FINANCIAL STATEMENTS


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Metrobank Card Corporation
(A Finance Company)

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metrobank Card Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Metrobank Card Corporation (*A Finance Company*), which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Metrobank Card Corporation (*A Finance Company*) as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 29 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 Metrobank Card Corporation (*A Finance 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 a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 4751306, January 5, 2015, Makati City

February 18, 2015

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 24)	**₱1,832,732,475**	₱804,059,524
Due from Bangko Sentral ng Pilipinas (Notes 5 and 14)	**7,085,597,520**	4,407,676,495
Interbank loans receivable and securities purchased under resale agreement (Notes 5 and 24)	**939,000,000**	–
Derivative asset (Notes 6 and 24)	**10,598,305**	10,747,301
Accounts receivable (Notes 8 and 24)	**32,531,944,458**	27,682,211,663
Prepaid expenses and other current assets (Note 24)	**67,590,723**	78,711,900
Total Current Assets	**42,467,463,481**	32,983,406,883
Non-current Assets		
Derivative asset (Notes 6 and 24)	–	2,516,959
Available-for-sale investments (Note 7)	**5,678,480**	452,777,225
Accounts receivable (Notes 8 and 24)	**5,218,449,534**	4,046,164,147
Property and equipment (Note 9)	**673,295,066**	678,967,855
Intangible assets (Note 10)	**288,395,858**	203,072,731
Deferred tax assets (Note 23)	**788,791,677**	533,385,406
Other assets (Note 11)	**12,470,202**	10,205,128
Total Non-current Assets	**6,987,080,817**	5,927,089,451
	₱49,454,544,298	₱38,910,496,334
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Accounts payable (Note 13)		
Merchants	**₱1,336,959,821**	₱795,859,283
Others	**392,171,357**	307,665,049
	1,729,131,178	1,103,524,332
Bills payable (Notes 14 and 24)	**17,660,238,515**	15,257,794,034
Notes payable (Notes 17 and 24)	**10,948,108,772**	2,671,550,783
Deferred revenue (Note 15)	**816,276,194**	717,623,821
Income tax payable (Note 23)	**265,814,540**	227,446,181
Accrued interest, taxes and other expenses (Notes 18 and 24)	**683,116,032**	708,949,877
Total Current Liabilities	**32,102,685,231**	20,686,889,028

(Forward)

	December 31	
	2014	2013
Non-current Liabilities		
Bills payable (Note 14)	**₱3,170,367,204**	₱3,620,802,418
Notes payable (Notes 17 and 24)	**6,214,415,662**	7,187,060,521
Subordinated debt (Note 16)	**1,160,245,839**	1,159,153,519
Retirement liability (Note 22)	**225,568,445**	139,769,106
Total Non-current Liabilities	**10,770,597,150**	12,106,785,564
	42,873,282,381	32,793,674,592
Equity		
Capital stock (Note 19)	**1,000,000,000**	1,000,000,000
Additional paid-in capital	**76,071,752**	76,071,752
Retained earnings (Notes 19 and 27)		
Unappropriated	**3,510,923,802**	2,913,429,356
Appropriated	**2,149,000,000**	2,000,000,000
Net unrealized gain on available-for-sale investments (Note 7)	**–**	230,140,542
Net unrealized loss on cash flow hedge (Note 6)	**(2,731,186)**	(17,735,018)
Remeasurement losses on retirement plan (Note 22)	**(152,002,451)**	(85,084,890)
	6,581,261,917	6,116,821,742
	₱49,454,544,298	₱38,910,496,334

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION

(A Finance Company)

STATEMENTS OF INCOME

	Years Ended December 31	
	2014	2013
REVENUES		
Interest and penalties (Note 8)	**₱8,183,387,943**	₱7,199,509,088
Discounts earned	**1,351,473,370**	1,163,496,593
Membership fees and dues (Note 15)	**771,726,094**	706,663,182
Recoveries of accounts written-off	**358,628,898**	347,345,580
Awards revenue (Note 15)	**89,181,123**	16,618,047
Interest income from banks (Notes 5 and 24)	**11,045,523**	2,760,793
Miscellaneous (Notes 7, 20 and 24)	**959,680,176**	618,611,331
	11,725,123,127	10,055,004,614
EXPENSES		
Provision for impairment and credit losses (Note 12)	**3,205,783,637**	2,617,819,573
Compensation and fringe benefits (Notes 18, 22 and 24)	**1,148,236,459**	1,041,965,982
Interest expense (Notes 6, 14, 16, 17 and 24)	**1,101,997,666**	1,162,608,335
Taxes, duties and license fees (Note 18)	**765,639,282**	647,320,353
Communications (Note 24)	**379,502,662**	365,312,527
Advertising and promotions (Note 18)	**378,628,312**	349,573,881
Rent, light and water (Notes 21 and 24)	**197,960,841**	169,393,800
Computer-related expenses (Note 24)	**178,200,121**	161,417,461
Loyalty expense (Notes 15 and 18)	**111,993,829**	91,640,076
Stationery, office supplies and printing	**90,274,307**	77,985,162
Depreciation and amortization (Note 9)	**89,146,720**	99,770,441
Distribution costs (Note 24)	**85,837,394**	84,049,766
Amortization of intangible assets (Note 10)	**71,882,687**	54,277,841
Management and professional fees (Note 24)	**22,134,769**	37,414,981
Security, messengerial and janitorial	**18,676,578**	19,661,904
Transportation and travel (Note 24)	**7,789,218**	6,352,913
Entertainment, amusement and recreation (Note 23)	**927,210**	779,936
Miscellaneous (Notes 20 and 24)	**232,420,719**	198,029,944
	8,087,032,411	7,185,374,876
INCOME BEFORE INCOME TAX	**3,638,090,716**	2,869,629,738
PROVISION FOR INCOME TAX (Note 23)		
Corporate	**1,224,563,682**	960,095,713
Deferred	**(134,525,869)**	(96,862,336)
Final	**1,558,457**	126,204
	1,091,596,270	863,359,581
NET INCOME	**₱2,546,494,446**	₱2,006,270,157

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
NET INCOME	**₱2,546,494,446**	₱2,006,270,157
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net changes in unrealized gain on available-for-sale investments (Note 7)	**(328,772,203)**	165,686,337
Income tax effect (Notes 7 and 23)	**98,631,661**	(49,705,901)
	(230,140,542)	115,980,436
Net changes in unrealized loss on cash flow hedge (Note 6)	**21,434,046**	91,710,107
Income tax effect (Notes 6 and 23)	**(6,430,214)**	(27,513,032)
	15,003,832	64,197,075
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement losses on retirement plan (Note 22)	**(95,596,516)**	(57,265,083)
Income tax effect (Note 23)	**28,678,955**	17,179,525
	(66,917,561)	(40,085,558)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(282,054,271)**	140,091,953
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱2,264,440,175**	₱2,146,362,110

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 19)	Additional Paid-in Capital	Retained Earnings		Net Unrealized Gain on Available-for-Sale Investments (Note 7)	Net Unrealized Loss on Cash Flow Hedge (Note 6)	Remeasurement Losses on Retirement Plan (Note 22)	Total
			Unappropriated (Notes 19 and 27)	Appropriated (Note 19)				
Balance at January 1, 2014	**₱1,000,000,000**	**₱76,071,752**	**₱2,913,429,356**	**₱2,000,000,000**	**₱230,140,542**	**(₱17,735,018)**	**(₱85,084,890)**	**₱6,116,821,742**
Total comprehensive income for the year	–	–	**2,546,494,446**	–	**(230,140,542)**	**15,003,832**	**(66,917,561)**	**2,264,440,175**
Net appropriations	–	–	**(1,949,000,000)**	**1,949,000,000**	–	–	–	–
Dividends paid	–	–	–	**(1,800,000,000)**	–	–	–	**(1,800,000,000)**
Balance at December 31, 2014	**₱1,000,000,000**	**₱76,071,752**	**₱3,510,923,802**	**₱2,149,000,000**	**₱–**	**(₱2,731,186)**	**(₱152,002,451)**	**₱6,581,261,917**
Balance at January 1, 2013	₱1,000,000,000	₱76,071,752	₱4,407,159,199	₱–	₱114,160,106	(₱81,932,093)	(₱44,999,332)	₱5,470,459,632
Total comprehensive income for the year	–	–	2,006,270,157	–	115,980,436	64,197,075	(40,085,558)	2,146,362,110
Net appropriations	–	–	(3,500,000,000)	3,500,000,000	–	–	–	–
Dividends paid	–	–	–	(1,500,000,000)	–	–	–	(1,500,000,000)
Balance at December 31, 2013	₱1,000,000,000	₱76,071,752	₱2,913,429,356	₱2,000,000,000	₱230,140,542	(₱17,735,018)	(₱85,084,890)	₱6,116,821,742

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,638,090,716**	₱2,869,629,738
Adjustments for:		
Provision for impairment and credit losses (Note 12)	**3,205,783,637**	2,617,819,573
Depreciation and amortization (Note 9)	**89,146,720**	99,770,441
Amortization of:		
Intangible assets (Note 10)	**71,882,687**	54,277,841
Debt issuance cost (Notes 16 and 17)	**15,249,450**	18,136,317
Realized gain on settled derivatives (Note 6)	**(36,193,914)**	(32,342,520)
Unrealized foreign exchange gain (Note 20)	**(4,323,122)**	(14,562,103)
Gain on sale of:		
Available-for-sale investments (Notes 7 and 20)	**(328,182,999)**	–
Property and equipment (Notes 9 and 20)	**(701,759)**	(28,683,070)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	**(9,227,801,819)**	(7,001,437,933)
Prepaid expenses and other current assets	**8,856,101**	(25,295,561)
Increase (decrease) in:		
Deferred revenue	**98,652,373**	101,299,132
Accounts payable	**625,606,846**	275,286,294
Accrued interest, taxes and other liabilities	**(19,403,632)**	(34,308,911)
Retirement liability	**(9,797,177)**	12,524,114
Net cash used in operations	**(1,873,135,892)**	(1,087,886,648)
Income taxes paid	**(1,187,753,780)**	(930,932,358)
Net cash used in operating activities	**(3,060,889,672)**	(2,018,819,006)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Available-for-sale investments (Note 7)	**446,509,542**	–
Property and equipment (Note 9)	**8,394,552**	51,559,724
Acquisitions of:		
Intangible assets (Note 10)	**(157,205,814)**	(86,723,082)
Property and equipment (Note 9)	**(91,166,724)**	(89,329,377)
Available-for-sale investments (Note 7)	–	(2,100,480)
Net cash provided by (used in) investing activities	**206,531,556**	(126,593,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of:		
Bills payable	**60,001,999,244**	46,691,913,552
Notes payable	**12,229,432,900**	29,130,297,175
Unsecured subordinated debt	**–**	1,159,117,742
Payments of:		
Bills payable	**(58,049,989,977)**	(39,480,872,943)
Notes payable	**(4,881,491,492)**	(31,971,253,097)
Dividends (Note 19)	**(1,800,000,000)**	(1,500,000,000)
Unsecured subordinated debt	**–**	(1,300,000,000)
Net cash provided by financing activities	**7,499,950,675**	2,729,202,429

(Forward)

	Years Ended December 31	
	2014	2013
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**₱1,417**	₱306,339
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,645,593,976**	584,096,547
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash	**804,059,524**	552,533,411
Due from Bangko Sentral ng Pilipinas	**4,407,676,495**	3,832,106,061
Securities purchased under resale agreement	**–**	243,000,000
	5,211,736,019	4,627,639,472
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	**1,832,732,475**	804,059,524
Due from Bangko Sentral ng Pilipinas	**7,085,597,520**	4,407,676,495
Interbank loans receivable and securities purchased under resale agreement	**939,000,000**	–
	₱9,857,329,995	₱5,211,736,019
OPERATING CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱7,587,689,269**	₱6,722,978,008
Interest paid	**(1,098,949,365)**	(1,136,788,671)
Dividends received	**1,947,160**	1,310,453
	₱6,490,687,064	₱5,587,499,790

See accompanying Notes to Financial Statements.

1. Corporate Information

Metrobank Card Corporation (*A Finance Company*) (the Company) was initially incorporated in the Philippines as a credit card company on August 6, 1985, as Unibancard Corporation. On June 4, 2002, the Company changed its name to Metrobank Card Corporation after its merger with AB Card and Solid Card. On March 27, 2008, the Company received its license from the Securities and Exchange Commission (SEC) to operate as a finance company. Also, on June 5, 2008, the Bangko Sentral ng Pilipinas (BSP) issued a quasi-banking license to the Company, which allows borrowings from more than 19 lenders for the purpose of funding working capital.

The Company is a domestic corporation registered with the SEC. The Company offers and issues credit cards branded as Metrobank Visa, Metrobank MasterCard, Philippine Savings Bank (PSBank) MasterCard, Robinsons-Cebu Pacific MasterCard and Toyota MasterCard. Its principal place of business is located at MCC Center, 6778 Ayala Avenue, Makati City.

The Company is 60.0%-owned by Metropolitan Bank and Trust Company (Metrobank or Parent Company) and 40.0%-owned by Australia and New Zealand Funds Pty. Ltd. (ANZ).

2. Summary of Significant Accounting Policies

Basis of preparation

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

Statement of compliance
The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (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 Company.

Significant accounting judgments, estimates and assumptions

In the process of applying the Company's accounting policies, management has exercised judgment and made estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Judgments

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

b. *Fair values of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Company's financial instruments are disclosed in Note 4.

c. *Lease classification*
The Company has entered into a lease agreement as a lessee. The Company has determined, based on an evaluation of the terms and conditions of the arrangements (e.g., the lease does not transfer ownership of 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 lessor bears the cost of repairs and replacements), that all the significant risks and rewards of ownership of these properties it leases are not transferable to the Company. The Company accounts for the contracts as operating leases.

The Company also entered into lease agreements as a lessor. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

d. *Classification of financial instruments*
The Company exercises judgment in classifying a financial instrument on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

The Company 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. *Contingencies*
The Company is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the outside legal counsel handling the Company's legal proceedings and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will significantly affect the results of operations (Note 26).

Estimates

a. *Estimation of allowance for credit losses on receivables*
The Company reviews impairment of accounts receivables on a monthly basis. Impairment loss on accounts receivable is determined on a collective basis using the net flow to write-off methodology, reduced by estimated recoveries.

Accounts receivable that are 180 days past due are written-off. The net flow to write-off methodology and the recovery rates are based on historical data for the recent 12 months.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized a different estimate or methodology. Additional impairment losses are recorded as provision for impairment and credit losses and presented as a separate line item in the statement of income.

The impairment and credit loss on accounts receivable is disclosed in more detail in Note 12.

b. *Fair value of derivatives*
The fair values of derivatives are determined using valuation techniques such as the discounted cash flow analysis. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair value of derivative financial instruments is disclosed in Note 6.

c. *Impairment of AFS investments*
The Company records impairment charges on AFS investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The details and carrying value of AFS investments are disclosed in Note 7.

d. *Assessing impairment and estimating useful lives of property and equipment and intangible assets*
The Company assesses impairment on property and equipment and intangible assets, pertaining to capitalized software and license fees, whenever events or changes in circumstances indicate that the carrying amount of property and equipment or intangible asset, may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

The Company recognizes an impairment loss whenever the carrying amount of property and equipment or intangible assets exceeds their recoverable amount. The recoverable amount is computed using the greater of fair value less cost of disposal and value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Also, the Company reviews annually the estimated useful lives of nonfinancial assets based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of non-financial assets would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The carrying value of property and equipment and intangible assets are disclosed in Notes 9 and 10, respectively.

e. *Impairment of goodwill*
The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use, which requires the Company to make an estimate of the expected future cash flows and discount rate that represent management's best estimate of the range of economic conditions that will exist over the remaining life of the goodwill.

The carrying value of goodwill is disclosed in Note 10.

f. *Recognition of deferred tax assets*
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 carrying value of deferred tax assets is disclosed in Note 23.

g. *Estimation of net defined benefit liability*
The cost of the Company's defined benefit retirement plan is determined using actuarial valuations, which involve various assumptions. These assumptions include the determination of discount rates, future salary increase rates, mortality rates of employees and future pension

increases. The defined benefit obligation is highly sensitive to changes in underlying assumptions due to the complexity of the valuation and the long-term nature of these plans.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payouts as of the statement of financial position date.

