06 November 2014

eastwest

THE PHILIPPINE STOCK EXCHANGE, INC.
Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: Ms. Janet A. Encarnacion
Head – Disclosure Department

Dear Ms. Encarnacion:

We are pleased to furnish your good office with a copy of our SEC Form 17-Q as of September 30, 2014 filed with the Securities and Exchange Commission (SEC).

Thank you.

Very truly yours,

Aerol Paul B. Banal
Corporate Planning Officer

111062014000826

SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills,Mandaluyong City, Metro Manila,Philippines
Tel:(632) 726-0931 to 39 Fax:(632) 725-5293 Email: mis@sec.gov.ph

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Company Information

SEC Registration No.	AS94002733
Company Name	EAST WEST BANKING CORP.
Industry Classification	
Company Type	Stock Corporation

Document Information

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COVER SHEET

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SEC Registration Number

EAST WEST BANKING CORPORATION AND
SUBSIDIARY

(Company's Full Name)

THE BEAUFORT
5TH AVENUE CORNER 23RD ST.
FORT BONIFACIO GLOBAL CITY
TAGUIG CITY 1634

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

Renato K. De Borja, Jr.
(Contact Person)

+632 5753888 Local 3390
(Company Telephone Number)

1 2 Month **3 1** Day (Fiscal Year)

1 7 - Q (Form Type)

0 4 Month **2 5** Day (Annual Meeting)

NONE

(License Type, If Applicable)

Corporate Finance Department
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2014**

2. Commission identification number **AS094-002733**

3. BIR Tax Identification No. **003-921-057-000**

4. Exact name of issuer as specified in its charter
   EAST WEST BANKING CORPORATION

5. Province, country or other jurisdiction of incorporation or organization **PHILIPPINES**

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office — Postal Code
   The Beaufort, 5th Avenue, Corner 23rd St. — **1634**
   Fort Bonifacio Global City, Taguig City

8. Issuer's telephone number, including area code
   +632 575 3888 Extension 3390

9. Former name, former address and former fiscal year, if changed since last report
   n/a

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares (Php 10 par)	**Total: 1,128,409,610 shares**
Subordinated Debt Php 6,612,500,000	

....

11. Are any or all of the securities listed on a Stock Exchange?

Yes [**X**] No [ ]

The company was listed in the Philippine Stock Exchange on May 7, 2012.

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

Name of exchange: **Philippine Stock Exchange**
Class of securities: **Common Shares**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [**X**] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [**X**] No []

PART I – FINANCIAL INFORMATION

Item I:

Management's Discussion & Analysis of Financial Position and Results of Operations

Item II:

Financial Statements (Attachment 1 - Unaudited Interim Financial Statements)

PART II – OTHER INFORMATION

Refer to the following:

Attachment 2 – Aging of Past Due Loans and Other Receivables
Attachment 3 – Consolidated Financial Ratios

There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

East West Banking Corporation
Issuer

By:

Antonio C. Moncupa, Jr.
President and Chief Executive Officer

Renato K. De Borja, Jr.
Senior Vice-President and Chief Finance Officer

November 6, 2014

Part I
Management's Discussion & Analysis of Financial Position and Results of Operations

Financial Performance Highlights

The Bank's recurring income, driven by growth in core loans and deposits, continue to post strong growth, with Net Interest Income and Fee-based income growing by 20% and 29%, respectively. However, Net Income as of September 30, 2014 declined by 5% to Php1.6 billion from Php1.7 billion in the same period last year, largely as a result of lower trading gains.

Total Assets stood at Php166.9 billion as of September 30, 2014. This is 31% and 17% higher than September 30, 2013 and December 31, 2013, respectively. The growth in assets largely came from the growth in customer loans, which grew by 28% y/y and 19% from December 2013 to end at Php113.5 billion. Consumer loans grew by 29% y/y and 25% from year-end 2013. Corporate loans which are largely focused on the middle-market segment grew 26% y/y and 12% from year-end 2013. Consumer loans proportion to total customer loans is at 54% as EW retained its position as the most 'consumer loan focused' universal bank.

The Bank's Operating Income increased by 9% y/y to Php10.9 billion. The double digit growth in recurring Net Interest Income and Fee-based Income was partly offset by lower Securities Trading Gains and Miscellaneous Income. The Bank's Net Interest Income, driven by its above industry net interest margin (NIM) of 8.1%, grew by 20% y/y to Php7.3 billion from Php6.1 billion in the same period last year. Fee-based Income, largely coming from transactional and service fees of Consumer lending and the Branches, grew by 29% y/y to Php2.4 billion. The rest of the Operating Income declined by 41% to Php1.2 billion from the decline in Securities Trading Gains and due to a one-off gain on the sale of written-off Credit Card portfolio last year.

Total Operating Expenses including Provision for Credit Losses increased by 7% to Php8.8 billion. Sans one-off expenses last year , Operating Expenses would have posted double digit growth as a result of business expansion driven mainly by the set of new Branches. Provision for Income Taxes was higher at Php451.4 million due to higher taxable income vs. last year.

Financial Position

Loans

Customer loans grew by 28% y/y and 19% from December 2013. Consumer loans grew by 29% y/y and 25% from December 2013, at the back of strong growth in Auto loans and other consumer loan products. Corporate loans grew 26% y/y and 12% from December 2013. Similar to prior periods, Consumer loans still take up more than half of the portfolio at 54% of total Customer loans.

Deposits

Deposit levels as of September 30, 2014 stood at Php127.7 billion, up by 34% from the same period last year and up 15% from end 2013. The y/y growth is largely attributable to the expanded branch store network.

The strong growth in high yield consumer loans and relatively flat cost of deposits resulted for the Bank to post an industry leading NIM of 8.1% as of September 30, 2014.

Capital

The Bank's capital ratios to risk weighted assets remain above regulatory standards as of September 30, 2014 despite the more stringent rules with the implementation of Basel 3 capital standards at the start of the year. The Bank's Capital Adequacy Ratio (CAR) now stands at 14.8% after the successful issuance of P5.0 billion Basel 3 compliant Tier 2 notes in July 2014. The Bank's Common Equity Tier 1 (CET1) ratio and Tier 1 ratio both stands at 10.4%.

Credit Quality

The Bank's NPL as a proportion to total Customer loans decreased y/y mainly due to improvement in the unsecured portfolio, particularly Credit Cards and Personal/Salary loans. NPL ratio net of fully provided NPLs, decreased to 3.4%[1] in 3Q2014 from 4.2%[1] in the same period last year. The Bank's NPL ratio is higher than industry average given its higher proportion of exposure to Consumer loans relative to its peers, which is at 54% of its total Customer loans.

The Bank's Gross and Net NPL ratio at parent level and as disclosed to the BSP is at 4.4%[2] and 3.0%[3], respectively. The BSP disclosed NPL ratio takes into account interbank loans used by the Banks for liquidity management purposes.

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[1] *Total NPLs less: 100% fully provided NPLs divided by Total Customer Loans less: 100% fully provided NPLs*
[2] *Gross NPL ratio disclosed to the BSP, which is at Parent level and inclusive of Interbank loans*
[3] *NPL ratio net of specific provisions disclosed to the BSP, which is at Parent level and inclusive of Interbank loans*

Results of Operations - For the Third Quarter ended September 30, 2014 and 2013

Revenues

Net Revenues grew by 29% in 3Q2014 to Php3.8 billion from Php2.9 billion in the same quarter last year. The increase was due to the stable double digit growth in Net Interest Income and Service fees on Consumer lending and Branch transactions. Net Interest Income and Service Fees grew by 16% and 34% q/q to Php2.6 billion and Php862.9 million, respectively.

