




**FIRST METRO**  
INVESTMENT CORPORATION  
Metrobank Group



2017 ANNUAL REPORT

**BUILDING,  
BLAZING, AND  
BREAKING  
NEW GROUND**

A large, dark silhouette of a human pyramid is positioned on the right side of the page. It is composed of three people: one person at the base, another person standing on their shoulders, and a third person standing on the shoulders of the second person. The background of the pyramid is a vibrant sunset sky with orange and yellow clouds. The overall image conveys a sense of teamwork and achievement.

## Vision

First Metro will be the premier Philippine investment bank at the forefront of the capital markets and a respected name in the Asian region.

## Mission

As the prime mover in the Philippine capital markets, we provide innovative financial solutions that enable our stakeholders to achieve economic prosperity and social well-being.

## Values

Teamwork  
Respect  
Integrity  
Innovation  
Passion for Excellence



FIRST METRO  
INVESTMENT CORPORATION  
Metrobank Group



## Building, Blazing, and Breaking New Ground

After tackling the challenging business environment in 2016 head on, First Metro Investment Corporation has taken bigger strides in 2017, in step with the Philippine economy's growth trajectory.

First Metro was able to strengthen its corporate governance and risk management culture, which lays the groundwork for **BUILDING** a more solid foundation in the years ahead.

In fulfilling its role as the country's prime mover of capital, First Metro is not just serving the financing needs of large corporates and institutions, but is also **BLAZING** new trails with innovative solutions and a deep knowledge of the capital markets.

With a more robust financial and operational performance in 2017, First Metro now has greater confidence in **BREAKING NEW GROUND** to pursue opportunities in the region and beyond in the coming years.

# Message from the Chairman

## A Breakout Year

**Every year presents First Metro Investment Corporation with fresh opportunities and new and exciting challenges. 2017 was no exception.**

After several years of disappointing doldrums, the global economy began to spring back to life again. According to estimates by the International Monetary Fund, global real GDP grew 3.7% in 2017, the fastest pace in five years. This momentum lifted advanced and emerging market economies. However, in the developed world, 2017 remains a period of stark contrast, with many economies experiencing higher growth, alongside political fragmentation, polarization, and tension. Fortunately, markets have so far shrugged off political intramurals and the risk of a long-term negative impact is relatively small.

Closer to home, the Asian growth engine continued to plough ahead as economies increasingly traded with one another, taking advantage of growing demand and areas of cooperation. Greater optimism was also evident in financial markets, with key equity markets hitting new peaks and buoyed by upbeat business sentiment.

For the sixth straight year, the Philippines cemented its place among the fastest-

growing economies in Asia. Recovery in the agriculture sector, strong government spending on infrastructure, as well as better exports and imports, boosted GDP growth to 6.7% in 2017. While slightly slower than the 6.9% growth recorded in 2016, this was still impressive given that 2017 was a post-election year.

Equally impressive were the sources of growth. Beating pundits' forecasts, overseas Filipino workers' (OFW) remittances proved more resilient in the face of growing geopolitical tensions in the Middle East, the economic woes in Europe, and the protectionist labor policy of U.S. President Donald Trump. In 2017, money sent home by OFWs posted an all-time high of \$31 billion, 5.3% higher than the \$29.7 billion recorded in 2016 and exceeding the 4% projection of the Bangko Sentral ng Pilipinas (BSP). Remittances accounted for 10% of the country's GDP and 8.3% of gross national income in 2017.

While inflows from the business process outsourcing (BPO) industry plateaued in 2017, we continue to look at this as temporary, and remain bullish about BPOs being the strong second engine of our growth. True, the industry faces many headwinds, but the undeniable fact is that the Philippines is still the favorite





“ Our ever-stronger emphasis on addressing our clients' needs as well as our nation's, combined with our entrepreneurial culture, will be the main ingredients for our success. First Metro is showing the necessary adaptive attitude to evolve in the fast-changing environment in which we operate. ”

destination for BPOs. Certain fundamentals, such as Filipinos' ability to speak the English language, the availability of skills, the high level of education, and the relatively low cost of business operations, among others, cannot be discounted even in the face of foreign policy pronouncements favoring onshoring of businesses.

