordinated debt (Note 20)	**(8,500)**	(2,000)	–	**(8,500)**	–	–
Proceeds from issuance of:						
Bonds payable (Note 19)	**6,958**	–	–	**–**	–	–
Subordinated debt (Note 20)	**2,968**	–	–	**–**	–	–
Cash dividends paid (Note 23)	**(2,638)**	(2,594)	(1,353)	**(2,111)**	(2,111)	(1,084)
Coupon payment of hybrid capital securities (Note 23)	**(476)**	(484)	(515)	**(476)**	(484)	(515)
Net cash provided by (used in) financing activities	**(4,238)**	18,894	(7,294)	**(8,464)**	10,428	(12,949)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(35,724)**	(17,697)	44,912	**(27,559)**	(34,888)	31,882
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**20,954**	20,201	19,727	**16,985**	16,996	17,049
Due from Bangko Sentral ng Pilipinas	**156,537**	168,402	71,981	**146,636**	162,391	63,578
Due from other banks	**32,095**	38,308	36,702	**13,310**	19,416	29,815
Interbank loans receivable and securities purchased under resale agreements (Note 33)	**23,403**	23,775	77,364	**2,258**	15,274	71,753
	232,989	250,686	205,774	**179,189**	214,077	182,195
CASH AND CASH EQUIVALENTS AT END 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	**22,557**	32,095	38,308	**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
	₱197,265	₱232,989	₱250,686	**₱151,630**	₱179,189	₱214,077

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2012	2011	2010	**2012**	2011	2010
Interest paid	**₱14,381**	₱15,431	₱15,443	**₱7,316**	₱8,255	₱9,378
Interest received	**44,674**	44,167	45,215	**25,133**	25,059	27,056

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
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, offices 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.

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 consolidated financial statements are presented in Philippine peso (PHP), and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

Statement of Compliance

The financial statements of the Group have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks in 2012 and 2011 and Philippine Financial Reporting Standards (PFRS) in 2010. As discussed in Note 8, in 2011, First Metro Investment Corporation (FMIC), a majority-owned subsidiary of the Parent Company, participated in a bond exchange transaction under the liability management exercise of the Philippine Government. The SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investments under Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement,* while the BSP also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of preparation of the financial statements of the availing entities shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRS. Except for the aforementioned exemption which is applied starting 2011, the financial statements of the Group have been prepared in compliance with the PFRS.

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

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

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

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Financial Markets:			
Domestic			
FMIC and Subsidiaries (98.06% in 2011)	99.21	Philippines	PHP
PSBank	75.98	Philippines	PHP
Metrobank Card Corporation (A Finance Company) (MCC)	60.00	Philippines	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries (59.61% in 2011)	59.84	Philippines	PHP
Foreign			
Metropolitan Bank (China) Ltd. (MBCL)	100.00	China	Chinese Yuan (CNY)
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)	100.00	The Bahamas	USD
First Metro International Investment Company Limited (FMIIC) and Subsidiary (99.61% in 2011)	99.84	Hong Kong	Hong Kong Dollar (HKD)
Remittances			
Metro Remittance (Hongkong) Limited (MRHL)	100.00	Hong Kong	HKD
Metro Remittance (Singapore) Pte. Ltd. (MRSPL)	100.00	Singapore	Singapore Dollar
Metro Remittance (USA), Inc. (MR USA)	100.00	United States of America (USA)	USD
Metro Remittance Center, Inc. (MRCI)	100.00	USA	USD
Metro Remittance (UK) Limited (MR UK)	100.00	United Kingdom	Great Britain Pound
Metro Remittance (Italia), S.p.A. (MR Italia)	100.00	Italy	EUR
Metro Remittance (Spain), S.A. (MR Spain)	100.00	Spain	EUR
MBTC Services GmbH (MBTC Vienna)	100.00	Austria	EUR

(Forward)

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Others:			
Philbancor Venture Capital Corporation (PVCC)	60.00	Philippines	PHP
Real Estate			
Circa 2000 Homes, Inc. (Circa)	100.00	Philippines	PHP
Computer Services			
MBTC Technology, Inc. (MTI)	100.00	Philippines	PHP
Data Serv, Inc. (DSI)	60.00	Philippines	PHP

PVCC, Circa, and MTI are in the process of dissolution. Also, on April 23, 2012, the SEC approved the dissolution of DSI and the liquidation process has been completed in June 2012. Further, as a result of foreign network rationalization and consistent with the new business model for Europe, the Parent Company advised the BSP of the voluntary closure of its remittance offices - MBTC Vienna and MR Spain on May 14 and October 31, 2012, respectively. In August 2012, MBTC Vienna was subsequently sold.

Under Standing Interpretations Committee (SIC) No. 12, *Consolidation of Special Purpose Entity (SPE)*, control over an entity may exist even in cases where an enterprise owns little or none of SPE's equity, such as when an enterprise retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its activities. In accordance with this Interpretation, the consolidated financial statements prior to 2010 include the accounts of Cameron Granville 3 Asset Management, Inc. (CG3AMI) and LNC 3 Asset Management, Inc. (LNC3AMI), both are special purpose vehicles (SPVs) in which the Group does not have equity interest (Note 14). Starting 2010, the Group did not include the accounts of said SPVs as the related accounts are not considered material to the consolidated financial statements.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation (Note 31). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

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

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:
- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to statement of income or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in statement of income.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS, which were adopted as of January 1, 2012.

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the Group's continuing involvement in those derecognized assets. The amendments affect disclosures and have no impact on the Group's financial position or performance (Note 17).

PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value, which is 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.

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 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. 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.

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 the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity (see accounting policy on Basis of Consolidation).

Investment in associates
Associates pertain to all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investments in associates are accounted for under the equity method of accounting.

Investment in a JV
Investment in a JV represents the Group's interest in a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of an entity and 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 but not to exceed:

Buildings	50 years
Condominium units	40 years

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 Jointly Controlled Operations
The Group is a party to jointly controlled operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the jointly controlled 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 goods or services by the JV. The assets contributed to the JV 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.

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 every September 30.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless 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).

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 liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10.00% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs are recognized immediately in statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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.

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 taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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

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

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

Earnings Per Share

Basic earnings per share (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.

Dividends on Common Shares

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

Coupon Payment on Hybrid Capital Securities

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

Debt Issue Costs

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

Capital Securities Issuance Costs

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

Events after the Statement of Financial Position Date

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

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

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

Standards Issued but not yet Effective

Standards issued but not yet effective up to date of issuance of the Group's financial statements are listed below. The listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

PAS 1, *Financial Statement Presentation - 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. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

Effective for annual periods beginning on or after January 1, 2013
PAS 19, *Employee Benefits* (Amendment)
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 re-wording. Impact on the Group's financial statements is discussed in Note 26.

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.

PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards - Government Loans*
The amendments add an exception to the retrospective application of PFRS. A first-time adopter may apply the requirements of PFRS 9, *Financial Instruments*, and PAS 20, *Accounting for Government and Disclosure of Government Assistance*, to government loans retrospectively if it has obtained the necessary information to do so.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

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 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. A number of new disclosures are also required.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS 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. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

<u>Retrospectively applied for annual periods beginning on or after January 1, 2014</u>
PAS 32, *Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities* (Amendments)
These amendments to PAS 32 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. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The Group is currently assessing impact of the amendments to PAS 32.

PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose 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. 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 amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendment affects disclosures and has no impact on the Group's financial position or performance.

<u>Effective for annual periods beginning on or after January 1, 2015</u>
PFRS 7, *Financial Instruments: Disclosures - Mandatory Effective date of PFRS 9 and Transition Disclosures*
PFRS 7 was amended to require additional disclosures on transition from PAS 39, *Financial Instruments: Recognition and Measurement*, to PFRS 9.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project.

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, 2011 and decided not to early adopt PFRS 9 in its 2012 financial reporting. The adoption of the first phase of PFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets and liabilities.

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, *Construction Contracts*, 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 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.

Annual Improvements to PFRSs
The annual improvements to the following PFRSs 2009 - 2011 cycle deal primarily with a view to remove inconsistencies and clarify wordings. These standards will become effective for annual periods beginning on or after January 1, 2013, with earlier application permitted:

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- 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*

The Group will assess impact of these amendments on its financial position or performance when they become effective.

3. Significant Accounting Judgments and Estimates

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

<u>Judgments</u>

a. *Leases*

<u>Operating lease</u>

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.

b. *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).

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 2012 and 2011, the Group follows Philippine GAAP for banks in accounting for HTM investments in the consolidated financial statements (Notes 2 and 8).

d. *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.

e. *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.

f. *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 on the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

g. *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).

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.

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.

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. 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. 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, 2012 and 2011, the carrying value of unquoted AFS equity securities amounted to ₱279.4 million and ₱255.4 million, respectively, for the Group and ₱60.8 million, 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, 2012 and 2011, allowance for impairment losses on AFS equity securities amounted to ₱572.8 million and ₱560.7 million, respectively, for the Group and ₱176.2 million, for the Parent Company. As of December 31, 2012 and 2011, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱2.6 billion and ₱2.0 billion, respectively, for the Group and ₱455.8 million and ₱338.2 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, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The expected rates of return on assets were based on expected long-term rates of return on the retirement fund investments, net of operating expenses. 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 cash generating units. 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 2012 and 2011, the pre-tax discount rate applied to cash flow projections is 14.92% and 14.84%, respectively. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

Goodwill amounted to ₱6.4 billion as of December 31, 2012 and 2011 for the Group of which ₱1.2 billion, pertains 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 Management Committee (RMC), 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, the Parent Company created a Risk Management Coordinating Council (RMCC) composed of the risk officers of the Parent Company and its financial institution subsidiaries.

<u>Credit Risk</u>
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. For risk management purposes, credit risk emanating from treasury activities is managed independently, but reported as a component of market risk exposure. 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							
	2012				2011			
	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	₱4,750	₱4,746	₱4,746	₱4	₱14,490	₱14,475	₱14,475	₱15
Loans and receivables - net								
Receivables from customers								
Commercial loans	177,377	152,649	81,031	96,346	120,396	134,126	68,010	52,386
Residential mortgage loans	51,974	79,255	51,602	372	44,590	69,577	44,249	341
Auto loans	45,690	62,679	45,231	459	37,845	42,952	37,185	660
Trade	21,476	–	–	21,476	26,017	2	2	26,015
Others	3,775	7,555	3,589	186	6,513	6,099	6,051	462
	300,292	302,138	181,453	118,839	235,361	252,756	155,497	79,864
Accrued interest receivable	1,433	712	712	721	1,388	484	484	904
Sales contract receivable	579	1,276	527	52	704	1,421	688	16
	302,304	304,126	182,692	119,612	237,453	254,661	156,669	80,784
Total	₱307,054	₱308,872	₱187,438	₱119,616	₱251,943	₱269,136	₱171,144	₱80,799

	Parent Company							
	2012				2011			
	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	₱6,182	₱7,770	₱6,182	₱–	₱1,687	₱2,153	₱1,687	₱–
Loans and receivables - net								
Receivables from customers								
Commercial loans	161,071	131,205	66,676	94,395	103,321	112,535	60,302	43,019
Residential mortgage loans	29,590	29,298	29,217	373	25,725	25,506	25,384	341
Auto loans	14,557	15,659	14,158	399	12,678	4,108	12,326	352
Trade	21,476	–	–	21,476	26,017	2	2	26,015
Others	127	–	–	127	383	–	–	383
	226,821	176,162	110,051	116,770	168,124	142,151	98,014	70,110
Accrued interest receivable	772	515	515	257	543	406	406	137
Sales contract receivable	213	436	166	47	683	1,148	673	10
	227,806	177,113	110,732	117,074	169,350	143,705	99,093	70,257
Total	₱233,988	₱184,883	₱116,914	₱117,074	₱171,037	₱145,858	₱100,780	₱70,257

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
2012					
Concentration by Industry					
Financial intermediaries	₱47,456	₱177,229	₱29,949	₱10,516	₱265,150
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	69,277	–	–	40	69,317
Transportation, storage and communication	39,683	–	2,648	4,307	46,638
Electricity, gas and water	40,555	–	2,475	533	43,563
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
Mining and quarrying	824	–	411	237	1,472
Others****	13,202	–	203,953	57,429	274,584
	539,707	177,229	241,703	99,068	1,057,707
Less allowance for credit losses	15,726	2	573	9,583	25,884
	₱523,981	₱177,227	₱241,130	₱89,485	₱1,031,823

(Forward)

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Concentration by Location					
Philippines	**₱529,519**	**₱145,380**	**₱211,139**	**₱96,841**	**₱982,879**
Asia	**9,300**	**25,794**	**17,459**	**1,697**	**54,250**
USA	**644**	**4,649**	**4,519**	**530**	**10,342**
Europe	**229**	**1,295**	**4,147**	**–**	**5,671**
Others	**15**	**111**	**4,439**	**–**	**4,565**
	539,707	**177,229**	**241,703**	**99,068**	**1,057,707**
Less allowance for credit losses	**15,726**	**2**	**573**	**9,583**	**25,884**
	₱523,981	**₱177,227**	**₱241,130**	**₱89,485**	**₱1,031,823**
2011					
Concentration by Industry					
Financial intermediaries	₱46,446	₱212,999	₱18,699	₱10,123	₱288,267
Manufacturing (various industries)	85,468	–	886	8,163	94,517
Wholesale and retail trade	62,651	–	129	7,622	70,402
Real estate, renting and business activities	78,103	–	1,059	683	79,845
Private households	68,839	–	206	37	69,082
Transportation, storage and communication	35,606	–	2,816	3,043	41,465
Electricity, gas and water	39,646	–	1,754	743	42,143
Other community, social and personal activities	13,912	–	1	73	13,986
Construction	9,385	–	–	2,983	12,368
Hotel and restaurants	7,943	–	24	14	7,981
Agricultural, hunting and forestry	7,388	–	45	46	7,479
Public administration and defense, compulsory social security	3,041	–	–	–	3,041
Mining and quarrying	679	–	387	203	1,269
Others****	11,477	–	171,257	52,339	235,073
	470,584	212,999	197,263	86,072	966,918
Less allowance for credit losses	14,884	–	561	9,553	24,998
	₱455,700	₱212,999	₱196,702	₱76,519	₱941,920
Concentration by Location					
Philippines	₱463,525	₱184,857	₱162,927	₱83,693	₱895,002
Asia	6,154	16,667	12,853	1,807	37,481
USA	824	8,446	15,041	572	24,883
Europe	68	2,955	2,684	–	5,707
Others	13	74	3,758	–	3,845
	470,584	212,999	197,263	86,072	966,918
Less allowance for credit losses	14,884	–	561	9,553	24,998
	₱455,700	₱212,999	₱196,702	₱76,519	₱941,920

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2012					
Concentration by Industry					
Manufacturing (various industries)	**₱95,433**	**₱–**	**₱494**	**₱8,780**	**₱104,707**
Financial intermediaries	**34,179**	**134,434**	**27,683**	**9,974**	**206,270**
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
2011					
Concentration by Industry					
Manufacturing (various industries)	₱81,252	₱–	₱817	₱8,163	₱90,232
Financial intermediaries	38,817	163,168	17,023	9,377	228,385
Wholesale and retail trade	53,622	–	57	7,582	61,261
Real estate, renting and business activities	57,893	–	21	683	58,597
Private households	41,060	–	206	37	41,303
Electricity, gas and water	33,747	–	1,634	743	36,124
Transportation, storage and communication	24,888	–	2,408	3,043	30,339
Construction	7,114	–	–	2,938	10,052
Hotel and restaurants	6,623	–	–	14	6,637
Agricultural, hunting and forestry	4,826	–	–	42	4,868
Mining and quarrying	466	–	51	203	720
Other community, social and personal activities	3,161	–	–	73	3,234
Public administration and defense, compulsory social security	148	–	–	–	148
Others****	5,369	–	115,996	2,317	123,682
	358,986	163,168	138,213	35,215	695,582
Less allowance for credit losses	8,666	–	176	9,553	18,395
	₱350,320	₱163,168	₱138,037	₱25,662	₱677,187
Concentration by Location					
Philippines	₱356,362	₱149,177	₱104,707	₱33,832	₱644,078
Asia	1,529	2,911	12,328	811	17,579
USA	951	8,291	14,736	572	24,550
Europe	132	2,716	2,684	–	5,532
Others	12	73	3,758	–	3,843
	358,986	163,168	138,213	35,215	695,582
Less allowance for credit losses	8,666	–	176	9,553	18,395
	₱350,320	₱163,168	₱138,037	₱25,662	₱677,187

* 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. The model on risk ratings is assessed and updated regularly. 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:

High Grade

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 fully 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 description of credit quality of consumer loans 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
2012					
Neither past due nor impaired	**₱512,859**	**₱177,229**	**₱240,034**	**₱89,132**	**₱1,019,254**
Past due but not impaired	**11,965**	–	–	–	**11,965**
Impaired	**14,883**	–	**1,669**	**9,936**	**26,488**
Gross	**539,707**	**177,229**	**241,703**	**99,068**	**1,057,707**
Less allowance for credit losses	**15,726**	**2**	**573**	**9,583**	**25,884**
Net	**₱523,981**	**₱177,227**	**₱241,130**	**₱89,485**	**₱1,031,823**
2011					
Neither past due nor impaired	₱448,753	₱212,999	₱195,813	₱76,519	₱934,084
Past due but not impaired	4,966	–	–	–	4,966
Impaired	16,865	–	1,450	9,553	27,868
Gross	470,584	212,999	197,263	86,072	966,918
Less allowance for credit losses	14,884	–	561	9,553	24,998
Net	₱455,700	₱212,999	₱196,702	₱76,519	₱941,920

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2012					
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**

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
2011					
Neither past due nor impaired	₱343,974	₱163,168	₱137,930	₱25,662	₱670,734
Past due but not impaired	676	–	–	–	676
Impaired	14,336	–	283	9,553	24,172
Gross	358,986	163,168	138,213	35,215	695,582
Less allowance for credit losses	8,666	–	176	9,553	18,395
Net	₱350,320	₱163,168	₱138,037	₱25,662	₱677,187

* 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 credit quality per class of financial assets that are neither past due nor impaired (gross of allowance for credit losses):

	Consolidated				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
2012					
Loans and advances to banks					
Due from BSP	**₱–**	**₱131,278**	**₱–**	**₱–**	**₱131,278**
Due from other banks	**11,164**	**10,873**	**400**	**120**	**22,557**
Interbank loans receivable and SPURA	**8,462**	**7,369**	**–**	**7,563**	**23,394**
	19,626	**149,520**	**400**	**7,683**	**177,229**
Financial assets at FVPL					
Debt securities					
Government	**1,037**	**60,611**	**–**	**–**	**61,648**
Private	**368**	**111**	**–**	**322**	**801**
Equity securities - quoted	**508**	**1,135**	**290**	**–**	**1,933**
Derivative assets	**1,404**	**730**	**–**	**205**	**2,339**
	3,317	**62,587**	**290**	**527**	**66,721**
AFS investments					
Debt securities					
Government	**7,222**	**86,205**	**27**	**10,299**	**103,753**
Private	**15,557**	**–**	**–**	**1,055**	**16,612**
Subtotal	**22,779**	**86,205**	**27**	**11,354**	**120,365**
Equity securities					
Quoted	**297**	**623**	**–**	**299**	**1,219**
Unquoted	**17**	**–**	**51**	**210**	**278**
Subtotal	**314**	**623**	**51**	**509**	**1,497**
	23,093	**86,828**	**78**	**11,863**	**121,862**
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**