All assumptions are reviewed at each reporting date. The details of assumptions used in the actuarial valuation are disclosed in Note 22.

As of December 31, 2014 and 2013, the net defined benefit liability of the Company amounted to ₱225.6 million and ₱139.8 million, respectively (Note 22).

h. *Revenue recognition for customer loyalty program*
The Company estimates the fair value of the points awarded under the customer loyalty program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of the products that will be available for redemption in the future, and customer preferences.

As points issued under the program do not expire, such estimates are subject to significant uncertainty. The estimated liability for unredeemed points is disclosed in Note 15.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretation on International Financial Reporting Interpretations Committee (IFRIC), which were adopted as of January 1, 2014.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Company.

New and amended standards and interpretations
- PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 27*, Separate Financial Statements*)

Annual Improvements to PFRSs (2011 – 2013 cycle)
- PFRS 1, *First-time Adoption of PFRS*

Standards that have been adopted and are deemed to have an impact in the financial statements or performance of the Company are described below:

PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The

amendments affect presentation only and have no impact on the Company's financial position or performance, since the Company does not have any offsetting arrangements with the same counterparties.

PAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as it has not novated its derivatives during the current or prior periods.

Philippine Interpretation IFRIC 21, *Levies*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010 – 2012 cycle)

PFRS 13, *Fair Value Measurement*
The amendment to PFRS 13 clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no material impact on the Company.

Summary of significant accounting policies

Foreign currency translations – transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Foreign currency-denominated monetary assets and liabilities are translated using the Philippine Dealing System (PDS) closing rate prevailing at the end of the year; income and expenses are translated at PDS weighted average rates prevailing at transaction dates. Exchange differences arising from reporting foreign currency monetary items at rates different from those at which they were previously recorded, as well as foreign exchange gains or losses arising from foreign currency transactions are credited to or charged against current operations in the year on which the rates changed.

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.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks, amounts due from BSP and interbank loans receivable and securities purchased under resale agreements (SPURA) with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP for debt obligations considered as deposit substitutes.

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 on the statement of financial position as a loan to the Company, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreement to resell at a specified future date ('reverse repos') are not recognized on the statement of financial position. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as SPURA, and is considered as a loan to the counterparty. The Company is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. The difference between the purchase price and resale price is treated as interest income in the statement of income and is accrued over the life of the agreement using the effective interest rate (EIR) method.

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 - the date that an asset is delivered to or by the Company. Amounts due to banks and customers and loans are recognized when cash is received by the Company or advanced to the borrowers.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for financial assets and liabilities valued at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments (HTM), AFS investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. Financial liabilities are classified into financial liabilities at FVPL and financial liabilities at amortized cost. The Company has no HTM investments as of December 31, 2014 and 2013.

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

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

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

The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

The Company measures financial instruments such as derivatives and AFS investments at fair value at each reporting date which are disclosed, together with the fair values of financial instruments measured at amortized cost, in Note 4.

'Day 1' profit or loss
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the statement of income under 'Miscellaneous income' unless it qualifies for recognition as some other type of asset.

In cases where use 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 Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Derivatives recorded at FVPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives are bifurcated from the host contracts and are accounted for as derivative assets or liabilities. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

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); b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecast 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.

Hedge accounting
At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company 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 entity 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 'Net unrealized gain or loss on cash flow hedge' 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, under 'Miscellaneous income − Foreign exchange gain (loss)', when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

Hedge effectiveness testing
To qualify for hedge accounting, the Company 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 Company 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 Company 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.

AFS investments
Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. After initial measurement, AFS investments are subsequently measured at fair value.

The unrealized gains and losses are recognized directly in equity (other comprehensive income or loss) under ‘Net unrealized gain (loss) on AFS investments’ account in the statement of financial position. When the investment is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the statement of income. Where the Company holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned while holding AFS debt investments is reported as interest income using the effective interest method. Dividends earned while holding AFS equity investments are recognized in the statement of income when the right of payment has been established. The losses arising from impairment of such investments are recognized in the statement of income and removed from the ‘Net unrealized gain (loss) on AFS investments’ account.

Loans and receivables
This accounting policy relates to the Company’s ‘Cash’ (excluding cash on hand), ‘Due from BSP’, ‘Interbank loans receivable and SPURA’, ‘Accounts receivable’ and refundable deposits under ‘Other assets’. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as ‘other financial assets held for trading’, designated as ‘AFS investments’ or ‘Financial assets designated at FVPL’.

Purchases by the Company’s cardholders which are collected on installments are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned interest income, shown as a deduction from accounts receivable.

Deferred acquisition cost, which is part of ‘Accounts receivable’, represents capitalized expenses related to incremental direct cost associated with the successful origination of credit card facilities which are amortized over two years, the average relationship life with customers.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in ‘Interest and penalties’ in the statement of income. The losses arising from impairment are recognized in ‘Provision for impairment and credit losses’ in the statement of income.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognized at fair value less directly attributable transaction costs and have not have been designated as at FVPL. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated taking into account any underwriting and debt issue costs that are integral part of EIR.

Issued financial instruments or their components are classified as liabilities under 'Bills payable', 'Notes payable', 'Subordinated debt', 'Accrued interest payable' and other appropriate financial liability accounts where the substance of the contractual arrangement results in the Company 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 fixed amount of cash or another financial asset.

Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process.

Impairment of financial assets
The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or the 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 measureable 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 cash in bank, due from BSP, interbank loans receivable and SPURA, and accounts receivable, the Company 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).

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statements of income and expense. Interest income continues to be recognized based on the original effective interest rate of the asset. The assets, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral, if any, have been realized. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment loss is increased or reduced by adjusting the allowance account. Accounts receivables, together with the associated allowance account, are written-off when there is no realistic prospect of future recovery and all collaterals, if any, have been realized. If a future write-off is later recovered, any amounts formerly charged are credited to the statements of income.

The Company's accounts receivable, which significantly represent receivables from credit cardholders, are assessed for impairment collectively because these receivables are not individually significant.

The carrying amount of accounts receivable is reduced for impairment through the use of an allowance account and the amount of loss is recognized in the statement of income. Accounts receivable, together with the associated allowance accounts, are written off if the accounts are 180 days past due. If a write-off is later recovered, any amounts formerly charged to allowance for credit and impairment losses are credited to 'Recoveries of accounts written-off'. Past due accounts include accounts with no payments or with payments but less than the minimum amount due on or before the due dates.

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 account-level monitoring of monthly peso movements between different stage buckets, from 1 day past due to 180 days 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 (e.g., 30, 60, 90, 120, 150 and 180 days 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
The Company assesses at each statement of financial position date whether there is objective evidence that its AFS investments are impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income is removed from the 'Net unrealized gain (loss) on AFS investments' in other comprehensive income and recognized in 'Provision for impairment and credit losses' 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.

Renegotiated loans
Where possible, the Company seeks to restructure loans rather than to take possession of any sort of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated 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.

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

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

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

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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.

Leasing
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).

Company as lessee
Leases which do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are 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 an expense in the period in which they are incurred.

Company as lessor
Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset 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 rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks. The following specific recognition criteria must also be met before revenue is recognized:

Interest and penalties
Generally, interest income is recognized based on the accrual method of accounting except for interest and penalties on accounts that are past due for 90 days and over which are recognized only as income upon collection from cardholders.

Interest on interest-bearing placements with banks and securities are recognized as the interest accrues, taking into account the effective yield of the asset.

Late payment fees are accrued except for accounts aged 90 days and over which are accrued with a credit to unearned interest income and recognized only as income upon collection.

Unearned interest income includes installment purchases by the cardholders amortized using the effective interest method.

Discounts earned
Discounts are taken up as income upon receipt from member establishments of charges arising from credit availments by the Company’s cardholders and other credit companies’ cardholders when the Company 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.

Awards revenue
The Company operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Company. 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 recorded under 'Deferred Revenue' and recognized as revenue when the points are redeemed.

Membership fees and dues
Membership fees that are periodically charged to cardholders are deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card.

Recoveries of accounts written-off
Recoveries of accounts written-off are recognized as income upon actual collection.

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

Trading and investment securities gain
This income includes gains and losses from disposal of AFS investments and from changes in fair value of financial assets and liabilities at FVPL.

Miscellaneous income
'Over credit limit fee', 'Gross international fee', 'Service fee', 'Business process outsourcing fee' and 'Transaction processing fee' are recognized as income when the related services are rendered.

'Gain on sale of properties' is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer, usually on the date of delivery, and the collectability of the sales price is reasonably assured.

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

Operating expenses
Operating expenses constitute costs which arise in the normal course of business and are recognized when incurred.

Loyalty expense
Costs of rewards are recognized as expense and recorded under 'Loyalty expense' when related loyalty points are redeemed by the cardholder.

Taxes, duties and license fees
This includes all other taxes, local and national, including gross receipt taxes, documentary stamp taxes, fringe benefit taxes, license and permit fees and are recognized when incurred.

Debt Issue Costs
Issuance and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs
Borrowing costs consist of interest expense which the Company incurs in connection with borrowing of funds. Borrowing costs are calculated using the effective interest method in accordance with PAS 39 and are recognized as expense in the year in which these costs are incurred.

Property and equipment
Depreciable properties such as building, office condominium units, furniture, fixtures and equipment, transportation equipment, building and leasehold improvements are carried at cost less accumulated depreciation and amortization and accumulated impairment in value, if any. Land is carried at cost less any impairment loss.

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

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment in value, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The annual depreciation and amortization rates follow:

Building	3.3%
Office condominium units	5.0%
Furniture, fixtures and equipment	20.0% to 33.0%
Transportation equipment	20.0%
Building improvements	20.0% or the life of the building, whichever is shorter
Leasehold improvements	20.0% or the term of the lease, whichever is shorter

An item of property, plant and equipment and any significant part initially recognized 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 when the asset is derecognized.

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

The carrying value of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable (see accounting policy on Impairment of non-financial assets).

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. As of December 31, 2014 and 2013, the Company does not have intagible assets with indefinite useful lives.

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

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

The useful lives of the Company's intangible assets are summazired as follow:

	License fees	Capitalized software
Useful lives	Finite (3 to 5 years)	Finite (1 to 5 years)
Amortization method	Amortized on a straight-line basis over the related terms of the contracts	Amortized on a straight-line basis over its useful economic life

License fees
License fees represent the amount paid for the privilege to use software modules and manuals. Following initial recognition, license fees are carried at cost less accumulated amortization and any accumulated impairment losses.

Capitalized software
Capitalized software acquired separately is measured at cost on initial recognition. Following initial recognition, capitalized software is carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful life of the capitalized software is assessed and reviewed periodically. Changes in the expected useful life are accounted for by changing the amortization period and method, as appropriate, and treated as changes in accounting estimates. The amortization expense of the capitalized software is recorded in the statement of income.

Project in progress
Research costs are expensed as incurred. Development expenditures on an individual project are recognized when the Company can demonstrate:

a. the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
b. its intention to complete and its ability and intention to use or sell the asset;
c. how the asset will generate future economic benefits;
d. the availability of resources to complete the asset; and
e. the ability to measure reliably the expenditure during development.

Upon completion of development, the project cost is reclassified to 'Capitalized software'. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

Goodwill
The excess of the acquisition cost over the fair market value of the net identifiable assets acquired as of the date of the acquisition is recorded as goodwill and recognized as an asset in the statement of financial position. Goodwill is measured at cost less any impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see accounting policy on Impairment of non-financial assets).

Impairment of non-financial assets
Property and equipment and intangible assets
At reporting date, or more frequently if events or changes in circumstances indicate that the carrying values may not be recoverable, the carrying values of property and equipment and intangible assets are reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income. A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

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 to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit 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.

Retirement benefits
The Company operates a defined benefit plan, which requires contributions to be made to a separately administered fund.

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

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

Defined benefit costs comprise the following:

a. Service cost
b. Net interest on the net defined benefit liability or asset
c. Remeasurements of net defined benefit liability or asset

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

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

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

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

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

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

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

Provisions and contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, 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.

Contingent liabilities are not recognized but are disclosed in the financial statements 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
Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to 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 OCI are also recognized in the OCI 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 related to the same taxable entity and the same taxation authority.

Dividends on common shares
Dividends on common shares are recognized as liability and deducted from equity when they are approved by the Company's Board of Directors (BOD). Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved by the Company's BOD after the statement of financial position date are disclosed as events after the statement of financial position date.

Events after the statement of financial position date
Post-year-end events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

<u>Standards issued but not yet effective</u>

New and amended standards

Standards issued but not yet effective as of January 1, 2014 are listed below. The listing of standards and interpretations issued are those that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards and interpretations when they become effective.

PFRS 9*, Financial Instruments – Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

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

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial 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 SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

<u>Effective January 1, 2015</u>
The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that this amendment would be relevant to the Company, since it has noncontributory defined benefit plan.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) are not expected to have a material impact on the Company. They include:

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

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

This amendment does not apply to the Company as it has no share-based payments.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 (or PFRS 9, if early adopted). The Company shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments affect disclosures only and the Company does not expect that PFRS 8 will have material financial impact in future financial statements.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendment has no impact on the Company's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) are not expected to have a material impact on the Company. They include:

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

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

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 or PFRS 9, as applicable.

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction a purchase of an asset or a business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (e.g., property, plant and equipment). The amendment has no significant impact on the Company's financial position or performance.

<u>Effective 2015 onwards</u>
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company since it has not used a revenue-based method to depreciate its non-current assets

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less

costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as it does not have any bearer plants.

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

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. It is not expected that this amendment would be relevant to the Company.

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or

loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

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

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

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

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

International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally. This new standard issued by the IASB has not yet been adopted by the FRSC

Annual Improvements to PFRSs (2012-2014 cycle)

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

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

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

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

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

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

3. Financial Risk Management Objectives and Policies

Introduction

Risk is inherent in the Company's operations but is managed through a process of ongoing identification, measurement and monitoring of various risk management parameters, limits and other controls. This process of risk management is critical to the Company's going concern and the Company's management is aware and responsible for the risk exposures relating to the Company's business activities that include, but are not limited to, the following areas:

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

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk management framework

The Company's BOD has overall responsibility for the oversight of the Company's risk management process. Supporting the BOD in this function are BOD-level committees such as the Audit Committee, Risk Oversight Committee, Executive Committee as well as the Management Committee.

The Audit Committee and the Risk Oversight Committee are responsible for monitoring the Company's compliance with regulatory requirements, risk management policies and procedures, and for reviewing the adequacy of these policies and procedures in regard to the risks faced by the Company. Both Committees are supported in these functions by the Risk Management, Finance, Compliance and Internal Audit, through the Executive and Management Committees.

The Audit Committee and the Risk Oversight Committee are each composed of at least three members of the BOD, at least two of whom are independent directors, including the Chairman, with accounting, auditing or related financial management expertise or experience.

The principal responsibilities of the Audit Committee include annual review and reporting to the BOD on its own performance and to provide oversight of internal, compliance and external audit functions. The Risk Oversight Committee is required to identify major credit, operating, liquidity, market risks and other risk issues and shall assess the probability of each risk becoming a reality, estimate its possible effect and cost, and prioritize areas of concern where those risks will most likely occur. Moreover, the Committee ensures that all risk management strategies and policies for all types of risk are developed, properly documented, implemented and effectively communicated to the Company.

The Risk Oversight Committee oversees the Risk Management Division (RMD) in strengthening the Company's policies and procedures.

The RMD of the Company is composed of the Head of Acquisition Risk and Strategy Management, Head of Portfolio Risk, Head of Credit Business Intelligence Unit (BIU), Head of Operating Risk, Head of Liquidity Risk, and the Business Information Security Officer (BISO) all of whom report to the Head of Risk Management, who reports directly to the Risk Oversight Committee.

The risk management process involves the following:

CFO
The CFO oversees all financial aspects of the business operation which includes directing and overseeing all financial activities of the Company, including preparation of current financial reports as well as summaries and forecasts for future business growth and general economic outlook. The CFO provides leadership and coordination in the accounting, business planning, management information and budgeting efforts of the Company.