### **New Engines of Growth**

In addition to our reliable twin growth engines – OFWs and BPOs – what made 2017 a breakout year for the Philippines is the emergence of two other growth drivers.

The first is private capital investment. From our consumption-driven growth, we are now starting to see a remarkable shift towards investment-led growth. With interest rates remaining relatively low and monetary policy accommodative, local companies have started to embark on expansion and fresh investments.

Another bright spot is foreign direct investments (FDIs), or what we often call as "patient monies" as they are the hardest to attract and the relatively more permanent unlike "hot money" portfolio flows. Historically, the Philippines only gets a \$1 billion to \$2 billion annual share in the FDI pie in the region. In 2017, however, the country started to chart a new course as FDIs hit a record high of over \$10 billion. While still nowhere near the FDI levels of Vietnam, Indonesia, and China, this is still nearly five times the average and 21.4% higher than in 2016.

The timing for the Philippines to serve as a regional hub for light industrial manufacturing cannot be more opportune. The country presents a better alternative to FDI-magnet China. Not only is it strategically located, the Philippines also offers cheaper labor and a friendlier investment climate for Asian nations such as Japan and Taiwan, and has a good emerging domestic market.

### **Fresh Opportunities**

There are also more opportunities for investors to ride on the country's economic resurgence. The government is on an aggressive infrastructure build and has vowed to spend 6.2% of GDP in 2018 from 5.6% in 2017. In December 2017 alone, amount spent on infrastructure rose 23% year-on-year to P82.3 billion. While bulk of the P7 trillion total infrastructure investment requirement under the Duterte administration's 2017-2022 Public Investment Program will be locally funded, about 18% is open to public-private partnership where the private sector can bid for the operations and maintenance of the projects.

Another economic booster is the newly enacted Tax Reform for Acceleration and Inclusion (TRAIN) Law. This is expected to further spur household consumption, as around 99% of Filipino income taxpayers are about to get a reprieve in their take-home pay.

### **Riding on Growth**

As the country's prime mover of capital, First Metro finds itself on the fulcrum of these major developments. With a track record of more than five decades, First Metro and our subsidiaries are ready to meet rising demand for debt and equity underwriting, loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. Raising long-term capital is in our corporate DNA, and there is no better time to demonstrate the breadth and depth of our capability than in the investment banking climate we have now.

We expect the robustness of the capital markets, both debt and equity, to continue to sustain our growth in 2018. Many companies have started to issue long-term bonds and this helps further deepen the market. We have also

boldly predicted the revival of equity issues, and this we are starting to see in the stock rights offering of two of the country's biggest banks, Metrobank and BPI, as well as property developer Robinsons Land, Purefoods, and many others being lined up.

This situation persists, not just in the Philippines, but also globally as we begin 2018. In 2017, global stock markets have soared to record highs, gaining \$9 trillion in value due to a strong global economy, and a double boost from low interest rates and tax cuts. The Philippine Stock Exchange index caught the fever and also reached historic records as investors bet on another bullish year ahead and better corporate earnings.

Riding on this wave of growth, First Metro will put more resources in equity markets, a growth area for our business. We also plan to further strengthen our M&A and financial advisory businesses, cognizant of the heightened interest among foreign companies looking to acquire, partner, or set up in the Philippines, as well as local firms looking for similar opportunities overseas.

We have greater confidence in our ability to do these because of our revitalized International Desk, which serves as the bridge for companies here and abroad exploring cross-border opportunities. To lead us in this exciting journey, we are counting on our parent company Metrobank that has a strong presence in Taiwan (where Metrobank is the only Philippine bank with a full branch), as well as in South Korea, Japan, and China.

### **Moving Ahead**

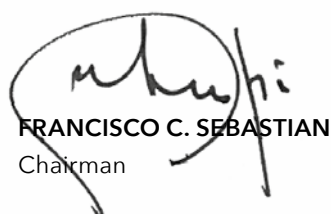
To be sure, we see more headwinds in 2018 and beyond. On the economic aspect, we are closely guarding inflation and interest rates, which are bottoming out. The economy is growing faster than what we expected and these are natural birth pains. We have

complete confidence in our monetary authorities to make adjustments whenever necessary.