(Forward)

	Consolidated				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
Unquoted debt securities	**₱4,806**	**₱1,390**	**₱–**	**₱–**	**₱6,196**
Accrued interest receivable	**1,391**	**3,341**	**218**	**167**	**5,117**
Accounts receivable	**105**	**50**	**–**	**2,244**	**2,399**
Sales contract receivable	**301**	**–**	**–**	**240**	**541**
Other receivables	**9**	**1,279**	**–**	**203**	**1,491**
	178,808	**250,000**	**54,604**	**29,447**	**512,859**
Others	**–**	**2,010**	**15**	**87,107**	**89,132**
	₱233,421	**₱590,333**	**₱55,387**	**₱140,113**	**₱1,019,254**
2011					
Loans and advances to banks					
Due from BSP	₱687	₱155,850	₱–	₱–	₱156,537
Due from other banks	17,589	10,233	2,442	1,831	32,095
Interbank loans receivable and SPURA	9,041	13,113	–	2,213	24,367
	27,317	179,196	2,442	4,044	212,999
Financial assets at FVPL					
Debt securities					
Government	110	2,440	–	–	2,550
Private	121	28	–	105	254
BSP	–	3	–	–	3
Equity securities - quoted	211	695	134	1	1,041
Derivative assets	1,707	196	–	437	2,340
	2,149	3,362	134	543	6,188
AFS investments					
Debt securities					
Government	16,298	100,602	27	10,028	126,955
Private	13,103	–	–	989	14,092
Subtotal	29,401	100,602	27	11,017	141,047
Equity securities					
Quoted	239	426	–	202	867
Unquoted	17	–	29	208	254
Subtotal	256	426	29	410	1,121
	29,657	101,028	56	11,427	142,168
HTM investments					
Government bonds	–	32,010	–	3,486	35,496
Private bonds	3,895	–	–	–	3,895
Treasury notes	44	8,022	–	–	8,066
	3,939	40,032	–	3,486	47,457
Loans and receivables					
Receivables from customers					
Commercial loans	92,223	154,539	29,447	3,155	279,364
Residential mortgage loans	18,037	25,673	320	–	44,030
Auto loans	24,526	12,553	27	59	37,165
Trade	6,959	14,334	4,454	–	25,747
Others	15,421	511	147	26,947	43,026
	157,166	207,610	34,395	30,161	429,332
Unquoted debt securities	6,143	3,216	–	1,325	10,684
Accrued interest receivable	2,049	2,761	163	95	5,068
Accounts receivable	72	136	408	2,129	2,745
Sales contract receivable	312	–	30	290	632
Other receivables	–	184	33	75	292
	165,742	213,907	35,029	34,075	448,753
Others	–	–	–	76,519	76,519
	₱228,804	₱537,525	₱37,661	₱130,094	₱934,084

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2012					
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					
Held-for-trading 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
2011					
Loans and advances to banks					
Due from BSP	₱–	₱146,636	₱–	₱–	₱146,636
Due from other banks	11,572	31	–	1,707	13,310
Interbank loans receivable and SPURA	1,009	–	–	2,213	3,222
	12,581	146,667	–	3,920	163,168
Financial assets at FVPL					
Held-for-trading debt securities					
Government	110	1,991	–	–	2,101
Private	121	28	–	105	254
BSP	–	3	–	–	3
Derivative assets	1,707	95	–	437	2,239
	1,938	2,117	–	542	4,597

(Forward)

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
AFS investments					
Debt securities					
Government	₱15,897	₱76,250	₱27	₱10,028	₱102,202
Private	12,446	–	–	989	13,435
Subtotal	28,343	76,250	27	11,017	115,637
Equity securities					
Quoted	14	–	–	157	171
Unquoted	–	–	–	61	61
Subtotal	14	–	–	218	232
	28,357	76,250	27	11,235	115,869
HTM investments					
Government bonds	–	10,083	–	3,486	13,569
Private bonds	3,895	–	–	–	3,895
	3,895	10,083	–	3,486	17,464
Loans and receivables					
Receivables from customers					
Commercial loans	79,592	154,181	27,538	–	261,311
Residential mortgage loans	866	24,280	302	–	25,448
Auto loans	1,310	11,445	26	–	12,781
Trade	6,959	14,334	4,454	–	25,747
Others	10,768	416	32	–	11,216
	99,495	204,656	32,352	–	336,503
Unquoted debt securities	–	–	–	1,325	1,325
Accounts receivable	–	–	–	2,498	2,498
Accrued interest receivable	480	2,620	115	98	3,313
Sales contract receivable	–	–	–	275	275
Other receivables	–	–	–	60	60
	99,975	207,276	32,467	4,256	343,974
Others	–	–	–	25,662	25,662
	₱146,746	₱442,393	₱32,494	₱49,101	₱670,734

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

	Consolidated		Parent Company	
	2012	2011	2012	2011
Commercial loans	₱5,982	₱7,289	₱5,282	₱6,559
Residential mortgage loans	174	203	71	100
Auto loans	1	–	–	–
Others	16	46	4	–
	₱6,173	₱7,538	₱5,357	₱6,659

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
2012						
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

	Consolidated					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2011						
Receivables from customers						
Commercial loans	₱171	₱26	₱24	₱28	₱406	₱655
Residential mortgage loans	33	9	12	25	152	231
Auto loans	10	14	44	289	650	1,007
Trade	2	–	–	–	2	4
Others	487	319	22	75	1,733	2,636
Receivables from customers - net of unearned discounts and capitalized interest	703	368	102	417	2,943	4,533
Accounts receivable	2	1	1	2	279	285
Accrued interest receivable	1	–	1	3	44	49
Sales contract receivable	58	8	3	1	29	99
	₱764	₱377	₱107	₱423	₱3,295	₱4,966

	Parent Company					
	Within 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**Over 180 days**	**Total**
2012						
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**
2011						
Receivables from customers						
Commercial loans	₱21	₱25	₱19	₱26	₱406	₱497
Residential mortgage loans	6	–	–	–	124	130
Auto loans	–	–	–	–	34	34
Trade	2	–	–	–	1	3
Others	6	–	–	–	2	8
Receivables from customers - net of unearned discounts and capitalized interest	35	25	19	26	567	672
Accrued interest receivable	–	–	–	–	4	4
	₱35	₱25	₱19	₱26	₱571	₱676

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, 2012 and 2011.

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 prepares monthly Maximum Cumulative Outflow (MCO) reports, which measure the liquidity mismatch risk. In addition, the Parent Company performs liquidity stress testing on a regular basis. The Group's financial institution subsidiaries (excluding insurance companies) similarly prepare their respective MCO reports. These are reported to the Parent Company's ALCO and RMC 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**
2012							
Financial Assets							
Cash and other cash items	**₱24,382**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱24,382**
Due from BSP	**115,278**	**16,005**	–	–	–	–	**131,283**
Due from other banks	**20,721**	**1,478**	**281**	**68**	**10**	–	**22,558**
Interbank loans receivable and SPURA	**2,548**	**12,943**	**3,905**	**3,436**	**616**	–	**23,448**
Financial assets at FVPL							
Held-for-trading	**57**	**8,871**	**56,364**	**67**	–	–	**65,359**
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**	**131,432**	**156,416**
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**	**8,240**	**9,871**
Accounts receivable	**3,706**	**76**	**9**	**1**	**6**	**246**	**4,044**
Accrued interest receivable	**6,442**	**331**	**288**	**45**	**135**	**115**	**7,356**
Sales contract receivable	**37**	**7**	**53**	**26**	**53**	**804**	**980**
Other receivables	**40**	**394**	**1,058**	–	–	–	**1,492**
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**
	₱178,098	**₱157,689**	**₱134,324**	**₱47,138**	**₱57,723**	**₱561,378**	**₱1,136,350**

(Forward)

	Consolidated						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
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**	**364**	**1,811**
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**	**548**	–	**6,136**
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**	**28,480**	**60,986**	**909,527**
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**	**₱35,409**	**₱67,592**	**₱999,910**
2011							
Financial Assets							
Cash and other cash items	₱20,954	₱–	₱–	₱–	₱–	₱–	₱20,954
Due from BSP	43,620	111,274	1,810	–	–	–	156,704
Due from other banks	24,542	5,874	106	1,594	4	–	32,120
Interbank loans receivable and SPURA	18,797	5,132	439	–	–	–	24,368
Financial assets at FVPL							
Held-for-trading	–	1,490	–	2,386	–	–	3,876
Derivative assets*							
Trading:							
Receive	55	21,429	12,805	6,138	3,597	711	44,735
Pay	–	21,138	12,458	5,952	3,162	308	43,018
	55	291	347	186	435	403	1,717
AFS investments	–	221	978	16,706	2,643	152,949	173,497
HTM investments	–	347	1,987	3,220	4,273	99,435	109,262
Loans and receivables:							
Receivables from customers	5,540	81,586	62,847	38,992	33,824	291,521	514,310
Unquoted debt securities	–	–	–	1,299	40	21,577	22,916
Accounts receivable	3,499	462	1	1	5	259	4,227
Accrued interest receivable	6,152	275	250	102	19	253	7,051
Sales contract receivable	46	18	34	51	103	750	1,002
Other receivables	69	6	–	–	42	177	294
Other assets							
Returned checks and other cash items	–	–	67	–	–	–	67
Residual value of leased assets	–	13	15	22	60	307	417
Miscellaneous	–	–	–	–	–	917	917
	₱123,274	₱206,989	₱68,881	₱64,559	₱41,448	₱568,548	₱1,073,699

(Forward)

	Consolidated						
	On demand	Up to 1 month	1 to 3 Months	3 to 6 months	6 to 12 months	Beyond 1 Year	Total
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱77,589	₱–	₱–	₱–	₱–	₱–	₱77,589
Savings	283,011	–	–	–	–	–	283,011
Time	–	230,556	54,232	12,415	8,905	14,778	320,886
	360,600	230,556	54,232	12,415	8,905	14,778	681,486
Bills payable and SSURA	–	51,186	30,358	5,865	4,808	9,917	102,134
Manager's checks and demand drafts outstanding	2,610	–	–	–	–	–	2,610
Accrued interest payable	355	342	446	11	27	839	2,020
Accrued other expenses	4,295	116	58	–	70	43	4,582
Bonds payable	–	–	33	56	112	5,869	6,070
Subordinated debt	–	255	84	340	9,179	12,226	22,084
Other liabilities							
Bills purchased - contra	10,695	–	–	–	–	–	10,695
Accounts payable	892	3,710	754	–	259	339	5,954
Outstanding acceptances	–	303	620	86	55	–	1,064
Marginal deposits	276	–	98	–	–	–	374
Deposits on lease contracts	–	6	18	34	101	438	597
Dividends payable	–	31	–	–	–	–	31
Miscellaneous	–	–	–	–	–	488	488
	379,723	286,505	86,701	18,807	23,516	44,937	840,189
Derivative liabilities*							
Trading:							
Pay	–	23,511	21,009	11,874	5,713	6,939	69,046
Receive	–	23,124	20,643	11,716	5,504	5,729	66,716
	–	387	366	158	209	1,210	2,330
Loan commitments and financial guarantees	51,541	2,429	7,299	3,996	6,290	2,422	73,977
	₱431,264	₱289,321	₱94,366	₱22,961	₱30,015	₱48,569	₱916,496

	Parent Company						
	On demand	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 Year**	**Total**
2012							
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							
Held-for-trading	–	–	**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**
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**

(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
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	–	**3,691**	–	–	–	–	**3,691**
Outstanding acceptances	–	**395**	**346**	**111**	**107**	**9**	**968**
Marginal deposits	–	–	**152**	–	–	–	**152**
	409,676	**198,061**	**51,421**	**11,768**	**12,376**	**5,789**	**689,091**
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	**₱202,128**	**₱60,141**	**₱17,592**	**₱18,779**	**₱11,790**	**₱721,788**
2011							
Financial Assets							
Cash and other cash items	₱16,985	₱–	₱–	₱–	₱–	₱–	₱16,985
Due from BSP	39,316	107,487	–	–	–	–	146,803
Due from other banks	13,310	–	–	–	–	–	13,310
Interbank loans receivable and SPURA	–	2,259	659	133	179	–	3,230
Financial assets at FVPL							
Held-for-trading	–	–	–	2,386	–	–	2,386
Derivative assets*							
Trading:							
Receive	–	21,429	12,805	6,138	3,551	711	44,634
Pay	–	21,138	12,458	5,952	3,162	308	43,018
	–	291	347	186	389	403	1,616
AFS investments	–	123	783	1,034	2,643	139,655	144,238
HTM investments	–	–	1,295	877	2,196	27,273	31,641
Loans and receivables							
Receivables from customers	2,707	63,719	59,422	32,878	25,965	219,465	404,156
Unquoted debt securities	–	–	–	–	32	4,719	4,751
Accounts receivable	3,455	–	–	–	–	–	3,455
Accrued interest receivable	5,241	–	–	–	–	–	5,241
Sales contract receivable	673	9	17	25	53	173	950
Other receivables	62	–	–	–	–	–	62
Other assets							
Returned checks and other cash items	–	–	47	–	–	–	47
Miscellaneous	–	–	–	–	–	917	917
	₱81,749	₱173,888	₱62,570	₱37,519	₱31,457	₱392,605	₱779,788

(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
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱71,667	₱–	₱–	₱–	₱–	₱–	₱71,667
Savings	272,331	–	–	–	–	–	272,331
Time	–	174,759	45,618	10,680	6,323	751	238,131
	343,998	174,759	45,618	10,680	6,323	751	582,129
Bills payable and SSURA	–	13,244	353	1	1	3	13,602
Manager's checks and demand drafts outstanding	1,955	–	–	–	–	–	1,955
Accrued interest payable	–	4	360	3	2	838	1,207
Accrued other expenses	2,742	–	–	–	–	–	2,742
Subordinated debt	–	255	84	340	9,179	10,933	20,791
Other liabilities							
Bills purchased - contra	10,630	–	–	–	–	–	10,630
Accounts payable	–	3,693	–	–	–	–	3,693
Outstanding acceptances	–	303	621	86	54	–	1,064
Marginal deposits	–	–	97	–	–	–	97
	359,325	192,258	47,133	11,110	15,559	12,525	637,910
Derivative liabilities*							
Trading:							
Pay	–	23,311	20,994	11,849	8,812	4,570	69,536
Receive	–	22,927	20,638	11,709	8,617	3,497	67,388
	–	384	356	140	195	1,073	2,148
Loan commitments and financial guarantees	1,569	2,429	7,299	3,996	6,290	2,012	23,595
	₱360,894	₱195,071	₱54,788	₱15,246	₱22,044	₱15,610	₱663,653

*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 RMC 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 Historical Simulation Method to compute the VaR. This method assumes that asset returns in the future will have the same movement that occurred within the specified historical data set. However, this assumption may or may not cover all possible range of future outcomes, especially those of an exceptional nature that would occur in stressed market conditions. In calculating VaR, the Parent Company uses a 99.00% confidence level. This means that, statistically, losses on trading operations will exceed VaR on 1 out of 100 trading days. The validity of the VaR model is verified through a monthly back testing, which examines how frequently both actual and hypothetical daily losses exceed daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis. The results of the monthly backtesting are reported to the ALCO and RMC. The financial institution subsidiaries with trading portfolios adopted the Parent Company methodology in 2011.

A summary of the VaR position of the trading portfolio of the Parent Company, PSBank and FMIC is as follows:

	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. Prior to May 23, 2012, the Fixed Income VaR is derived by summing up the VaR of these products: peso and foreign currency bonds, bond forwards and credit default swaps. However, with the implementation of a system which allows correlation across all products in the portfolio, correlated VaRs for the Fixed Income book have been used. 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.

	FMIC			PSBank		
		FXTNs		HFT		
	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**

FMIC uses an off-the-shelf tool to compute for its Fixed Income VaR while the equity VaR is computed using Bloomberg.

PSBank computes for the Fixed Income VaR by currency. The total fixed income VaR of PSBank is an aggregation of the peso and USD fixed income portfolio VaR without considering correlation. VaR was calculated for settled transactions until October 15, 2012, when PSBank implemented trade date monitoring. On the other hand, correlated VaR is computed for the FX position which is comprised primarily of USD and a small amount of EURO.

	Parent Company				PSBank		FMIC
	April 1 - July 11₁		July 12 - December 31₂				
	Rates and Foreign Exchange	Fixed Income	Rates and Foreign Exchange	Fixed Income	Rates and Foreign Exchange	Fixed Income	Fixed Income
As of December 31, 2011							
December 29			₱215.8	₱31.1	₱0.4	₱–	₱0.7
Average	₱564.1	₱58.5	289.5	75.0	0.6	7.3	26.4
Highest	775.5	112.8	414.5	159.9	1.8	75.8	185.4
Lowest	312.3	26.4	173.9	19.8	0.0	0.0	0.1

1/start of Market Risk Limits Package
2/historical interest rate movements changed fram relative ta absolute change to reflect market convention

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 RMC and the BOD.

Market Risk - Banking Book
The Group follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The Parent Company measures its interest rate risk exposures through repricing/maturity schedule that distributes rate-sensitive assets, liabilities and off-balance sheet positions into predefined time bands according to their maturity or time remaining to their repricing. The sum of rate-sensitive assets per time band is referred to as rate-sensitive assets (RSA). While the sum of all rate-sensitive liabilities per time band is called rate-sensitive liabilities (RSL).

Gap analysis provides an approximation of the magnitude of balance sheet exposed to changes in interest rates. To evaluate the earnings exposure, the RSL in each time band are subtracted from corresponding RSA to produce a repricing gap for that time band.

Earnings-at-risk is an interest rate risk measure of the earnings decline as a result of a change in the level of interest rates. It is a tool used to evaluate the sensitivity of the accrual portfolio to a change in interest rates over next 12 months.

The table below shows the earnings-at-risk profile of the Parent Company and certain subsidiaries as of December 31, 2012 and 2011:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro	Total
2012	**(₱1,106.96)**	**(₱169.02)**	**(₱82.05)**	**(₱27.86)**	**(₱0.17)**	**(₱1,386.06)**
2011	₱2,572.93	(₱472.00)	(₱322.44)	(₱40.00)	(₱0.40)	₱1,738.09

For purposes of PFRS 7, the disclosed interest rate sensitivity analysis measures the impact on profit or loss (for rate-sensitive assets and liabilities, including items recorded at fair value through profit or loss) and on equity (for AFS investments) that would arise from possible change in interest rates at the statement of financial position date.