Risk Management Head
The Risk Management Head is accountable for ensuring the efficient and effective governance of significant risks and related opportunities of the business. The Risk Management Head manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks such as credit, market, liquidity and operations that could interfere with the Company's objectives and goals. It is usually the Risk Management Head's responsibility to ensure that the Company is in substantial compliance with its internal operating policies and procedures and any external legal, regulatory or contractual requirements.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

The Company leverages on its relationship with ANZ in strengthening its credit policies and procedures. The Company has established the Credit Risk Unit (CRU), composed of Acquisition Risk and Portfolio Risk, as part of the Risk Management Division, which continues to modernize and streamline the Company's Credit Risk Management practices and processes. ANZ has direct oversight of the Company's credit function through its Asian Head of Retail Credit Risk.

It is the Company's policy, which is set and approved by the Risk Management Committee, that all individuals who apply for a credit card are subjected to minimum risk acceptance criteria and credit verification procedures. Assignment of credit limit is controlled by using the individual cardholders' risk profile. Where appropriate, a hold-out deposit is obtained from customers who fail on certain credit policy requirements. Receivable balances are being monitored monthly to minimize exposure to delinquent cardholders while maximizing revenue of the portfolio.

The Company has continuously focused on process improvement, investments in new technology and enhancement in management information systems (MIS). The Company has also developed and continuously enhances an internal credit scoring system to have a more robust credit risk assessment. Through these efforts, the Company believes that the portfolio can be well-managed, quality of customer base will be improved and sustainability of the business is ensured.

The Company manages credit risk guided by the following principles:

- Strict compliance to credit policies.
- Credit policies should be in consultation with business units and, where appropriate, supported by MIS reports. This covers credit assessment and process, compliance and regulatory requirements and account management.
- Minimize losses by establishing robust credit policies and processes.
- Approval of credit facilities should be based on authorization limits approved by the BOD.

- Expansion to new markets is controlled through credit testing and full use of available credit scoring facilities.
- Management of portfolio through regular monitoring and analysis of acquisition, line management and usage programs with the goal of controlling exposure to bad accounts while maximizing revenue through effective line management and usage campaigns.
- Delinquent accounts are managed by implementing robust collection strategies and efficient management of collection resources.
- A conscious effort to continuously challenge existing strategies and processes to adapt to changes in the market and maintain the Company's competitiveness.

To track the performance of the portfolio, CRU develops, implements and reviews the credit strategies, policies, models, processes and MIS.

a. Credit risk exposure

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

	2014			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Credit risk exposure relating to on-balance sheet assets are as follow:				
SPURA				
Fully secured	**₱300,000,000**	**₱300,000,000**	**₱–**	**₱300,000,000**
Accounts receivable:				
Cardholders				
Fully secured	**284,250,676**	**284,250,676**	**–**	**284,250,676**
	₱584,250,676	**₱584,250,676**	**₱–**	**₱584,250,676**

	2013			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follow:				
Accounts receivable:				
Cardholders				
Fully secured	₱293,448,136	₱293,448,136	₱–	₱293,448,136
	₱293,448,136	₱293,448,136	₱–	₱293,448,136

Collateral and other credit enhancements
As of December 31, 2014, the Company holds government securities with fair value of ₱300.0 million as collateral to the SPURA. There were no outstanding SPURA as of December 31, 2013.

Assignment of credit limit is controlled by using the individual cardholders' risk profile. Where appropriate, collaterals are obtained from customers who fail on certain credit policy requirements. These collaterals are hold-out cash deposits with affiliated local banks. The fair value of these cash deposits approximate their carrying value due to their short-term maturities.

b. Concentration risk

Concentrations arise when a number of counterparties belong to a group controlled by a family or a conglomerate or are engaged in similar business activities or activities in the same geographical region, or have some similar economic, political, or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

While concentration of credit risks are inherent in the Company's business and cannot be totally eliminated, they are limited and reduced through the Company's risk control and diversification strategies. Safeguarding against credit risk concentrations is an important component of the Company's risk management system.

The BOD of the Company is responsible for establishing and monitoring compliance with policies governing large exposures and credit risk concentrations of the Company. The BOD reviews these policies regularly (at least annually) to ensure that they remain adequate and appropriate for the Company. Subsequent changes to the established policies are approved by the BOD.

Concentration of risks of financial assets with credit risk exposure
An analysis of concentration of risk at the statement of financial position date based on carrying amount of financial instruments is shown below:

	2014				
	Loans and Receivables*	**Loans and Advances to Banks****	**Trading and Investment Securities*****	**Others******	**Total**
Concentration by industry:					
Philippine government	**₱–**	**₱7,385,597,520**	**₱–**	**₱–**	**₱7,385,597,520**
Personal activities	**41,044,308,941**	**–**	**–**	**85,552,455,940**	**126,596,764,881**
Financial intermediaries	**45,686,218**	**2,471,659,975**	**15,578,785**	**–**	**2,532,924,978**
Transport, storage and communications	**–**	**–**	**698,000**	**–**	**698,000**
	41,089,995,159	**9,857,257,495**	**16,276,785**	**85,552,455,940**	**136,515,985,379**
Unearned interest and other deferred income	**(1,687,470,070)**	**–**	**–**	**–**	**(1,687,470,070)**
Allowance for credit losses	**(1,652,131,097)**	**–**	**–**	**–**	**(1,652,131,097)**
	₱37,750,393,992	**₱9,857,257,495**	**₱16,276,785**	**₱85,552,455,940**	**₱133,176,384,212**
Concentration by location:					
Metro Manila	**20,317,161,897**	**9,857,257,495**	**16,276,785**	**85,552,455,940**	**115,743,152,117**
Luzon (except Metro Manila)	**12,860,122,946**	**–**	**–**	**–**	**12,860,122,946**
Visayas	**4,106,713,362**	**–**	**–**	**–**	**4,106,713,362**
Mindanao	**3,805,996,954**	**–**	**–**	**–**	**3,805,996,954**
	41,089,995,159	**9,857,257,495**	**16,276,785**	**85,552,455,940**	**136,515,985,379**
Unearned interest and other deferred income	**(1,687,470,070)**	**–**	**–**	**–**	**(1,687,470,070)**
Allowance for credit losses	**(1,652,131,097)**	**–**	**–**	**–**	**(1,652,131,097)**
	₱37,750,393,992	**₱9,857,257,495**	**₱16,276,785**	**₱85,552,455,940**	**₱133,176,384,212**

* *Comprises Loans and receivables from cardholders and other receivables*
** *Comprises Cash and cash equivalents, excluding cash on hand amounting to ₱72,500*
*** *Comprises Derivative asset and AFS investments*
**** *Comprises refundable deposits and commitments*

	2013				
	Loans and Receivables*	Loans and Advances to Banks**	Trading and Investment Securities***	Others****	Total
Concentration by industry:					
Philippine government	₱–	₱4,407,676,495	₱–	₱–	₱4,407,676,495
Personal activities	34,247,329,937	–	–	69,605,198,101	103,852,528,038
Financial intermediaries	41,204,795	803,987,024	465,343,485	–	1,310,535,304
Transport, storage and communications	–	–	698,000	–	698,000
	34,288,534,732	5,211,663,519	466,041,485	69,605,198,101	109,571,437,837
Unearned interest and other deferred income	(1,260,257,025)	–	–	–	(1,260,257,025)
Allowance for credit losses	(1,299,901,897)	–	–	–	(1,299,901,897)
	₱31,728,375,810	₱5,211,663,519	₱466,041,485	₱69,605,198,101	₱107,011,278,915
Concentration by location:					
Metro Manila	₱17,219,338,693	5,211,663,519	₱466,041,485	₱69,605,198,101	₱92,502,241,798
Luzon (except Metro Manila)	10,331,859,484	–	–	–	10,331,859,484
Visayas	3,605,804,871	–	–	–	3,605,804,871
Mindanao	3,131,531,684	–	–	–	3,131,531,684
	34,288,534,732	5,211,663,519	466,041,485	69,605,198,101	109,571,437,837
Unearned interest and other deferred income	(1,260,257,025)	–	–	–	(1,260,257,025)
Allowance for credit losses	(1,299,901,897)	–	–	–	(1,299,901,897)
	₱31,728,375,810	₱5,211,663,519	₱466,041,485	₱69,605,198,101	₱107,011,278,915

* *Comprises Loans and receivables from cardholders and Other receivables*
** *Comprises Cash and cash equivalents, excluding cash on hand amounting to ₱72,500*
*** *Comprises Derivative asset and AFS investments*
**** *Comprises refundable deposits and commitments*

Commitments which represent unused credit limit of cardholders amounting to ₱85.6 billion and ₱69.6 billion, respectively, as of December 31, 2014 and 2013, are classified under personal activities.

c. Credit quality of financial assets

Loans and receivables
The Company classifies and measures the quality of its receivables from cardholders into:

i. Neither past due nor impaired
Receivables from cardholders where contractual interest or principal payments are current but with historical past due incidence of up to 179 days as of reporting date.

ii. Past due but not impaired
Receivables from cardholders where contractual interest or principal payments are 1 to 89 days past due as of reporting date but the Company believes that impairment is not appropriate based on the cash flows of the available collateral or status of collection of the amounts due to the Company.

Where appropriate, a hold-out deposit is obtained from customers who fail on certain credit policy requirements. These collaterals are hold-out cash deposits with affiliated local banks. As of December 31, 2014 and 2013, the Company has ₱284.25 million and ₱293.45 million receivables from cardholders that are secured by assignment of deposits, repectively (Note 8).

iii. Impaired receivables
Receivables from cardholders for which the Company determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the receivables. These are receivables from cardholders that are 90 to 179 days past due as of reporting date.

Derivative asset
This account represents derivative asset derived from the cross-currency swap with ANZ. ANZ has a credit rating of AA–.

Loans and advances to banks, AFS investments and other assets
Financial instruments other than credit card receivables for which the Company has not yet established a credit rating system are classified as unrated. These financial assets include:

i. Cash and cash equivalents
Cash and cash equivalents include deposits with various banks, interbank loans receivable and SPURA, and deposit accounts with the BSP. There is a high assurance of timely payment of interest and principal.

ii. AFS investments
This account consists of Visa shares from the demutualization on March 28, 2008 which were sold on February 6, 2014. The remaining AFS represents the Company's holdings in unquoted equity shares.

iii. Other assets
This account consists of refundable deposits.

The following table shows the credit quality of the Company's financial assets (amounts in thousands):

	2014						
	Loans and Receivables			**Loans and Advances to Banks***	**AFS Investment**	**Others****	**Total**
	Cardholders	**Others**	**Total**				
Neither past due nor impaired	**₱37,154,546**	**₱699,440**	**₱37,853,986**	**₱9,857,257**	**₱5,678**	**₱11,984**	**₱47,728,905**
Past due but not impaired	**2,712,113**	**–**	**2,712,113**	**–**	**–**	**–**	**2,712,113**
Impaired	**523,896**	**–**	**523,896**	**–**	**–**	**–**	**523,896**
	40,390,555	**699,440**	**41,089,995**	**9,857,257**	**5,678**	**11,984**	**50,964,914**
Unearned interest and other deferred income	**(1,687,470)**	**–**	**(1,687,470)**	**–**	**–**	**–**	**(1,687,470)**
	38,703,085	**699,440**	**39,402,525**	**9,857,257**	**5,678**	**11,984**	**49,277,444**
Allowance for credit losses	**(1,645,401)**	**(6,730)**	**(1,652,131)**	**–**	**–**	**–**	**(1,652,131)**
	₱37,057,684	**₱692,710**	**₱37,750,394**	**₱9,857,257**	**₱5,678**	**₱11,984**	**₱47,625,313**

* *Comprises Cash and cash equivalents, excluding cash on hand amounting to ₱72,500*
** *Comprises refundable deposits*

	2013						
	Loans and Receivables			Loans and Advances to Banks*	AFS Investments	Others**	Total
	Cardholders	Others	Total				
Neither past due nor impaired	₱31,165,185	₱456,721	₱31,621,906	₱5,211,664	₱452,777	₱9,719	₱37,296,066
Past due but not impaired	2,235,704	–	2,235,704	–	–	–	2,235,704
Impaired	430,925	–	430,925	–	–	–	430,925
	33,831,814	456,721	34,288,535	5,211,664	452,777	9,719	39,962,695
Unearned interest and other deferred income	(1,260,257)	–	(1,260,257)	–	–	–	(1,260,257)
	32,571,557	456,721	33,028,278	5,211,664	452,777	9,719	38,702,438
Allowance for credit losses	(1,294,280)	(5,622)	(1,299,902)	–	–	–	(1,299,902)
	₱31,277,277	₱451,099	₱31,728,376	₱5,211,664	₱452,777	₱9,719	₱37,402,536

* *Comprises Cash and cash equivalents, excluding cash on hand amounting to ₱72,500*
** *Comprises refundable deposits*

The Company classifies the credit quality of its receivables from cardholders that are neither past due nor impaired based on their delinquency history as of the reporting date as follows:

i. Balances of those accounts that are current and have never been past due as of the reporting date
ii. Balances of those accounts that are current but with historical past due incidence in the 1 to 29 days aging bucket
iii. Balances of those accounts that are current but with historical past due incidence in the 30 to 59 days aging bucket
iv. Balances of those accounts that are current but with historical past due incidence in the 60 to 89 days aging bucket
v. Balances of those accounts that are current but with historical past due incidence in the 90 days and up aging buckets

The following table shows the credit quality of neither past due nor impaired receivables from cardholders of the Company:

	2014		2013	
	Amount	**Percentage**	Amount	Percentage
Current and never past due	**₱34,707,320,856**	**93.4%**	₱28,872,939,801	92.6%
Balances of accounts with 1 to 29 days past due history	**1,930,168,253**	**5.2**	1,828,869,663	5.9
Balances of accounts with 30 to 59 days past due history	**300,936,173**	**0.8**	260,801,207	0.8
Balances of accounts with 60 to 89 days past due history	**133,008,352**	**0.4**	117,435,359	0.4
Balances of accounts with 90 days and up past due history	**83,112,325**	**0.2**	85,138,878	0.3
	₱37,154,545,959	**100.0%**	₱31,165,184,908	100.0%

Aging analysis of past due but not impaired accounts receivables from cardholders of the Company is shown below:

	2014		2013	
	Amount	**Percentage**	Amount	Percentage
1 to 29 days	**₱1,929,830,512**	**71.2%**	₱1,584,664,939	70.9%
30 to 59 days	**453,995,408**	**16.7**	390,715,886	17.5
60 to 89 days	**328,287,354**	**12.1**	260,322,862	11.6
	₱2,712,113,274	**100.0%**	₱2,235,703,687	100.0%

Fair value of collateral

Of the total aggregate amount of gross past due but not impaired loans, the fair value of collateral held as of December 31, 2014 and 2013, amounted to ₱7.7 million and ₱7.0 million, respectively. These collaterals obtained from credit cardholders are hold-out cash deposits with affiliated local banks. The fair value of these cash deposits approximate their carrying value due to their short-term maturities.

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Company focuses on two market risk areas, which are interest rate risk and foreign currency risk.

Interest rate risk
Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value. The Company's borrowings consist of a mix of fixed rate notes and monthly repriceable loans, in order to ensure that any adverse effects of interest rate fluctuations are minimized.

The Treasury unit is primarily responsible in managing the liquidity, as well as, the interest rate risk of the Company. They ensure borrowings from various sources of funds are availed at the cheapest possible cost at acceptable terms. In measuring interest rate risk, the Company employs gap analysis wherein an interest rate gap report is prepared by breaking down the statements of financial position accounts according to their contractual maturities/repricing dates, whichever is applicable. The difference in the amount of assets and liabilities maturing/or being repriced in any pre-specified time band would be treated as an indicator of the Company's exposure to the risk of potential changes in net interest income.