Politics has always been a concern, especially in the world. In the region, China's entry in the geopolitical arena could always be unsettling but we have to be very cognizant of its desire to become a major powerhouse in the region. This is a risk as well as an opportunity for the Philippines, which sits at the core. We must play our cards right when it comes to assessing geopolitical developments.

Despite these headwinds, I am fully confident that First Metro will succeed and thrive in the future. Our ever-stronger emphasis on addressing our clients' needs as well as our nation's, combined with our entrepreneurial culture, will be the main ingredients for this success. The company is showing the necessary adaptive attitude to evolve in the fast-changing environment in which we operate.

I would like to thank all our Board members and stakeholders for the support they have extended to First Metro in over 50 years. It has always been an honor to serve as the chairman of the country's prime mover of capital.



**FRANCISCO C. SEBASTIAN**  
Chairman

# Report of the President

## Gaining New Momentum

2017 can be characterized as a “tale of two halves.” On one hand, it has been a tumultuous year marked by natural disasters, geopolitical tensions, and deep political divisions in many countries. On the flipside, however, 2017 ended on a high note, with global GDP estimated to have risen by 3.7% in 2017 – the strongest outcome since 2011 – with positive growth surprises in the euro area, China, Turkey, and Brazil, according to the Organization for Economic Co-operation and Development (OECD).

Fortunately, the Philippines was spared by the first half and benefited from the other. Once again, the country landed among the world’s fastest growing economies in 2017, as GDP grew 6.7%, better than expected in a post-election year.

The growth came from record-breaking volumes of overseas Filipino workers’ remittances of \$31.3 billion, which exceeded the Bangko Sentral ng Pilipinas’ forecast of a 4% growth, as well as foreign direct investment (FDI) inflows of \$10 billion, up by 21.4% from the year-ago level.

Heightened private capital and government infrastructure spending, as well as double-digit growth in external merchandise trade, also boosted economic activity and

enabled the country to record its 10th straight quarter of above 6% GDP growth.

Confidence in the domestic market enabled the benchmark Philippine Stock Exchange index (PSEi) to reverse a two-year slump in 2017. Philippine stocks ended the year with a bang, with the main stock barometer gaining a total of 25.1% for the year and posting a record finish of 8,558.42 as investors bet on another bullish year ahead.

Positive sentiment from the government’s ambitious P8 trillion infrastructure program called “Build, Build, Build,” as well as from the low interest environment, also prompted companies to increase their capital expenditures and refinance. This drove demand in both the debt and equities markets.

### Financial Results

As the country’s prime mover of capital, First Metro naturally benefited from the upswing. We were able to ride on the economy’s robust growth, as well as on benign inflation averaging at 3.2%, relatively low interest rates, and improved business confidence.

As a result, First Metro had a strong finish in 2017. Consolidated net income soared 52% to P1.17 billion versus P775 million in 2016.





“ By staying true to our mission of being the Philippines’ prime mover of capital, I am confident we can continue to build on our momentum, blaze trails, and break new ground in the service of our stakeholders. ”

This translated into a return on equity (ROE) of 7.92%, higher than the 4.58%, previously, while return on assets stood at 2.16% from the year-ago 1.22%.

Our Investment Banking Group pulled in fee income of P279 million on the back of revenues from 13 major deals. However, the fee income reflected a 52% decline from the P583 million generated in 2016.

Our Financial Markets Group rebounded with a P334 million income from trading, distribution, and brokering fees compared to a net loss of P405 million in 2016.

Our non-operating income stood at P52 million, 64% lower than P146 million made in 2016. Our share of net earnings from First Metro subsidiaries and affiliates amounted to P1.2 billion, 248% or P869 million higher than a year ago.

Total assets stood at P53.6 billion as of end-2017, slightly lower by 3% than in 2016. Capital funds declined by 11% to P14.1 billion from 2016's P15.76 billion. Despite this, our capital adequacy ratio under Basel III remained at a healthy 28.67% in 2017, higher than the internationally prescribed 10%.