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**					
	2012			2011			**2012**			2011		
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%	**(₱76.13)**	1.01	+1.00%	(₱55.47)	(₱0.46)	−1.00%	**(₱78.14)**	**0.94**	+1.00%	(P57.37)	(₱0.45)
EUR	+1.00%	**18.02**		+1.00%	(5.61)	-	+1.00%	**18.02**	–	−1.00%	(5.61)	
JPY	+1.00%	**12.87**		+1.00%	1.44		+1.00%	**12.87**	–	−1.00%	1.44	–
GBP	−1.00%	**2.02**	-	+1.00%	0.21		+1.00%	**2.02**	–	+1.00%	0.21	-
Others	+1.00%	**89.06**		+1.00%	45.32		+1.00%	**89.06**	–	+1.00%	45.32	–
USD	-1.00%	**76.13**	(1.01)	-1.00%	55.47	0.46	-1.00%	**78.14**	**(0.94)**	-1.00%	57.37	0.45
EUR	-1.00%	**(18.02)**	-	-1.00%	5.61	–	-1.00%	**(18.02)**	–	-1.00%	5.61	
JPY	-1.00%	**(12.87)**		-1.00%	(1.44)		-1.00%	**(12.87)**	–	-1.00%	(1.44)	–
GBP	-1.00%	**(2.02)**	–	-1.00%	(0.21)		-1.00%	**(2.02)**	–	-1.00%	(0.21)	
Others	-1.00%	**(89.06)**		-1.00%	(45.32)		-1.00%	**(89.06)**	–	-1.00%	(45.32)	

Information relating to Parent Company's currency derivatives is included in Note 8. As of December 31, 2012 and 2011, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱9.2 billion and ₱8.3 billion, respectively (sold), and ₱8.6 billion and ₱7.5 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 Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

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

The BSP issued Circular No. 538 which revised risk based capital adequacy framework for the Philippine Banking system to conform with BASEL II recommendation and took effect on July 1, 2007. The details of CAR as of December 31, as reported to the BSP, follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Tier 1 capital	**₱100,056**	₱87,429	**₱96,180**	₱84,529
Less: Required deductions	**1,187**	1,143	**20,725**	18,880
Sub-total	**98,869**	86,286	**75,455**	65,649
Excess from Tier 2 deducted to Tier 1 Capital*	**–**		**(7,061)**	–
Net Tier 1 Capital	**98,869**	86,286	**68,394**	65,649
Tier 2 capital	**19,588**	23,924	**13,664**	21,337
Less: Required deductions	**1,187**	1,143	**20,725**	18,880
Sub-total	**18,401**	22,781	**(7,061)**	2,457
Excess of Tier 2 deducted to Tier 1 Capital*	**–**	–	**7,061**	
Net Tier 2 Capital	**18,401**	22,781	**–**	2,457
Total Qualifying Capital	**₱117,270**	₱109,067	**₱68,394**	₱68,106

**Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.*

Credit Risk-Weighted Assets	**₱571,063**	₱487,794	**₱424,347**	₱351,069
Market Risk-Weighted Assets	**62,586**	54,244	**48,903**	52,406
Operational Risk-Weighted Assets	**86,227**	86,401	**53,184**	56,953
Risk Weighted Assets	**719,876**	628,439	**526,434**	460,428
Tier 1 capital ratio	**13.73%**	13.73%	**12.99%**	14.26%
Total capital ratio	**16.29%**	17.36%	**12.99%**	14.79%

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.

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.

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.

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:

	2012			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL (Note 8)				
Held-for-trading				
Debt securities				
Government	₱61,648	₱61,648	₱54,585	₱54,585
Private	801	801	801	801
Equity securities - quoted	1,933	1,933	–	–
Derivative assets	2,339	2,339	2,249	2,249
	66,721	66,721	57,635	57,635
AFS investments (Note 8)				
Debt securities				
Government	103,753	103,753	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
	122,958	122,958	102,574	102,574
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	22,557	22,557	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	335,639	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	56,458	15,615	15,615
	507,159	513,746	389,476	392,150
Unquoted debt securities	6,820	7,490	831	831
Accounts receivable	2,588	2,588	2,169	2,169
Accrued interest receivable	5,321	5,321	3,963	3,963
Sales contract receivable	602	597	236	236
Other receivables	1,491	1,491	166	166
	523,981	531,233	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
Investment in SPVs	–	–	–	–
Pledged certificate of time deposit	452	452	452	452
Miscellaneous	449	424	353	353
	2,531	2,456	1,543	1,543
Total financial assets	₱969,251	₱987,267	₱736,058	₱743,072

(Forward)

	2012			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
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**	**97,463**	**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)	**11,834**	**12,473**	**–**	**–**
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	**6,136**	**6,136**	**3,691**	**3,691**
Marginal deposits	**1,846**	**1,846**	**152**	**152**
Outstanding acceptances	**968**	**968**	**968**	**968**
Deposits on lease contracts	**832**	**768**	**–**	**–**
Dividends payable	**66**	**66**	**–**	**–**
Miscellaneous	**544**	**544**	**–**	**–**
	25,609	**25,545**	**19,967**	**19,967**
Total financial liabilities	**₱904,311**	**₱908,935**	**₱694,040**	**₱693,929**
2011				
Financial Assets				
Financial assets at FVPL (Note 8)				
Held-for-trading				
Debt securities				
Government	₱2,550	₱2,550	₱2,101	₱2,101
Private	254	254	254	254
BSP	3	3	3	3
Equity securities - quoted	1,041	1,041	–	–
Derivative assets	2,340	2,340	2,239	2,239
	6,188	6,188	4,597	4,597
AFS investments (Note 8)				
Debt securities				
Government	126,955	126,955	102,202	102,202
Private	14,093	14,093	13,435	13,435
Equity securities				–
Quoted	1,754	1,754	278	278
Unquoted	255	255	61	61
	143,057	143,057	115,976	115,976
HTM investments (Note 8)				
Government	35,496	41,594	13,569	16,588
Treasury notes	8,066	9,787	–	–
Private	3,895	3,909	3,895	3,909
	47,457	55,290	17,464	20,497
Loans and receivables				
Cash and other cash items	20,954	20,954	16,985	16,985
Due from BSP	156,537	156,537	146,636	146,636
Due from other banks	32,095	32,095	13,310	13,310

(Forward)

	2011			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interbank loans receivable and SPURA (Note 7)				
Interbank loans receivable	₱9,327	₱9,327	₱3,222	₱3,222
SPURA	15,040	15,040	–	–
	24,367	24,367	3,222	3,222
Loans and receivables - net (Note 9)				
Receivables from customers				
Commercial loans	283,128	285,689	265,756	268,650
Residential mortgage loans	43,815	45,114	25,790	26,018
Auto loans	37,961	40,560	12,793	12,793
Trade	25,991	25,991	25,991	25,991
Others	44,756	47,084	11,236	11,236
	435,651	444,438	341,566	344,688
Unquoted debt securities	11,335	11,335	2,038	2,038
Accrued interest receivable	4,922	4,922	3,431	3,431
Accounts receivable	2,772	2,772	2,519	2,519
Sales contract receivable	728	728	707	707
Other receivables	292	292	59	59
	455,700	464,487	350,320	353,442
Other assets (Note 14)				
Interoffice float items	1,127	1,127	1,093	1,093
Residual value of leased assets	417	417	–	–
Returned checks and other cash items	67	67	47	47
Other investments	14	14	10	10
Investment in SPVs	–	–	–	–
Miscellaneous	917	917	917	917
	2,542	2,542	2,067	2,067
Total financial assets	₱888,897	₱905,517	₱670,577	₱676,732
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱2,819	₱2,819	₱2,689	₱2,689
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	77,589	77,589	71,667	71,667
Savings	283,011	283,011	272,331	272,331
Time	320,393	322,232	237,638	237,638
	680,993	682,832	581,636	581,636
Bills payable and SSURA	99,657	99,679	13,600	13,600
Managers checks and demand drafts outstanding	2,610	2,610	1,955	1,955
Accrued interest and other expenses (Note 18)	6,602	6,602	3,949	3,949
Bonds payable (Note 19)	4,875	4,875	–	–
Subordinated debt (Note 20)	19,735	19,507	18,442	18,027
Other liabilities (Note 21)				
Bills purchased - contra	10,695	10,695	10,630	10,630
Accounts payable	5,954	5,954	3,693	3,693
Marginal deposits	374	374	97	97
Outstanding acceptances	1,064	1,064	1,064	1,064
Deposits on lease contracts	597	487	–	–
Dividends payable	31	31	–	-
Miscellaneous	488	488	–	-
	19,203	19,093	15,484	15,484
Total financial liabilities	₱836,494	₱838,017	₱637,755	₱637,340

The following table shows financial instruments recognized at fair value, 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).

	Consolidated			
	Level 1	Level 2	Level 3	Total
2012				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	**₱61,648**	**₱–**	**₱–**	**₱61,648**
Private	**801**	**–**	**–**	**801**
Equity securities	**1,933**	**–**	**–**	**1,933**
Derivative assets	**–**	**2,339**	**–**	**2,339**
Total financial assets at FVPL	**₱64,382**	**₱2,339**	**₱–**	**₱66,721**
AFS investments				
Debt securities				
Government	**₱102,602**	**₱1,151**	**₱–**	**₱103,753**
Private	**15,449**	**1,163**	**–**	**16,612**
Equity securities - quoted	**2,314**	**–**	**–**	**2,314**
Total AFS investments	**₱120,365**	**₱2,314**	**₱–**	**₱122,679**
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	**₱–**	**₱6,692**	**₱–**	**₱6,692**
2011				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	₱2,550	₱–	₱–	₱2,550
Private	254	–	–	254
BSP	3	–	–	3
Equity securities	1,041	–	–	1,041
Derivative assets	–	2,340	–	2,340
Total financial assets at FVPL	₱3,848	₱2,340	₱–	₱6,188
AFS investments				
Debt securities				
Government	₱125,838	₱1,117	₱–	₱126,955
Private	13,206	887	–	14,093
Equity securities - quoted	1,754	–	–	1,754
Total AFS investments	₱140,798	₱2,004	₱–	₱142,802
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱2,819	₱–	₱2,819

	Parent Company			
	Level 1	Level 2	Level 3	Total
2012				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
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**

(Forward)

	Parent Company			
	Level 1	Level 2	Level 3	Total
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
2011				
Financial Assets				
Financial assets at FVPL				
Held-for-trading				
Debt securities				
Government	₱2,101	₱	₱-	₱2,101
Private	254	-	–	254
BSP	3		–	3
Derivative assets	–	2,239	–	2,239
Total financial assets at FVPL	₱2,358	₱2,239	₱–	₱4,597
AFS investments				
Debt securities				
Government	₱101,085	₱1,117	₱–	₱102,202
Private	12,549	886	–	13,435
Equity securities - quoted	278	–	-	278
Total AFS investments	₱113,912	₱2,003	₱–	₱115,915
Financial Liabilities				
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱2,689	₱–	₱2,689

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. In 2011, the Parent Company sold the level 3 instruments carried under AFS investments amounting to ₱278.9 million with derivative liability of the same amount for a gain of ₱261.4 million, included under 'Trading and securities gain - net' in the statement of income.

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	Braneh Banking	Others	Total
2012							
Results of Operatinns							
Net interest income (expense)							
Third party	₱6,785	₱8,860	(₱66)	₱6,713	₱7,392	₱1,122	₱30,806
Intersegment	(217)	(5,672)	–	(3,837)	10,979	(1,253)	–
Net interest income (expense) after intersegment transaction	6,568	3,188	(66)	2,876	18,371	(131)	30,806
Non-interest income	3,435	234	740	8,193	3,106	9,354	25,062
Revenue - net of interest expense	10,003	3,422	674	11,069	21,477	9,223	55,868
Non-interest expense	7,007	1,342	106	1,220	13,918	14,235	37,828
Income (loss) before share in net income of associates and a JV	2,996	2,080	568	9,849	7,559	(5,012)	18,040
Share in net income of associates and a JV	–	1	–	–	–	2,832	2,833
Provision for income tax	(796)	(155)	(29)	(1,844)	(232)	(770)	(3,826)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(1,648)	(1,648)
Net income (loss)	₱2,200	₱1,926	₱539	₱8,005	₱7,327	(₱4,598)	₱15,399
Statement of Financial Positinn							
Total assets	₱64,165	₱208,115	₱2,210	₱306,664	₱264,932	₱194,494	₱1,040,580
Total liabilities	₱33,888	₱205,179	₱2,302	₱278,713	₱295,190	₱98,288	₱913,560
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							
Results of Operations							
Net interest income (expense)							
Third party	₱5,809	₱8,643	(₱59)	₱8,973	₱3,943	₱2,098	₱29,407
Intersegment	(76)	(2,327)		(2,722)	5,697	(572)	–
Net interest income (expense) after intersegment transaction	5,733	6,316	(59)	6,251	9,640	1,526	29,407
Non-interest income	2,919	214	460	6,696	3,138	6,146	19,573
Revenue - net of interest expense	8,652	6,530	401	12,947	12,778	7,672	48,980
Non-interest expense	5,946	1,447	113	1,932	13,105	11,960	34,503
Income (loss) before share in net income of associates and a JV	2,706	5,083	288	11,015	(327)	(4,288)	14,477
Share in net income of associates and a JV	–	8		-		1,429	1,437
Provision for income tax	(750)	(154)	(31)	(1,490)	(113)	(986)	(3,524)
Non-controlling interest in net income of consolidated sobsidiaries		–	–		–	(1,359)	(1,359)
Net income (loss)	₱1,956	₱4,937	₱257	₱9,525	(₱440)	(₱5,204)	₱11,031

(Forward)

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Statement of Financial Position							
Total assets	₱55,060	₱197,713	₱1,131	₱344,522	₱228,718	₱131,240	₱958,384
Total liabilities	₱47,350	₱188,735	₱1,125	₱333,810	₱229,976	₱40,884	₱841,880
Other Segment Informatioo							
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
2010							
Results of Operations							
Net interest income (expense)							
Third party	₱5,231	₱8,079	(₱46)	₱7,634	₱3,438	₱2,054	₱26,390
Intersegment	(90)	(2,246)		(2,988)	6,037	(713)	
Net interest income (expense) after intersegment transaction	5,141	5,833	(46)	4,646	9,475	1,341	26,390
Non-interest income	2,599	414	648	7,552	3,562	5,317	20,092
Revenue - net of interest expense	7,740	6,247	602	12,198	13,037	6,658	46,482
Non-interest expense	5,813	1,548	67	2,013	11,988	13,674	35,103
Income (loss) before share in net income of associates and a JV	1,927	4,699	535	10,185	1,049	(7,016)	11,379
Share in net income of associates and a JV		41	–	–	-	1,577	1,618
Benefit from (provision) for income tax	(514)	(2)	(13)	(2,791)	462	(873)	(3,731)
Non-controlling interest in net income of consolidated subsidiaries		-	-	–	–	(900)	(900)
Net income (loss)	₱1,413	₱4,738	₱522	₱7,394	₱1,511	(₱7,212)	₱8,366
Statement of Financial Position							
Total assets	₱49,191	₱174,471	₱2,515	₱372,595	₱187,331	₱101,220	₱887,323
Total liabilities	₱24,936	₱157,158	₱2,444	₱354,344	₱226,728	₱28,696	₱794,306
Other Segment Information							
Capital expenditures	₱426	₱71	₱	₱91	₱73	₱1,190	₱1,851
Depreciation and amortization	₱286	₱42	₱-	₱25	₱694	₱1,213	₱2,260
Provision for credit and impairment losses	₱2,186	₱481	₱–	₱33	₱371	₱4,214	₱7,285

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.

The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest 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**
2012					
Interest income	**₱44,227**	**₱708**	**₱44**	**₱–**	**₱44,979**
Interest expense	**13,951**	**215**	**7**	**–**	**14,173**
Net interest income	**30,276**	**493**	**37**	**–**	**30,806**
Non-interest income	**23,475**	**1,118**	**329**	**140**	**25,062**
Provision for credit and impairment losses	**4,444**	**34**	**–**	**–**	**4,478**
Total external net operating income	**₱49,307**	**₱1,577**	**₱366**	**₱140**	**₱51,390**
Non-current assets	**₱33,775**	**₱550**	**₱31**	**₱13**	**₱34,369**

(Forward)

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
2011					
Interest income	₱44,253	₱729	₱55	₱	₱45,037
Interest expense	15,478	146	6		15,630
Net interest income	28,775	583	49		29,407
Non-interest income	17,825	1,198	352	198	19,573
Provision for credit and impairment losses	3,822	1			3,823
Total external net operating income	₱42,778	₱1,780	₱401	₱198	₱45,157
Non-current assets	₱32,970	₱391	₱110	₱19	₱33,490
2010					
Interest income	₱40,938	₱456	₱69	₱1	₱41,464
Interest expense	14,973	92	9	–	15,074
Net interest income	25,965	364	60	1	26,390
Non-interest income	18,145	1,314	310	323	20,092
Provision for credit and impairment losses	7,218	51	16	–	7,285
Total external net operating income	₱36,892	₱1,627	₱354	₱324	₱39,197
Non-current assets	**₱34,961**	**₱392**	**₱149**	**₱19**	**₱35,521**

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, software costs, assets held under joint venture and non-current asset held for sale.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Interbank loans receivable (Note 31)	**₱18,401**	₱9,327	**₱15,046**	₱3,222
SPURA	**4,993**	15,040	**–**	–
	23,394	24,367	**15,046**	3,222
Less allowance for impairment losses (Note 15)	**2**	–	**–**	–
	₱23,392	₱24,367	**₱15,046**	₱3,222

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	
	2012	2011	**2012**	2011
Financial assets at FVPL	**₱66,721**	₱6,188	**₱57,635**	₱4,597
AFS investments (Notes 29 and 31)	**122,958**	143,057	**102,574**	115,976
HTM investments (Note 31)	**51,451**	47,457	**21,491**	17,464
	₱241,130	₱196,702	**₱181,700**	₱138,037

Financial assets at FVPL consist of the following:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Held-for-trading (Note 31)				
Debt securities				
Government	₱61,648	₱2,550	₱54,585	₱2,101
Private	801	254	801	254
BSP	–	3	–	3
	62,449	2,807	55,386	2,358
Equity securities - quoted	1,933	1,041	–	–
	64,382	3,848	55,386	2,358
Derivative assets (Note 31)	2,339	2,340	2,249	2,239
	₱66,721	₱6,188	₱57,635	₱4,597

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, 2012 and 2011 and are not indicative of either market risk or credit risk.