Another interest rate risk area where the Company has exposures is on the effect of future changes in the prevailing level of interest rates on its fixed and floating interest rate-financial instruments. The following table sets out the carrying amount by maturity of the Company's financial instruments that are exposed to interest rate risk:

	2014			2013		
	Not more than 1 year	**Beyond 1 year**	**Total**	Not more than 1 year	Beyond 1 year	Total
Cross-currency swap:						
Floating receive leg	**₱447,200,000**	**₱–**	**₱447,200,000**	₱1,775,800,000	₱443,950,000	₱2,219,750,000
Fixed payment leg	**(432,700,000)**	**–**	**(432,700,000)**	(1,748,450,000)	(432,700,000)	(2,181,150,000)

A funding policy guides the Company's management in determining appropriate levels of term funding that addresses, among other things, interest rate risk, maturity concentration and funding diversification.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax (amounts in millions):

	2014			
	Changes in interest rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change in income before income tax	**₱208.3**	**₱104.2**	**(₱208.3)**	**(₱104.2)**
As percentage of the Company's income before income tax	**5.7%**	**2.9%**	**(5.7%)**	**(2.9%)**

	2013			
	Changes in interest rates (in basis points)			
	(100)	(50)	100	50
Change in income before income tax	₱188.8	₱94.4	(₱188.8)	(₱94.4)
As percentage of the Company's income before income tax	6.6%	3.3%	(6.6%)	(3.3%)

This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure and loan volumes. Actual changes in net income will vary from the model.

Other than the potential impact on the Company's income before income tax there is no other effect in equity.

The RMD prepares a quantitative risk model on interest rate risk called the Earnings-at-Risk (EaR). EaR is used to measure any mismatch between assets and liabilities in terms of interest rate repricing. RMD developed EaR limit over a 1-year period. The limit is established to reduce the potential exposure of earnings and/or capital from changes in interest rates. Such method of measuring and controlling interest rate risk is applied during the year. For 2014 and 2013, the EaR limit approved by the BOD is a maximum of 1 month average (approximately 8.3%) of the planned full year net profit after tax.

Foreign currency risk
Foreign currency risk arises on financial instruments that are denominated in a foreign currency, which is the currency other than the functional currency in which the Company is measured.

Information on the Company's United States dollar (US$) denominated monetary assets and liabilities as of December 31, 2014 and 2013 and their Philippine peso equivalents are as follows (amounts in thousands):

	2014		2013	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Financial assets:				
Cash in banks	**US$4,134**	**₱184,857**	US$4,952	₱219,841
Cross-currency swap				
Floating receive leg	**10,000**	**447,200**	50,000	2,219,750
Accounts receivable	**6,181**	**276,392**	5,774	256,325
	20,315	**908,449**	60,726	2,695,916
Financial liabilities:				
Notes payable	**18,300**	**818,376**	56,000	2,486,120
Accrued interest payable	**7**	**294**	5	227
	18,307	**818,670**	56,005	2,486,347
Net foreign currency-denominated assets	**US$2,008**	**₱89,779**	US$4,721	₱209,569

The following tables demonstrate the sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Company's income before income tax (amounts in millions):

	2014			
	Changes in foreign exchange rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change in income before income tax	**(₱0.9)**	**(₱0.5)**	**₱0.9**	**₱0.5**
As percentage of the Company's income before income tax	**(0.0%)**	**(0.0%)**	**0.0%**	**0.0%**

	2013			
	Changes in foreign exchange rates (in basis points)			
	(100)	(50)	100	50
Change in income before income tax	(₱2.1)	(₱1.1)	₱2.1	₱1.1
As percentage of the Company's income before income tax	(0.1%)	(0.1%)	0.1%	0.1%

Liquidity Risk and Funding Management
Liquidity and funding management is the ability of the Company to meet financial obligations as they fall due. Liquidity risk is the current and prospective risk to earnings or capital arising from the Company's inability to meet its financial obligations as they fall due.

Liquidity and funding management involves setting a strategy, ensuring effective board and senior management oversight, as well as operating under a sound process for measuring, monitoring and controlling liquidity risk. It requires the Company not only to measure its liquidity position on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

A strong liquidity management system in particular is characterized by an effective analysis of net funding requirements under alternative scenarios and diversification of funding sources.

The Company is continuously working on developing diversified funding sources to support its asset growth, as well as to minimize liquidity and interest rate risks.

The Treasury unit, on a daily basis, monitors the cash position of the Company. They ensure that the Company has ample liquidity to settle financial obligations that are due as of a given period. The Treasury unit employs various liquidity/funding tools to determine the expected funding requirements for a particular period.

The RMD prepares the monthly Maximum Cumulative Outflow (MCO) report to measure the liquidity mismatch risk as of a given period. The MCO report provides quantitative information on the potential liquidity risk exposure based on pre-specified time bands. The Company has established MCO limit to aid in controlling liquidity risk. The positive and negative MCO limit of ₱8.8 billion corresponds to 80.0% of the total wholesale borrowing limit less utilized borrowing limit. Aside from the MCO report, the RMD also prepares monthly Liquidity Stress testing to augment in measuring potential liquidity risk exposures under different stress scenarios.

The table below shows the MCO report of the Company as of December 31, 2014 and 2013 (amounts in millions):

	2014						
	Up to 1 month	**1 to 2 months**	**2 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
Assets	**₱15,285**	**₱3,091**	**₱3,205**	**₱6,751**	**₱6,114**	**₱12,605**	**₱47,051**
Liabilities	**15,992**	**3,111**	**2,096**	**5,834**	**4,734**	**10,582**	**42,349**
Off-Balance Sheet Position	**–**	**–**	**(6)**	**(6)**	**(12)**	**–**	**(24)**
Periodic Gap	**(₱707)**	**(₱20)**	**₱1,103**	**₱911**	**₱1,368**	**₱2,023**	**₱4,678**
Cumulative Gap	**(₱707)**	**(₱727)**	**₱376**	**₱1,287**	**₱2,655**	**₱4,678**	

	2013						
	Up to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Assets	₱10,357	₱3,313	₱2,713	₱5,729	₱5,153	₱12,204	₱39,469
Liabilities	9,300	1,078	2,240	5,950	1,942	12,842	33,352
Off-Balance Sheet Position	–	–	(13)	(18)	(12)	(23)	(66)
Periodic Gap	₱1,057	₱2,235	₱460	(₱239)	₱3,199	(₱661)	₱6,051
Cumulative Gap	₱1,057	₱3,292	₱3,752	₱3,513	₱6,712	₱6,051	

The tables below summarize the maturity profile of the undiscounted remaining contractual maturities of the Company's financial assets and liabilities as of December 31, 2014 and 2013 (amounts in thousands). Derivative assets are shown by maturity, based on their contractual undiscounted repayment obligations.

	2014					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Cash and cash equivalents	**₱1,834,327**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,834,327**
Due from BSP	**7,085,598**	**–**	**–**	**–**	**–**	**7,085,598**
Interbank loans receivable and SPURA	**939,917**	**–**	**–**	**–**	**–**	**939,917**
Derivative asset	**–**	**(2,970)**	**(3,386)**	**8,406**	**–**	**2,050**
Accounts receivable:						
Cardholders	**7,429,692**	**18,177,778**	**2,286,049**	**5,361,230**	**7,296,305**	**40,551,054**
Others	**698,861**	**–**	**–**	**–**	**–**	**698,861**
	17,988,395	**18,174,808**	**2,282,663**	**5,369,636**	**7,296,305**	**51,111,807**
Financial Liabilities						
Accounts payable:						
Merchants	**1,336,960**	**–**	**–**	**–**	**–**	**1,336,960**
Others	**392,171**	**–**	**–**	**–**	**–**	**392,171**
	1,729,131	**–**	**–**	**–**	**–**	**1,729,131**
Bills payable	**7,810**	**11,658,432**	**3,914,201**	**2,272,272**	**3,311,893**	**21,164,608**
Notes payable	**6,013,119**	**703,983**	**2,473,420**	**2,552,086**	**7,354,724**	**19,097,332**
Subordinated debt	**–**	**18,164**	**36,329**	**72,657**	**1,694,972**	**1,822,122**
Accrued interest payable	**64,510**	**45,685**	**34,262**	**23,346**	**12,303**	**180,106**
	7,814,570	**12,426,264**	**6,458,212**	**4,920,361**	**12,373,892**	**43,993,299**
Net undiscounted financial assets (liabilities)	**₱10,173,825**	**₱5,748,544**	**(₱4,175,549)**	**₱449,275**	**(₱5,077,587)**	**₱7,118,508**
Gross-settled Derivatives						
Cross-currency swap:						
Floating receive leg	**₱–**	**₱2,205**	**₱2,641**	**₱20,394**	**₱–**	**₱25,240**
Fixed payment leg	**–**	**(5,175)**	**(6,027)**	**(11,988)**	**–**	**(23,190)**
	₱–	**(₱2,970)**	**(₱3,386)**	**₱8,406**	**₱–**	**₱2,050**

	2013					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Cash and cash equivalents	₱804,060	₱–	₱–	₱–	₱–	₱804,060
Due from BSP	4,407,676	–	–	–	–	4,407,676
Derivative asset	(295)	5,278	2,089	(5,045)	4,335	6,362
Accounts receivable:						
Cardholders	5,987,342	15,075,364	2,013,101	4,429,709	4,893,594	32,399,110
Others	456,721	–	–	–	–	456,721
	11,655,504	15,080,642	2,015,190	4,424,664	4,897,929	38,073,929
Financial Liabilities						
Accounts payable:						
Merchants	795,859	–	–	–	–	795,859
Others	234,002	–	–	–	–	234,002
	1,029,861	–	–	–	–	1,029,861
Bills payable	6,790,705	2,423,818	4,644,997	1,491,495	3,868,422	19,219,437
Notes payable	266,565	895,912	1,099,434	435,241	7,634,484	10,331,636
Subordinated debt	–	15,944	18,568	36,934	1,833,601	1,905,047
Accrued interest payable	20,816	20,100	44,751	14,634	92,007	192,308
	8,107,947	3,355,774	5,807,750	1,978,304	13,428,514	32,678,289
Net undiscounted financial assets (liabilities)	₱3,547,557	₱11,724,868	(₱3,792,560)	₱2,446,360	(₱8,530,585)	₱5,395,640
Gross-settled Derivatives						
Cross-currency swap:						
Floating receive leg	₱92	₱18,465	₱19,729	₱6,898	₱28,245	₱73,429
Fixed payment leg	(387)	(13,187)	(17,640)	(11,943)	(23,910)	(67,067)
	(₱295)	₱5,278	₱2,089	(₱5,045)	₱4,335	₱6,362

Liquidity Risk Management and Control

As part of a sound liquidity risk management process and at the same time, to adhere to its policy that is, to maintain adequate liquidity at all times, the Company has established liquidity risk limits. These limits are used to control the risk emanating from the funding activities of the Company. These limits are recommended by the RMD, in coordination with Treasury unit, reviewed and approved by ALCO and BOD through RMC.

These limits are reviewed periodically, at least annually, to assess its suitability and reasonableness given the current market and economic conditions.

Below are the current Liquidity Risk Limits utilized by the Company:

Maximum Cumulative Outflow (MCO) limit	80.0% of aggregate Wholesale Borrowing Limit (WBL) net of unutilized WBL
Current Ratio	1:1
Debt to Equity Ratio	7.5:1
Commitment Guidelines	Less than or equal to 10.0% of the aggregate available credit limits granted to its cardholder
Reserve Requirements mandated by BSP	20.0% of total deposit substitutes (liabilities)

Actual figures are compared with the above liquidity risk limits and any breaches are immediately escalated/ reported to the head of Treasury and CFO, as well as, to the ALCO. The Treasury Unit will explain/ justify any breaches and likewise recommend corrective measures within a specified period.

Aside from the established limits mentioned above, the Company has also adopted a Contingency Funding Plan (CFP) for handling liquidity crisis. The CFP outlines the policies and procedures that shall be followed at the onset, during and after the liquidity crisis. It also provides information on the types of events that may trigger to activate the plan, the roles and responsibilities of members of the crisis management team and critical business units, sources of contingency funds, and communication plan.

The CFP helps the Company to ensure sufficient liquidity is maintained even in times of liquidity crisis. The CFP is reviewed and, if necessary, updated annually.

The Company has committed lines of credit that it can access to meet liquidity needs. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders. As of December 31, 2014 and 2013, the Company has available credit line amounting to ₱14.0 billion and ₱17.1 billion, respectively.

Liquidity Stress Testing

The Company also employs different stress scenarios in evaluating the liquidity position as of a given cut-off date. Stress scenarios applied involves the following stress assumptions and parameters:

a. level of pre-termination of retail promissory notes;
b. significant decrease in the payment levels of cardholders due to increase in delinquencies; and
c. decrease in the level of funding access from wholesale market.

Analysis of the resulting gaps serves as an additional tool in managing exposure in case a liquidity stress scenario should happen.

Stress testing report is also prepared monthly by RMD in addition to the MCO reports and liquidity ratios.

Below are the Stress Scenarios currently being employed by Risk Management:

a. 25.0% of Retail PN holders (MD> 30 days) pre-terminates; 25.0% of WBL from other banks not accessible. PDR increases to 12.0% at end of 1 year, resulting to decrease in monthly collections
b. 50.0% of Retail PN holders (MD> 30 days) pre-terminates; 50.0% of WBL from other banks not accessible. PDR increases to 16.0% at end of 1 year, resulting to decrease in monthly collections
c. 75.0% of Retail PN holders (MD> 30 days) pre-terminates; 75.0% of WBL from other banks not accessible. PDR increases to > 16.0% at end of 1 year, resulting to decrease in monthly collections

Risk Management for Derivatives Transaction
The Company entered into Cross Currency Swaps (CCS) wherein the objectives of the Company are to secure cheaper debts and (as a hedging technique) to minimize risk exposures to foreign exchange and interest rate fluctuations arising from foreign currency denominated borrowings. As a result, derivative asset or liability are being recognized and recorded by the Company in its books.

Every month, fair market values of outstanding CCS transactions are being calculated and any changes arising from such valuation are recognized by effecting appropriate adjustments. Consequently, derivative asset or liability account (whichever is applicable) are adjusted to reflect the current fair market value as of a given period. Regular retrospective and prospective testing is being conducted by RMD to assess and measure the hedge effectiveness of such derivatives undertakings. Accordingly, the hedge is considered highly effective if the range of cumulative change of the actual derivative against the hypothetical derivative is within 80%-125%.

Capital management
Capital management pertains to utilizing efficient processes and or measures to ensure adequate capital is maintained at all times.

The Company's capital management objectives are:

- to maintain sufficient capital, at all times, to meet the minimum regulatory capital requirements set by the BSP;
- to maintain adequate capital that will support the Company's business growth;
- to maintain an adequate capital buffer, at all times, to cover for risk from potential stress events and to attain the desired internal capital adequacy ratio; and
- to ensure that the Company meets the debt to equity ratio as required in the Omnibus Notes Facility Agreement.

As a financial institution, the Company is required to meet the minimum capital adequacy ratio and maintain adequate capital commensurate to the risk of its business and operations. Accordingly, the Company should likewise be adequately capitalized to enable it to effectively discharge its functions and withstand any foreseeable problems. In addition, as one of the principal objectives of supervision is the protection of cardholders and creditors, banking regulators monitor the adequacy of capital of the Company to ensure that capital recognized in capital adequacy measures is readily available for those creditors.

The BOD ensures that the above objectives are met by the Company in any given time while the management ensures BOD-approved capital management policies are adhered to.

As of December 31, 2014 and 2013, the Company has available credit line amounting to ₱14.0 billion and ₱17.1 billion, respectively.

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

In addition, the risk-based capital adequacy ratio (CAR) of the Company with quasi-banking operations, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0%. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Risk-weighted assets consist of total assets less cash on hand, amounts due from BSP, loans covered by hold-out 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.

On January 15, 2013, the BSP issued Circular No. 781, Basel 3 Implementing Guidelines on Minimum Capital Requirements. The guidelines revised the risk-based capital adequacy framework and introduced other minimum capital ratios such as Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratio of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5% comprised of CET1 shall also be imposed. BSP Circular No. 781 is effective January 1, 2014.

Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge. The CAR of the Company as reported to BSP is shown in the table below (amounts in millions except for ratio):

	2014	2013
Tier 1 capital	**₱5,776**	₱5,395
Tier 2 capital	**1,498**	1,581
Gross qualifying capital	**₱7,274**	₱6,976
Credit risk-weighted assets	**₱41,662**	₱35,212
Operational risk-weighted assets	**14,609**	12,495
Total risk weighted assets	**₱56,271**	₱47,707
Risk-based CAR	**12.93%**	14.62%

The regulatory qualifying capital of the Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprise paid-up common stock, unappropriated retained earnings including current year profit, appropriated retained earnings less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI). Tier 2 is composed of Fixed-Rate Unsecured Subordinated Notes (Note 16).