### **Bracing for a Banner Year**

While 2017 saw First Metro successfully building on a foundation of strength, we have every reason to be optimistic of an even stronger performance in 2018, particularly on the investment banking front.

We are pinning our hopes on the country's vibrant economy, which we expect to best

all other ASEAN-5 countries this year when it clocks in as much as 7.5% growth.

This will be fueled by several factors:

- The implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law, which will augment salaried workers' take-home pay by P12,000 or around P20-30 billion in tax cuts. While this means less revenue take on the part of the government, it will translate into more spending power for consumers and greater demand for goods and services. Higher disposable income will benefit the popular brands and boost interest in equities. We thus expect the PSEi to hit 9,400 by end-2018, fueled by a 10-11% corporate earnings growth and a 3.5-4% inflation. One of those that stand to gain is our First Metro Philippine Equity Exchange-Traded Fund (FMETF), which already outperformed the PSEi in 2017.
- The government has committed to spend P8-9 billion in the next five years – equivalent to 7.3% of our GDP – on its massive infrastructure program. This is seen to lead to the continued buildup of capital goods, imports, and private construction. Major public-private partnership (PPP) projects as an offshoot of the program will result in increased demand for capital raising. This means companies hitting their single borrower's limits with banks will increasingly tap the capital markets as an alternative funding source. While this bodes well for us in terms of creating a more robust pipeline of deals, on the other hand, there will also be pressure for the government to borrow

from the market as revenues from the TRAIN Law will not be able to fully meet the funding needs of the “Build, Build, Build” program. This could crowd out the private sector for funds and nudge up interest rates, thus limiting companies’ potential for capital expansion and clipping corporate earnings.

- As 2018 is expected to be an exciting year, with global economic growth projected by the World Bank to hit 3.9% and Asia ex-Japan at 5.9%, we expect to ride on the wave of renewed optimism. We believe there is no more opportune time than this to enter into regional collaborations with our ASEAN neighbors, particularly financial institutions, as well as global investment banks. While competition is expected to reach fever pitch, we believe we can meet the challenge, given our track record of 55 years and the solid backing of our parent firm, Metrobank, the country’s largest diversified conglomerate.

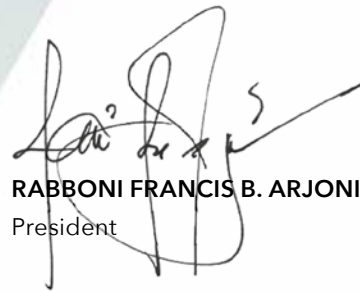
Of course, we should not forget that our most important long-term competitive advantage is still our people. Our commitment to attracting and retaining the best talent in our industry and beyond is what makes First Metro a trusted name recognized by our peers, clients, international partners, and regulators. Our people are the perennial foundation of our success.

We remain on track with the goals we set in our five-year strategic plan to strengthen our balance sheet and further enhance our organization. We do not lose sight of what lies ahead and how quickly expectations and

conditions can change. We are mindful of the importance of being agile and nimble in navigating the ever-challenging operating environment, which many have gone to call the “new normal.”

By staying true to our mission of being the Philippines’ prime mover of capital, I am confident we can continue to build on our momentum, blaze trails, and break new ground in the service of our stakeholders.

Thank you for your continuing trust and confidence.



**RABBONI FRANCIS B. ARJONILLO**  
President

# Financial Highlights

## Making Our Numbers Matter

Amid the market volatility that prevailed in 2017, First Metro remained focused on our clients and operating efficiently, without compromising our ability to pursue potential opportunities. Together with our subsidiaries, we generated a consolidated net income of P1.17 billion versus P775 million in 2016. This gives us greater confidence, as well as an even bigger challenge, to sustain our momentum of profitability in 2018 and beyond.