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2012				
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
NZD	–	–	NZD 1	NZD 0.8328
SGD	–	–	–	SGD 0.8166
JPY	1	–	JPY 191	JPY 0.0117
EUR	–	50	EUR 13	EUR 1.2278
THB	–	–	THB 12	THB 0.0326
AUD	–	50	AUD 80	AUD 1.0010
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		

(Forward)

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2011				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱544	₱245	USD 1,041	₱43.7832
CNY	176	54	CNY 3,874	CNY 0.1562
EUR		9	EUR 3	EUR 1.3488
JPY	4	–	JPY 2,727	JPY 0.0128
SGD	–	–	SGD 13	SGD 0.7678
INR	1	7	IDR 228,000	IDR 0.0001
KRW	4	–	KRW 11,603	KRW 0.0009
SOLD:				
USD	95	565	USD 1,883	₱43.7459
CNY	75	167	CNY 3,828	CNY 0.1567
EUR	9	–	EUR 3	EUR 1.3482
JPY	1	–	JPY 779	JPY 0.0128
IDR	11	–	IDR 135,000	IDR 0.0001
KRW	–	6	KRW 23,230	KRW 0.0009
HKD	–	–	HKD 78	HKD 0.1286
Put Option Purchased-Warrants	212	–	USD 645	
Interest Rate Swaps-PHP	687	692	₱32,546	
Interest Rate Swaps-FX	39	578	USD 631	
Cross Currency Swaps	375	350	USD 726	
Embedded derivatives in:				
Financial contract*	–	16	USD 3	
Nonfinancial contract**	6	–	USD 0	
	₱2,239	₱2,689		

* As of December 31, 2012 and 2011, derivative liabilities pertain to interest rate derivatives embedded in structured debt instrument with outstanding notional amount of USD 1.7 million and USD 2.8 million, respectively.

** Nonfinancial host contracts include foreign currency derivatives with average notional amounts of USD 1,415 and USD 1,379 per month as of December 31, 2012 and 2011, respectively (with maturities until 2021).

The Group's derivative assets include embedded call option in a financial contract amounting to ₱27.4 million and ₱46.2 million as of December 31, 2012 and 2011, respectively, and derivative assets from Put Option Purchased Warrants of ₱63.4 million and ₱54.8 million as of December 31, 2012 and 2011, respectively. Further, as of December 31, 2011, the Group's derivative liabilities include call option amounting to ₱61.4 million embedded in financial investment securities. In 2012, these securities were redeemed prior to maturity.

Derivatives designated as accounting hedges

MCC entered into cross currency swaps agreements with a certain bank to hedge the foreign exchange and interest rate risks from its dollar-denominated loan with the same bank. Under the agreements, MCC, on a quarterly basis, pays a fixed annual interest rates ranging from 4.1% to 5.5% and from 3.5% to 5.5% in 2012 and 2011, respectively, on the peso principals and receives floating interest at 3-month LIBOR on the USD principals. MCC designated the swaps as effective hedging instruments under cash flow hedges. The swap has negative fair value of ₱267.3 million and ₱73.3 million as of December 31, 2012 and 2011, respectively, presented under 'Derivative liabilities' in the statement of financial position.

Below is the schedule when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	2012			2011		
	Within 1 year	1-2 years	Over 2 years	Within 1 year	1-2 years	Over 2 years
Cash inflow (asset)	₱455	₱1,852	₱417	₱401	₱473	₱1,763
Cash outflows (liability)	(558)	(1,987)	(445)	(478)	(535)	(1,783)
Net cash flow	(₱103)	(₱135)	(₱28)	(₱77)	(₱62)	(₱20)

As of December 31, 2012 and 2011, 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, 2012 and 2011 amounted to ₱81.9 million and ₱57.6 million, respectively. No hedge ineffectiveness was recognized in profit or loss in 2012 and 2011.

AFS investments consist of the following:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Debt securities:				
Government (Note 17)	₱103,753	₱126,955	₱86,176	₱102,202
Private	16,612	14,093	15,942	13,435
	120,365	141,048	102,118	115,637
Equity securities:				
Quoted	2,619	2,091	485	368
Unquoted	547	479	147	147
	3,166	2,570	632	515
	123,531	143,618	102,750	116,152
Less allowance for impairment losses (Note 15)	573	561	176	176
	₱122,958	₱143,057	₱102,574	₱115,976

In 2011, the Parent Company participated in bond exchange transactions affecting its held for trading and AFS investments. The Parent Company received 10-year Benchmark Bonds with coupon of 5.1% and face value of ₱2.7 billion, at a price of 100.00% and 20-year Benchmark Bonds with coupon of 6.4% and total face value of ₱34.5 billion, at a price of 98.77% and realized net trading gain of ₱230.0 million from the bond exchange transactions presented under 'Trading and securities gain - net' in the statement of income.

AFS investments include net unrealized gains as follows:

	Consolidated		Parent Company	
	2012	2011	2012	2011
Balance at the beginning of year	₱5,063	₱1,333	₱2,377	₱822
Unrealized gains recognized in other comprehensive income	4,655	9,543	3,269	5,215
Amounts realized in profit or loss	(7,067)	(5,787)	(4,004)	(3,671)
	2,651	5,089	1,642	2,366
Tax (Note 28)	(105)	(26)	(29)	11
Balance at end of year	₱2,546	₱5,063	₱1,613	₱2,377

HTM investments consist of the following:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Government bonds	**₱37,481**	₱35,496	**₱17,157**	₱13,569
Treasury notes	**9,635**	8,066	**–**	–
Private bonds	**4,335**	3,895	**4,334**	3,895
	₱51,451	₱47,457	**₱21,491**	₱17,464

HTM investments include US government securities with carrying value of USD 1.0 million (with peso equivalent of ₱41.5 million and ₱44.2 million as of December 31, 2012 and 2011, 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 full PFRS. This basis of financial reporting shall be adopted by the availing entity until such time that the ground for its coverage under the tainting rule of PAS 39 is no longer present; and
- appropriate clearance shall be obtained from the BSP and Insurance Commission, as the primary regulators of banks and insurance companies, respectively.

On October 11, 2011, the BSP through Circular 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, 2012 and 2011, had the Group accounted for the transaction under PFRS, the unamortized balance of the deferred gain on exchange of ₱13.4 million and ₱14.1 million, respectively, would have been credited to the Group's 2012 and 2011 net income and the entire HTM investments portfolio of the Group with amortized cost of ₱51.5 billion and ₱47.5 billion, respectively, would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱10.8 billion and ₱8.0 billion, respectively, being recognized in other comprehensive income.

Interest income on trading and investment securities consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Financial assets at FVPL	**₱1,326**	₱476	₱438	**₱1,190**	₱382	₱398
AFS investments	**5,738**	6,260	6,759	**4,840**	3,683	4,135
HTM investments	**3,394**	3,147	2,356	**1,088**	1,081	1,055
	₱10,458	₱9,883	₱9,553	**₱7,118**	₱5,146	₱5,588

In 2012, 2011 and 2010, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.88% to 11.63%, 0.80% to 10.63% and 0.80% to 9.50%, respectively, for the Group and from 0.88% to 11.63%, 0.80% to 9.88% and 0.80% to 9.50%, respectively, for the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 3.30% to 18.25%, 3.70% to 18.25% and 1.56% to 14.00%, respectively, for the Group and from 3.30% to 11.50%, 3.70% to 14.00% and 3.70% to 13.20%, respectively, for the Parent Company.

Trading and securities gain - net consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Held-for-trading	**₱2,442**	₱1,275	₱793	**₱1,791**	₱1,007	₱394
AFS investments	**7,067**	5,787	5,982	**4,004**	3,671	2,825
Derivative asset/liabilities - net	**(4,024)**	(944)	(653)	**(4,089)**	(968)	(673)
	₱5,485	₱6,118	₱6,122	**₱1,706**	₱3,710	₱2,546

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	
	2012	2011	**2012**	2011
Receivables from customers (Note 31):				
Commercial loans	**₱338,830**	₱289,170	**₱311,618**	₱270,146
Residential mortgage loans	**53,838**	44,443	**31,184**	26,235
Auto loans	**52,109**	45,614	**15,852**	14,388
Trade loans	**21,715**	26,380	**21,684**	26,380
Others	**59,052**	48,734	**15,671**	11,275
	525,544	454,341	**396,009**	348,424
Less unearned discounts and capitalized interest	**7,180**	8,645	**1,376**	1,848
	518,364	445,696	**394,633**	346,576
Unquoted debt securities (Note 17):				
Government	**1,910**	1,984	**494**	502
Private	**5,904**	10,572	**819**	2,240
	7,814	12,556	**1,313**	2,742
Accounts receivable (Note 31)	**5,766**	5,949	**4,792**	5,177
Accrued interest receivable (Note 31)	**7,356**	7,051	**5,646**	5,241
Sales contract receivable (Note 31)	**637**	760	**244**	910
Other receivables (Note 31)	**1,492**	294	**168**	62
	541,429	472,306	**406,796**	360,708
Less allowance for credit losses (Note 15)	**15,726**	14,884	**8,233**	8,666
	₱525,703	₱457,422	**₱398,563**	₱352,042

Receivables from customers consist of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Loans and discounts	**₱488,645**	₱417,303	**₱358,992**	₱311,115
Less unearned discounts and capitalized interest	**7,180**	8,645	**1,376**	1,848
	481,465	408,658	**357,616**	309,267
Customers' liabilities under letters of credit (LC)/trust receipts	**21,715**	26,380	**21,684**	26,380
Bills purchased (Note 21)	**15,184**	10,658	**15,333**	10,929
	₱518,364	₱445,696	**₱394,633**	₱346,576

Receivables from customers-others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱27.8 billion, ₱9.2 billion and ₱3.8 billion, respectively, as of December 31, 2012 and ₱23.9 billion, ₱7.3 billion and ₱2.7 billion, respectively, as of December 31, 2011.

As of December 31, 2012 and 2011, other receivables include dividends receivable of ₱1.4 billion and ₱185.7 million, respectively, for the Group, and ₱158.5 million and ₱36.4 million, respectively, for the Parent Company. Dividends receivable of the Group includes dividends receivable of FMIC from its investee companies amounting to ₱1.4 billion and ₱174.8 million as of December 31, 2012 and 2011, respectively.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Receivables from customers	**₱23,548**	₱21,084	₱19,940	**₱16,293**	₱14,323	₱13,955
Receivables from cardholders	**5,810**	4,803	4,080	–	–	–
Lease contract receivables	**1,156**	1,495	1,042	–	–	–
Customer liabilities under LC/trust receipts	**848**	697	734	**808**	697	734
Restructured loans	**413**	427	576	**335**	340	475
Unquoted debt securities and others	**929**	516	844	**216**	296	515
	₱32,704	₱29,022	₱27,216	**₱17,652**	₱15,656	₱15,679

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, 2012 and 2011, 79.81% and 79.39% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. In 2012 and 2011, the remaining peso receivables from customers earn annual fixed interest rates ranging from 3.00% to 42.00% and from 1.00% to 42.00%, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.37% to 36.00% and from 1.78% to 36.00%, respectively.

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

	Consolidated				Parent Company			
	2012		2011		**2012**		2011	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Real estate	**₱87,791**	**16.70**	₱79,155	17.42	**₱61,442**	**15.52**	₱55,927	16.05
Chattel	**62,820**	**11.95**	54,783	12.06	**17,594**	**4.44**	16,318	4.68
Equity securities	**10,785**	**2.06**	9,463	2.08	**8,510**	**2.15**	6,429	1.85
Deposit hold-out	**7,788**	**1.48**	11,659	2.57	**6,932**	**1.75**	10,177	2.92
Other securities	**125,041**	**23.79**	66,373	14.61	**125,041**	**31.58**	66,373	19.05
Others	**16,335**	**3.11**	19,977	4.39	**12,105**	**3.05**	17,729	5.09
	310,560	**59.09**	241,410	53.13	**231,624**	**58.49**	172,953	49.64
Unsecured	**214,984**	**40.91**	212,931	46.87	**164,385**	**41.51**	175,471	50.36
	₱525,544	**100.00**	₱454,341	100.00	**₱396,009**	**100.00**	₱348,424	100.00

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

	Consolidated				Parent Company			
	2012		2011		**2012**		2011	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Manufacturing (various industries)	**₱99,022**	**18.84**	₱83,035	18.28	**₱95,036**	**24.00**	₱80,541	23.12
Wholesale and retail trade	**96,322**	**18.33**	73,861	16.26	**71,374**	**18.02**	53,396	15.32
Real estate, renting and business activities	**85,548**	**16.28**	76,569	16.85	**61,232**	**15.46**	56,884	16.32
Private households	**73,655**	**14.02**	63,828	14.05	**45,675**	**11.53**	39,707	11.40
Financial intermediaries	**37,866**	**7.21**	38,589	8.49	**31,216**	**7.88**	36,128	10.37
Transportation, storage and communication	**37,760**	**7.18**	29,908	6.58	**30,192**	**7.62**	23,062	6.62
Electricity, gas and water	**37,175**	**7.07**	36,980	8.14	**34,941**	**8.82**	33,469	9.61
Other community, social and personal activities	**19,733**	**3.75**	22,450	4.94	**772**	**0.19**	3,126	0.90
Hotel and restaurants	**11,512**	**2.19**	7,594	1.67	**10,359**	**2.62**	6,618	1.90
Construction	**9,882**	**1.88**	9,209	2.03	**6,379**	**1.61**	7,101	2.04
Agricultural, hunting and forestry	**5,756**	**1.10**	5,900	1.30	**4,321**	**1.09**	4,807	1.38
Public administration and defense, compulsory social security	**3,972**	**0.76**	2,641	0.58	**141**	**0.04**	122	0.04
Mining and quarrying	**861**	**0.16**	671	0.15	**519**	**0.13**	465	0.13
Others	**6,480**	**1.23**	3,106	0.68	**3,852**	**0.99**	2,998	0.85
	₱525,544	**100.00**	₱454,341	100.00	**₱396,009**	**100.00**	₱348,424	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	
	2012	2011	**2012**	2011
Total NPLs	**₱9,596**	₱10,095	**₱4,193**	₱5,130
Less NPLs fully covered by allowance for credit losses	**4,992**	5,304	**2,497**	2,753
	₱4,604	₱4,791	**₱1,696**	₱2,377

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
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)	(36)	–	(1,545)
Reclassification/others	26	190	(96)	23	(249)	(106)
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)	(22)	–	(1,010)
Reclassification/others	–	48	(60)	(35)	–	(47)
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

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2011						
Cost						
Balance at beginning of year	₱5,036	₱6,855	₱12,376	₱1,813	₱389	₱26,469
Additions	17	193	2,004	251	318	2,783
Disposals	(6)	(7)	(547)	(2)		(562)
Reclassification/others	(49)	489	14	133	(419)	168
Balance at end of year	4,998	7,530	13,847	2,195	288	28,858
Accumulated depreciation and amortization						
Balance at beginning of year	–	2,847	9,487	1,014		13,348
Depreciation and amortization	–	264	1,228	200		1,692
Disposals		(5)	(331)	(2)		(338)
Reclassification/others		30	37	140	–	207
Balance at end of year		3,136	10,421	1,352		14,909
Allowance for impairment losses (Note 15)						
Balance at beginning of year	-	–	2			2
Provisions/accounts charged off/others			10	-	–	10
Balance at end of year	–		12	–	–	12
Net book value at end of year	₱4,998	₱4,394	₱3,414	₱843	₱288	₱13,937

	Parent Company					
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Building Under Construction**	**Total**
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)**	**(25)**	–	**(862)**
Reclassification/others	**27**	**130**	**(15)**	**56**	**(249)**	**(51)**
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)**	**(9)**	–	**(448)**
Reclassification/others	–	**5**	**(9)**	**(31)**	–	**(35)**
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**
2011						
Cost						
Balance at beginning of year	₱4,492	₱5,009	₱8,724	₱1,361	₱389	₱19,975
Additions	-	85	772	53	318	1,228
Disposals	(6)	(7)	(159)		–	(172)
Reclassification/others	(50)	371		(13)	(419)	(111)
Balance at end of year	4,436	5,458	9,337	1,401	288	20,920
Accumulated depreciation and amortization						
Balance at beginning of year		2,539	7,456	761	-	10,756
Depreciation and amortization		215	477	126		818
Disposals		(5)	(22)	1	–	(26)
Reclassification/others		(36)	7	(7)		(36)
Balance at end of year		2,713	7,918	881		11,512
Net book value at end of year	₱4,436	₱2,745	₱1,419	₱520	₱288	₱9,408

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 ₱562.4 million and ₱317.9 million in 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the cost of fully depreciated property and equipment still in use amounted to ₱1.1 billion and ₱977.5 million, respectively, for the Group and ₱78.4 million and ₱170.1 million, respectively, for the Parent Company.

11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consists of:

	2012	2011
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
MRCI	**131**	131
MR USA	**158**	117
MR Italia	**66**	66
MR Spain	**42**	42
MR UK	**31**	31
MRHL	**26**	26
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
MBTC Vienna (Note 2)	**–**	22
DSI (Note 2)	**–**	125
	26,047	26,153
Allowance for impairment losses (Note 15)		
Circa	**(719)**	(550)
MTI	**(153)**	(147)
MRCI	**(115)**	–
MR USA	**(53)**	–
MR Italia	**(41)**	(7)
MR Spain	**(41)**	(29)
MR UK	**(3)**	(5)
MBTC Vienna	**–**	(16)
	(1,125)	(754)
Carrying Value		
FMIC	**11,751**	11,751
MBCL	**8,658**	8,658
PSBank	**3,626**	3,626
Circa	**118**	287
ORIX Metro	**265**	265
MCC	**214**	214
MTI	**47**	53
MRCI	**16**	131
MR USA	**105**	117
MR Italia	**25**	59
MR Spain	**1**	13

(Forward)

	2012	2011
MR UK	**₱28**	₱26
MRHL	**26**	26
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
MBTC Vienna	**–**	6
DSI	**–**	125
	₱24,922	₱25,399

Investment in associates and a JV consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Acquisition cost:				
Global Business Power Corporation (GBPC) (48.72% owned in 2012; 29.42% owned in 2011)	**₱7,281**	₱6,641	**₱–**	₱–
Lepanto Consolidated Mining Company (LCMC) (16.82% owned in 2012; 16.64% owned in 2011)	**2,397**	2,393	**–**	–
First Metro Save and Learn Equity Fund (FMSLEF) (26.30% owned in 2012; 25.44% owned in 2011)	**1,171**	707	**–**	–
SMFC* (30.39% owned)	**800**	800	**–**	–
Toyota Financial Services Philippines Corporation (TFSPC) (34.00% owned)	**420**	420	**150**	150
First Metro Save and Learn Balance Fund (FMSLBF) (23.29% owned in 2012; 25.76% owned in 2011)	**279**	172	**–**	–
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) (34.72% owned in 2012; 34.32% owned in 2011)	**175**	489	**–**	–
Philippine AXA Life Insurance Corporation (PALIC) (27.96% owned in 2012; 27.60% owned in 2011)	**172**	172	**–**	–
Charter Ping An Insurance Corporation (CPAIC) (33.07% owned in 2012; 32.68% owned in 2011)	**60**	60	**–**	–
Toyota Motor Philippines Corporation (TMPC) (30.00% owned in 2011) (Note 13)	**–**	673	**–**	673
Others	**33**	33	**–**	–
	13,378	13,150	**740**	1,413
Accumulated equity in net income (loss):				
Balance at beginning of year				
GBPC	**1,735**	1,236		
LCMC	**(83)**	(46)		
FMSLEF	**55**	43		
SMFC	**(85)**	(29)		
TFSPC	**407**	304		
FMSLBF	**45**	44		
NLI	**55**	50		
SMBC Metro	**71**	79		
TLI	**(85)**	(86)		
CIRC	**(2)**	(10)		