As of December 31, 2014 and 2013, the Company met and complied with the CAR requirement set by the BSP.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group (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 pronouncements. The Company follows the Group's ICAAP framework and submits the result of its assessment to the Parent Company. The BSP requires submission of an ICAAP document on a group-wide basis every January 31.

Based on the existing capital position under normal business scenario, the CAR level would still be adequate to comply with the new CAR level of 10.0% and conservation buffer of 2.5%, prescribed by the BSP with the issuance of a Basel 3-compliant Tier 2 capital on December 20, 2013.

The Company maintains strong credit standings and capital ratios in order to support its business and maximize stockholder value. The Company is required to maintain a maximum debt-to-equity ratio (total liabilities over equity) of 7.5 times based on the audited financial statements as required in the Company's Omnibus Notes Facility Agreement with various banks. Debt-to-equity ratio of the Company as of December 31, 2014 and 2013 is computed as follows (in millions, except for ratios):

	2014	2013
Total Liabilities (TL)	**₱42,873**	₱32,794
Total Equity (TE)	**₱6,581**	₱6,117
Debt-to-Equity Ratio (TL/TE)	**6.5**	5.4

The Company, as a finance company, is also subject to the capital requirement under Sections 2(b) and 6(c) of Republic Act (RA) No. 8556 (The Financing Company Act of 1998). RA No. 8556 prescribes finance companies that at least forty percent (40.0%) of the voting stock of the corporation shall be owned by citizens of the Philippines and should maintain a minimum paid up capital of ₱10.0 million for financing companies located in Metro Manila.

In case the finance company has a branch, agency extension office or unit, additional paid up capital will be required as follows:

Location of a branch, agency extension office or unit	**Additional capital requirement**
Metro Manila and other 1st class cities	₱1,000,000
Other classes of cities	500,000
Municipalities	250,000

As of December 31, 2014 and 2013, the Company is sixty percent (60.0%) owned by Metrobank, a wholly owned Filipino company. For both years, the Company has a paid up capital of ₱1.0 billion which already covers the additional capital requirement for its extension office in Cebu City, Davao City and Pasay City. As of December 31, 2014 and 2013, the Company is in full compliance with the capital requirements of RA No. 8556.

Offsetting of Financial Assets and Liabilities

The effects of the Company's offsetting arrangements (e.g., enforceable master netting agreements or similar arrangements, and collateral posting requirements) on its financial instruments are disclosed in the succeeding table.

December 31, 2014						
				Effects of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of the period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria***	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Financial assets:						
SPURA	**₱300,000,000**	**₱–**	**₱300,000,000**	**₱–**	**₱300,000,000**	**₱–**
	₱300,000,000	**₱–**	**₱300,000,000**	**₱–**	**₱300,000,000**	**₱–**

December 31, 2013						
				Effects of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of the period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria*	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Financial assets:						
Accounts receivable:						
Others*	₱107,811,311	₱66,606,516	₱41,204,795	₱–	₱–	₱–
	₱107,811,311	₱66,606,516	₱41,204,795	₱–	₱–	₱–

**Pertains to accrued expense on over-the-counter charges*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

The Company has derivative financial instruments that can be offset under enforeceable master netting agreement. As of December 31, 2014 and 2013, all the individual CCS outstanding were assessed to be derivative assets, respectively.

Other than the abovementioned, the Company does not have financial instruments that can be offset under enforeceable master netting agreements or similar agreements.

Operational risk

Operational risk is the risk arising from day to day operational activities which may result from inadequate or failed internal processes, people and systems or from external events, including legal and reputational risks but excludes strategic risks.

The Operating Risk Head is responsible for a) the overall management of operational risk that may pose threat to the Company's business, profitability, reputation, customers, and staff; b) the effective operational risk management of all business initiatives, inter and intra department processes; c) the development of an appropriate risk management environment and structure for the Company; and d) the effectiveness of the areas of business continuity management and information security.

The operational risk management process consists of a staged approach involving establishing the context, risk identification, risk analysis, risk management and mitigation strategies and risk monitoring and review.

Establishing the context provides the Company strategic organizational context of the local business environment. This will assist in determining the appropriate resources for risk management activities, ensuring compliance with the law and enable alignment of the Company's strategies, so the risks that present the greatest risk or impact to the Company are identified and managed effectively.

Risk identification allows the Company to identify the end-to-end risks facing the business. It is important to understand operational risks relative to the area, process, business initiative, product, service or project being examined.

Having identified the risks, these need to be analyzed in terms of likelihood and consequence of their occurrence.

Where risks are acceptable, the Company records risk acceptance and indicates requirements for testing and monitoring of controls. Where the outcome of the risk analysis step reveals an unacceptable risk, the Company implements risk mitigation and control strategies to eliminate or minimize the risk within acceptable limits.

Risk monitoring and review is the final stage of the risk assessment process where ongoing monitoring, review and reporting are done to ensure changing circumstances are managed in line with risk priorities. This includes the ongoing review of the risk management program to ensure its continued suitability, adequacy, and effectiveness.

4. **Fair Value Measurement**

The methods of assumptions used by the Company in estimating the fair value of the financial instruments are:

Cash and cash equivalents (includes Cash, Due from BSP and Interbank loans receivable and SPURA)
Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

AFS investments - quoted equity securities
Fair values are based on quoted prices published in markets.

AFS investments - unquoted equity securities
These are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at a reliable fair value. As at December 31, 2014 and 2013, there were no impairment losses on the unquoted equity securities.

Derivative instruments
Fair values are estimated based on discounted cash flow technique. The Company used various observable market inputs including the credit quality of the counterparty, foreign exchange spot and forward rates, interest rate curves and forward rate curves. As at December 31, 2014 and 2013, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk.

Accounts receivable - cardholders
The fair values of accounts receivable from straight payment transactions and short-term installment approximate carrying amounts, net of allowance, while the fair values of long-term installment receivables are estimated using discounted cash flow methodology using current interest rates.

Accounts receivable - others, other assets, accounts payable and accrued interest payable
The carrying amounts, net of allowance, approximate their fair values due to either the demand feature or the relatively short-term maturities of these receivables and payables.

Bills payable, notes payable and subordinated debt
The carrying value approximates fair value for borrowings with relatively short maturities. For certain borrowings which are long-term in nature, fair values are estimated using the discounted cash flow methodology using discount rates that reflect the issuer's borrowing rates as at end of the reporting period.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique (amounts in thousands):

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

	2014				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial assets					
Derivative assets	**₱10,598**	**₱–**	**₱10,598**	**₱–**	**₱10,598**
	₱10,598	**₱–**	**₱10,598**	**₱–**	**₱10,598**
Assets for which fair values are disclosed:					
Financial assets					
Accounts receivable:					
Cardholders	**₱36,848,971**	**₱–**	**₱40,721,665**	**₱–**	**₱40,721,665**
	₱36,848,971	**₱–**	**₱40,721,665**	**₱–**	**₱40,721,665**
Financial liabilities					
Bills payable	**₱20,830,606**	**₱–**	**₱20,842,589**	**₱–**	**₱20,842,589**
Notes payable	**17,162,524**	**–**	**18,604,311**	**–**	**18,604,311**
Subordinated debt	**1,160,246**	**–**	**1,321,637**	**–**	**1,321,637**
	₱39,153,376	**₱–**	**₱40,768,537**	**₱–**	**₱40,768,537**

	2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Derivative assets	₱13,264	₱–	₱13,264	₱–	₱13,264
AFS investment:					
Quoted equity securities	447,099	447,099	–	–	447,099
	₱460,363	₱447,099	₱13,264	₱–	₱460,363
Assets for which fair values are disclosed:					
Financial assets					
Accounts receivable:					
Cardholders	₱31,099,208	₱–	₱33,103,133	₱–	₱33,103,133
	₱31,099,208	₱–	₱33,103,133	₱–	33,103,133
Financial liabilities					
Bills payable	₱18,878,596	₱–	₱18,917,791	₱–	₱18,917,791
Notes payable	9,858,611	–	10,638,695	–	10,638,695
Subordinated debt	1,159,154	–	1,412,959	–	1,412,959
	₱29,896,361	₱–	₱30,969,445	₱–	₱30,969,445

During the years ended December 31, 2014 and 2013, there were no transfers of financial instruments between Level 1 and Level 2, and no transfer in and out of Level 3.

As of December 31, 2014 and 2013, there were no fair value measurements with significant unobservable inputs to valuation categorized within Level 3 of the fair value hierarchy.

5. **Cash and Cash Equivalents**

This account consists of:

	2014	2013
Cash on hand	**₱72,500**	₱72,500
Cash in banks	**832,659,975**	803,987,024
	832,732,475	804,059,524
Short-term deposit	**1,000,000,000**	–
	1,832,732,475	804,059,524
Due from BSP (Note 14)	**7,085,597,520**	4,407,676,495
Interbank loans receivable and SPURA	**939,000,000**	–
	₱9,857,329,995	₱5,211,736,019

Cash in banks include current and savings deposit accounts with Metrobank, PSBank and ANZ (Note 24). Cash in banks bear annual interest rates ranging from nil to 0.5% in 2014 and 2013.

Short-term deposit, which is subject to an insignificant risk of changes in value, has a term of 15 days and bear annual interest rate of 4.0%.

Amounts due from BSP represents demand deposit account that bear nil annual interest. In compliance with existing BSP regulations, the Company maintains a required statutory reserve for its debt obligations considered as deposit substitutes. As of December 31, 2014 and 2013, the total statutory reserves, as reported to the BSP, amounted to ₱7.1 billion and ₱4.4 billion, respectively.

Interbank loans receivable and SPURA have terms of 7 to 11 days and 14 days, and bear annual interest rates ranging from 2.5% to 3.1% and 4.0% in 2014, respectively. There were no interbank loans receivable and SPURA in 2013.

As of December 31, 2014, SPURA amounting to ₱0.3 billion is secured by government debt securities maturing on April 1, 2015 (Note 3).

Interest income earned on cash and other cash items, included under 'Interest income from banks' in the statements of income follow:

	2014	2013
Interbank loans receivable and SPURA	**₱10,600,852**	₱2,330,222
Short-term deposit	**333,333**	–
Deposits with banks	**111,338**	430,571
	₱11,045,523	₱2,760,793

6. **Derivative Financial Instruments**

The Company enters into CCS agreements with ANZ to hedge the foreign exchange and interest rate risks from its dollar-denominated loan with the same bank (Note 17). Under the CCS agreements, the Company swaps its dollar-denominated floating rate loans into peso fixed rate loans.

The table below shows the fair values of derivative financial instruments, recorded as derivative assets, together with their notional amounts. The notional amount, recorded at gross, is the amount of the derivative's underlying liability, reference rate of index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the year.

	2014		2013	
	Notional amounts	**Fair values**	Notional amounts	Fair values
Cross-currency swaps (CCS):				
Derivative asset	**US$10,000,000**	**₱10,598,305**	US$50,000,000	₱13,264,260

The table below shows the inception, effective and maturity dates of each CCS entered by the Company that are outstanding as of December 31, 2014 and 2013:

			2014	2013
Inception date	Effective date	Maturity date	**Notional amounts**	Notional amounts
November 15, 2010	March 7, 2011	March 7, 2014	**US$–**	US$20,000,000
November 17, 2010	April 4, 2011	April 3, 2014	–	5,000,000
November 18, 2010	April 4, 2011	April 3, 2014	–	10,000,000
December 1, 2010	April 4, 2011	April 3, 2014	–	5,000,000
June 8, 2012	December 20, 2012	December 21, 2015	**10,000,000**	10,000,000
			US$10,000,000	US$50,000,000

Based on the respective deals above, the Company, on a quarterly basis, pays fixed annual interest rates ranging from 5.3% to 5.5% and 4.1% to 5.5% in 2014 and 2013, respectively, on the peso principals and receives floating annual interest at three-month LIBOR plus 1.0% to 2.0% interest spread on the USD principals.

The Company designated all other swaps at inception dates as effective hedging instruments under cash flow hedge.

Cash Flow Hedges

Below is the schedule as at December 31, 2014 and 2013, of the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	2014		2013	
	Within 1 year	**1 to 2 years**	Within 1 year	1 to 2 years
Cash inflow (asset)	**₱455,980,746**	**₱–**	₱1,775,309,428	₱466,289,303
Cash outflows (liability)	**(445,382,441)**	**–**	(1,764,562,127)	(463,772,344)
Net cash flow	**₱10,598,305**	**₱–**	₱10,747,301	₱2,516,959

Hedge Effectiveness Results

As of December 31, 2014 and 2013, the Company had 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 'Net unrealized loss on cash flow hedge' as of December 31, 2014 and 2013 amounted to ₱2.7 million and ₱17.7 million, respectively. No hedge ineffectiveness was recognized in profit or loss in 2014 and 2013.

The distinction of the results of hedge accounting into "Effective" or "Ineffective" represents designations based on PAS 39 and is not necessarily reflective of the economic effectiveness of the instruments.

Net Unrealized Loss on Cash Flow Hedge
As of December 31, 2014 and 2013, the movements in net unrealized loss on cash flow hedge consist of:

	2014	2013
Balance at beginning of year	**(₱17,735,018)**	(₱81,932,093)
Amount deferred to OCI	**(2,665,955)**	280,560,107
Changes in deferred tax due to fair value change of derivatives (Note 23)	**(6,430,214)**	(27,513,032)
Changes in fair value of derivatives taken to profit or loss	**24,100,001**	(188,850,000)
	15,003,832	64,197,075
Balance at end of year	**(₱2,731,186)**	(₱17,735,018)

Rollforward of Derivatives
The table below summarizes the net movement in fair values of the Company's derivatives as of December 31, 2014 and 2013:

	2014	2013
Balance at beginning of year	**₱13,264,260**	(₱267,295,847)
Changes in fair value of derivatives designated as accounting hedges	**33,527,959**	312,902,627
Realized gain on settled derivatives *	**(36,193,914)**	(32,342,520)
	(2,665,955)	280,560,107
Balance at end of year	**₱10,598,305**	₱13,264,260

**Includes cross-currency swap cost, presented under 'Interest expense' in the statements of income, and foreign exchange gain.*

7. AFS Investments

AFS investments consist of:

	2014	2013
Unquoted equity securities	**₱5,678,480**	₱5,678,480
Quoted equity securities	**–**	447,098,745
	₱5,678,480	₱452,777,225

As of December 31, 2014 and 2013, unquoted equity securities represent holdings in credit union and preferred shares amounting to ₱5.7 million. In 2013, the Company participated in the credit union capital infusion wherein additional investment amounting to ₱2.1 million was contributed to retain the Company's proportionate share.

On February 6, 2014, the Company sold its quoted equity securities amounting to ₱447.1 million representing Visa shares. The sale resulted in a gain of ₱328.2 million recorded under 'Miscellaneous income' in the statements of income (Note 20).

In 2014 and 2013, dividend income on quoted equity securities, included under 'Miscellaneous income' in the statements of income, amounted to ₱1.9 million and ₱1.3 million, respectively (Note 20).

Movements in net unrealized gain on AFS investments follow:

	2014	2013
Balance at beginning of year	**₱230,140,542**	₱114,160,106
Changes in fair value of AFS investments	**(589,204)**	165,686,337
Changes in deferred tax due to fair value change of AFS investments (Note 23)	**98,631,661**	(49,705,901)
Realized gain on sale of AFS investments taken to profit or loss (Notes 20)	**(328,182,999)**	–
	(230,140,542)	115,980,436
Balance at end of year	**₱–**	₱230,140,542

8. **Accounts Receivable**

This account consists of receivables from:

	2014	2013
Cardholders	**₱40,188,572,095**	₱33,659,366,495
Others (Note 24)	**699,440,120**	456,720,912
	40,888,012,215	34,116,087,407
Deferred acquisition cost	**201,982,944**	172,447,325
Unearned interest and other deferred income	**(1,687,470,070)**	(1,260,257,025)
	39,402,525,089	33,028,277,707
Allowance for credit losses (Note 12)	**(1,652,131,097)**	(1,299,901,897)
	₱37,750,393,992	₱31,728,375,810

Total accounts receivable as shown in the statements of financial position follow:

	2014	2013
Current portion	**₱32,531,944,458**	₱27,682,211,663
Non-current portion	**5,218,449,534**	4,046,164,147
	₱37,750,393,992	₱31,728,375,810

As of December 31, 2014 and 2013, the Company has outstanding installment credit card receivables and unearned interest income amounting to ₱15.7 billion and ₱12.3 billion and ₱1.7 billion and ₱1.3 billion, respectively.