Net Interest Income

Net Interest Income stood at Php2.6 billion in 3Q2014, 16% or Php362.8 million higher than the Php2.2 billion posted in the same quarter last year. Interest income grew by 19% to P3.0 billion, as interest income on loans grew by 22%, while interest income on investment securities and other liquid assets went down due to lower yields. Interest expense grew by 34% to P436.4 million coming from higher deposit and funding base.

Fee Income

Other Income, excluding Trading Gains, was at Php1.2 billion, 70% higher than the Php717.4 million posted in the same quarter last year. Service charges, fees and commissions increased 34% largely coming from transactional and service fees of Consumer lending and the Branches.

Trading Income

Trading income in 3Q2014 was at Php8.2 million or 68% lower than the Php25.6 million gains booked in the same quarter last year, as the Bank took a conservative stance in 3Q2014 as a result of market uncertainties.

Operating Costs

Total Operating Expenses, inclusive of Provision for Credit Losses, increased by 21% in 3Q2014 to Php3.0 billion from Php2.5 billion in the same quarter last year. Provision for loan losses increased by 14% to Php768.2 million in 3Q2014 from Php675.6 million in the same quarter last year on account of the growth in Consumer loans. Compensation and fringe benefits increased by 25% to Php753.6 million on account of higher headcount due to branch expansion. Taxes and licenses increased by 12% to Php218.7 million as a direct result of higher Operating Income. Rent Expense of Php156.1 million was 24% higher compared to the same quarter last year while Depreciation and Amortization was flat at Php206.4 million. Miscellaneous Expenses increased by 35% to Php878.1 million due to business expansion.

Results of Operations - For the Nine Months ended September 30, 2014 and 2013

Revenues

Net Revenues increased by 9% to Php10.9 billion despite lower Securities Trading Gains. Securities Trading Gains was at Php620.0 million or 59% lower than the Php1.5 billion gains booked in the same period last year. The decline in Securities Trading gains were offset by strong growth in core recurring income as Net Interest Income increased by Php1.2 billion or 20% to Php7.3 billion, while Service Fees and Commission grew by Php529.5 million or 29% to Php2.4 billion.

Net Interest Income

Net Interest Income stood at Php7.3 billion, 20% or Php1.2 billion higher than the Php6.1 billion posted in the same period last year. The higher Net Interest Income was a result of the double digit growth in lending coupled by slightly lower funding costs, as interest income increased by 17%, while interest expense declined by 2%. This allowed the Bank to post a net interest margin of 8.1%, which is more than two times higher than industry average.

Fee Income

Other Operating Income, excluding Trading and Foreign Exchange Gains, was at Php2.8 billion. Fee-based income (e.g. Service charges, fees and commission) grew by 29% to Php2.4 billion from Php1.8 billion in the same period last year. Other non-interest income declined by 2% to P467.7 million as the decline in miscellaneous income coming from the sale of credit card portfolio last year was offset by gains on sale of investment properties this year.

Trading Income

Securities Trading Gains was at Php620.0 million, or 59% lower as compared to the Php1.5 billion gains posted in same period last year, as the Bank took advantage of the drop in interest rates in the first half of last year. On the other hand, Foreign Exchange Gains increased by 56% to Php138.0 million compared to the Php88.8 million booked in the same period last year.

Operating Costs

Total Operating Expenses, including Provision for loan losses, increased by 7% to Php8.8 billion. Net of one-off expenses last year, Total Operating Expenses should have increased by double digits mainly due to the branch expansion. Compensation and fringe benefits increased by 7% to Php2.2 billion, while Provision for loan losses slightly went down by 2% to Php2.3 billion. Other Expenses related to business expansion has increased y/y, as follows: (1) Taxes and licenses grew by 7% to Php708.1 million as a result of growth in revenue base; (2) Depreciation and amortization increased by 16% to Php624.2 (3) Rent grew by 12% to Php455.9 million coming from branch expansion; and (4) Miscellaneous Expenses grew by 12% to Php2.6 billion with the growth largely coming from higher Consumer lending business and branch expansion.

Summary of Key Financials and Ratios

Balance Sheet (in Php billions)	**September 30, 2014**	**September 30, 2013**	**y/y Growth %**
Assets	166.9	127.4	31%
Consumer Loans	61.1	47.5	29%
Corporate Loans	52.4	41.5	26%
Total Deposits	127.7	95.2	34%
Capital	21.0	19.1	10%

Profitability (in Php millions)	**September 30, 2014**	**September 30, 2013**	**y/y Growth %**
Net Interest Income	7,348	6,100	20%
Other Income	3,592	3,905	(8%)
Operating Expenses (Ex- Provision for Losses)	6,568	5,963	10%
Provision for Losses	2,274	2,309	(2%)
Net Income After Tax	1,646	1,731	(5%)

Key Financial Ratios	**September 30, 2014**	**September 30, 2013**	**Variance b/(w)**
Return on Equity	10.9%	12.6%	(1.7%)
Return on Assets	1.4%	1.8%	(0.4%)
Net Interest Margin	8.1%	8.3%	(0.2%)
Cost-to-Income Ratio	60.0%	59.6%	(0.4%)
Capital Adequacy Ratio	14.8%	17.1%	(2.3%)

Business Segment Performance

The Bank's core revenues continue to post double-digit growth as it builds its recurring income base. The growth is a result of the combined efforts of Consumer lending, Retail banking, and Corporate banking business segments, as well as the contribution of the Rural bank subsidiary. The Bank has posted an industry leading NIM of 8.1% as of September 30, 2014, which resulted for the 20% growth in Net Interest Income. Service fees also posted a strong growth of 29% y/y mostly coming from Consumer lending business and branch transaction services.

Consumer lending and Corporate banking posted double-digit growth in customer loan portfolio, at 29% and 26%, respectively. The increase in Corporate loans was brought about by the wider coverage of the expanded account officer pool which mitigated in part the effects of lower margins in this business segment. The increase in Consumer loans was led by the strong growth in Auto and other Consumer loans. The growth in all loan business segments was the main driver of the 17% increase in Interest Income. On the other hand, Interest Expense has gone down slightly by 2% y/y as cost of deposits was relatively flat coupled by lower cost of wholesale borrowings.

Consumer lending was led by the contribution of the Credit Card business as receivables ended at Php20.4 billion, which is 7% higher than the same period last year. Auto loans was the second highest contributor for the Consumer lending portfolio, which reached a total of Php20.2 billion in loans, or 47% higher y/y as the Bank benefited from strong car industry sales. Mortgage loans continue to gain traction, growing by 24% y/y to Php8.8 billion as of September 2014 and 16% vs. year-end 2013. Other Consumer loans grew by 52%, mostly coming from Salary and Personal loans. On the Corporate banking side, loan portfolio ended at Php52.4 billion as of September 2014, posting a 26% growth y/y as contributions from the expanded sales force continue to produce results. As of September 2014, Consumer loans still account to more than half of the total Customer loan portfolio at 54%.

Treasury group's contribution to the Bank's bottom line was lower than last year, as Securities Trading Gains went down to Php620.0 million from Php1.5 billion last year. Foreign Exchange Gains, however, increased by 56% to Php138.0 million from Php88.8 million in the same period last year.

The main driver of other Non-Interest Income were Service charges, fees and commissions which grew by 29% to Php2.4 billion from Php1.8 billion in the same period last year on account of growth in customer base, coming from increase in Consumer lending and CASA which are good source of transaction fees.