(Forward)

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
PALIC	**₱545**	₱640		
CPAIC	**196**	200		
TMPC	**1,327**	1,648		
Others	**(22)**	(22)		
	4,159	4,051		
Share in net income (loss)				
GBPC	**1,252**	499		
LCMC	**25**	(26)		
FMSLEF	**221**	12		
SMFC	**(50)**	(56)		
TFSPC	**79**	103		
FMSLBF	**65**	1		
NLI	**43**	6		
SMBC Metro	**20**	19		
TLI	**1**	1		
CIRC	**11**	8		
PALIC	**252**	221		
CPAIC	**67**	(4)		
TMPC	**847**	653		
	2,833	1,437		
Dividends				
GBPC	**(1,925)**	–		
NLI	**(2)**	(1)		
SMBC Metro	**(22)**	(27)		
PALIC	**(224)**	(316)		
TMPC	**(653)**	(974)		
	(2,826)	(1,318)		
Divestments/reclassification				
LCMC	**–**	(11)		
TMPC	**(1,521)**	–		
	(1,521)	(11)		
Balance at end of year				
GBPC	**1,062**	1,735		
LCMC	**(58)**	(83)		
FMSLEF	**276**	55		
SMFC	**(135)**	(85)		
TFSPC	**486**	407		
FMSLBF	**110**	45		
NLI	**96**	55		
SMBC Metro	**69**	71		
TLI	**(84)**	(85)		
CIRC	**9**	(2)		
PALIC	**573**	545		
CPAIC	**263**	196		
TMPC	**–**	1,327		
Others	**(22)**	(22)		
	2,645	4,159		
Equity in net unrealized gain (loss) on AFS investments				
GBPC	**417**	88		
LCMC	**(58)**	(2)		
FMSLEF	**–**	(3)		
FMSLBF	**1**	5		
SMBC Metro	**14**	12		
TLI	**(3)**	(3)		
PALIC	**356**	307		
CPAIC	**41**	28		
TMPC	**–**	11		
	768	443		
Translation adjustment and others				
LCMC	**31**	4		
TFSPC	**16**	3		
PALIC	**–**	3		
CPAIC	**29**	29		
	76	39		

(Forward)

	Consolidated		Parent Company	
	2012	2011	2012	2011
Allowance for impairment losses (Note 15)				
NLI	(₱58)	(₱58)	(₱58)	(₱58)
TLI	(104)	(92)	(104)	(92)
	(162)	(150)	(162)	(150)
Carrying Value				
GBPC	8,760	8,464	–	–
LCMC	2,312	2,312	–	–
FMSLEF	1,447	759	–	–
SMFC	665	715	–	–
TFSPC	922	830	150	150
FMSLBF	390	222	–	–
NLI	270	229	174	174
SMBC Metro	263	263	180	180
TLI	(13)	(2)	74	86
CIRC	184	487	–	–
PALIC	1,101	1,027	–	–
CPAIC	393	313	–	–
TMPC	–	2,011	–	673
Others	11	11	–	–
	₱16,705	₱17,641	₱578	₱1,263

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

As of December 31, 2012 and 2011, gross amount of goodwill amounted to ₱6.4 billion for the Group of which ₱1.2 billion pertained to the Parent Company. In 2012 and 2011, the Group recognized an impairment loss on goodwill amounting to ₱4.0 million and ₱35.4 million, respectively.

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, the Parent Company's ownership in FMIC increased from 98.06% to 99.21% as of December 31, 2012.

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 shares 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 the percentage of direct ownership to 49.11% from 30.00%. Further, in July 2012, FMIC contributed ₱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.

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 included under 'Miscellaneous income'. 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, 2012 and 2011, the fair value of investment which is equivalent to the bid price of the shares in the PSE amounted to ₱7.4 billion and ₱11.7 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, 2012					
GBPC	**₱58,693**	**₱40,571**	**₱19,233**	**₱3,382**	**₱2,592**
PALIC	**44,703**	**40,789**	**12,280**	**3,620**	**869**
TFSPC	**22,361**	**19,962**	**1,791**	**332**	**197**
LCMC	**9,058**	**1,443**	**2,007**	**75**	**103**
CPAIC	**5,642**	**4,473**	**2,894**	**282**	**201**
FMSALEF	**5,585**	**30**	**1,034**	**932**	**909**
CIRC	**3,025**	**2,501**	**93**	**23**	**16**
NLI	**1,992**	**478**	**339**	**240**	**176**
SMFC	**1,732**	**67**	**300**	**(118)**	**(122)**
FMSLBF	**1,607**	**31**	**281**	**253**	**247**
SMBC Metro	**883**	**82**	**117**	**87**	**68**
TLI	**46**	**–**	**1**	**1**	**1**
December 31, 2011					
GBPC	56,841	34,994	16,786	4,682	1,580
PALIC	38,943	35,275	9,975	1,108	967
TFSPC	21,211	19,095	1,869	342	257
LCMC	11,753	3,642	1,731	22	215
CPAIC	4,821	3,850	2,257	208	150
FMSLEF	3,098	129	177	134	106
CIRC	2,954	2,460	50	26	18
NLI	1,861	513	140	95	66
SMFC	1,886	99	153	(192)	(140)
FMSALBF	786	9	34	22	12
SMBC Metro	836	37	79	78	63
TLI	44		2	1	1
TMPC (Note 13)	16,073	9,295	5,567	2,949	2,178

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

	2012	2011
GBPC		
Cash and cash equivalents	**₱10,588**	₱8,607
Receivables - net	**5,150**	4,026
Property, plant and equipment - net	**35,946**	36,714
Prepaid expenses	**2,385**	2,020
PALIC		
Cash and cash equivalents	**2,026**	2,602
AFS investments	**7,895**	7,950
Investments held to cover linked liabilities	**33,714**	25,991
TFSPC		
Cash and cash equivalents	**3,549**	3,439
Receivables - net	**14,870**	14,785

(Forward)

	2012	2011
LCMC		
Inventories	**₱453**	₱609
Investments and advances	**812**	414
Property, plant and equipment - net	**6,696**	7,215
CPAIC		
Receivables - net	**3,584**	1,075
Investments	**1,804**	860
FMSLEF		
Cash and cash equivalents	**339**	705
Receivables - net	**339**	185
Investments	**4,907**	2,207
CIRC		
Receivables - net	**2,022**	2,105
Investment properties - net	**809**	483
NLI		
Cash and cash equivalents	**572**	194
Real estate properties	**973**	1,278
Receivables - net	**441**	309
SMFC		
Cash and cash equivalents	**790**	987
Receivables - net	**751**	697
FMSLBF		
Cash and cash equivalents	**100**	21
Investments	**1,495**	679
SMBC Metro		
Cash and cash equivalents	**234**	521
Due from other banks	**150**	–
AFS investments	**70**	49
Receivables - net	**424**	259
TLI		
Cash and cash equivalents	**46**	44
TMPC (Note 13)		
Cash and cash equivalents		5,746
Receivables - net		3,698
Inventories - net		3,754
Property, plant and equipment - net		1,030

The following tables summarize dividends declared by investee companies of the Parent Company:

Subsidiary/Associate	**Date of Declaration**	**Per Share**	**Total Amouot**	**Date of BSP Approval**	**Record Date**	**Payment Date**
2012						
Cash Dividend						
TMPC	May 10, 2012	₱140.58	₱2,178	Not required	December 31, 2011	May 11, 2012/ June 21, 2012
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	Apöl 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
SMBC	December 13, 2012	12.00	72	Not required	December 13, 2012	January 8, 2013
NLI	March 1, 2012	0.82	10	Not required	March 1, 2012	March 21, 2012

(Forward)

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2012						
Cash Dividend						
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
Stock Dividend						
ORIX Metro (Note 36d)	November 29, 2012	20.00	253		November 29, 2012	
2011						
Cash Dividend						
TMPC	April 12, 2011	₱209.51	₱3,246	Not required	December 31, 2010	April 13, 2011/ May 20, 2011
FMIC	May 24, 2011	2.66	1,003	August 12, 2011	August 31, 2011	September 8, 2011
MCC	March 22, 2011	1.00	1,000	May 18, 2011	March 22, 2011	May 23, 2011
PSBank	October 27, 2011	0.15	36	November 23, 2011	December 20, 2011	January 5, 2012
PSBank	August 1, 2011	0.15	36	August 16, 2011	September 8, 2011	September 23, 2011
PSBank	April 4, 2011	0.15	36	May 13, 2011	August 4, 2011	August 19, 2011
PSBank	January 20, 2011	0.15	36	February 23, 2011	March 18, 2011	April 4, 2011
ORIX Metro	October 26, 2011	10.00	84	January 18, 2012	October 26, 2011	February 1, 2012
ORIX Metro	October 27, 2010	10.00	70	January 26, 2011	October 27, 2010	February 3, 2011
SMBC	December 6, 2011	5.00	30	Not required	December 6, 2011	January 5, 2012
SMBC	December 9, 2010	10.00	60	Not required	December 9, 2010	January 6, 2011
NLI	July 15, 2010	0.28	3	Not required	July 15, 2010	February 8, 2011
MRSPL	May 23, 2011	SGD 3.00	52	Not required	May 13, 2011	May 23, 2011
Stock Dividend						
ORIX Metro	October 26, 2011	20.00	169	January 18, 2012	October 26, 2011	January 18, 2012
ORIX Metro	October 27, 2010	20.00	141	January 26, 2011	October 27, 2010	August 31, 2011

Dividends declared by significant investee companies of FMIC follow:

Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2012						
Cash Dividend						
GBPC	December 17, 2012	P5.16	₱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
2011						
Cash Dividend						
PALIC	April 28, 2011	₱143.14	₱501	Not required	April 28, 2011	April 28, 2011
PALIC	December 14, 2011	177.43	621	Not required	December 14, 2011	December 14, 2011

12. Investment Properties

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

	Consolidated					
	2012			2011		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱14,929**	**₱5,236**	**₱20,165**	₱17,878	₱5,781	₱23,659
Additions	**622**	**1,064**	**1,686**	691	631	1,322
Disposals	**(2,873)**	**(843)**	**(3,716)**	(3,609)	(1,197)	(4,806)
Reclassification/others	**1,925**	**38**	**1,963**	(31)	21	(10)
Balance at end of year	**14,603**	**5,495**	**20,098**	14,929	5,236	20,165
Accumulated depreciation and amortization						
Balance at beginning of year	–	**2,168**	**2,168**	–	2,497	2,497
Depreciation and amortization	–	**226**	**226**		324	324
Disposals	–	**(362)**	**(362)**		(646)	(646)
Reclassification/others	–	**4**	**4**		(7)	(7)
Balance at end of year	**–**	**2,036**	**2,036**		2,168	2,168

(Forward)

	Consolidated					
	2012			2011		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**₱2,452**	**₱74**	**₱2,526**	₱2,660	₱101	₱2,761
Provision for impairment loss	**246**	**94**	**340**	335	6	341
Disposals	**(373)**	**(15)**	**(388)**	(518)	(25)	(543)
Reclassification/others	**162**	**–**	**162**	(25)	**(8)**	(33)
Balance at end of year	**2,487**	**153**	**2,640**	2,452	74	2,526
Net book value at end of year	**₱12,116**	**₱3,306**	**₱15,422**	₱12,477	₱2,994	₱15,471

	Parent Company					
	2012			2011		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱11,442**	**₱3,378**	**₱14,820**	₱14,093	₱3,989	₱18,082
Additions	**395**	**595**	**990**	473	249	722
Disposals	**(2,395)**	**(554)**	**(2,949)**	(3,091)	(978)	(4,069)
Reclassification/others	**2,577**	**37**	**2,614**	(33)	118	85
Balance at end of year	**12,019**	**3,456**	**15,475**	11,442	3,378	14,820
Accumulated depreciation and amortization						
Balance at beginning of year	–	**1,732**	**1,732**		2,050	2,050
Depreciation and amortization	–	**157**	**157**		255	255
Disposals	–	**(318)**	**(318)**		(609)	(609)
Reclassification/others	–	**4**	**4**	–	36	36
Balance at end of year	–	**1,575**	**1,575**		1,732	1,732
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,998**	**46**	**2,044**	2,220	73	2,293
Provision for impairment loss	**26**	**31**	**57**	291	–	291
Disposals	**(275)**	**(12)**	**(287)**	(488)	(19)	(507)
Reclassification/others	**188**	**–**	**188**	(25)	(8)	(33)
Balance at end of year	**1,937**	**65**	**2,002**	1,998	46	2,044
Net book value at end of year	**₱10,082**	**₱1,816**	**₱11,898**	₱9,444	₱1,600	₱11,044

As of December 31, 2012 and 2011, foreclosed investment properties still subject to redemption period by the borrower amounted to ₱719.1 million and ₱931.0 million, respectively, for the Group and ₱227.7 million and ₱330.8 million, respectively, for the Parent Company.

As of December 31, 2012 and 2011, aggregate market value of investment properties amounted to ₱24.7 billion and ₱21.6 billion, respectively, for the Group and ₱20.1 billion and ₱16.2 billion, respectively, for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱21.9 billion and ₱18.1 billion, respectively, for the Group and ₱20.1 billion and ₱15.5 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 2012, 2011 and 2010 amounted to ₱96.1 million, ₱222.1 million and ₱125.7 million, respectively, for the Group and ₱30.4 million, ₱144.0 million and ₱55.2 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2012, 2011 and 2010 amounted to ₱28.5 million, ₱18.0 million and ₱33.7 million, respectively, for the Group and ₱27.2 million, ₱17.9 million and ₱32.7 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2012, 2011 and 2010 amounted to ₱288.1 million, ₱333.2 million and ₱270.4 million, respectively, for the Group and ₱227.7 million, ₱296.9 million and ₱239.3 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 2012, 2011 and 2010 amounted to ₱1.0 billion, ₱807.2 million and ₱1.1 billion, respectively, for the Group and ₱1.0 billion, ₱800.4 million and ₱997.4 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 Holdings, Inc. (GT Capital with 25.11% ownership in the Parent Company) 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).

As of December 31, 2012, this account represents the remaining 15% ownership of the Parent Company in TMPC (Note 36a).

14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Creditable withholding tax	**₱1,749**	₱1,053	**₱1,331**	₱776
Interoffice float items	**1,550**	1,792	**1,288**	1,758
Assets held under joint ventures	**1,189**	3,210	**1,189**	3,210
Software costs - net	**832**	442	**514**	187
Residual value of leased assets	**609**	417	–	–
Chattel properties acquired in foreclosure - net	**479**	430	**19**	17
Prepaid expenses	**385**	359	**79**	86
Documentary and postage stamps on hand	**132**	90	**110**	90
Returned checks and other cash items	**80**	67	**63**	47
Retirement asset (Note 26)	**25**	125	**–**	101
Other investments	**13**	14	**10**	10
Investments in SPVs - net	–	–	–	–
Miscellaneous	**3,097**	2,233	**2,496**	1,658
	10,140	10,232	**7,099**	7,940
Less allowance for impairment losses (Note 15)	**861**	984	**814**	742
	₱9,279	₱9,248	**₱6,285**	₱7,198

Assets held under joint ventures are parcels of land and former branch sites of the Parent Company with net realizable value of ₱1.2 billion and ₱3.2 billion as of December 31, 2012 and 2011, respectively, which were contributed to separate JVs with Federal Land, Inc. and Federal Land Orix Corporation (Note 31).

Movements in software costs account follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Cost				
Balance at beginning of year	**₱1,445**	₱1,261	**₱688**	₱630
Additions	**662**	216	**476**	60
Disposals/others	**(314)**	(32)	**(67)**	(2)
Balance at end of year	**1,793**	1,445	**1,097**	688
Accumulated amortization				
Balance at beginning of year	**1,003**	761	**501**	368
Amortization	**236**	230	**120**	120
Disposals/others	**(278)**	12	**(38)**	13
Balance at end of year	**961**	1,003	**583**	501
Net book value at end of year	**₱832**	₱442	**₱514**	₱187

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Cost				
Balance at beginning of year	**₱566**	₱418	**₱73**	₱85
Additions	**904**	748	**22**	18
Disposals/others	**(883)**	(600)	**(67)**	(30)
Balance at end of year	**587**	566	**28**	73
Accumulated depreciation and amortization				
Balance at beginning of year	**127**	148	**53**	73
Depreciation and amortization	**113**	88	**6**	7
Disposals/others	**(145)**	(109)	**(53)**	(27)
Balance at end of year	**95**	127	**6**	53
Allowance for impairment losses (Note 15)				
Balance at beginning of year	**9**	10	**3**	3
Provision for impairment loss	**4**	-	**–**	–
Disposals	**–**	(1)	**–**	–
Balance at end of year	**13**	9	**3**	3
Net book value at end of year	**₱479**	₱430	**₱19**	₱17

Investments in SPVs represent subordinated notes issued by CG3AMI and LNC3AMI 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, 2012 and 2011, 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 11 million (with peso equivalent of ₱451.6 million and ₱491.0 million as of December 31, 2012 and 2011, 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.