In 2014 and 2013, the Company recognized interest income from regular and installment credit card receivables amounting to ₱5.3 billion and ₱4.9 billion and ₱2.3 billion and ₱1.8 billion, respectively.

Credit card receivables include past due accounts amounting to ₱3.2 billion and ₱2.7 billion as of December 31, 2014 and 2013, respectively. There were no unearned interest income from accounts that are past due for over 90 days.

Deferred acquisition cost represents capitalized commissions paid to third-party brokers for successfully originated credit card accounts. Others include accrued interest receivables, advances to officers and employees and receivables from Metrobank (Note 24).

BSP Reporting
The BSP considers that loan concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. As of December 31, 2014 and 2013, 99.9% of the Company's accounts receivable are classified under personal activities.

As of December 31, 2014 and 2013, nonperforming loans (NPLs) not fully covered by allowance for credit losses of the Company follow:

	2014	2013
Total NPLs	**₱523,895,807**	₱430,925,225
Less: NPLs fully covered by allowance for impairment and credit losses	**879,267**	879,267
	₱523,016,540	₱430,045,958

Generally, NPLs refer to loans or receivables whose principal and/or interest is unpaid for 90 days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semiannual or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

Section 9(f) of RA No. 8556 requires that a 100.0% allowance for credit losses should be set up for the following:

a. clean loans and advances past due for a period of more than 6 months;
b. past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50.0%, without the borrower offering additional collateral for the loans;
c. past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
d. when borrower and his co-maker or guarantor, are insolvent or where their whereabouts are unknown, or their earnings power is permanently impaired;
e. accrued interest receivable that remain uncollected after six months from the maturity date of such loans to which it accrues; and
f. accounts receivable past due for 361 days or more.

As of December 31, 2014 and 2013, the Company's allowance for impairment and credit losses for accounts receivable is in compliance with the requirements of RA No. 8556 (Note 12).

9. Property and Equipment

The components of and movements in this account are as follows:

	2014							
	Land	**Building**	**Building Improvements**	**Office Condominium Units**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost								
Balances at beginning of year	**₱283,410,974**	**₱222,745,925**	**₱98,368,108**	**₱–**	**₱298,133,826**	**₱174,319,467**	**₱70,074,487**	**₱1,147,052,787**
Acquisitions	–	–	**11,767,037**	–	**15,672,336**	**62,019,846**	**1,707,505**	**91,166,724**
Disposals	–	–	–	–	**(26,210,842)**	**(22,928,679)**	–	**(49,139,521)**
Balances at end of year	**283,410,974**	**222,745,925**	**110,135,145**	–	**287,595,320**	**213,410,634**	**71,781,992**	**1,189,079,990**
Accumulated Depreciation and Amortization								
Balances at beginning of year	–	**43,880,259**	**81,810,891**	–	**239,342,378**	**77,781,224**	**25,270,180**	**468,084,932**
Depreciation and amortization	–	**7,424,864**	**10,026,724**	–	**21,061,826**	**35,756,713**	**14,876,593**	**89,146,720**
Disposals	–	–	–	–	**(25,697,567)**	**(15,749,161)**	–	**(41,446,728)**
Balances at end of year	–	**51,305,123**	**91,837,615**	–	**234,706,637**	**97,788,776**	**40,146,773**	**515,784,924**
Net Book Value at End of Year	**₱283,410,974**	**₱171,440,802**	**₱18,297,530**	**₱–**	**₱52,888,683**	**₱115,621,858**	**₱31,635,219**	**₱673,295,066**

	2013							
	Land	Building	Building Improvements	Office Condominium Units	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost								
Balances at beginning of year	₱283,410,974	₱222,745,925	₱85,434,646	₱45,750,043	₱276,559,185	₱150,078,596	₱66,460,498	₱1,130,439,867
Acquisitions	–	–	13,202,662	–	28,799,687	43,697,700	3,629,328	89,329,377
Disposals	–	–	(269,200)	(45,750,043)	(7,225,046)	(19,456,829)	(15,339)	(72,716,457)
Balances at end of year	283,410,974	222,745,925	98,368,108	–	298,133,826	174,319,467	70,074,487	1,147,052,787
Accumulated Depreciation and Amortization								
Balances at beginning of year	–	36,455,395	78,713,872	29,364,366	202,680,241	60,015,525	10,924,895	418,154,294
Depreciation and amortization	–	7,424,864	3,240,672	–	43,727,888	31,031,732	14,345,285	99,770,441
Disposals	–	–	(22,164)	(29,364,366)	(7,187,240)	(13,266,033)	–	(49,839,803)
Reclassifications	–	–	(121,489)	–	121,489	–	–	–
Balances at end of year	–	43,880,259	81,810,891	–	239,342,378	77,781,224	25,270,180	468,084,932
Net Book Value at End of Year	₱283,410,974	₱178,865,666	₱16,557,217	₱–	₱58,791,448	₱96,538,243	₱44,804,307	₱678,967,855

As of December 31, 2014 and 2013, the Company has fully depreciated property and equipment that are still in use with original cost amounting to ₱182.4 million and ₱162.7 million, respectively. Gain on sale of properties amounted to ₱0.7 million and ₱28.7 million in 2014 and 2013, respectively (Note 20).

10. Intangible Assets and Goodwill

The composition of and movements in this account are as follows:

	2014			
	Intangible Assets			
	Capitalized Software and License Fees	Project in Progress	Total	Goodwill
Cost				
Balances at beginning of year	**₱527,876,540**	**₱54,006,283**	**₱581,882,823**	**₱25,125,548**
Acquisitions	**17,438,458**	**139,767,356**	**157,205,814**	**–**
Reclassifications	**30,920,954**	**(30,920,954)**	**–**	**–**
Write-offs	**(270,620,439)**	**–**	**(270,620,439)**	**–**
Balance at end of year	**305,615,513**	**162,852,685**	**468,468,198**	**25,125,548**
Accumulated Amortization				
Balances at beginning of year	**390,817,844**	**–**	**390,817,844**	**–**
Amortization	**71,882,687**	**–**	**71,882,687**	**–**
Write-offs	**(270,620,439)**	**–**	**(270,620,439)**	**–**
Balances at end of year	**192,080,092**	**–**	**192,080,092**	**–**
	113,535,421	**162,852,685**	**276,388,106**	**25,125,548**
Allowance for impairment loss (Note 12)	**–**	**–**	**–**	**(13,117,796)**
Net Book Value at End of Year	**₱113,535,421**	**₱162,852,685**	**₱276,388,106**	**₱12,007,752**

	2013			
	Intangible Assets			
	Capitalized Software and License Fees	Project in Progress	Total	Goodwill
Cost				
Balances at beginning of year	₱456,149,956	₱39,009,785	₱495,159,741	₱25,125,548
Additions	21,316,564	65,406,518	86,723,082	–
Reclassifications	50,410,020	(50,410,020)	–	–
Balance at end of year	527,876,540	54,006,283	581,882,823	25,125,548
Accumulated Amortization				
Balances at beginning of year	336,540,003	–	336,540,003	–
Amortization	54,277,841	–	54,277,841	–
Balances at end of year	390,817,844	–	390,817,844	–
	137,058,696	54,006,283	191,064,979	25,125,548
Allowance for impairment loss (Note 12)	–	–	–	(13,117,796)
Net Book Value at End of Year	₱137,058,696	₱54,006,283	₱191,064,979	₱12,007,752

Capitalized software and license fees
Capitalized software include costs related to software purchased by the Company for use in operations. License fees represent the amount paid for the privilege to use software modules and manuals.

In 2014, the Company derecognized capitalized software and license related to its former credit card system with original cost of ₱270.6 million. Management assessed that there are no future economic benefits expected from the use or disposal of its former credit card system, which have been fully amortized as of December 31, 2011.

Project in progress
As of December 31, 2014 and 2013, the Company reclassified individual projects, which were completed and available-for-use, amounting to ₱30.9 million and ₱50.4 million, respectively, to capitalized software and license fees.

Goodwill
Goodwill represents the excess of acquisition cost over the fair value of the net identifiable assets of AB Card, which were acquired on April 26, 2001. For impairment testing, the recoverable amount has been determined based on value-in-use calculation using projected cash flows from existing AB Card cardholders for the next five years. The discount rate applied to cash flow projections is 12.6% and 12.5% in 2014 and 2013, respectively.

11. Other Assets

This account consists of:

	2014	2013
Refundable deposits	**₱11,984,091**	₱9,719,017
Miscellaneous	**486,111**	486,111
	₱12,470,202	₱10,205,128

12. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses are as follows:

	2014				
	Accounts Receivable (Note 8)			**Goodwill**	
	Cardholders	**Others**	**Total**	(Note 10)	**Total**
Balances at beginning of year	**₱1,294,279,554**	**₱5,622,343**	**₱1,299,901,897**	**₱13,117,796**	**₱1,313,019,693**
Provision for impairment and credit losses	**3,156,034,249**	**49,749,388**	**3,205,783,637**	**–**	**3,205,783,637**
Accounts written-off	**(2,804,912,860)**	**(48,641,577)**	**(2,853,554,437)**	**–**	**(2,853,554,437)**
Balances at end of year	**₱1,645,400,943**	**₱6,730,154**	**₱1,652,131,097**	**₱13,117,796**	**₱1,665,248,893**

	2013				
	Accounts Receivable (Note 8)			Goodwill	
	Cardholders	Others	Total	(Note 10)	Total
Balances at beginning of year	₱1,165,325,937	₱9,248,865	₱1,174,574,802	₱13,117,796	₱1,187,692,598
Provision for impairment and credit losses	2,558,596,730	59,222,843	2,617,819,573	–	2,617,819,573
Accounts written-off	(2,429,643,113)	(62,849,365)	(2,492,492,478)	–	(2,492,492,478)
Balances at end of year	₱1,294,279,554	₱5,622,343	₱1,299,901,897	₱13,117,796	₱1,313,019,693

At the current level of allowance for impairment and credit losses, management believes that the Company has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its accounts receivable.

13. Accounts Payable

This account consists of:

	2014	2013
Payable to merchants	**₱1,336,959,821**	₱795,859,283
Others		
Financial:		
Advance payments from cardholders	**106,673,839**	91,231,328
Payable to suppliers and service providers	**92,870,500**	88,422,406
Payable to Visa/Mastercard	**62,658,471**	37,947,703
Collection fees	**7,084,911**	7,473,035
Miscellaneous	**7,503,557**	8,927,369
	276,791,278	234,001,841
Non-financial:		
Withholding taxes payable	**106,694,492**	61,374,984
Documentary stamp tax payable	**6,757,454**	10,582,534
Payable to SSS/Pag-ibig	**1,928,133**	1,705,690
	115,380,079	73,663,208
	392,171,357	307,665,049
	₱1,729,131,178	₱1,103,524,332

Payable to merchants represent the amount due to various member establishments for the Company's acquiring transactions. Settlement occurs 1 day after the trasaction date.

Miscellaneous account consists of insurance premium payables and stale checks.

14. Bills Payable

This account consists of:

	2014	2013
Deposit substitutes	**₱20,830,605,719**	₱18,110,596,452
Interbank loans payable	–	768,000,000
	₱20,830,605,719	₱18,878,596,452

The total bills payable as shown in the statements of financial position follow:

	2014	2013
Current portion		
Promissory notes issued to:		
Consumer	**₱11,164,105,107**	₱7,813,228,912
Corporate	**6,496,133,408**	7,444,565,122
	17,660,238,515	15,257,794,034
Non-current portion		
Promissory notes issued to:		
Consumer	**2,808,588,130**	3,212,548,283
Corporate	**361,779,074**	408,254,135
	3,170,367,204	3,620,802,418
	₱20,830,605,719	₱18,878,596,452

As of December 31, 2014 and 2013, deposit substitutes have maturities of 15 days to 5 years and bear annual interest rates ranging from 1.2% to 5.9% and 0.8% to 5.9%, respectively.

Under the existing BSP regulations, the Company's deposit substitutes are subject to statutory reserves of 20.0% and 18.0% in 2014 and 2013, respectively. The total statutory reserves maintained by the Company, as reported to the BSP, amounted to ₱7.1 billion and ₱4.4 billion in 2014 and 2013, respectively (Note 5).

There were no interbank loans payable in 2014. In 2013, interbank loans payable have terms of 1 to 6 days and bear annual interest rates ranging from 2.0% to 3.5%.

Interest expense on the Company's borrowings consist of:

	2014	2013
Notes payable (Note 17)	**₱497,431,781**	₱606,706,004
Bills payable	**454,725,902**	450,147,698
Cross-currency swap cost (Note 6)	**75,668,914**	36,042,520
Subordinated debt (Note 16)	**74,171,069**	69,712,113
	₱1,101,997,666	₱1,162,608,335

15. **Deferred Revenue**

This account refers to the deferral and release of the Company's loyalty points program transactions and membership fees and dues. The changes and movements in these accounts are as follows:

	2014		
	Awards Revenue	**Membership Fees and Dues**	**Total**
Balances at beginning of year	**₱336,975,455**	**₱380,648,366**	**₱717,623,821**
Deferred during the year	**159,350,117**	**800,209,473**	**959,559,590**
Recognized to income during the year	**(89,181,123)**	**(771,726,094)**	**(860,907,217)**
Balances at end of year	**₱407,144,449**	**₱409,131,745**	**₱816,276,194**

	2013		
	Awards Revenue	Membership Fees and Dues	Total
Balances at beginning of year	₱274,662,455	₱341,662,234	₱616,324,689
Deferred during the year	78,931,047	745,649,314	824,580,361
Recognized to income during the year	(16,618,047)	(706,663,182)	(723,281,229)
Balances at end of year	₱336,975,455	₱380,648,366	₱717,623,821

In 2014 and 2013, cost of the rewards, under 'Loyalty expense' in the statements of income, due to redemption of loyalty points by the cardholder amounted to ₱112.0 million and ₱91.6 million, respectively.

16. **Subordinated Debt**

On February 28, 2013, the Company's BOD approved the issuance of ₱1.17 billion worth of Fixed-Rate Unsecured Subordinated Notes Eligible as Tier 2 Capital due 2023, callable in 2018 (the Notes) pursuant to the BSP Circular No. 280 and No. 781, Series of 2001 and 2013, as amended.

Among the significant terms and conditions of the issuance of the Notes pursuant to the authority granted by the BSP to the Company on October 22, 2013 follow:

a. Issue price at 100.00% of face value;

b. The Notes bear interest at 6.21% per annum from and including December 20, 2013 and thereafter. Interest will be payable quarterly in arrears at the end of each interest period on March 20, June 20, September 20 and December 20 in each year, except for the last interest period which will end on the maturity date.

   Unless previously redeemed, the Notes will be redeemed at their principal amount on the maturity date of December 30, 2023.

c. The Notes will constitute direct, unsecured and subordinated obligations of the Company, and will, at all times, 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 Company, except obligations mandatorily preferred by law.

d. Noteholders are prohibited by the BSP from having the Notes redeemed at their option prior to its maturity. Noteholders, may sell their Notes in the secondary market, however, this is subject to the limitation that the Notes shall be sold only to qualified buyers. Any sale or transfer of the Notes in the secondary market is then subject to market prices and the limitation on the number of allowable holders.

e. The Notes contain provisions relating to loss absorption upon the occurrence of a non-viability trigger event of the Company or Metrobank as determined by the BSP, pursuant to which the Company may be required immediately and irrevocably (without the need for the consent of the holders of the Notes) to effect a write-off in whole or in part of the outstanding principal and accrued and unpaid interest in respect of the Notes or, in the case of non-viability of Metrobank, the Notes may be converted to such number of common shares of the Company.

f. If a non-viability trigger event occurs, a Noteholder will have no claim against the Company at all in respect of any Notes or any portion of the Notes that have been written down and/or terminated.

   The Notes shall not be used as collateral for any loan made by the Company or any of its affiliates.

As of December 31, 2014 and 2013, the unamortized issuance costs amounted to ₱9.78 million and ₱10.8 million, respectively.