As expected, cost drivers came from the headcount intensive Retail banking and Consumer lending, which led all business segments in terms of Operating Expenses. This was largely due to the branch store expansion program and credit costs booked for Consumer loans.

In summary, Consumer lending contributed most to the Net Income due to the solid growth across all consumer products. This was followed by Treasury's contribution coming from gains in both Securities and Foreign Exchange trading. Corporate banking came in third despite thinning spreads, as a result of its expanded loan portfolio. Retail banking, on the other hand, continues to carry the brunt of the expenses brought about by the increase in new branch stores opened from 2012 to the present.

Other Information:

As of September 30, 2014, EW Bank group has a total branch store network of 391 with 522 ATMs and combined manpower of 5,129.

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Capital Expenditures
The Bank has commitments for capital expenditures mainly for bank's branch expansion and implementation of IT projects.

Significant Elements of Income or Loss
Significant elements of the consolidated Net Income of the Group for the period ended September 30, 2014 and 2013 came from its continuing operations.

Seasonal Aspects
There are no seasonal aspects that had a material effect on the Bank's financial condition and results of operations.

Vertical and Horizontal Analysis of Material Changes for the Period
The term "material" in this section shall refer to changes or items amounting to five percent (5%) of the relevant accounts or such lower amount, which the Bank deems material on the basis of other factors.

I. Statements of Financial Position – September 30, 2014 vs. December 31, 2013

- Cash and cash equivalents decreased by 10% to Php3.5 billion due to the leveling-off of cash in vault from the usual year-end build-up.
- Due from BSP increased by 10% to P20.4 billion mainly on higher deposit reserves and liquid funds placed with BSP.
- Due from other banks increased by 244% to Php6.0 billion due to increased levels of placements and balances with counterparty banks coming from excess liquidity.
- Interbank loans receivable and Securities Purchased Under Resale Agreements (SPURA) decreased by 25% as more funds were placed in other liquid assets.
- Financial Assets at Fair Value through Profit and Loss increased by 83% due to movements in the Bank's proprietary trading portfolio.
- Financial Assets at Fair Value through Other Comprehensive Income increased by 32% due to increase in market values of its equity securities investments.
- Investment Securities at Amortized Cost decreased by 13% to Php7.9 billion due to the maturity and sale of various government securities in line with the Bank's balance sheet business model.
- Loans and Receivables increased by 19% to Php112.1 billion driven mainly from increase in customer loans on both consumer and mid-market segments.
- Investment properties decreased by 11% due to the disposal of a portion of the Bank's repossessed assets.
- Intangible assets increased by 20% to Php4.1 billion due to increase in branch stores in the restricted areas.
- Other assets increased by 56% to Php1.4 billion on account of the following: (1) Prepaid expenses grew by Php115.7 million or 116% on account of branch expansion, (2) Returned Checks & Other Cash Items increased by 81% to Php71.3 million, and (3) Advances/down-payments to contractors and public utilities increased to Php79.8 million.
- Deposit liabilities increased by 15% to Php127.7 billion as funding requirement increased in line with asset growth.
- Bills and acceptance payable increased by 50% to Php4.9 billion from higher volume of interbank and other short term borrowings.

- Accrued Taxes, Interest and Other Expenses increased by 28% due to higher level of accruals on account of branch expansion.
- Cashier's Checks and Demand Draft Payable decreased by 9% due to seasonally high transaction volume during the holidays.
- Unsecured subordinated debt (UnSD) increased by 131% as the Bank issued Php5.0 billion BASEL III compliant Tier 2 notes last July 2014.
- Income tax payable increased by 150% due to lower tax-exempt income in the Parent books and higher taxable income from the subsidiary.
- Other liabilities went up by 24% due to the following (1) Other deferred credits increased by Php73.0 million or 19% to Php454.4 million,(2) Withholding tax payable increased by Php6.5 million or 12% due to higher volume of transactions as a result of the branch expansion, and (3) Stale checks increased by 48% to Php84.4 million.

II. Statement of Income – September 30, 2014 vs. September 30, 2013

- Interest income increased by 17% to Php8.5 billion from Php7.2 billion in the same period last year primarily due to increase in customer loans.
- Interest expense declined by 2% to P1.1 billion due to lower interest expense on borrowings and relatively flat interest on deposit liabilities.
- Service charges, fees and commissions increased 29% to Php2.4 billion from Php1.8 billion in 2013, resulting from the expansion of business lines, particularly with respect to fees generated by the larger consumer portfolio and expanded store network.
- Trading and securities gains decreased by 59% as the Bank realized a significant amount of its trading revenues in the first four months of last year due to favorable market conditions. Foreign exchange gain, however, increased by 56% as the Bank's FX position is in line with currency movement during the period.
- Gain on sale of assets and asset foreclosure increased by 267% due to the Bank's sale of investment properties during the quarter.
- Trust income dropped by 31% to Php15.7 million due to the decline in assets under management account.
- Miscellaneous income also decreased by 59% to Php155.1 million as the Bank had one-time gains last year on the sale of its written-off credit card portfolio.
- Compensation and fringe benefits increased by 7% to Php2.2 billion on account of higher headcount due to branch expansion.
- Taxes and licenses, Rent expense and miscellaneous expenses increased by 7%, 12 % and 12%, respectively, on account of business expansion.
- Provision for income tax increased by 16576% to Php451.4 million due to higher taxable income vs. last year.

Attachment I

East West Banking Corporation and Subsidiary

Interim Consolidated Financial Statements
As of September 30, 2014 (Unaudited) and December 31, 2013 (Audited)
And for the Nine Months Ended September 30, 2014 and 2013

EAST WEST BANKING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM STATEMENTS OF FINANCIAL POSITION

As of September 30, 2014 (*With Comparative Figures for December 31, 2013)*

(Amounts in Thousands of Philippine Peso)

	2014 (Unaudited)	2013 (Audited)
ASSETS		
Cash and Other Cash Items	**₱3,492,565**	₱3,884,538
Due from Bangko Sentral ng Pilipinas	**20,431,209**	18,537,655
Due from Other Banks	**6,021,933**	1,751,824
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (IBLR and SPURA)	**2,329,013**	3,116,529
Financial Assets at Fair Value Through Profit or Loss	**3,575,391**	1,948,703
Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI)	**14,185**	10,733
Investment Securities at Amortized Cost	**7,873,514**	9,080,320
Loans and Receivables	**112,141,798**	93,960,575
Property and Equipment	**3,399,734**	3,452,741
Investment Properties	**897,016**	1,006,716
Deferred Tax Assets	**976,524**	995,125
Goodwill and Other Intangible Assets	**4,381,647**	3,655,735
Other Assets	**1,398,246**	897,499
TOTAL ASSETS	**₱ 166,932,775**	₱142,298,693
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**₱39,510,592**	₱39,568,923
Savings	**25,992,697**	24,865,438
Time	**55,034,736**	41,275,731
Long-term negotiable certificates of deposits	**7,113,067**	5,466,003
	127,651,092	111,176,095
Bills and Acceptances Payable	**4,928,313**	3,288,935
Accrued Taxes, Interest and Other Expenses	**1,326,895**	1,038,175
Cashier's Checks and Demand Draft Payable	**785,735**	866,457
Subordinated Debt	**6,612,500**	2,862,500
Income Tax Payable	**191,974**	76,935
Other Liabilities	**4,466,504**	3,597,377
TOTAL LIABILITIES	**₱ 145,963,013**	₱122,906,474
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY		
Common Stock	**₱11,284,096**	₱11,284,096
Additional Paid-in Capital	**978,721**	978,721
Surplus Reserves	**41,869**	41,869
Surplus	**8,663,456**	7,087,635
Net unrealized Gains on FVTOCI	**5,489**	1,925
Remeasurement Losses on Retirement Plan	**(13,877)**	(13,877)
Cumulative Translation Adjustment	**10,008**	5,228
	20,969,762	19,385,597
NON-CONTROLLING INTEREST	**-**	6,622
TOTAL EQUITY	**20,969,762**	19,392,219
TOTAL LIABILITIES AND EQUITY	**₱ 166,932,775**	₱142,298,693