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			
	2012	2011	**2012**	2011
Balance at beginning of year:				
AFS investments (Note 8)				
Debt securities - private	**₱–**	₱1,073	**₱–**	₱977
Equity securities				
Quoted	**337**	377	**90**	123
Unquoted	**224**	243	**86**	86
HTM investments (Note 8)	**–**	219	**–**	219
Loans and receivables (Note 9)	**14,884**	14,941	**8,666**	9,124
Investments in subsidiaries (Note 11)	**–**	–	**754**	351
Investments in associates (Note 11)	**150**	252	**150**	150
Property and equipment (Note 10)	**12**	2	**–**	–
Investment properties (Note 12)	**2,526**	2,761	**2,044**	2,293
Other assets* (Note 14)	**9,850**	9,609	**9,601**	9,571
	27,983	29,477	**21,391**	22,894
Provisions for credit and impairment losses**	**4,478**	3,823	**777**	1,186
Disposals	**(376)**	(2,000)	**(275)**	(1,980)
Accounts written off/others	**(3,249)**	(3,317)	**(520)**	(709)
Balance at end of year:				
Interbank loans and receivable (Note 7)	**2**	–	**–**	–
AFS investments (Note 8)				
Debt securities - private	**–**	–	**–**	–
Equity securities				
Quoted	**305**	337	**90**	90
Unquoted	**268**	224	**86**	86
HTM investments (Note 8)	**–**	–	**–**	–
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

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

**Net of reversal of credit and impairment losses.

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

	Consolidated			Parent Company		
	December 31					
	2012	2011	2010	**2012**	2011	2010
Interbank loans and receivable (Notes 7 and 33)	**₱2**	₱–	₱–	**₱–**	₱–	₱–
AFS investments	**(32)**	17	252	**–**	–	173
Loans and receivables						
Receivables from customers	**4,037**	2,817	2,983	**660**	330	170
Unquoted debt instruments	**24**	304	252	**–**	–	104
Accounts receivable	**120**	158	108	**60**	130	97
Sales contract receivable	**3**	–	–	**–**	–	196
Other receivables	**127**	99	124	**–**	–	–
Investments in subsidiaries	**–**	36	–	**–**	403	351
Investments in associates	**–**	(203)	102	**–**	–	–
Property and equipment (Note 10)	**–**	10	–	**–**	–	–
Investment properties (Note 12)	**340**	341	878	**57**	291	827
Chattel properties acquired in foreclosure (Note 14)	**4**	–	–	**–**	–	–
Other assets	**(147)**	244	2,586	**–**	32	2,567
	₱4,478	₱3,823	₱7,285	**₱777**	₱1,186	₱4,485

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, 2012	**₱5,508**	**₱628**	**₱511**	**₱389**	**₱3,009**	**₱10,045**	**₱4,839**	**₱14,884**
Provisinns during the year	**887**	**92**	**173**	**27**	**2,858**	**4,037**	**274**	**4,311**
Accounts written off	**(131)**	**–**	**0**	**(76)**	**(2,591)**	**(2,798)**	**(160)**	**(2,958)**
Reclassifications/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**
Cnllective 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**
Grnss amount of loans individually determined to be impaired	**₱7,578**	**₱1,006**	**₱5**	**₱208**	**₱952**	**₱9,749**	**₱5,134**	**₱14,883**
Balance at January 1, 2011	₱5,705	₱312	₱498	₱531	₱3,115	₱10,161	₱4,780	₱14,941
Provisions during the year	685	10	93	–	2,029	2,817	561	3,378
Accounts written off	(477)	–	(77)	(178)	(2,161)	(2,893)	(46)	(2,939)
Reclassifications/others	(405)	306	(3)	36	26	(40)	(456)	(496)
Balance at December 31, 2011	₱5,508	₱628	₱511	₱389	₱3,009	₱10,045	₱4,839	₱14,884
Individual impairment	₱4,733	₱583	₱1	₱389	₱459	₱6,165	₱3,398	₱9,563
Collective impairment	775	45	510	-	2,550	3,880	1,441	5,321
	₱5,508	₱628	₱511	₱389	₱3,009	₱10,045	₱4,839	₱14,884
Grnss amount of loans individually determined to be impaired	₱9,580	₱657	₱4	₱667	₱922	₱11,830	₱5,035	₱16,865

	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)	–	0	(76)	(1)	(192)	(100)	(292)
Reclassifications/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
Balance at January 1, 2011	₱4,658	₱139	₱23	₱528	₱22	₱5,370	P3,754	P9,124
Provisions during the year	327		3	–	–	330	130	460
Accounts written off	(457)	–	(2)	(178)	(2)	(639)	(25)	(664)
Reclassifications/others	(412)	307	(3)	39	18	(51)	(203)	(254)
Balance at December 31, 2011	P4,116	P446	P21	P389	₱38	₱5,010	₱3,656	₱8,666
Individual impairment	P4,079	P445	P–	P389	P38	P4,951	₱2,760	₱7,711
Collective impairment	37	1	21			59	896	955
	₱4,116	₱446	P21	P389	P38	P5,010	P3,656	P8,666
Gross amount of loans individually determined to be impaired	₱7,981	₱657	₱-	₱667	₱96	₱9,401	₱4,935	₱14,336

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

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

	Consolidated				
	AFS Investments				
	Debt Securities	Equity Securities	HTM Investments	Other Assets*	Total
Balance at January 1, 2012	₱–	₱561	₱–	₱9,850	₱10,411
Provisions for credit and impairment losses	–	(32)	–	(143)	(175)
Accounts written-off	–	–	–	(56)	(56)
Disposals	–	–	–	6	6
Reclassifications/others	–	44	–	74	118
Balance at December 31, 2012	₱–	₱573	₱–	₱9,731	₱10,304
Balance at January 1, 2011	₱1,073	₱620	₱219	₱9,609	₱11,521
Provisions for credit and impairment losses	–	17	–	243	260
Disposals	(976)	(33)	(216)	(1)	(1,226)
Reclassifications/others	(97)	(43)	(3)	(1)	(144)
Balance at December 31, 2011	₱–	₱561	₱–	₱9,850	₱10,411

	Parent Company				
	AFS Investments				
	Debt Securities	Equity Securities	HTM Investments	Other Assets*	Total
Balance at January 1, 2012	₱–	₱176	₱–	₱9,601	₱9,777
Provisions for credit and impairment losses	–	–	–	–	–
Disposals	–	–	–	–	–
Reclassifications/others	–	–	–	74	74
Balance at December 31, 2012	₱–	₱176	₱–	₱9,675	₱9,851
Balance at January 1, 2011	₱977	₱209	₱219	₱9,570	₱10,975
Provisions for credit and impairment losses	–	–	–	31	31
Disposals	(976)	(33)	(216)	–	(1,225)
Reclassifications/others	(1)	–	(3)	–	(4)
Balance at December 31, 2011	₱–	₱176	₱–	₱9,601	₱9,777

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

16. Deposit Liabilities

As of December 31, 2012 and 2011, 9.35% and 8.63% of the total interest-bearing deposit liabilities of the Group, respectively, are subject to periodic interest repricing. Remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.59%, from 0.00% to 6.59% and from 0.00% to 7.50% in 2012, 2011 and 2010, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 3.50%, from 0.00% to 3.50% and from 0.00% to 2.50% in 2012, 2011 and 2010, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Demand	**₱293**	₱276	₱191	**₱217**	₱196	₱135
Savings	**1,045**	1,159	1,069	**988**	1,109	1,022
Time	**7,418**	8,799	8,453	**4,474**	5,705	5,913
	₱8,756	₱10,234	₱9,713	**₱5,679**	₱7,010	₱7,070

Composition of Reserves

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to liquidity reserves equivalent to 11.00% and statutory reserves equivalent to 10.00%. On the other hand, non-FCDU deposit liabilities of PSBank are subject to liquidity reserves equivalent to 2.00% and statutory reserves equivalent to 6.00%.

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 shall no longer be paid interest.

The Parent Company, PSBank, FMIC, ORIX Metro, and MCC were in compliance with such regulations as of December 31, 2012 and 2011.

The total required reserves and total liquidity and statutory reserves as of December 31, 2012 and 2011, respectively, as reported to the BSP follows:

	Parent Company		PSBank		FMIC	
	2012	2011	**2012**	2011	**2012**	2011
Cash and other cash items	**₱–**	₱16,600	**₱–**	₱3,842	**₱–**	₱10,944
Due from BSP	**96,014**	84,469	**5,135**	1,907	**8,000**	1,173
AFS investments	**–**	–	**–**	1,787	**–**	–
	₱96,014	₱101,069	**₱5,135**	₱7,536	**₱8,000**	₱12,117

	ORIX Metro		MCC	
	2012	2011	**2012**	2011
Due from BSP	**₱1,917**	₱1,677	**₱3,832**	₱688
Due from other banks	**–**	–	**–**	2,962
	₱1,917	₱1,677	**₱3,832**	₱3,650

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Deposit substitutes	**₱59,607**	₱59,577	**₱–**	₱–
Local banks	**15,358**	17,398	**1,437**	246
Foreign banks	**12,876**	5,788	**9,720**	977
SSURA	**9,267**	16,894	**5,066**	12,377
	₱97,108	₱99,657	**₱16,223**	₱13,600

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 8.12%, from 1.00% to 8.54% and from 1.00% to 8.40% in 2012, 2011 and 2010, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.15% to 1.95%, from 0.10% to 2.90% and from 0.15% to 4.10% in 2012, 2011 and 2010, 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			
	2012		2011	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Government debt securities (Note 8)				
AFS investments	**₱5,215**	**₱4,284**	₱12,791	₱12,377
HTM investments	**3,371**	**2,851**	399	399
	8,586	**7,135**	13,190	12,776
Unquoted debt securities (Note 9)				
Government	**1,320**	**1,320**	706	706
Private	**812**	**812**	3,412	3,412
	2,132	**2,132**	4,118	4,118
	₱10,718	**₱9,267**	₱17,308	₱16,894

	Parent Company			
	2012		2011	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Government debt securities (Note 8)				
AFS investments	**₱5,215**	**₱4,284**	₱12,791	₱12,377
HTM investments	**733**	**782**	–	–
	₱5,948	**₱5,066**	₱12,791	₱12,377

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 2012, 2011 and 2010 amounted to ₱3.3 billion, ₱3.7 billion and ₱3.5 billion, respectively, for the Group and ₱0.1 billion, ₱0.1 billion and ₱0.5 billion, respectively, for the Parent Company.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Accrued interest (Note 31)	**₱1,811**	₱2,020	**₱959**	₱1,207
Accrued other expenses (Note 31)	**6,531**	5,180	**4,948**	3,340
	₱8,342	₱7,200	**₱5,907**	₱4,547

Accrued other expenses include accruals for salaries and wages, fringe benefits, rentals, percentage and other taxes, insurance on deposits, 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 2012	Carrying value 2011
November 25, 2011	February 25, 2017	5.68%	after 4th year	₱5,000	**₱4,967**	₱4,875
August 10, 2012	November 20, 2017	5.50%	after 4th year	4,000	**3,894**	–
August 10, 2012	August 10, 2019	5.75%	after 5th year	3,000	**2,973**	–
				₱12,000	**₱11,834**	₱4,875

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, 2012 and 2011, the carrying amount of the government securities assigned as collateral classified under HTM investments amounted to ₱9.97 billion and ₱4.4 billion, respectively, with market value of ₱12.54 billion and ₱5.3 billion, respectively (Note 8). As of December 31, 2012 and 2011, 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 2012 and 2011 amounted to ₱439.3 million and ₱28.3 million, respectively.

20. Subordinated Debt

This account consists of the following Peso Notes:

	Maturity Date	Face Value	Carrying Value 2012	Carrying Value 2011	Market Value 2012	Market Value 2011
Parent Company						
2017	October 19, 2017	₱8,500	**₱–**	₱8,486	**₱–**	₱8,346
2018	October 3, 2018	5,500	**5,490**	5,477	**5,451**	5,357
2019	May 6, 2019	4,500	**4,487**	4,479	**4,415**	4,324
		18,500	**9,977**	18,442	**9,866**	18,027
MCC - 2019	June 30, 2019	1,300	**1,296**	1,293	**1,423**	1,480
PSBank - 2022	February 20, 2022	3,000	**2,970**	–	**3,397**	–
		₱22,800	**₱14,243**	₱19,735	**₱14,686**	₱19,507

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 (PDEX).

Specific terms of these Notes follow:

Parent Company
2017 Peso Notes - issued on October 19, 2007 at 100.00% of the principal amount of ₱8.5 billion

- Bear interest at 7.00% per annum from and including October 19, 2007 to but excluding October 19, 2012. Interest will be payable quarterly in arrears on January 19, April 19, July 19 and October 19 of each year, commencing on January 19, 2008 up to and including October 19, 2012. Unless these Notes are previously redeemed, the interest rate from and including October 19, 2017 will be reset at the equivalent of the five-year PDST-F as of the Reset date multiplied by 80% plus a spread of 2.4485% per annum, and such interest will be payable quarterly in arrears on January 19, April 19, July 19 and October 19 each year, commencing on January 19, 2012 up to and including October 19, 2017. On October 22, 2012, the Parent Company exercised its call option which was approved by the BSP on September 6, 2012.

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.

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.

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%.

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, 2012 and 2011, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2012, 2011 and 2010, interest expense on subordinated debt included in 'Interest expense on bills payable and SSURA, subordinated debt and others' amounted to ₱1.5 billion, ₱1.5 billion and ₱1.7 billion (including amortization of ₱40.0 million, ₱62.3 million and ₱39.6 million), respectively, for the Group, and ₱1.3 billion, ₱1.4 billion and ₱1.4 billion (including amortization of ₱35.2 million, ₱36.7 million and ₱33.4 million), respectively, for the Parent Company.

21. Other Liabilities

This account consists of:

	Consolidated		**Parent Company**	
	2012	2011	**2012**	2011
Bills purchased - contra (Note 9)	**₱15,217**	₱10,695	**₱15,156**	₱10,630
Accounts payable (Note 31)	**6,136**	5,954	**3,691**	3,693
Marginal deposits	**1,846**	374	**152**	97
Non-equity non-controlling interests	**1,513**	704	**–**	–
Retirement liability (Note 26)*	**1,010**	184	**761**	–
Outstanding acceptances	**968**	1,064	**968**	1,064
Deposits on lease contracts	**832**	597	**–**	–
Deferred revenues	**708**	553	**78**	67
Withholding taxes payable	**517**	414	**342**	249
Other credits	**496**	391	**341**	295
Miscellaneous	**2,345**	2,307	**829**	783
	₱31,588	₱23,237	**₱22,318**	₱16,878

*Includes retirement liability of a foreign branch and a foreign subsidiary.

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.

Miscellaneous liabilities of the Group include notes payable amounting to ₱488.1 million as of December 31, 2012 and 2011, respectively. This account also includes the proceeds from sale of corporate bonds with recourse amounting to ₱62.5 million and ₱66.7 million as of December 31, 2012 and 2011, respectively.

22. Maturity Profile of Assets and Liabilities

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

	Consolidated					
	2012			2011		
	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	**₱24,382**	**₱–**	**₱24,382**	₱20,954	₱	₱20,954
Due from BSP	**131,278**	**–**	**131,278**	156,537		156,537
Due from other banks	**22,557**	–	**22,557**	32,095		32,095
Interbank loans receivable and SPURA (Note 7)	**23,394**	–	**23,394**	24,367		24,367
Financial assets at FVPL (Note 8)	**10,363**	**56,358**	**66,721**	2,984	3,204	6,188
AFS investments (Note 8)	**24,792**	**98,739**	**123,531**	23,985	119,633	143,618
HTM investments (Note 8)	**8,851**	**42,600**	**51,451**	3,895	43,562	47,457
Receivables from customers (Note 9)	**273,890**	**251,654**	**525,544**	223,336	231,005	454,341
Unquoted debt securities (Note 9)	**1,701**	**6,113**	**7,814**	1,773	10,783	12,556
Accrued interest receivable (Note 9)	**7,356**	–	**7,356**	7,051	–	7,051
Accounts receivable (Note 9)	**4,044**	**–**	**4,044**	4,227	–	4,227
Sales contract receivable (Note 9)	**133**	**504**	**637**	73	687	760
Other receivables (Note 9)	**1,492**	**–**	**1,492**	240	54	294
Other assets (Note 14)						
Interoffice float items	**1,550**	**–**	**1,550**	1,792		1,792
Returned checks and other cash items	**80**	**–**	**80**	67	–	67
Residual value of leased assets	**383**	**226**	**609**	110	307	417
Other investments	–	**13**	**13**	–	14	14
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Pledge certificate of time deposit	**452**	**–**	**452**	491	–	491
Miscellaneous assets	**–**	**457**	**457**	–	457	457
	545,555	**456,664**	**1,002,219**	512,834	409,706	922,540
Nonfinancial Assets - at gross						
Property and equipment (Note 10)	–	**31,048**	**31,048**		28,858	28,858
Investments in associates (Note 11)	–	**16,867**	**16,867**	–	17,791	17,791
Investment properties (Note 12)	–	**20,098**	**20,098**	–	20,165	20,165
Non-current asset held for sale (Note 13)	**1,102**	**–**	**1,102**			–
Deferred tax assets (Note 28)	–	**7,876**	**7,876**		7,597	7,597
Goodwill (Note 11)	–	**6,409**	**6,409**	–	6,413	6,413
Retirement asset (Note 26)	–	**25**	**25**	–	125	125
Assets held under joint ventures (Note 14)	–	**1,189**	**1,189**		3,210	3,210
Accounts receivable (Note 9)	–	**1,722**	**1,722**	–	1,722	1,722
Other assets (Note 14)	**2,266**	**4,568**	**6,834**	1,502	3,296	4,798
	3,368	**89,802**	**93,170**	1,502	89,177	90,679
	₱548,923	**₱546,466**	1,095,389	₱514,336	₱498,883	1,013,219
Less:						
Unearned discounts and capitalized interest (Note 9)			**7,180**			8,645
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**18,793**			18,207
Allowance for credit and impairment losses (Note 15)			**28,836**			27,983
			₱1,040,580			₱958,384

(Forward)

	Consolidated					
	2012			2011		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities						
Demand	**₱106,229**	**₱–**	**₱106,229**	₱77,589	₱–	₱77,589
Savings	**305,034**	–	**305,034**	283,011	-	283,011
Time	**309,651**	17,780	**327,431**	303,348	17,045	320,393
	720,914	17,780	738,694	663,948	17,045	680,993
Bills payable and SSURA (Note 17)	**83,094**	**14,014**	**97,108**	91,572	8,085	99,657
Derivative liabilities	**6,692**	–	**6,692**	2,751	68	2,819
Manager's checks and demand drafts outstanding	**3,489**	–	**3,489**	2,610	–	2,610
Accrued interest and other expenses	**6,732**	–	**6,732**	6,602	–	6,602
Bonds payable (Note 19)	–	**11,834**	**11,834**		4,875	4,875
Subordinated debt (Note 20)	**4,266**	9,977	**14,243**		19,735	19,735
Other liabilities (Note 21)						
Bills purchased - contra	**15,217**	–	**15,217**	10,695	-	10,695
Accounts payable	**6,136**	–	**6,136**	5,954		5,954
Non-equity non-controlling interest	**1,513**	–	**1,513**	704		704
Marginal deposits	**1,846**	–	**1,846**	374		374
Outstanding acceptances	**968**	–	**968**	1,064		1,064
Deposits on lease contracts	**243**	**589**	**832**	159	438	597
Dividends payable	**66**	–	**66**	31	–	31
Miscellaneous		**488**	**488**	-	488	488
	851,176	54,682	905,858	786,464	50,734	837,198
Nonfinancial Liabilities						
Retirement liability (Note 26)	–	1,010	**1,010**		184	184
Income taxes payable	**1,326**	–	**1,326**	597	–	597
Accrued interest and other expenses	**1,610**	–	**1,610**	598		598
Withholding taxes payable (Note 21)	**517**	–	**517**	414	–	414
Deferred tax and other liabilities (Notes 21 and 28)	**2,499**	**740**	**3,239**	2,341	548	2,889
	5,952	1,750	7,702	3,950	732	4,682
	₱857,128	**₱56,432**	**₱913,560**	₱790,414	₱51,466	₱841,880