In 2014 and 2013, amortization of issuance costs amounting to ₱1.1 million and ₱4.0 million, respectively, were charged to 'Interest expense' in the statements of income (Note 14).

17. Notes Payable

This account consists of:

	Maturities	Interest Rates	2014	2013
Current interest-bearing notes (net of unamortized issuance costs)				
Peso-denominated notes				
Omnibus notes from local banks				
₱6.2 billion loan facility	**2015**	**1.7% to 2.5%**	**₱6,200,000,000**	₱–
₱2.0 billion loan facility	**2015**	**2.5% to 2.6%**	**2,000,000,000**	–
Loans from local banks				
3Y bilateral loans	**2015**	**5.5%**	**999,942,198**	–
Loans from foreign banks	**2015**	**2.0% to 2.5%**	**930,000,000**	630,000,000
Dollar-denominated notes				
Loans from ANZ				
US$10.0 million credit facility agreement	**2015**	**LIBOR + 2.0%**	**446,990,574**	–
US$8.3 million credit facility agreement	**2015**	**1.6%**	**371,176,000**	–
US$40.0 million credit facility agreement	**2014**	**LIBOR + 1.0%**	**–**	1,775,180,783
US$6.0 million credit facility agreement	**2014**	**1.7%**	**–**	266,370,000
			10,948,108,772	2,671,550,783
Non-current interest-bearing notes (net of unamortized issuance costs)				
Peso-denominated notes				
Omnibus notes from local banks				
₱2.0 billion loan facility	**2019**	**6.3% in 2014 and 6.1% in 2013**	**1,950,333,990**	1,968,092,626
₱1.0 billion loan facility	**2017**	**6.2%**	**976,370,521**	984,802,189
₱2.0 billion loan facility	**2015**	**8.5%**	**–**	1,994,459,325
Loans from local banks				
7Y bilateral loans	**2021**	**5.3%**	**995,500,875**	–
5Y bilateral loans	**2019**	**5.3% to 5.5%**	**1,493,546,287**	–
3Y bilateral loans	**2015**	**5.5%**	**–**	998,316,566
Loans from Metrobank				
₱0.8 billion credit facility agreement	**2016**	**5.6%**	**798,663,989**	797,865,387
Dollar-denominated notes				
Loans from ANZ				
US$10.0 million credit facility agreement	**2015**	**LIBOR + 2.0%**	**–**	443,524,428
			6,214,415,662	7,187,060,521
			₱17,162,524,434	₱9,858,611,304

As of December 31, 2014 and 2013, notes payable amounting to ₱1.4 billion and ₱1.8 billion, respectively, which are presented under current liabilities, pertains to long-term notes which are due within one year.

Unamortized issuance costs amounted to ₱25.9 million and ₱27.5 million as of December 31, 2014 and 2013, respectively. In 2014 and 2013, amortization of issuance costs amounting to ₱14.1 million were charged to 'Interest expense' in the statements of income (Note 14).

Following are the significant terms and conditions of the Company's peso and dollar-denominated notes payable:

Bilateral Loans
Interests are due upon maturity and quarterly for short-term notes and long-term notes, respectively. The principal is due upon maturity of the notes. All loans are unsecured and subject to the following standard default provisions that would make the loan due and demandable upon:

- Technical defaults, subject to curing period; or
- Default in payment, loan is immediately due and demandable.

In April 2014, the Company's BOD and management decided to exercise its right to redeem the ₱2.0 billion corporate notes maturing in 2015. This was refinanced via bilateral loans totaling ₱2.5 billion maturing in 2019 and 2021.

Loans from Metrobank
Unsecured loans with quarterly interest payments subject to the following standard default provisions that would make the loan due and demandable upon:

- Use of proceeds other than purpose; or
- Default in payment.

Loans from ANZ
Unsecured loans with interest payable upon maturity and quarterly for short-term notes and long-term notes, respectively. The loans are subject to the following undertakings and provisions:

- Information undertakings, the Company must provide its financial statements and notify events with material adverse effect on the Company;
- Negative pledge provision with an exception to the securitization of credit card receivables;
- Provision to not enter into merger, disposal of assets or to make substantial change to the general nature of the business;
- Other general undertakings such as compliance of laws and payment of taxes; and
- Accelaration clause, the loan becomes due and demandable upon occurrence of an event of default.

Omnibus Agreements
The Omnibus Agreements with various local banks include a cross-default clause wherein it provides that if the Company fails to pay any amount due under any other agreement of document evidencing, guaranteeing or relating to the indebtedness of the Company or other occurrence of event of default or material breach on the part of the Company under any agreement or document, the liability shall be declared due and payable. The loans are unsecured and are obtained to finance credit card receivables.

18. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2014	2013
Accrued interest (Note 24)	**₱180,106,394**	₱192,307,543
Accrued taxes	**72,428,442**	52,527,435
Accrued advertising	**61,206,710**	92,579,626
Accrued rewards	**23,252,156**	20,244,735
Accrued other expenses	**346,122,330**	351,290,538
	₱683,116,032	₱708,949,877

The table below shows the breakdown of accrued other expenses:

	2014	2013
Compensation and fringe benefits	**₱133,319,560**	₱118,898,328
Communications expense	**81,586,701**	94,419,936
Service fee	**62,550,999**	54,199,786
Rental and office-related expenses (Note 24)	**30,896,415**	29,399,907
Computer-related expenses	**17,588,435**	20,981,299
Membership fees	**7,052,176**	7,692,489
Management and professional fees	**3,285,338**	9,431,737
Maintenance cost	**2,864,453**	4,402,769
Miscellaneous expenses	**6,978,253**	11,864,287
	₱346,122,330	₱351,290,538

19. Equity

The details of the Company's capital stock as of December 31, 2014 and 2013 are as follows:

	Shares	Amount
Capital stock - ₱1.0 par value		
Authorized	₱2,000,000,000	₱2,000,000,000
Issued and outstanding		
Balance at beginning and end of year	1,000,000,000	1,000,000,000

Cash Dividends
The following cash dividends were declared and paid in 2014 and 2013:

	Dividend			
Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
March 21, 2014	₱1.8	₱1,500.0 million	May 5, 2014	July 7. 2014
		300.0 million	May 5, 2014	September 8, 2014
February 28, 2013	1.5	1,500.0 million	April 12, 2013	April 24, 2013

Retained Earnings
Under the Corporation Code of the Philippines (the Code), a stock corporation is prohibited from retaining surplus profits in excess of 100.0% of its paid-in capital stock, except when qualified by any reasons mentioned in the Code.

On February 28, 2013, the BOD approved the appropriation of retained earnings in the amount of ₱3.5 billion for the following:

a. Appropriations for various Business Technology projects, which are to be implemented 4th quarter of 2015, amounting to ₱300.0 million. The following projects were approved by the BOD on December 11, 2012:

   - Cardlink replacement
   - Collection management system
   - Card origination system

b. Appropriations for the maintenance of capital reserve amounting to ₱1.7 billion to ensure that debt to equity ratio will not exceed 7.5 times as required in the Company's Omnibus Notes Facility Agreement (Note 17).

c. Appropriations for the distribution of cash dividends in the amount of ₱1.5 billion in favor of stockholders of record of April 12, 2013 which was subsequently paid in April 24, 2013.

On February 27, 2014, the BOD approved the net appropriation of retained earnings in the amount of ₱3.9 billion for the following:

a. Appropriations for various Business Technology projects, which are to be implemented 4th quarter of 2015, amounting to ₱349.0 million. The amount includes re-appropriation of ₱300.0 million and additional appropriation of ₱49.0 million during the year.

   The following projects were approved by the BOD on December 11, 2012:

   - Cardlink replacement
   - Collection management system
   - Card origination system

b. Appropriations for the maintenance of capital reserve amounting to ₱1.8 billion to ensure that debt to equity ratio will not exceed 7.5 times as required in the Company's Omnibus Notes Facility Agreement (Note 17). The amount includes re-appropriation of ₱1.7 billion and additional appropriation of ₱0.1 billion during the year.

c. Appropriations for the distribution of cash dividends in the amount of ₱1.8 billion in favor of stockholders of record of May 5, 2014 which was subsequently paid in July 7, 2014 and in September 8, 2014.

The computation of retained earnings available for dividend declaration in accordance with SEC Memorandum Circular No. 11, issued in December 2008, differs to a certain extent as compared with the computation per BSP guidelines.

20. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2014	2013
Gain on sale of AFS investments (Note 7)	**₱328,182,999**	₱–
Over credit limit fee	**307,497,947**	289,595,991
Gross international fee	**163,037,461**	138,160,965
Service fee	**67,418,632**	57,503,289
Rental income (Note 21)	**31,294,332**	28,158,267
Business process outsourcing fee (Note 24)	**29,122,039**	34,179,563
Transaction processing fee	**18,835,323**	19,950,384
Foreign exchange gain	**4,323,122**	14,562,103
Gain on sale of properties (Notes 9)	**701,759**	28,683,070
Others (Note 7)	**9,266,562**	7,817,699
	₱959,680,176	₱618,611,331

Over credit limit fees represent charges to cardholders when their outstanding balance exceeded the credit limit allowed by the Company.

Others include dividend income on quoted equity securities, quasi-cash fees, card replacement fees and various income generating charges.

Miscellaneous expenses consist of:

	2014	2013
Maintenance cost (Note 24)	**₱84,853,425**	₱75,651,656
Collection fees	**78,381,601**	68,603,206
Verification cost	**40,670,574**	25,317,597
Employee relations expenses	**5,775,245**	4,947,123
Insurance (Note 24)	**5,381,130**	4,738,253
Recruitment cost	**4,656,013**	3,612,847
Membership fees (Note 24)	**1,889,204**	3,732,260
Donations (Note 24)	**150,000**	1,150,000
Others	**10,663,527**	10,277,002
	₱232,420,719	₱198,029,944

21. Leases

Company as lessee

The Company entered into lease agreements with its Parent Company for 5 years which will end on December 31, 2016 (with annual escalation of 10.0%) and for 1 year which will end on September 15, 2015 for the premises that the Company uses in Metropolitan Park and Metrobank Plaza, respectively.

The Company also entered into lease agreements to lease units of point-of-sale terminals for a minimum period of 3 to 5 years. These are cancellable and can be terminated after the specified period stated in the lease agreements.

The future minimum lease commitments under operating lease are as follows:

	2014	2013
Within one year	**₱121,134,537**	₱55,651,804
After one year but not more than five years	**325,800,863**	39,629,242
	₱446,935,400	₱95,281,046

In 2014 and 2013, rental expense included under 'Rent, light and water' in the statements of income amounted to ₱161.1 million and ₱126.9 million, respectively. There were no direct costs incurred in relation to these leases.

Company as lessor
The Company entered into a lease agreement with ANZ for 7 years which will end on April 1, 2016 and February 15, 2016 (with annual escalation of 8.0%) for the use of the Company's premise as office space, and sales and service retail branch, respectively.

In 2014 and 2013, rental income included under 'Miscellaneous income' amounted to ₱15.5 million and ₱14.6 million, respectively. There were no direct costs incurred in relation to these leases.

22. Retirement Plan

The Company has a funded noncontributory defined benefit plan covering all of its officers and regular employees. The funds are being administered by the Trust Banking Group of Metrobank under the supervision of the Retirement Committee.

The Retirement Committee is responsible for giving direction to the Trustee on the investment of the assets of the fund. The Retirement Committee defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants.

When defining the investment strategy, the Retirement Committee takes into account the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure or investment policy.

The Retirement Committee delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller oversees the entire investment process.

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

The principal actuarial assumptions used in determining the retirement liability for the Company's retirement plan as of December 31, 2014 and 2013 follow:

	2014	2013
Discount rate	**4.8%**	4.9%
Future salary increases:		
For officers	**9.0%**	8.0%
For staff	**₱2,100**	₱1,700
Average remaining working life	**10 years**	10 years
Retirement age	**55**	55

The changes in retirement liability, present value of defined benefit obligation and fair value of plan assets follow:

2014												
		Net benefit cost				**Remeasurements in other comprehensive income**						
	January 1, 2014	**Current service cost**	**Past service cost**	**Net interest**	**Subtotal***	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Benefits paid**	**Contribution by employer**	**December 31, 2014**
Present value of defined benefit obligation	**₱412,114,500**	**₱57,475,520**	**₱2,686,377**	**₱19,987,553**	**₱80,149,450**	**₱–**	**₱16,497,731**	**₱71,952,417**	**₱88,450,148**	**(₱4,658,204)**	**₱–**	**₱576,055,894**
Fair value of plan assets	**(272,345,394)**	**–**	**–**	**(13,208,752)**	**(13,208,752)**	**7,146,368**	**–**	**–**	**7,146,368**	**4,658,204**	**(76,737,875)**	**(350,487,449)**
Net defined benefit liability	**₱139,769,106**	**₱57,475,520**	**₱2,686,377**	**₱6,778,801**	**₱66,940,698**	**₱7,146,368**	**₱16,497,731**	**₱71,952,417**	**₱95,596,516**	**₱–**	**(₱76,737,875)**	**₱225,568,445**

** Presented under 'Compensation and fringe benefits' in the statements of income.*

2013												
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2013	Current service cost	Past service cost	Net interest	Subtotal*	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Benefits paid	Contribution by employer	December 31, 2013
Present value of defined benefit obligation	₱275,462,856	₱39,198,844	₱25,348,700	₱15,797,088	₱80,344,632	₱–	₱17,142,270	₱44,043,800	₱61,186,070	(₱4,879,058)	₱–	₱412,114,500
Fair value of plan assets	(205,482,946)	–	–	(14,930,775)	(14,930,775)	(3,920,987)	–	–	(3,920,987)	4,879,058	(52,889,744)	(272,345,394)
Net defined benefit liability	₱69,979,910	₱39,198,844	₱25,348,700	₱866,313	₱65,413,857	(₱3,920,987)	₱17,142,270	₱44,043,800	₱57,265,083	₱–	(₱52,889,744)	₱139,769,106

** Presented under 'Compensation and fringe benefits' in the statements of income.*

The Company expects to contribute ₱80.0 million to its defined benefit pension plan in 2015.

The major categories of plan assets and their corresponding percentage to the fair values of total plan assets follow:

	2014		2013	
	Amount	**%**	Amount	%
Deposits in bank	**₱20,885,812**	**6.0%**	₱10,255	0.0%
Due from BSP	**6,000,000**	**1.7**	54,080,000	20.1
Equity securities	**153,000**	**0.1**	–	
Debt securities				
Government	**312,729,939**	**89.7**	207,465,651	77.0
Private	**4,574,852**	**1.3**	4,904,137	1.8
Loans and receivables				
Interest and other receivables	**4,194,503**	**1.2**	2,949,473	1.1
	₱348,538,106	**100.0%**	₱269,409,516	100.0%

In 2014 and 2013, deposits in bank include time deposits with the Parent Company which bear annual interest rates ranging from 0.4% to 2.8% and 0.4% to 2.0%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

		Increase (decrease)	
	Possible fluctuations	**December 31, 2014**	December 31, 2013
Discount rate			
	+1.0%	**(₱69,523,174)**	(₱47,240,500)
	-1.0%	**82,435,637**	55,789,600
Future salary increase rate			
	+1.0%	**68,757,683**	38,859,900
	-1.0%	**(61,378,116)**	(34,305,500)
Turnover rate			
	+1.0%	**68,757,683**	37,487,300
	-1.0%	**(61,378,116)**	(44,431,000)

Shown below is the maturity analysis of undiscounted benefits payments:

	2014	2013
Less than one year	**₱7,322,625**	₱8,963,489
More than one year to five years	**140,216,057**	108,960,109
More than five years to 10 years	**238,142,647**	237,361,872
More than 10 years to 15 years	**721,746,655**	577,775,153
More than 15 years to 20 years	**1,365,908,656**	762,244,093
More than 20 years	**1,731,791,336**	1,313,711,595

The average duration of the defined benefit obligation as of December 31, 2014 and 2013 is 17.6 years and 17.5 years, respectively.

23. Income Taxes

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0% and 7.5% on peso-denominated and foreign currency-denominated cash in banks, respectively, which is a final withholding tax on gross interest income.