See accompanying Notes to Unaudited Interim Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM STATEMENTS OF INCOME

For the periods ended September 30, 2014 and 2013

(Amounts in Thousands of Philippine Peso)

	September 30			
	2014	2013	**2014**	2013
	For the quarter ended	For the quarter ended	**For the nine months ended**	For the nine months ended
INTEREST INCOME				
Loans and receivables	**₱2,876,548**	₱2,364,786	**₱8,028,897**	₱6,698,257
Trading and investment securities	**115,649**	119,879	**399,656**	414,048
Due from other banks and interbank loans receivable and securities purchased under resale agreements	**8,138**	41,107	**48,874**	135,850
	3,000,335	2,525,772	**8,477,427**	7,248,155
INTEREST EXPENSE				
Deposit liabilities	**328,201**	252,263	**927,455**	927,752
Subordinated debt, bills payable and other borrowings	**108,239**	72,402	**202,396**	219,960
	436,440	324,665	**1,129,851**	1,147,712
NET INTEREST INCOME	**2,563,895**	2,201,107	**7,347,576**	6,100,443
Service charges, fees and commissions	**862,941**	645,108	**2,366,061**	1,836,581
Trading and securities gain (loss)	**(19,929)**	5,913	**620,049**	1,500,548
Foreign exchange gain	**28,084**	19,696	**138,042**	88,769
Trust income	**5,134**	6,680	**15,562**	22,665
Gain on sale of assets and asset foreclosure	**284,087**	34,883	**297,023**	80,912
Miscellaneous	**70,012**	30,706	**155,069**	375,879
TOTAL OPERATING INCOME	**3,794,224**	2,944,093	**10,939,472**	10,005,797
OPERATING EXPENSES				
Compensation and fringe benefits	**753,626**	603,610	**2,225,978**	2,079,258
Provision for impairment and credit losses	**768,197**	675,635	**2,274,280**	2,309,359
Taxes and licenses	**218,729**	194,816	**708,066**	661,630
Depreciation and amortization	**206,383**	208,059	**624,219**	537,306
Rent	**156,083**	126,166	**455,942**	406,674
Miscellaneous	**878,117**	649,747	**2,553,638**	2,277,158
TOTAL OPERATING EXPENSES	**2,981,135**	2,458,042	**8,842,123**	8,271,885
INCOME BEFORE INCOME TAX	**813,089**	486,051	**2,097,349**	1,733,912
PROVISION FOR INCOME TAX	**119,334**	30,433	**451,385**	2,707
NET INCOME	**693,755**	455,618	**1,645,964**	1,731,205
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**₱693,755**	₱457,557	**₱1,645,964**	₱1,731,036
Non-controlling interest	–	(1,939)	–	(169)
NET INCOME	**₱693,755**	₱455,618	**₱1,645,964**	₱1,731,205
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company			**₱1.46**	₱1.53
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company			**₱1.46**	₱1.53

See accompanying Notes to Unaudited Interim Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

For the Nine Months Ended September 30, 2014 and 2013

(Amounts in Thousands of Philippine Peso)

	September 30			
	2014	2013	**2014**	2013
	For the quarter ended	For the quarter ended	**For the nine months ended**	For the nine months ended
NET INCOME FOR THE PERIOD	**₱693,755**	₱455,618	**₱1,645,964**	₱1.731,205
OTHER COMPREHENSIVE INCOME				
Remeasurement losses on retirement benefit plan	–	–	–	(6,947)
Unrealized loss on financial assets at FVTOCI	**(224)**	(19)	**3,564**	290
Cumulative translation adjustment	**18,847**	(178)	**4,780**	17,192
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**18,263**	(197)	**8,344**	10,535
TOTAL COMPREHENSIVE INCOME	**₱712,018**	₱455,421	**₱1,654,308**	₱1,741,740
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**₱712,018**	₱456,150	**₱1,654,308**	₱1,744,527
Non-controlling interest	–	(729)	–	(2,787)
TOTAL COMPREHENSIVE INCOME	**₱712,018**	₱455,421	**₱1,654,308**	₱1,741,740

See accompanying Notes to Unaudited Interim Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY

For the Nine Months Ended September 30, 2014 and 2013

(Amounts in Thousands of Philippine Peso)

	Consolidated									
	Nine Months Ended September 30, 2014 and 2013									
	Equity Attributable to Equity Holders of the Parent Company									
	Common Stock	**Additional Paid-in Capital**	**Surplus Reserves**	**Surplus**	**Net Unrealized Gain on Financial Assets at FVTOCI**	**Remeasurement Gains (Losses) on Retirement Plan**	**Cumulative Translation Adjustment**	**Total**	**Non-Controlling Interest**	**Total Equity**
	(Amounts in Thousands)									
Balances at January 1, 2014	**₱11,284,096**	**₱978,721**	**₱41,689**	**₱7,087,635**	**₱1,925**	**(₱13,877)**	**₱5,228**	**₱19,385,597**	**₱6,622**	**₱19,392,219**
Business combination with GBI				**(70,143)**				**(70,143)**	**(6,622)**	–
Total comprehensive income (loss)	**–**	**–**	**–**	**1,645,964**	**3,564**	**–**	**4,780**	**1,654,308**	**–**	**1,654,308**
Balances at September 30, 2014	**₱11,284,096**	**₱978,721**	**₱41,689**	**₱8,663,456**	**₱5,489**	**(₱13,877)**	**₱10,008**	**₱20,969,762**	**₱–**	**₱20,969,762**

	Common Stock	Additional Paid-in Capital	Surplus Reserves	Surplus	Net Unrealized Gain on Financial Assets at FVTOCI	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total	Non-Controlling Interest	Total Equity
	(Amounts in Thousands)									
Balances at January 1, 2013	₱11,284,096	₱978,721	₱38,967	₱5,034,967	₱1,174	(₱14,247)	(₱16,351)	₱17,307,327	₱13,553	₱17,320,880
Total comprehensive income (loss)	–	–	–	1,731,205	290	(6,947)	17,192	1,741,740	–	1,741,740
Other equity transactions				(600)						(600)
Increase in controlling interest in subsidiary	–	–	–	–	–	–	–	–	(8,032)	(8,032)
Balances at September 30, 2013	₱11,284,096	₱978,721	₱38,967	₱6,765,572	₱1,464	(₱21,194)	₱841	₱19,048,467	₱5,521	₱19,053,988

EAST WEST BANKING CORPORATION AND SUBSIDIARY

UNAUDITED INTERIM STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2014 and 2013
(Amounts in Thousands of Philippine Peso)