	Parent Company					
	2012			2011		
	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	**₱21,540**	**₱–**	**₱21,540**	₱16,985	₱	₱16,985
Due from BSP	**111,515**	–	**111,515**	146,636	–	146,636
Due from other banks	**7,873**	–	**7,873**	13,310		13,310
Interbank loans receivable and SPURA (Note 7)	**15,046**	–	**15,046**	3,222		3,222
Financial assets at FVPL (Note 8)	**1,344**	**56,291**	**57,635**	1,393	3,204	4,597
AFS investments (Note 8)	**23,694**	**79,056**	**102,750**	5,034	111,118	116,152
HTM investments (Note 8)	**8,574**	**12,917**	**21,491**	3,895	13,569	17,464
Receivables from customers (Note 9)	**219,247**	**176,762**	**396,009**	184,219	164,205	348,424
Unquoted debt securities (Note 9)	**765**	**548**	**1,313**	673	2,069	2,742
Accrued interest receivable (Note 9)	**5,646**	–	**5,646**	5,241	–	5,241
Accounts receivable (Note 9)	**3,070**	–	**3,070**	3,455		3,455
Sales contract receivable (Note 9)	**111**	**133**	**244**	695	215	910
Other receivables (Note 9)	**168**	–	**168**	61	–	61
Other assets (Note 14)						
Interoffice float items	**1,288**	–	**1,288**	1,758		1,758
Returned checks and other cash items	**63**	–	**63**	47	–	47
Other investments	–	**10**	**10**	-	10	10
Investments in SPVs	**8,857**	–	**8,857**	8,857		8,857
Pledged certificate of time deposit	**452**	–	**452**	491	-	491
Miscellaneous assets	–	**457**	**457**		457	457
	429,253	326,174	755,427	395,972	294,847	690,819
Nonfinancial Assets - at gross						
Property and equipment (Note 10)		**22,215**	**22,215**		20,920	20,920
Investment in subsidiaries (Note 11)	-	**26,047**	**26,047**	–	26,153	26,153
Investments in associates (Note 11)		740	**740**		1,413	1,413
Investment properties (Note 12)	–	**15,475**	**15,475**	-	14,820	14,820
Non-current asset held for sale (Note 13)	336		**336**			-
Deferred tax assets (Note 28)	-	**6,333**	**6,333**	-	6,065	6,065
Goodwill (Note 11)	–	**1,203**	**1,203**	-	1,203	1,203
Retirement asset (Note 26)		–	–		101	101
Assets held under joint ventures (Note 14)	–	**1,189**	**1,189**		3,210	3,210
Accounts receivable (Note 9)	–	**1,722**	**1,722**		1,722	1,722
Other assets (Note 14)	1,520	**2,713**	**4,233**	952	1,471	2,423
	1,856	77,637	79,493	952	77,078	78,030
	₱431,109	**₱403,811**	834,920	₱396,924	₱371,925	768,849

(Forward)

	Parent Company					
	2012			2011		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Less:						
Unearned discounts and capitalized interest (Note 9)			**₱1,376**			₱1,848
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**14,058**			13,798
Allowance for credit and impairment losses (Note 15)			**21,373**			21,391
			₱798,113			₱731,812
Financial Liabilities						
Deposit liabilities						
Demand	**₱94,516**	**₱–**	**₱94,516**	₱71,667	₱–	₱71,667
Savings	**293,934**	**–**	**293,934**	272,331		272,331
Time	**245,135**	**834**	**245,969**	236,958	680	237,638
	633,585	**834**	**634,419**	580,956	680	581,636
Bills payable and SSURA (Note 17)	**16,223**	**–**	**16,223**	13,597	3	13,600
Derivative liabilities	**6,425**	**–**	**6,425**	2,689		2,689
Manager's checks and demand drafts outstanding	**2,732**	**–**	**2,732**	1,955	–	1,955
Accrued interest and other expenses	**4,297**	**–**	**4,297**	3,949		3,949
Subordinated debt (Note 20)	**–**	**9,977**	**9,977**		18,442	18,442
Other liabilities (Note 21)						
Bills purchased - contra	**15,156**	**–**	**15,156**	10,630		10,630
Accounts payable	**3,691**	**–**	**3,691**	3,693	–	3,693
Marginal deposits	**152**	**–**	**152**	97	–	97
Outstanding acceptances	**968**	**–**	**968**	1,064		1,064
	683,229	**10,811**	**694,040**	618,630	19,125	637,755
Nonfinancial Liabilities						
Retirement liability (Note 26)	**–**	**761**	**761**			–
Income taxes payable	**912**	**–**	**912**	322		322
Accrued interest and other expenses	**1,610**	**–**	**1,610**	598	–	598
Withholding taxes payable (Note 21)	**342**	**–**	**342**	249	–	249
Other liabilities (Note 21)	**907**	**341**	**1,248**	850	295	1,145
	3,771	**1,102**	**4,873**	2,019	295	2,314
	₱687,000	**₱11,913**	**₱698,913**	₱620,649	₱19,420	₱640,069

23. Capital Stock

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

	Shares		Amount	
	2012	2011	**2012**	2011
Common stock - ₱20.00 par value				
Authorized	**2,500,000,000**	2,500,000,000		
Issued and outstanding				
Balance at beginning of year	**2,111,386,017**	1,911,386,017	**₱42,228**	₱38,228
Issuance of common stock	**–**	200,000,000	**–**	4,000
Balance at end of year	**2,111,386,017**	2,111,386,017	**42,228**	42,228
HT1 Capital	**–**	–	**6,351**	6,351
	2,111,386,017	2,111,386,017	**₱48,579**	₱48,579

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2012 and 2011, the Parent Company's share price closed at ₱102.00 and ₱67.95 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.

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 2012 after obtaining their respective BSP approvals. Details of approvals and payments from 2010 to 2012 are as follows:

Date of BSP Approval	Date Paid
August 12, 2012	August 15, 2012
February 1, 2012	February 15, 2012
August 1, 2011	August 15, 2011
February 10, 2011	February 15, 2011
August 9, 2010	August 16, 2010
February 4, 2010	February 16, 2010

Details of the Parent Company's cash dividend distributions from 2010 to 2012 follow:

Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record date	Payment date
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
February 17, 2010	0.60	1,084	March 8, 2010	March 25, 2010	April 15, 2010

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:

	2012	2011
Reserve for trust business	**₱756**	₱672
Reserve for self-insurance	**352**	330
	₱1,108	₱1,002

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 2012, 2011 and 2010, miscellaneous income includes gain on initial recognition of investment properties and other nonfinancial assets amounting to ₱138.9 million, ₱238.2 million and ₱446.1 million, respectively, for the Group and ₱121.9 million, ₱135.3 million and ₱220.7 million, respectively, for the Parent Company and recovery on charged-off assets amounting to ₱390.4 million, ₱324.8 million and ₱289.0 million, respectively, for the Group and ₱46.2 million, ₱31.3 million and ₱8.1 million, respectively, for the Parent Company.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Security, messengerial and janitorial	**₱1,630**	₱1,374	₱1,223	**₱1,304**	₱1,141	₱1,027
Insurance	**1,480**	1,528	1,314	**1,180**	1,227	1,072
Litigation (Note 12)	**776**	656	715	**542**	473	562
Information technology	**639**	706	571	**577**	695	690
Advertising	**580**	714	665	**105**	55	102
Communication	**474**	502	527	**96**	127	132
Repairs and maintenance	**451**	375	326	**253**	219	190
Management and professional fees	**450**	496	436	**255**	255	279
Transportation and travel	**447**	395	342	**342**	282	249
Stationery and supplies used	**404**	356	367	**248**	203	164
Supervision fees	**333**	265	249	**263**	205	188
Entertainment, amusement and representation (EAR) (Note 28)	**238**	217	208	**188**	180	175
Others	**1,252**	892	1,014	**611**	320	327
	₱9,154	₱8,476	₱7,957	**₱5,964**	₱5,382	₱5,157

26. Retirement Plan and Other Employee Benefits

The Group and most of its subsidiaries have funded noncontributory defined benefit retirement plan covering all their respective permanent and full-time employees.

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, 2012					
Average remaining working life	**9 years**	**6 to 8 years**	**9 years**	**10 years**	**25 years**
Discount rate	**5.74%**	**5.23% to 5.50%**	**6.30%**	**5.89%**	**8.60% to 10.00%**
Expected rate of return on assets	**8.00%**	**5.00% to 6.50%**	**7.00%**	**7.00%**	**6.00%**
Future salary increases	**8.00%**	**10.00%**	**8.00%**	**8.00%**	**7.00%**
As of January 1, 2011					
Average remaining working life	10 years	8 years	21 years	11 years	25 years
Discount rate	7.25%	5.89% to 6.10%	11.16%	7.00%	9.60% to 10.10%
Expected rate of return on assets	8.00%	6.00%	8.27%	8.00%	6.00%
Future salary increases	8.00%	8.00% to 10.00%	9.00%	9.00%	7.00%

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.

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.

The amounts recognized in the statement of financial position follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Present value of the obligation	**₱11,742**	₱9,754	**₱9,954**	₱8,395
Fair value of plan assets	**(7,435)**	(7,144)	**(6,063)**	(6,059)
Unfunded status	**4,307**	2,610	**3,891**	2,336
Unrecognized actuarial losses	**(3,278)**	(2,484)	**(3,080)**	(2,377)
Unrecognized past service cost - nonvested benefits	**(68)**	(67)	**(53)**	(60)
Net retirement liability (asset)	**₱961**	₱59	**₱758**	(₱101)

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Net retirement asset (Note 14)	**(₱25)**	(₱125)	**₱–**	(₱101)
Net retirement liability (Note 21)	**986**	184	**758**	–
Net retirement liability (asset)	**₱961**	₱59	**₱758**	(₱101)

Discount rates used in computing for the present value of the obligation of the Parent Company and significant subsidiaries as of December 31, 2012 and 2011 follow:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2012	**5.00%**	**5.23% to 5.50%**	**5.45%**	**5.89%**	**8.60% to 10.00%**
2011	5.74%	5.89% to 6.10%	6.30%	7.00%	8.60% to 10.00%

The movements in the retirement liability (asset) recognized in the statement of financial position follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱59**	(₱243)	**(₱101)**	(₱510)
Retirement expense	**1,054**	578	**859**	409
Transferred employees	**–**	(66)	**–**	–
Contribution paid	**(152)**	(210)	**–**	–
Balance at end of year	**₱961**	₱59	**₱758**	(₱101)

Changes in the present value of the defined benefit obligation follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱9,754**	₱6,782	**₱8,395**	₱5,608
Current service cost	**851**	579	**680**	449
Interest cost	**554**	506	**468**	405
Past service cost	**43**	–	**–**	–
Transferred employees	**–**	(2)	**–**	212
Benefits paid	**(715)**	(496)	**(638)**	(441)
Actuarial losses	**1,255**	2,385	**1,049**	2,162
Balance at end of year	**₱11,742**	₱9,754	**₱9,954**	₱8,395

The movements in the fair value of plan assets recognized follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Balance at beginning of year	**₱7,144**	₱6,629	**₱6,059**	₱5,656
Expected return on plan assets	**545**	517	**467**	452
Contribution paid	**152**	210	**–**	–
Fund transfer	**–**	77	**–**	212
Benefits paid	**(715)**	(496)	**(638)**	(441)
Actuarial gains	**309**	207	**175**	180
Balance at end of year	**₱7,435**	₱7,144	**₱6,063**	₱6,059

As of December 31, 2012 and 2011, the net carrying value of plan assets amounted to ₱7.4 billion and ₱7.1 billion, respectively, for the Group and ₱6.1 billion for the Parent Company.

The actual return on plan assets of the Parent Company amounted to ₱641.4 million and ₱632.3 million in 2012 and 2011, respectively.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Debt instruments	**77.09%**	88.11%	**86.86%**	90.30%
Equity instruments	**21.26%**	10.21%	**11.62%**	8.12%
Other assets	**1.65%**	1.68%	**1.52%**	1.58%
	100.00%	100.00%	**100.00%**	100.00%

The amounts included in 'Compensation and fringe benefits' in the statement of income follow:

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Current service cost	**₱851**	₱579	₱484	**₱680**	₱449	₱361
Interest cost	**554**	506	492	**468**	405	398
Expected return on plan assets	**(545)**	(517)	(519)	**(467)**	(452)	(458)
Net actuarial gains recognized	**185**	–	(3)	**171**	–	–
Past service cost	**9**	10	52	**7**	7	46
	₱1,054	₱578	₱506	**₱859**	₱409	₱347

Amounts for the current and previous years follow:

	Consolidated				
	2012	2011	2010	2009	2008
Present value of unfunded obligation	**₱11,742**	₱9,754	₱6,782	₱5,257	₱4,496
Fair value of plan assets	**(7,435)**	(7,144)	(6,629)	(6,112)	(4,578)
Unfunded (funded) status	**4,307**	2,610	153	(855)	(82)
Experience adjustments on defined benefit obligation	**(1,255)**	(2,385)	(870)	(329)	2,798
Experience adjustments on fair value of plan assets	**309**	207	333	462	(391)

	Parent Company				
	2012	2011	2010	2009	2008
Present value of unfunded obligation	**₱9,954**	₱8,395	₱5,608	₱4,333	₱3,795
Fair value of plan assets	**(6,063)**	(6,059)	(5,656)	(5,330)	(4,048)
Unfunded (funded) status	**3,891**	2,336	(48)	(997)	(253)
Experience adjustments on defined benefit obligation	**(1,049)**	(2,162)	(803)	(205)	2,491
Experience adjustments on fair value of plan assets	**175**	180	268	316	(221)

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 2012 and 2011 amounted to ₱134.3 million and ₱142.1 million, respectively.

As of December 31, 2012 and 2011, the retirement fund of the Parent Company's employees amounting to ₱6.1 billion is being managed by the Parent Company's Trust Banking Group. Directors' fees and bonuses of the Parent Company in 2012, 2011 and 2010 amounted to ₱61.8 million, ₱35.1 million and ₱32.4 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱5.4 billion, ₱4.0 billion and ₱3.7 billion, respectively.

The adoption of the revised PAS 19 effective beginning January 1, 2013 of the Group will result in: (a) decrease in surplus of ₱263.4 million, net of deferred tax asset/liability, as of January 1, 2011; (b) decrease in other comprehensive income of ₱556.0 million and ₱1.5 billion, net of deferred tax asset/liability, in 2012 and 2011, respectively; (c) decrease in retirement asset of ₱8.3 million and increase in retirement liability, deferred tax asset and deferred tax liability of ₱3.3 billion, ₱1.0 billion and ₱30.6 million, respectively, as of December 31, 2012; and (d) decrease in retirement expense by ₱10.3 million and increase by ₱10.9 million in 2012 and 2011, respectively. For the Parent Company, the adoption will result in: (a) decrease in surplus of ₱323.7 million, net of deferred tax asset, as of January 1, 2011; (b) decrease in other comprehensive income of ₱519.4 million and ₱1.4 billion, net of deferred tax asset, in 2012 and 2011, respectively; (c) increase in retirement liability and deferred tax asset of ₱3.1 billion and ₱943.3 million, respectively, as of December 31, 2012; and (d) decrease in retirement expense by ₱46.5 million and increase by ₱34.9 million in 2012 and 2011, respectively.

27. Long-term Leases

The Parent Company leases the premises occupied by some of its branches (about 46.05% and 48.03% of the branch sites in 2012 and 2011, 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, 2012 and 2011, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2012, 2011 and 2010 amounted to ₱1.4 billion, ₱1.3 billion and ₱1.2 billion, respectively, for the Group and ₱751.3 million, ₱721.0 million and ₱683.7 million, respectively, for the Parent Company.

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Within one year	**₱459**	₱537	**₱323**	₱269
After one year but not more than five years	**1,107**	1,321	**986**	718
More than five years	**259**	524	**259**	223
	₱1,825	₱2,382	**₱1,568**	₱1,210

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 2012, 2011 and 2010, leasing income amounted to ₱1.4 billion, ₱1.0 billion and ₱824.0 million respectively, for the Group and ₱207.3 million, ₱196.1 million and ₱217.4 million, respectively, for the Parent Company.

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Within one year	**₱950**	₱259	**₱107**	₱109
After one year but not more than five years	**1,533**	309	**132**	168
More than five years	**468**	–	**–**	–
	₱2,951	₱568	**₱239**	₱277

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; 8.875% VAT; Business taxes - 0.01% (New York State) and 0.26% (New York City)
Japan - Tokyo and Osaka Branches	30.00% income tax; Various rates for business taxes - income tax, local business, sheet value and sheet capital allocations
Korea - Seoul and Pusan Branches	24.20% 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		
	2012	2011	2010	**2012**	2011	2010
Current:						
Final tax	**₱1,984**	₱2,281	₱1,911	**₱1,220**	₱1,392	₱1,205
RCIT*	**1,995**	1,094	1,231	**751**	167	536
MCIT	**13**	268	3	**–**	263	3
	3,992	3,643	3,145	**1,971**	1,822	1,744
Deferred*	**(166)**	(119)	586	**(211)**	297	183
	₱3,826	₱3,524	₱3,731	**₱1,760**	₱2,119	₱1,927

* Includes income taxes of foreign subsidiaries.