The RCIT rate shall be 30.0% and interest allowed as deductible expense shall be reduced by 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of MCIT of 2.0% on the gross income as of the end of the taxable year beginning on the fourth (4^{th}) taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the 3 immediately succeeding taxable years.

In addition, the NIRC of 1997 allows the Company to deduct from its taxable income for the current year its accumulated net operating losses for the immediately preceding 3 consecutive taxable years.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. In 2014 and 2013, EAR expenses amounted to ₱0.9 million and ₱0.8 million, respectively.

Deferred tax asset - net
The components of net deferred tax assets follow:

	2014	2013
Deferred tax asset on:		
Allowance for impairment and credit losses	**₱495,639,329**	₱389,970,569
Deferred membership fees and dues (Note 15)	**122,739,524**	114,194,510
Deferred awards revenue (Note 15)	**122,143,335**	101,092,637
Retirement liability	**67,670,534**	41,930,732
Accrued expenses	**23,886,230**	24,889,526
Unamortized past service cost	**17,433,612**	8,349,298
Unrealized loss on cash flow hedge	**1,170,508**	7,600,722
	850,683,072	688,027,994
Deferred tax liability on:		
Deferred acquisition costs	**(60,594,884)**	(51,734,198)
Unrealized foreign exchange gain	**(1,296,511)**	(4,276,729)
Unrealized gain on AFS investments	–	(98,631,661)
	(61,891,395)	(154,642,588)
Net deferred tax asset	**₱788,791,677**	₱533,385,406

Management believes that the current level of deferred tax assets will be utilized in the future.

A reconciliation of the Company's statutory income tax to effective income tax follows:

	2014	2013
Statutory income tax	**₱1,091,427,215**	₱860,888,921
Tax effects of:		
Income subjected to final tax	**(791,970)**	(67,644)
Non-deductible interest expense	**775,641**	63,970
Others	**185,384**	2,474,334
Effective income tax	**₱1,091,596,270**	₱863,359,581

24. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company's related parties include:

- Parent Company:
  - Metrobank

- Significant Investor:
  - ANZ

- Affiliates or other related parties, which are associates, subsidiaries, and joint ventures of the Parent Company. Affiliates with which the Company has related party transactions in 2014 and 2013 follow:
  - Charter Ping An Insurance Corporation
  - Federal Land, Inc.
  - First Metro Investment Corporation
  - Metro Remittance Center, Inc.
  - Metro Remittance (Hongkong) Ltd.
  - Metro Remittance (Italia), S.p.A.
  - Metro Remittance (Japan) Co. Ltd.
  - Metro Remittance (Singapore) Pte. Ltd.
  - Metro Remittance (UK) Ltd.
  - Metro Remittance (USA), Inc.
  - ORIX Metro Leasing and Finance Corporation
  - Philippine Axa Life Insurance Corporation
  - Philbancor Venture Capital Corporation
  - PSBank
  - SMBC Metro Investment Corporation
  - Taal Land, Inc.
  - Toyota Cubao, Inc.
  - Toyota Financial Services Philippines Corporation
  - Toyota Manila Bay Corporation
  - Toyota Motor Philippines Corporation

- Post-employment benefit plans for the benefit of the Company's employees.

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members.

The Company 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 Company has transactions, priced at arm's-length basis, with Metrobank and other related companies. The major transactions include availments of loans, short-term cash placements and other regular banking transactions. The branch network of Metrobank and PSBank also acts as servicing units of the Company for the acceptance of payments from cardholders. Metrobank and PSBank charge the Company for every payment and processing of transaction which are recorded under 'Distribution costs' and 'Computer-related expenses' in the statements of income, respectively.

The following table presents the balances of material intercompany transactions of the Company as of and for the years ended December 31, 2014 and 2013 (amounts in thousands):

	December 31, 2014		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Parent Company			
Cash and cash equivalents		**₱431,751**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**₱384,029,498**		
Withdrawals	**(384,047,747)**		
Short-term placements		**1,000,000**	Short-term deposit has a term of 15 days and bear annual interest rate of 4.0%
Placements	**1,000,000**		
Maturities	**–**		
Interbank loans receivable		**400,000**	Overnight lending with interest rates ranging from 1.8% to 3.1%.
Placements	**18,223,000**		
Maturities	**(17,823,000)**		
Accounts receivable		**45,686**	Billings on merchant discount subsidy, outsourcing fees, Point-of-Sale (POS) rentals and charges for use of Visa Banking Identification Number (BIN).
Accounts payable		**1,411**	Service fees on availments of bills payable.
Accrued expense payable		**17,038**	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs.
Accrued interest payable		**3,400**	Accrued interest payable on interest-bearing notes.
Bills payable		**–**	Overnight borrowings with interest rates ranging from 2.0% to 2.5% and terms of 1 to 6 days.
Availments	**1,277,000**		
Maturities	**(1,277,000)**		
Notes payable		**800,000**	Interest-bearing notes with an interest rate of 5.6% and term of 5 years (gross of unamortized issuance cost).
Availments	**–**		
Maturities	**–**		
Interest income	**2,901**		Interest earned on bank deposits and overnight lending.
Merchant discount	**90,221**		Income earned on merchant discount subsidy.
Other income	**35,730**		Income earned on outsourcing fees.
Interest expense	**63,880**		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes.
Rent, light and water	**35,022**		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer related expense	**174,838**		Transaction processing charges.
Communications	**401**		Telephone and courier card delivery charges.
Distribution	**60,708**		Over-the-counter charges for the accommodation of cardholder payments.
Security, messengerial and janitorial	**20**		Administrative expenses.
Miscellaneous expense	**4,973**		Other membership and maintenance fees.

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2014
Significant Investor			
Cash and cash equivalents		**₱32,112**	Current and savings account, and foreign currency deposits with annual interest rates of 0.1%.
Deposits	**₱11,322,017**		
Withdrawals	**(11,367,425)**		
Accrued expense payable		**1,050**	Accrual of management and other professional fees.
Accrued interest payable		**294**	Accrued interest payable on interest-bearing notes.
Notes payable		**818,166**	Interest-bearing notes with interest rates ranging from 1.0% to 2.0% and terms of 1 to 3 years (gross of unamortized issuance cost).
Availments	**4,675,400**		
Maturities	**(6,342,309)**		
Interest income	**1**		Interest earned on bank deposits.
Miscellaneous income	**15,464**		Income earned on leased office space at Metrobank Card Center.
Interest expense	**144,666**		Interest expense, service fees and facility agent fees from interbank loans payable and interest-bearing notes.
Affiliates			
Cash and cash equivalents		**60,630**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**9,837,109**		
Withdrawals	**(9,824,672)**		
Interbank loans receivable		**–**	Overnight lending with an interest rate of 2.0%.
Placements	**200,000**		
Maturities	**(200,000)**		
Accounts receivable		**4,420**	Accounts receivable from corporate credit card transactions.
Prepaid expenses and other current assets		**8**	Advance payment for insurance premiums.
Bills payable		**2,666,232**	Overnight borrowings with interest rates ranging from 2.0% to 3.1% and terms of 1 to 3 days and deposit substitutes with interest rates ranging from 1.0% to 3.5% and terms of 15 to 124 days.
Availments	**14,556,977**		
Maturities	**(15,779,268)**		
Notes payable		**50,000**	Interest-bearing note with an interest of 8.5% and term of 5 years (gross of unamortized issuance cost).
Availments	**–**		
Maturities	**–**		
Accrued interest payable		**5,204**	Accrued interest payable on deposit substitutes and interest-bearing notes.
Accrued expense payable		**1,071**	Over-the-counter charges for the accommodation of cardholder payments and other accrued expenses.
Interest income	**11**		Interest earned on bank deposits and overnight lending.
Membership fees and dues	**793**		Annual membership fee for corporate credit cards.
Interest expense	**32,008**		Interest expense on interbank loans payable, deposit substitutes and interest-bearing notes.
Distribution cost	**5,511**		Over-the-counter charges for the accommodation of cardholder payments.
Rent, light and water	**4,086**		Rentals and utility expenses.
Insurance expense	**5,381**		Insurance expenses.

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2013
Parent Company			
Cash and cash equivalents		₱450,000	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	₱344,643,202		
Withdrawals	(344,599,019)		
Interbank loans receivable		–	Overnight lending with interest rates ranging 1.8% to 2.1% with terms of 1 to 4 days.
Placements	16,796,000		
Maturities	(16,796,000)		
Accounts receivable		41,205	Billings on merchant discount subsidy, outsourcing fees, POS rentals and charges for use of Visa BIN.
Accrued expense payable		54,165	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs.
Accrued interest payable		3,369	Accrued interest payable on interest-bearing notes.
Bills payable		–	Overnight borrowings with interest rates ranging from 2.0% to 3.0% and terms of 1 to 6 days.
Availments	4,430,000		
Maturities	(4,430,000)		
Notes payable		800,000	Interest-bearing notes with an interest rate of 5.6% and term of 5 years (gross of unamortized issuance cost).
Availments	–		
Maturities	–		
Interest income	1,821		Interest earned on bank deposits and overnight lending.
Merchant discount	82,716		Income earned on merchant discount subsidy.

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2013		
Other income	₱21,972		Income earned on outsourcing fees.
Interest expense	59,808		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes.
Rent, light and water	32,836		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer related expense	158,667		Transaction processing charges.
Communications	623		Telephone and courier card delivery charges.
Distribution	67,029		Over-the-counter charges for the accommodation of cardholder payments.
Security, messengerial and janitorial	9		Administrative expenses.
Miscellaneous expense	1,720		Other membership and maintenance fees.
Significant Investor			
Cash and cash equivalents		₱77,520	Current and savings account, and foreign currency deposits with annual interest rates of 0.1%.
Deposits	12,207,343		
Withdrawals	(12,169,033)		
Accrued expense payable		1,145	Accrual of management and other professional fees.
Accrued interest payable		227	Accrued interest payable on interest-bearing notes.
Notes payable		2,485,075	Interest-bearing notes with interest rates ranging from 1.0% to 2.0% and terms of 1 to 3 years (gross of unamortized issuance cost).
Availments	2,802,212		
Maturities	(3,247,207)		
Interest income	2		Interest earned on bank deposits.
Miscellaneous income	14,577		Income earned on leased office space at Metrobank Card Center.
Interest expense	145,476		Interest expense, service fees and facility agent fees from interbank loans payable and interest-bearing notes.
Affiliates			
Cash and cash equivalents		48,193	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	9,809,207		
Withdrawals	(9,799,198)		
Interbank loans receivable		–	Overnight lending with an interest rate of 2.0%.
Placements	800,000		
Maturities	(800,000)		
Accounts receivable		4,336	Accounts receivable from corporate credit card transactions.
Prepaid expenses and other current assets		675	Advance payment for insurance premiums.
Accounts payable		2,095	Business process outsourcing income and insurance premium of cardholders.
Bills payable		3,888,523	Overnight borrowings with interest rates ranging from 2.0% to 3.1% and terms of 1 to 3 days and deposit substitutes with interest rates ranging from 1.0% to 3.5% and terms of 15 to 124 days.
Availments	15,243,739		
Maturities	(11,355,215)		
Notes payable		50,000	Interest-bearing note with an interest of 8.5% and term of 5 years (gross of unamortized issuance cost).
Availments	–		
Maturities	–		
Accrued interest payable		11,375	Accrued interest payable on deposit substitutes and interest-bearing notes.
Accrued expense payable		883	Over-the-counter charges for the accommodation of cardholder payments and other accrued expenses.
Interest income	84		Interest earned on bank deposits and overnight lending.
Membership fees and dues	428		Annual membership fee for corporate credit cards.
Other income	12,626		Income earned on outsourcing fees.
Interest expense	39,026		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes.
Distribution cost	6,227		Over-the-counter charges for the accommodation of cardholder payments.
Rent, light and water	4,450		Rentals and utility expenses.
Insurance expense	1,885		Insurance expenses.
Transportation and travel expense	38		Transportation expenses.

Terms and conditions of transactions with related parties

Outstanding balances as of December 31, 2014 and 2013 are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. An impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

In 2014 and 2013, no provisions for credit losses were provided for receivables from related parties.

Remuneration of directors and other key management personnel
The Company's key management personnel includes vice-presidents and above and seconded officers from ANZ. The remuneration of key management personnel, other than the seconded officers, are as follows:

	2014	2013
Salaries and wages and other short-term benefits	**₱121,012,283**	₱111,709,575
Management fees	**18,000,000**	18,000,000
Retirement benefits	**13,498,219**	11,517,257
	₱152,510,502	₱141,226,832

The compensation and benefits of seconded officers are included under 'Management and professional fees' in the statements of income.

There is no agreement between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

Regulatory Reporting
In the ordinary course of business, the Company has various transactions with its affiliates and with certain DOSRI. These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Company, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Company. In the aggregate, loans to DOSRI generally should not exceed the lower of the Company's total regulatory capital or 15.0% of the total loan portfolio.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI loans as reported to the BSP:

	2014	2013
Total outstanding DOSRI loans	**₱60,502,788**	₱55,386,256
Percent of DOSRI loans to total loans	**0.2%**	0.2%
Percent of unsecured DOSRI loans to total DOSRI loans	**1.7%**	2.2%
Percent of past due DOSRI loans to total DOSRI loans	**1.7%**	2.2%
Percent of nonperforming DOSRI loans to total DOSRI loans	**1.5%**	1.6%

Under BSP Circular No. 423, loans and other credit accommodations and guarantees secured by assets are considered as non-risk by the MB and therefore excluded from DOSRI individual and aggregate ceilings.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2014 and 2013, the Company is in compliance with these requirements.

25. Financial Performance

As of December 31, 2014 and 2013, the basic ratios which measure the financial performance of the Company are as follows:

	2014	2013
Return on average equity	**40.1%**	34.6%
Net interest margin on average earning assets	**14.7%**	15.1%
Return on average assets	**5.8%**	5.5%

26. Commitments and Contingencies

In the normal course of operations, the Company has outstanding commitments to extend credit to credit cardholders which are not reflected in the financial statements. The Company does not anticipate losses that will materially affect its assets and liabilities as a result of these transactions.

As of December 31, 2014 and 2013, credit cardholders' unused credit limit amounted to ₱85.5 billion and ₱69.6 billion, respectively.

Various suits and claims by the Company against cardholders, and vice-versa remain unsettled as of December 31, 2014 and 2013. The estimates of the probable cost for the resolution of claims have been developed in consultation with the aid of the outside legal counsel handling the Company's defense in these matters and are based upon analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. 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 these proceedings.

27. Subsequent Events

On February 18, 2015, the BOD approved the net appropriation of retained earnings in the amount of ₱4.9 billion for the following:

1. Appropriations for various Business Technology projects, which are to be implemented 4th quarter of 2015, amounting to ₱377.0 million. The amount includes re-appropriation of ₱349.0 million and additional appropriation of ₱28.0 million.

   The following projects were approved by the BOD on December 11, 2012:

   - Cardlink replacement
   - Collection management system
   - Card origination system

2. Appropriations for the maintenance of capital reserve amounting to ₱2.5 billion to ensure that debt to equity ratio will not exceed 7.5 times as required in the Company's Omnibus Notes Facility Agreement. The amount includes re-appropriation of ₱1.8 billion and additional appropriation of ₱0.7 billion.

3. Appropriations for the distribution of cash dividends in the amount of ₱2.0 billion payable in 3rd quarter of 2015.

28. Approval of Release of Financial Statements

The accompanying comparative financial statements of the Company were authorized and approved for issuance by the BOD on February 18, 2015.

29. Supplementary Information Required Under RR 15-2010

In 2014, the Company reported and/or paid the following taxes which are included under 'Taxes, duties and license fees' in the statement of income:

Gross receipts tax	₱576,895,806
Documentary stamps taxes (DST)	127,051,931
Local taxes	22,023,739
Fringe benefit tax	5,673,782
License fee	3,958,735
Others	10,134,282
	₱745,738,275

DST paid were related to bills payable and notes payable amounting to ₱85.5 million and ₱41.5 million, respectively.

Withholding Taxes

As of December 31, 2014, total remittances and balance of withholding taxes are as follows:

	Total remittances	Balance
Expanded withholding taxes	₱497,770,875	₱60,001,748
Withholding taxes on compensation and benefits	184,105,346	9,144,302
Final withholding taxes	208,157,973	37,548,442
	₱890,034,194	₱106,694,492

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