	Nine Months Ended September 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,206,187**	₱1,733,912
Adjustments for:		
Depreciation and amortization	**624,219**	537,806
Provision for credit and impairment losses	**2,274,280**	2,309,359
Loss (Gain) on sale of assets	**(603,020)**	(80,912)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**(1,626,576)**	2,540,186
Loans and receivables	**(20,503,732)**	(18,809,663)
Other assets	**(560,473)**	(168,006)
Increase (decrease) in:		
Deposit liabilities	**16,474,997**	3,995,131
Accounts payable and accrued expenses	**288,720**	240,763
Cashier's checks and demand draft payable	**(80,722)**	(131,415)
Other liabilities	**873,907**	1,865,180
Net cash provided by operations	**(812,213)**	(5,967,659)
Income taxes paid	**(316,726)**	(34,392)
Net cash provided by operating activities	**(1,128,939)**	(6,002,051)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of :		
Property and equipment	**274,413**	–
Investment properties and other repossessed assets	**439,651**	62,681
Investment securities at amortized cost	**3,912,535**	1,073,162
Proceeds from maturity of investment securities at amortized cost		
Acquisitions of:		
Investment securities at amortized cost	**(2,399,732)**	(399,504)
Property and equipment	**(644,438)**	(819,009)
Branch licenses	**(505,000)**	–
Capitalized software	**(347,071)**	(333,318
Net cash provided by investing activities	**730,358**	(415,988)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bills and acceptances payable	**1,639,378**	**(1,877,512)**
Proceeds from issuance of subordinated debt	**5,000,000**	–
Payment of subordinated debt	**(1,250,000)**	–
Other equity transactions	**(6,622)**	**(8,632)**
Net cash provided by (used in) financing activities	**5,382,756**	**(1,886,144)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱4,984,174**	**₱ (8,304,183)**

(Forward)

	Nine Months Ended September 30	
	2014	2013
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**₱3,884,538**	₱3,235,161
Due from Bangko Sentral ng Pilipinas	**18,537,655**	21,855,275
Due from other banks	**1,751,824**	1,637,917
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (IBLR and SPURA)	**3,116,529**	582,648
	₱27,290,546	₱27,311,001
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**₱3,492,565**	₱2,712,383
Due from Bangko Sentral ng Pilipinas	**20,431,209**	12,599,710
Due from other banks	**6,021,933**	1,831,213
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (IBLR and SPURA)	**2,329,013**	1,863,512
	₱32,274,720	₱19,006,818

See accompanying Notes to Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARY
NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

1. Corporate Information

East West Banking Corporation (the Parent Company) was granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank under Monetary Board (MB) Resolution No. 101 dated July 6, 1994, and commenced operations on July 8, 1994. The Parent Company was also granted authority by the BSP to operate an expanded foreign currency deposit unit under MB Resolution No. 832 dated August 31, 1994. On July 31, 2012, the Parent Company received the approval of the BSP to operate as a universal bank. As of September 30, 2014, the Parent Company is effectively 75% owned by Filinvest Development Corporation (FDC). The Parent Company's ultimate parent company is A.L. Gotianun, Inc. The Parent Company's head office is located at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

The Parent Company is a domestic corporation registered with the Securities and Exchange Commission (SEC) on March 22, 1994. In 2012, the Parent Company conducted an initial public offering (IPO) of its 283,113,600 common shares. The Parent Company's common shares were listed and commenced trading in the Philippine Stock Exchange (PSE) on May 7, 2012.

Through its network of 344 and 300 branches as of September 30, 2014 and December 31, 2013, respectively, the Parent Company provides a wide range of financial services to consumer and corporate clients. The Parent Company's principal banking products and services include deposit-taking, loan and trade finance, treasury, trust services, credit cards, cash management and custodial services.

On March 19, 2009, the Parent Company effectively obtained control of the following entities:
a) AIG Philam Savings Bank (AIGPASB)
b) PhilAm Auto Finance and Leasing, Inc. (PAFLI)
c) PFL Holdings, Inc. (PFLHI)

On September 30, 2009, AIGPASB, PAFLI and PFLHI were merged to the Parent Company.

On August 19, 2011, the Parent Company acquired 84.78% of the voting shares of Green Bank (A Rural Bank), Inc. (GBI) for ₱158.55 million. GBI is engaged in the business of extending credit to small farmers and tenants and to deserving rural industries or enterprises and to transact all businesses which may be legally done by rural banks. In 2012, the Parent Company acquired additional shares from the non-controlling shareholder amounting to ₱ 8.77 million and from GBI's unissued capital stock amounting to ₱19.65 million, thereby increasing its ownership to 96.53% as of December 31, 2012.

In 2013, the Parent Company's deposit for future stock subscription to GBI amounting to ₱700.00 million was applied to the 441,000,000 common shares issued by GBI to the Parent Company. In addition, the Parent Company contributed additional capital amounting to ₱ 1.28 million and acquired non-controlling interest amounting to ₱0.20 million, thereby increasing its ownership to 99.84% as of September 30, 2014. The Parent Company's investment in GBI amounted to ₱888.45 million and ₱186.97 million as of September 30, 2014 and December 31, 2013, respectively.

On July 11, 2012, the Parent Company acquired 83.17% voting shares of FinMan Rural Bank, Inc. (FRBI) for ₱34.10 million. FRBI's primary purpose is to accumulate deposit and grant loans to various individuals and small-scale corporate entities as well as government and private employees. In 2012, the Parent Company acquired additional shares of FRBI from its unissued capital stock amounting to ₱20.00 million, thereby increasing its ownership to 91.58% as of December 31, 2012. On May 21, 2013, FRBI changed its name to East West Rural Bank, Inc. (EWRB). In 2013, the Parent Company's deposit for future stock subscription to EWRB amounting to ₱120.00 million was applied to the 46,000,000 common shares issued by EWRB to the Parent Company. In addition, the Parent Company contributed additional capital amounting to ₱340.00 million and acquired the remaining non-controlling interest amounting to ₱6.90 million, thereby increasing its ownership to 100.00% as of September 30, 2014. The Parent Company's investment in EWRB amounted to ₱ 521.00 million and ₱54.10 million as of September 30, 2014 and December 31, 2013, respectively.

Both GBI and EWRB (the Subsidiary) were consolidated with the Parent Company from the time the latter gained control.

In May 2013, GBI and EWRB entered into an asset purchase agreement with assumption of liabilities (the Purchase and Assumption Agreement) for the transfer of certain assets and liabilities of GBI to EWRB. The transfer of the assets and liabilities took effect on October 31, 2013 after the receipt of the required approvals from the regulators. The transfer of the assets and liabilities of GBI to EWRB was part of the Parent Company's plan to combine the rural banking business of its two subsidiaries into a single entity. After the transfer, EWRB will continue the rural banking business of GBI and the remaining assets and liabilities of GBI will be merged to the Parent Company, with the latter as the surviving entity. The Plan of Merger Agreement (the Plan) between the Parent Company and GBI was finalized on September 21, 2013.

On March 28, 2014 and June 05, 2014, the Bangko Sentral ng Pilipinas (BSP) and the SEC, respectively, approved the merger for the Parent Company and GBI. Subsequently, on July 31, 2014, the Parent Company completed its merger with GBI.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim financial statements include the consolidated financial statements of the Parent Company and its Subsidiary (collectively referred to herein as the Group) as of September 30, 2014 and December 31, 2013 and for the periods ended September 30, 2014 and September 30, 2013.

The accompanying interim financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivative financial instruments that have been measured at fair value.

The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except when otherwise indicated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of bo is the Philippine peso.

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

Presentation of Financial Statements
The Group presents its statement of financial position broadly in order of liquidity.

Basis of Consolidation
The subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when the control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in the consolidation.