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

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱6,201**	₱6,479	**₱4,664**	₱4,879
Unrealized losses on financial assets at FVPL	**993**	292	**993**	292
Accumulated depreciation of investment properties	**504**	560	**443**	502
Unamortized past service cost	**311**	408	**298**	391
Accrued retirement liability	**297**	61	**228**	–
Deferred membership/awards	**185**	142	**–**	–
Accrued expenses	**172**	82	**130**	42
Unrealized foreign exchange loss - net	**22**	56	**24**	53
Unearned rental income	**10**	9	**10**	9
MCIT	**–**	336	**–**	336
Unrealized loss on AFS investments	**–**	11	**–**	11
Others	**113**	121	**26**	39
	8,808	8,557	**6,816**	6,554
Deferred tax liability on:				
Unrealized gain on initial measurement of investment properties	**692**	722	**454**	458
Unrealized gain on AFS investments (Note 8)	**78**	25	**29**	–
Deferred acquisition cost	**55**	74	**–**	–
Retirement asset	**–**	31	**–**	31
Others	**107**	108	**–**	–
	932	960	**483**	489
Net deferred tax assets	**₱7,876**	₱7,597	**₱6,333**	₱6,065

Components of net deferred tax liabilities of the Group follow:

	2012	2011
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱50**	₱45
Unamortized past service cost	**6**	5
Accrued expenses	**5**	–
Accumulated depreciation of investment properties	**5**	3
Retirement liability	**1**	1
Others	**2**	2
	69	56
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**280**	197
Unrealized gain on AFS investments (Note 8)	**27**	12
Retirement asset	**6**	4
	313	213
Net deferred tax liabilities	**₱244**	₱157

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

	Consolidated		Parent Company	
	2012	2011	2012	2011
Allowance for credit and impairment losses	**₱4,339**	₱5,138	**₱3,063**	₱3,331
NOLCO	777	1,713	–	–
MCIT	34	16	–	–
Others	117	403	–	–

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
2009	₱233	₱233	₱	2012	₱233	₱233	₱	2012
2010	1		1	2013	–		–	
2011	123	103	20	2014	103	103		2014
2012	13	–	13	2015		–		
	₱370	₱336	₱34		₱336	₱336	₱–	

Details of the Group's NOLCO follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2009	₱978	₱978	₱–	2012
2010	718	–	718	2013
2011	17	–	17	2014
2012	42	–	42	2015
	₱1,755	₱978	₱777	

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

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
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	**(23.22)**	(21.63)	(22.66)	**(22.25)**	(28.96)	(23.17)
Nondeductible interest expense	**10.23**	7.13	8.43	**3.66**	8.51	9.24
Nonrecognition of deferred tax asset	**3.45**	6.60	14.79	**2.13**	11.63	15.47
FCDU income	**(1.81)**	(4.12)	(6.06)	**(2.34)**	(6.69)	(9.23)
Others - net	**(0.32)**	4.15	4.21	**2.44**	6.64	6.40
Effective income tax rate	**18.33%**	22.13%	28.71%	**13.64%**	21.13%	28.71%

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 'Held-for-trading and AFS investments' are deposited with the BSP. Face value of such government securities follows:

	Consolidated		Parent Company	
	2012	2011	**2012**	2011
Held-for-trading investments	**₱4**	₱–	**₱–**	₱–
AFS investments	**5,153**	3,669	**5,113**	3,639
	₱5,157	₱3,669	**₱5,113**	₱3,639

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	
	2012	2011	**2012**	2011
Trust Banking Group accounts (Note 29)	**₱420,440**	₱382,136	**₱418,167**	₱380,900
Commitments				
Credit card lines	**55,247**	49,590	–	–
Underwriting	**1,200**	–	–	–
Undrawn - facilities to lend	**415**	–	–	–
Unused commercial letters of credit	**29,284**	22,557	**28,309**	21,784
Credit line certificate with bank commission	**5,444**	6,516	**5,444**	6,516
Bank guaranty with indemnity agreement	**4,071**	3,704	**4,071**	3,704
Late deposits/payments received	**1,709**	1,692	**1,647**	1,624
Outstanding shipside bonds/airway bills	**1,147**	1,676	**1,147**	1,676
Inward bills for collection	**886**	387	**638**	387
Outward bills for collection	**520**	562	**518**	557
Outstanding guarantees	**80**	93	**80**	93
Confirmed export letters of credits	**69**	278	**65**	42
Traveler's check unsold	**11**	12	**11**	12
Others	**5,324**	2,786	**414**	385
	₱525,847	₱471,989	**₱460,511**	₱417,680

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 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 collectability 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	
	2012	2011	**2012**	2011
Total outstanding DOSRI accounts	**₱12,721**	₱17,211	**₱9,602**	₱14,378
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	**2.42%**	3.79%	**2.42%**	4.13%
Percent of DOSRI accounts to total loans	**2.42%**	3.79%	**2.42%**	4.13%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**20.34%**	15.85%	**19.22%**	14.08%
Percent of past due DOSRI accounts to total DOSRI accounts	**3.92%**	3.18%	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**3.92%**	3.18%	**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, 2012 and 2011, 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 5.48% and 8.6%, 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, 2012 and 2011, 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 2012, 2011 and 2010 amounted to ₱629.0 million, ₱593.5 million and ₱652.7 million, respectively, for the Group and ₱469.1 million, ₱528.8 million and ₱511.1 million, respectively, for the Parent Company.

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

	Consolidated		
	December 31, 2012		
Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
Entities with Significant Influence			
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%
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 (see discussions on Note 13)
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			
Interbank loans receivable*		₱8,815	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*		1,354	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
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
Dividend income		1,112	See discussions on Note 11
Profit from assets sold		54	Net gain from sale of investment properties (see discussions on Note 12)
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

(Forward)

Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
	Consolidated		
	December 31, 2012		
Associates			
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
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			
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 joint venture		1,189	Parcels of land and former branch sites of the Parent Company contributed to JVs (see Note 14)
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 (see Note 14)
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
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
Profit from assets sold		592	Net gain from sale of investment properties (see discussions on Note 12)
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			
Receivables from customers		₱84	Secured - ₱27.0 million and unsecured - ₱57.0 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	Various terms and with minimum annual interest rate of 0.0%
Bills payable	253		Deposit substitutes of FMIC with various terms
Interest income		1	Interest income on receivables from customers
Profit from assets sold		42	Net gain from sale of investment properties (see discussion on Note 12)
Compensation expense		1,637	See related discussions below on compensation

	Consolidated		
	December 31, 2011		
Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
Entities with Significant Influence			
Receivables from customers		₱7,092	Secured - ₱6.2 billion and unsecured - ₱0.9 billion, no impairment Subject to regular interest repricing with maturity terms from 90 days to 5 years; the 5-year term loan has been fully paid in 2012
Deposit liabilities		72	With annual fixed interest rates ranging from 0.0% to 0.50%
Subsidiaries			
Interbank loans receivable		₱2,213	Peso and foreign currency lending which earn annual fixed interest rates ranging from 1.08% to 2.28%, with maturity terms from 31 days to one year
Receivables from customers*		4,962	Secured - ₱3.3 billion and unsecured - ₱1.7 billion no impairment With annual fixed rates ranging from 4.47% to 5.59% and maturity terms from 30 days to 5 years
Accounts receivable		511	Uncollected information technology fees, non-interest bearing
Sales contract receivable		627	Secured with allowance for credit loss of ₱195.9 million Sale of land with fixed annual interest rate of 9.0%; in February 2012, the transaction has been rescinded
Other receivable		27	Dividends receivable as disclosed in Note 11
Deposit liabilities		8,581	Various terms and with minimum annual interest rate of 0.0%
Bills payable		647	Short-term foreign currency borrowings subject to annual fixed interest rate of 0.15% with maturity term of 14 days
Interest income		179	Interest income on loans and interbank loans receivables
Service charges, fees and commissions		61	Income on transactional fees
Trading and securities gain - net		363	Income from securities transactions
Foreign exchange gain - net		41	Income from foreign exchange transactions
Leasing income		20	Income from leasing agreements with various lease terms
Dividend income		1,778	See discussions on Note 11
Miscellaneous income		232	Information technology fees billed monthly
Interest expense		35	Interest expense on deposit liabilities and bills payable
Securities transactions			
Purchases	₱41,670		Outright purchases of HFT securities and AFS investments
Sales	83,233		Outright sale of HFT securities and AFS investments
Foreign currency			
Buy	20,229		Outright purchases of foreign currency
Sell	16,449		Outright sale of foreign currency
Associates			
Receivables from customers		₱123	Secured - ₱80.0 million and unsecured - ₱43.0 million, no impairment Non-interest bearing and represents domestic bills purchased
Other receivable		186	Dividends receivable as disclosed in Note 11
Deposit liabilities		4,286	Various terms with minimum annual interest rate of 0.0%
Trading and securities gain - net		3	Income from securities transactions
Foreign exchange gain - net		30	Income from foreign exchange transactions
Leasing income		18	Income from leasing agreements with various lease terms
Dividend income		1,002	See discussions on Note 11
Interest expense		25	Interest expense on deposit liabilities
Outstanding derivatives		296	Forward exchange bought and interest rate swap with various terms
Securities transactions			
Outright purchases	₱25,246		Outright purchases of HFT securities and AFS investments
Outright sales	4,965		Outright sale of HFT securities and AFS investments
Foreign currency			
Buy	3,161		Outright purchases of foreign currency
Sell	16,607		Outright sale of foreign currency

(Forward)

Category	Consolidated December 31, 2011 Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
Other Related Parties			
Receivables from customers*		₱20,488	Secured - ₱18.8 billion and unsecured - ₱1.7 billion, no impairment With annual fixed rate ranging from 2.48% to 10.45% with maturity terms from 30 days to 12 years
Other receivable		52	Various uncollected service fees
Assets held under joint venture		3,210	Parcels of land and former branch sites of the Parent Company contributed to JVs (see Note 14)
Deposit liabilities		4,762	With fixed annual interest rates ranging from 0.0% to 2.75% and 0.0% to 0.25% for peso and foreign currency-denominated deposits, respectively
Bills payable		2,845	Foreign currency denominated notes subject to annual interest rates ranging from 1.0% to 2.0% with maturities from one month to three years
Interest income		1,237	Interest income on receivables from customers
Service charges, fees and commissions		37	Income on transactional fees
Leasing income		35	Income from leasing agreements with various lease terms
Miscellaneous income		68	Income from certain miscellaneous transactions
Interest expense		217	Interest expense on deposit liabilities and bills payable
Contingent			
Unused commercial LCs		346	LC transactions with various terms
Others		8	Other contingent transactions with various terms
Securities transactions	₱7		Outright purchases of HFT securities and AFS investments
Foreign currency			
Buy	7		Outright purchases of foreign currency
Sell	281		Outright sale of foreign currency
Key Personnel			
Receivables from customers		₱92	Secured - ₱28.0 million and unsecured - ₱64.0 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		85	With various terms and minimum annual interest rate of 0.0%
Compensation expense		1,235	See related discussions below on compensation

Category	**Parent Company December 31, 2012 Amount / Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Entities with Significant Influence			
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%
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 (see discussions on Note 13)
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			
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

(Forward)

	Parent Company		
	December 31, 2012		
Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
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
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 (See discussion on Note 12)
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			
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
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			
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 venture		1,189	Parcels of land and former branch sites of the Parent Company contributed to JVs (see Note 14)
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 (see Note 14)
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
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 (See discussion on Note 12)
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	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
	Parent Company December 31, 2012		
Foreign currency			
Buy	₱597		Outright purchases of foreign currency
Sell	32,838		Outright sale of foreign currency
Key Personnel			
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%
Profit from assets sold		42	Net gain from sale of investment properties (see discussion on Note 12)
Compensation expense		1,101	See related discussion below on compensation

Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
	Parent Company December 31, 2011		
Entities with Significant Influence			
Receivables from customers		₱7,092	Secured - ₱6.2 billion and unsecured - ₱0.9 billion, no impairment Subject to regular interest repricing with maturity terms from 90 days to 5 years; the 5-year term loan has been fully paid in 2012
Deposit liabilities		72	With annual fixed interest rates ranging from 0.0% to 0.50%
Subsidiaries			
Interbank loans receivable*		₱2,218	Peso and foreign currency lending which earn annual fixed interest rates ranging from 1.08% to 2.28% with maturity terms from 31 days to one year
Receivables from customers*		4,911	Secured - ₱3.3 billion and unsecured - ₱1.6 billion, no impairment With annual fixed rates ranging from 4.47% to 5.59% and maturity terms from 30 days to 5 years
Accounts receivable		511	Uncollected information technology fees and other transactional receivables, non-interest bearing
Sales contract receivable		627	Secured with allowance for credit loss of ₱195.9 million Sale of land with fixed annual interest rate of 9.0%; in February 2012, the transaction has been rescinded
Other receivable		27	Dividends receivable as disclosed in Note 11
Deposit liabilities		3,530	With various terms and minimum annual interest rate of 0.0%
Bills payable		625	Short-term foreign currency borrowings subject to annual fixed interest rate of 0.15% with maturity term of 14 days
Interest income		165	Income on loans and interbank loans receivables
Service charges, fees and commissions		61	Income on transactional fees
Trading and securities gain - net		319	Income from securities transactions
Foreign exchange gain - net		41	Income from foreign exchange transactions
Leasing income		20	Income from leasing agreements with various lease terms
Dividend income		1,773	See discussions on Note 11
Miscellaneous income		232	Information technology fees billed monthly
Interest expense		8	Interest expense on deposit liabilities and bills payable
Miscellaneous expense		49	Expenses from various transactions
Securities transactions			
Purchases	₱34,976		Outright purchases of HFT securities and AFS investments
Sales	54,394		Outright sale of HFT securities and AFS investments
Foreign currency			
Buy	20,229		Outright purchases of foreign currency
Sell	16,449		Outright sale of foreign currency
Associates			
Receivables from customers		₱123	Secured - ₱80.0 million and unsecured ₱43.0 million, no impairment Non-interest bearing domestic bills purchased
Other receivable		9	Dividends receivable as disclosed in Note 11
Deposit liabilities		3,336	With various terms and minimum annual interest rate of 0.0%
Foreign exchange gain - net		30	Income from foreign exchange transactions
Leasing income		9	Income from leasing agreements with various lease terms

(Forward)

	Parent Company		
	December 31, 2011		
Category	Amount / Volume	Outstanding Balances	Terms and Conditions/Nature
Dividend income		₱1,002	See discussions on Note 11
Interest expense		11	Interest expense on deposit liabilities
Miscellaneous expense		22	Expenses from various transactions
Outstanding derivatives		296	Forward exchange bought and interest rate swap with various terms
Securities transactions			
Outright purchases	₱1,416		Outright purchases of HFT securities and AFS investments
Outright sales	1,243		Outright sale of HFT securities and AFS investments
Foreign currency			
Buy	3,161		Outright purchases of foreign currency
Sell	16,607		Outright sale of foreign currency
Other Related Parties			
Receivables from customers		₱16,512	Secured - ₱15.5 billion and unsecured - ₱1.0 billion, no impairment With annual fixed rates ranging from 2.48% to 10.45% and maturity terms from 30 days to 12 years
Assets held under joint venture		3,210	Parcels of land and former branch sites of the Parent Company contributed to JVs (see Note 14)
Deposit liabilities		309	With various terms and minimum annual interest rate of 0.0%
Interest income		979	Interest income on receivables from customers
Leasing income		8	Income from leasing agreements with various lease terms
Contingent			
Unused commercial LCs		346	LC transactions with various terms
Others		8	Other contingent transactions with various terms
Securities transactions	₱7		Outright purchases of HFT securities and AFS investments
Foreign currency			
Buy	7		Outright purchases of foreign currency
Sell	281		Outright sale of foreign currency
Key Personnel			
Receivables from customers		₱78	Secured - ₱28.0 million and unsecured - ₱50.0 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		85	With various terms and minimum annual interest rate of 0.0%
Compensation expense		711	See related discussions 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 (Note 36).

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 Parent Company has a Related Party Transactions Committee headed by an independent director that oversees and monitors related party transactions. Terms on 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, 2012 and 2011, treasury bills (classified under HTM 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		
	2012	2011	2010	**2012**	2011	2010
Short-term employee benefits	**₱1,546**	₱1,164	₱999	**₱1,040**	₱682	₱523
Post employment benefits	**91**	71	53	**61**	29	25
	₱1,637	₱1,235	₱1052	**₱1,101**	₱711	₱548

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. Income earned by the Parent Company from such services amounted to ₱31.9 million in 2012. The Parent Company's transactions with related party retirement plans in 2012 include sale of securities totaling ₱3.1 billion with total net trading loss of ₱1.0 million and purchase of securities totaling ₱9.6 billion. Further, total deposit liabilities of the Parent Company to these related party retirement funds amounted to ₱343.1 million as of December 31, 2012 while interest expense amounted to ₱1.2 million in 2012. The related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱741.3 million as of December 31, 2012 and recognized trading gains of ₱15.5 million, unrealized trading gains of ₱288.2 million and dividend income of ₱9.2 million as of December 31, 2012.

32. Financial Performance

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

		2012	2011	2010
a.	Net income attributable to equity holders of the Parent Company	**₱15,399**	₱11,031	₱8,366
b.	Share of hybrid capital securities holders	**(476)**	(484)	(515)
c.	Net income attributable to common shareholders	**14,923**	10,547	7,851
d.	Weighted average number of outstanding common shares of the Parent Company, as previously reported			1,876
e.	Basic/diluted earnings per share, as previously reported (c/d)			₱4.18
f.	Weighted average number of outstanding common shares of the Parent Company, including effects of stock rights granted and as restated in 2010	**2,111**	2,101	1,912
g.	Basic/diluted earnings per share as restated in 2010 to include (c/f)	**₱7.07**	₱5.02	₱4.11

The earnings per share attributable to equity holdings of the Parent Company for 2010 was restated to show the effects of stock rights granted in 2010 (Note 23). As of December 31, 2012, 2011 and 2010, there were no outstanding dilutive potential common shares.

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

	Consolidated			Parent Company		
	2012	2011	2010	**2012**	2011	2010
Return on average equity	**13.40%**	11.17%	10.27%	**11.68%**	9.49%	6.77%
Return on average assets	**1.54%**	1.20%	0.96%	**1.46%**	1.11%	0.69%
Net interest margin on average earning assets	**3.63%**	3.54%	3.43%	**2.92%**	2.73%	2.69%

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		
	2012	2011	2010	**2012**	2011	2010
Interbank loans receivable and SPURA	**₱23,392**	₱24,367	₱26,507	**₱15,046**	₱3,222	₱18,006
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(4,344)**	(964)	(2,732)	**(4,344)**	(964)	(2,732)
	₱19,048	₱23,403	₱23,775	**₱10,702**	₱2,258	₱15,274

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, 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 JV agreement from assets held by JV (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:

	2012	2011	2010
PDS Closing	**₱41.05**	₱43.84	₱43.84
PDSWAR	**42.24**	43.31	45.12

35. Other Matters

The Group has no significant matters to report in 2012 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 issuance of the 2022 Peso Notes by PSBank and the exercise of the call option on the 2017 Peso Notes by the Parent Company as discussed in Note 20.
d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the 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 those discussed in Note 11.

36. Subsequent Events

a. In January 2013, the remaining 15% ownership of the Parent Company in TMPC shares was sold to GT Capital for a total consideration of ₱4.5 billion with gain on sale of ₱3.4 billion and ₱4.2 billion for the Group and the Parent Company, respectively (Note 31).

b. On January 22, 2013, the BOD of PSBank declared a 7.50% cash dividend for the fourth quarter of 2012 amounting to ₱180.2 million or ₱0.75 per share to all stockholders of record as of March 5, 2013, to be paid on March 20, 2013. This was approved by the BSP on February 8, 2013.

c. On January 23, 2013, the BOD of the Parent Company approved the declaration of a 5% cash dividend or ₱1.00 per share based on a par value of ₱20.00 to all stockholders of record as of March 8, 2013 which shall be payable on April 3, 2013. The BSP approved such dividend declaration on February 8, 2013.

d. On November 29, 2012, 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 31, 2013 and issued by ORIX Metro on February 4, 2013.

e. On February 6, 2013, the BSP approved the semi-annual coupon payment on HT1 Capital amounting to USD 5.6 million which the Parent Company paid on February 15, 2013.

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 27, 2013.

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 December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2012, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues

Services/operations	₱16,944
Non-operating and taxable other income:	
Service charges, fees and commissions	₱3,394
Trading and securities gain	3,374
Profit from assets sold	1,104
Income from trust operations	842
Others	550
	₱9,264

Expenses

Cost of services:	
Compensation and fringe benefits	₱4,608
Others	5,254
	₱9,862
Itemized deductions:	
Compensation and fringe benefits	₱4,436
Taxes and licenses	1,920
Security, messengerial and janitorial	1,185
Depreciation	670
Rent	684
Communication, light and water	508
Information technology	502
Transportation and travel	311
Bad debts	296
Repairs and maintenance	230
Management and professional fees	205
EAR	171
Others	2,045
	₱13,163

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, 2012 included under 'Taxes and licenses' account in the statement of income:

GRT	₱1,821
DST	747
Capital gains tax	416
Local taxes	76
Real estate tax	64
Others	38
	₱3,162

Details of total withholding taxes remitted for the taxable year December 31, 2012 follow:

Taxes withheld on compensation	₱1,786
Final withholding taxes	1,382
Expanded withholding taxes	173
	₱3,341