The subsidiary is fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved where the Parent Company is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Parent Company has power over the entity when it has existing rights that give it the current ability to direct relevant activities (i.e., activities that significantly affect the entity's returns). Consolidation of subsidiary ceases when control is transferred out of the Parent Company. The results of subsidiary acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-Controlling Interest
Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that does not result in a loss of control are accounted for as equity transaction, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards and interpretations,

which became effective beginning January 1, 2014.

Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the financial statements.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiary at fair value through profit or loss.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014.

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.

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

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments effective January 1, 2013. Except as otherwise indicated, the adoption of these improvements did not have an impact on the Group's financial statements.

PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2010-2012 cycle)

The *Annual Improvements to PFRSs* (2010-2012 cycle) contain non-urgent but necessary amendments to PFRSs. Except otherwise indicated, the adoption of these improvements will not have an impact on the Group's financial statements.

PFRS 2, *Share-based Payment - Definition of vesting condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

PFRS 3, *Business Combinations - Accounting for contingent consideration in a business combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014.

PFRS 8, *Operating Segments - Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

PFRS 13, *Fair Value Measurement - Short-term receivables and payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate restatement of accumulated depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

PAS 24, *Related Party Disclosures - Key management personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 38, *Intangible Assets Revaluation Method Proportionate restatement of accumulated amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle)

The *Annual Improvements to PFRSs* (2011-2013 cycle) contain non-urgent but necessary amendments to PFRSs. Except otherwise indicated, the adoption of these improvements will not have an impact on the Group's financial statements.

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a

new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements.

PFRS 3, *Business Combinations - Scope exceptions for joint arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively.

PFRS 13, *Fair Value Measurement - Portfolio exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. The Group had early adopted the first phase of PFRS 9 effective January 1, 2011. The Group will not adopt the third phase of the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting

Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

3. Significant Accounting Judgments and Estimates

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

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

4. Financial Risk Management

The risk exposure of the Parent Company and its subsidiary in credit, market, interest rate, and liquidity remains contained within its risk limits and adequately covered by its available capital.

Specifically, notable risk exposures, where most emanate from the Parent Company, as of the end of third quarter of 2014 in the following areas are summarized below.

- Credit risk: Potential risk is well within regulatory capital as gleaned from the following indicators.

    - Credit quality of portfolio remains at a composite rating of ‘Satisfactory’ for its corporate portfolio, ‘Standard’ grade for most of its secured consumer portfolio, ‘Substandard’ grade for most of its unsecured consumer portfolio, and its non – tradable investment portfolio at ‘BBB’ composite rating.
    - Loan portfolio security profile is almost 40% secured given the significant proportion of consumer lending business. For the portfolio of products that normally require collateral, the Bank remains healthy at around 50% secured.
    - No credit concentration in size, borrower, and industry as defined by BSP and internal risk policies.

- Market risk: At less than P85 million value-at-risk on the Parent Company’s trading book for potential adverse movements in interest rate, foreign exchange rate, and equity prices.

- Interest rate risk: On the Parent Company’s banking book, maximum potential loss impact from adverse movement in interest rate is approximated to not exceed 1.00% and 5.00% of the budgeted net interest income and net income for 2014, respectively.

- Liquidity risk: There is no imminent liquidity risk as the Parent Company remains to be generally liquid with sufficient sources of funding as and when the need arises. Regulatory and internal risk limits are duly complied with.

Capital level, on the other hand, stands at around P20 billion. Despite the tighter regulatory capital standards, this remains enough to comply with the regulatory minimum, in accordance with the supervisor's prescriptions, as well as cover for the above approximated risk exposures.

Thus, the Group's risk management policies remain generally the same as in 2013. The Group's 2013 audited financial statements discuss in detail its risk exposures and its related policies.

5. Fair Value Measurement

The Group measures certain financial instruments such as financial assets at FVTPL, financial assets at FVTOCI and derivative financial instruments, at fair value at each statement of financial position date. Also, fair values of financial instruments carried at amortized cost and investment properties carried at cost are measured for disclosure purposes.

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

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

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

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

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

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

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

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

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

External appraisers are involved for valuation of significant non-financial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The following table provides the fair value hierarchy of the Group's assets and liabilities measured at fair value and those for which fair values are required to be disclosed as of September 30, 2014 and December 31, 2013:

	Consolidated				
	September 30, 2014				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL	**₱3,575,391**	**₱3,575,391**	**₱3,575,391**	–	–
Derivative assets	**19,543**	**19,543**	–	**19,543**	–
Financial assets at FVTOCI	**14,185**	**14,185**	**14,185**	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost	**8,162,801**	**8,162,801**	**8,162,801**	–	–
Loans and receivables (including UDSCL)	**110,332,229**	**110,332,229**	–	–	**110,332,229**
Non-financial assets					
Investment properties	**897,016**	**1,338,454**	–	**1,338,454**	–
Total assets	**₱123,001,165**	**₱123,442,603**	**₱11,752,377**	**₱1,357,997**	**₱110,332,229**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	**₱33,913**	**₱33,913**	**₱–**	**₱33,913**	**₱–**
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	**55,034,736**	**55,297,312**	–	–	**55,297,312**
LTNCD	**7,113,067**	**8,000,711**	–	–	**8,000,711**
			–	–	
Subordinated debt	**6,612,500**	**8,405,996**	–	–	**8,405,996**
Total liabilities	**₱68,794,216**	**₱71,737,932**	**₱–**	**₱33,913**	**₱71,704,019**

	Consolidated				
	December 31, 2013				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL	**₱1,948,703**	**₱1,948,703**	**₱1,948,703**	–	–
Derivative assets	**90**	**90**	–	**90**	–
Financial assets at FVTOCI	**10,733**	**10,733**	**10,733**	–	–
Assets for which fair values are disclosed					

	Consolidated				
	December 31, 2013				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in active market (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Financial assets					
Investment securities at amortized cost:	**9,080,320**	**9,530,347**	**9,530,347**	–	–
Loans and receivables (including UDSCL)	**89,638,849**	**97,323,142**	–	–	**97,323,142**
Non-financial assets					
Investment properties	**1,006,716**	**1,420,398**	–	**1,420,398**	–
Total assets	**₱101,685,411**	**₱110,233,413**	**₱11,489,783**	**₱1,420,488**	**₱97,323,142**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	**₱21,978**	**₱21,978**	**₱–**	**₱21,978**	**₱–**
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	**41,275,731**	**41,314,743**	–	–	**41,314,743**
LTNCD	**5,466,003**	**6,997,876**	–	–	**6,997,876**
	46,741,734	**48,312,619**	–	–	**48,312,619**
Subordinated debt	**2,862,500**	**4,099,986**	–	–	**4,099,986**
Total liabilities	**₱49,626,212**	**₱52,434,583**	**₱–**	**₱21,978**	**₱52,412,605**

6. Segment Reporting

The Group's main operating businesses are organized and managed primarily, according to the current organizational structure. Each segment represents a strategic business unit that caters to the bank's identified markets. The Group's business segments are:

(a) **Retail banking** - this segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other over-the-counter (OTC) transactions. It likewise caters to the needs of high net-worth clients for alternative investment channels. It includes entire transaction processing, service delivery and infrastructure consisting of the Group's network of branches, automated teller machines as well as its internet banking platform;

(b) **Corporate banking** - this segment handles lending and trade financing for both large corporations and middle market clients;

(c) **Consumer lending** - this segment primarily caters to loans for individuals;

(d) **Treasury and Trust** - this segment consists of Treasury and Trust operations of the Group. Treasury focuses on providing money market, trading and treasury services, as well as the management of the Group's funding operations through debt securities, placements and acceptances with other banks. Trust includes fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services. In addition, the Parent Company through Trust, provides retail customers with alternative investment opportunities through its unit investment fund products.

The 'Elimination Items' includes the Group's executive office and elimination items related to the Group's segment reporting framework.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense. The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as of and for the nine months ended September 30, 2014 follow (in millions):

As of September 30, 2014	**Retail Banking**	**Corporate Banking**	**Consumer Banking**	**Treasury & Trust**	**Executive & Elimination Items**	**Total Bankwide**
Statement of Income						
Net Interest Income						
Third Party	2,081	517	4,561	67	122	7,348
Intersegment	41	455	-	-	(495)	0
	2,122	972	4,561	67	(374)	7,348
Noninterest Income	595	80	2,058	639	220	3,592
Revenue - Net of Interest Expense	2,716	1,052	6,618	707	(153)	10,939
Noninterest Expense	(3,055)	(552)	(4,527)	(186)	(522)	(8,842)
Income Before Income Tax	(339)	499	2,092	521	(675)	2,097
Provision for Income Tax	-	-	-	-	(451)	(451)
Net Income for the Period	(339)	499	2,092	521	(1,127)	1,646
Statement of Financial Position						
Total Assets	28,641	55,559	53,368	14,906	14,459	166,933
Total Liabilities	122,967	36,855	2,029	13,063	(28,952)	145,963
Other Segment Information						
Depreciation and Amortization	414	18	143	12	38	624
Provision for Credit and Impairment Losses	5	190	1,878	0	200	2,274

Segment information of the Group as of and for the nine months ended September 30, 2013 follow (in millions):

	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Executive & Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	1,561	416	3,905	(11)	229	6,100
Intersegment	35	310	-	-	(345)	-
	1,596	726	3,905	(11)	(116)	6,100
Noninterest Income	473	44	1,799	1,440	150	3,906
Revenue - Net of Interest Expense	2,069	770	5,704	1,429	34	10,006
Noninterest Expense	(2,519)	(633)	(3,822)	(220)	(1,078)	(8,272)
Income Before Income Tax	(449)	137	1,882	1,209	(1,045)	1,734
Provision for Income Tax	-	-	-	-	(3)	(3)
Net Income for the Period	(449)	137	1,882	1,209	(1,048)	1,731
Statement of Financial Position						
Total Assets	21,385	42,604	47,726	6,218	9,452	127,385
Total Liabilities	96,482	19,868	1,524	10,538	(20,081)	108,331
Other Segment Information						
Depreciation and Amortization	318	22	150	15	33	538
Provision for Credit and Impairment Losses	5	329	1,562	4	409	2,309

Noninterest income consists of service charges, fees and commissions, gain on sale of assets, gain on asset foreclosure and dacion transactions, trading and securities gain, gain on sale (loss on derecognition) of investment securities at amortized cost, foreign exchange gain, trust income and miscellaneous income. Noninterest expense consists of compensation and fringe benefits, taxes and licenses, depreciation and amortization, rent, amortization of intangible assets, provision for impairment and credit losses, and miscellaneous expenses.

7. Trading and Investment Securities

As of September 30, 2014, the Group's investment in foreign currency denominated debt securities totaled ₱10.5 billion while investment in foreign currency denominated equity securities amounted to ₱47 million.

Of the ₱10.5 billion debt securities, ₱2.9 billion are classified under FVTPL, while the rest are investment securities at amortized cost.

Trading gains on trading and investment securities during the periods ended September 30, 2014 and 2013 amounted to ₱ 620 million and ₱1,501 million, respectively.

The Bank has no significant derivative instruments which may impact its financial condition as of September 30, 2014 and December 31, 2013.

8. **Goodwill and Other Intangible Assets**

Goodwill

The acquisition of EWRB in 2012 resulted in goodwill amounting ₱23.48 million, which has been allocated to EWRB.

The acquisition of GBI in 2011 resulted in goodwill amounting to ₱374.00 million. The goodwill has been allocated to branch operations of GBI.

As discussed in Note 1, on October 31, 2013, GBI transferred certain assets and liabilities to EWRB. The assets and liabilities transferred include the branches where the goodwill from the acquisition of GBI had been allocated. The branches coming from GBI were combined with the branch operations of EWRB after the transfer. Consequently, the goodwill from the acquisition of EWRB and GBI amounting to ₱23.48 million and ₱374.00 million, respectively are now allocated to the branch operations of EWRB, which is now considered as a single CGU for purposes of impairment testing.

The business combination between the Parent Company and AIG Philam Savings Bank (AIGPASB) Group in 2009 resulted in goodwill amounting to ₱769.04 million, which has been allocated to the auto and credit cards lending unit acquired from the AIGPASB Group. The business combination between the Parent Company and Ecology Savings Bank (ESBI) in 2003 resulted in goodwill amounting to ₱172.80 million, which has been allocated to various branches acquired from ESBI. As of September 30, 2014 and December 31, 2013, the carrying amount of goodwill, after impairment recognized in prior years, amounted to ₱150.21 million.

Customer Relationship and Core Deposits

The business combination between the Parent Company and AIG Philam Savings Bank (AIGPASB) Group in 2009 resulted in acquisition of customer relationship and core deposits amounting to ₱154.63 million and ₱40.43 million, respectively.

Branch Licenses

The Monetary Board (MB) of the BSP, in its MB Resolution No. 1727 dated November 17, 2011, granted the Parent Company 75 branch licenses applied for by the latter in restricted areas. The grant was made in accordance with Phase I of BSP Circular No. 728, issued by the BSP on September 23, 2011 which implemented the phased lifting of branching restriction in the eight restricted areas in Metro Manila. Under Phase I of the liberalization, private domestically incorporated universal and commercial banks were given a time-bound window until September 30, 2014 to apply for and establish branches in the said restricted areas.

The licensing and processing fees were capitalized as branch licenses and classified under Goodwill and Other Intangible Assets in the Group's statement of financial position.

Capitalized Software
Capitalized software pertains to computer software licenses and programs acquired by the Group and Parent Company for its banking operations.

9. **Issuance of Long-Term Negotiable Certificates of Deposits**

In February 2014, the Parent Company issued the fourth tranche of its 3.25% fixed coupon rate unsecured LTNCD maturing on September 9, 2019 amounting to ₱0.83 billion. The discount, net of debt issue costs related to the issuance of the LTNCD Series 2, amounted to ₱34.77 million.

Subsequently, in April 2014, the Bank issued the fifth tranche of Series 2 LTNCDs with face amount of ₱0.91 billion, the discount amounting to ₱39.87 million, net of debt issue costs.

10. **Redemption of Unsecured Subordinated Debt**

On January 25, 2014, the Parent Company exercised its call option on the ₱1.25 billion 2019 Notes due on January 26, 2019 and with optional redemption date of January 25, 2014.

The redemption was approved by the Parent Company's BOD on August 29, 2013 and by the BSP on November 7, 2013. The call option amount was the sum of the face value of the Notes, plus accrued interest amounting to ₱53.85 million, covering the 11th interest period from July 25, 2013 to January 25, 2014 at the interest rate of 8.625%, as of but excluding the call option date.

11. **Equity**

Capital Management
The Parent Company actively manages its capital to comply with regulatory requirements. The primary objective of the Parent Company's capital management is to ensure that it maintains adequate capital to cover risks inherent to its banking activities without prejudice to optimizing shareholder's value. The Parent Company adopts the capital adequacy requirements of the New Capital Accord or Basel II, as contained in the implementation guidelines of BSP Circular No. 538, which took effect in July 2007. Under this rule, risk weight ratings shall be based on external rating agencies and total risk weighted assets shall be computed based on credit, market and operational risks.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Capital Stock

Capital stock consists of:

	September 30 2014	December 31 2013
Common stock - ₱10.00 par value		
Authorized - 1,500,000,000 shares in 2014 and 2013		
Issued and outstanding - 1,128,409,610 shares in 2014 and 2013	**₱11,284,096**	₱11,284,096
Preferred stock - ₱10.00 par value convertible, nonvoting shares		
Authorized - 500,000,000 shares in 2014 and 2013		
Issued and outstanding - none in 2014 and 2013	–	–
	₱11,284,096	₱11,284,096

For the periods ended September 30, 2014 and December 31, 2013, no cash dividends were declared.

12. 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 Group's related parties include:

- 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,
- Subsidiary, joint ventures and associates and their respective subsidiary, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

The amounts and the balances arising from the foregoing significant related party transactions of the Group are as follows:

	September 30, 2014		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/Nature**
Significant investors:			
Loans receivable	**₱–**	**₱5,621,850**	Loans granted with a term of 6.5 years, interest of 4.06%, secured, no impairment
Deposit liabilities	–	**15,149,639**	Deposit liabilities with interest ranging from 0.00% to 2.58%
Accrued interest receivable	–	**1,902**	Interest income accrued on outstanding loans receivable
Accrued expenses	–	**11,410**	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	–	**3,500,000**	Unused credit lines

Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
	September 30, 2014		
Interest income	**171,185**	−	Interest income on loans receivable
Interest expense	**229,177**	−	Interest expense on deposit liabilities
Key management personnel:			
Loans receivable	−	**31,670**	Loans granted with terms ranging from five to fifteen years, interest ranging from 7% to 12.5%, unsecured, no impairment
Deposit liabilities	−	**694,197**	Deposit liabilities with interest ranging from 0.00% to 5.875%
Accrued interest receivable	−	**89**	Interest income accrued on outstanding loans receivable
Interest income	**2,470**	−	Interest income on loans receivable
Interest expense	**2,643**	−	Interest expense on deposit liabilities
Other related parties:			
Loans receivable		**1,355,506**	Loans granted with terms ranging from 2 months to 13.5 years, interest ranging from 3.5% to 11.5%, secured by real estate and chattel mortgage, no impairment
Receivables purchased		**896,487**	Receivables purchased by the Parent Company from FLI
Deposit liabilities	−	**4,531,582**	Deposit liabilities with interest ranging from 0.00% to 1.375%
Accrued interest receivable	−	**1,096**	Interest income accrued on outstanding loans receivable
Guarantees and commitments	−	**1,000,000**	Unused credit lines
Accounts receivable	−	**430,995**	Noninterest-earning advances, payable on demand, no impairment
Accounts payable	−	**16,553**	Noninterest-bearing advances, collectible on demand
Interest income	**11,162**	−	Interest income on loans receivable
Interest expense	**16,238**	−	Interest expense on deposit liabilities
Service fee expense	**4,344**	−	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company
Rent expense	**29,231**	−	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, Filinvest Alabang, Inc. and FLI

Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
	December 31, 2013		
Significant investors:			
Loans receivable	**₱5,621,850**	**₱5,621,850**	Loans granted with a term of one year, interest of 4.50%, unsecured, no impairment
Deposit liabilities	−	**5,019,354**	Deposit liabilities with interest ranging from 0.00% to 1.00%
Accrued interest receivable	−	**33,599**	Interest income accrued on outstanding loans receivable
(Forward)			
Accrued expenses	**₱−**	**₱7,427**	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	−	**3,878,150**	Unused credit lines
Interest income	**57,476**	−	Interest income on loans receivable
Interest expense	**700**	−	Interest expense on deposit liabilities
Key management personnel:			
Loans receivable	−	**29,528**	Loans granted with terms ranging from five to fifteen years, interest ranging from 5.59% to 10.20%, unsecured, no impairment
Deposit liabilities	−	**194,467**	Deposit liabilities with interest ranging from 0.00% to 5.88%
Accrued interest receivable	−	**257**	Interest income accrued on outstanding loans receivable
Interest income	**2,567**	−	Interest income on loans receivable
Interest expense	**702**	−	Interest expense on deposit liabilities
Other related parties:			
Loans receivable	**900**	**729,431**	Loans granted with terms ranging from Nine months to five years, interest ranging from 4.00% to 4.50%, secured by real estate and chattel mortgage, no impairment
Receivables purchased	**266,777**	**1,305,636**	Receivables purchased by the Parent Company from FLI

	December 31, 2013		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Deposit liabilities	–	**2,782,334**	Deposit liabilities with interest ranging from 0.00% to 5.88%
Accrued interest receivable	–	**390**	Interest income accrued on outstanding loans receivable
Guarantees and commitments	–	**20,271,800**	Unused credit lines
Accounts receivables	–	**746**	Noninterest-bearing advances, payable on demand, no impairment
Interest income	**26,654**	–	Interest income on loans receivable
Interest expense	**8,765**	–	Interest expense on deposit liabilities
Service fee expense	**2,582**	–	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company
Rent expense	**41,033**	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, Filinvest Alabang, Inc. and FLI

13. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

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

14. Financial Performance

Earnings per share amounts were computed as follows:

	Sept 2014	Sept 2013
a. Net income attributable to equity holders of the Parent Company	**₱1,645,964**	₱1,731,036
b. Dividends declared on preferred shares	–	–
c. Net income attributable to common shareholders of the Parent Company	**1,645,964**	1,731,036
d. Weighted average number of outstanding common shares	**1,128,410**	1,128,410
e. Weighted average number of convertible preferred shares	–	–
f. Basic EPS (c/d)	**₱1.46**	₱1.53
g. Diluted EPS [c/(d+e)]*	**₱1.46**	₱1.53

**The Bank has no potentially dilutive shares in 2013 and 2014.*

ATTACHMENT 2

PAST DUE LOANS AND OTHER RECEIVABLES
SEPTEMBER 30, 2014
(*Amounts in thousands of Philippine Peso)*

Particulars	Total	1-90 days	91-180 days	181-360 days	>360 days
Past Due Loans & other receivables	₱13,116,388	4,444,326	866,376	928,026	6,899,660
Allowance for credit losses	(4,018,630)				
Total	₱9,097,758				

ATTACHMENT 3

CONSOLIDATED FINANCIAL RATIOS
(As Required by SRC Rule)
September 30, 2014

	September 30, 2014	September 30, 2013
Current ratio (1)	79.7%	74.7%
Solvency ratio (2)	1.14	1.18
Debt-to-equity (3)	6.96	5.69
Asset-to-equity (4)	7.96	6.69
Interest rate coverage ratio (5)	285.6%	251.1%
Return on Equity (6)	10.9%	12.6%
Return on Assets (7)	1.4%	1.8%
Net Interest Margin (8)	8.1%	8.3%
Cost- to- Income Ratio (9)	60.0%	59.6%

Notes:

(1) Current assets divided by current liabilities

(2) Total assets divided by total liabilities

(3) Total liabilities divided by total equity

(4)Total assets divided by total equity

(5)Income before interest and taxes divided by interest expense

(6)Net income divided by average total equity for the periods indicated.

(7) Net income divided by average total assets for the periods indicated.

(8) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans).

(9) Other expenses (excl. provision for impairment and credit losses) divided by net interest and other income for the periods indicated.