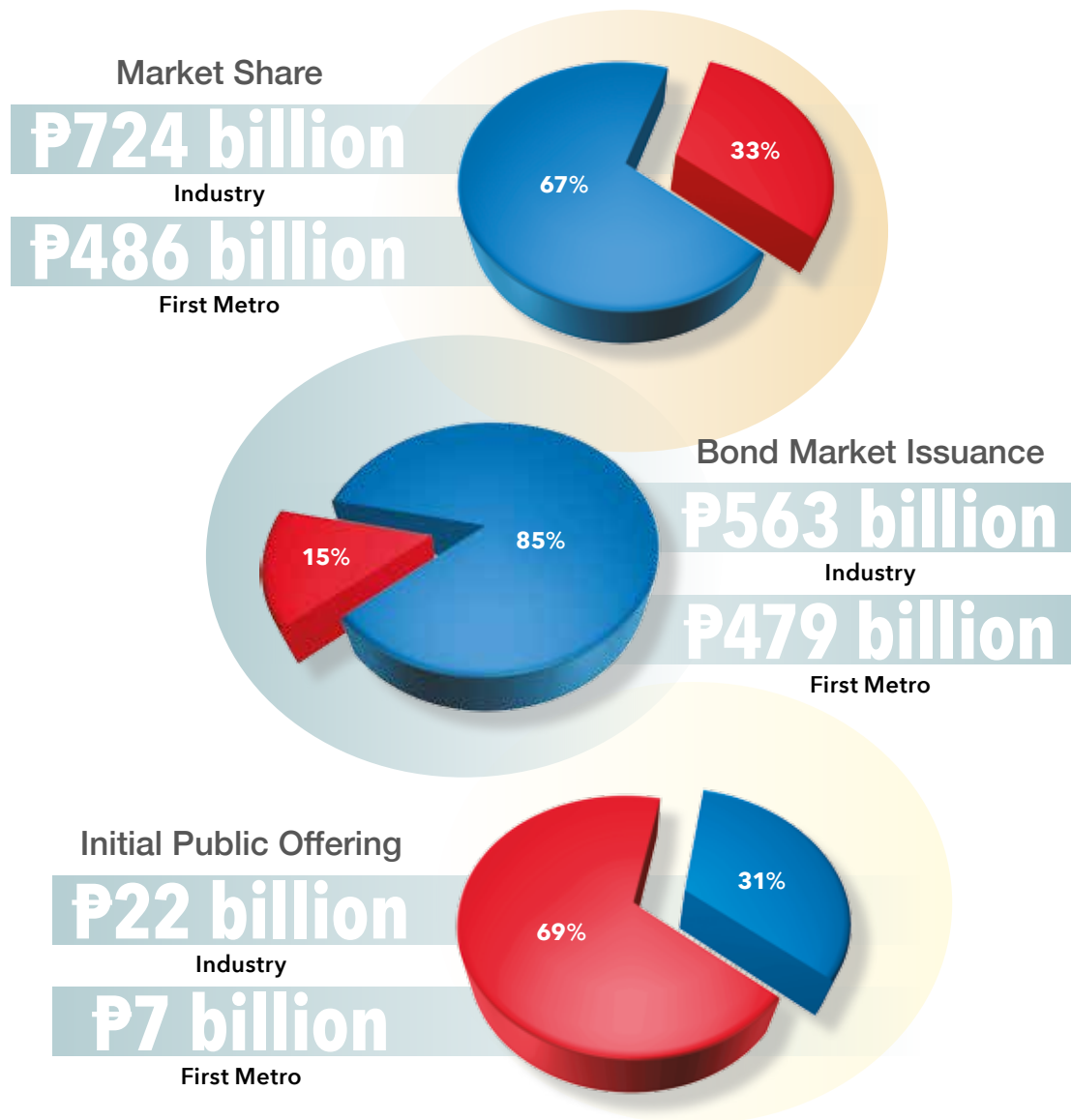
	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
<b>Profitability</b>				
Total Net Interest Income	525,018,374	597,880,992	358,529,945	412,958,724
Total Non-Interest Income	1,591,730,826	1,857,575,967	703,107,973	1,581,770,337
Pre-tax Income	1,578,419,066	1,437,980,835	1,448,160,889	1,298,608,486
Provision for Income Taxes	386,592,941	615,870,282	273,215,616	491,942,807
Net Income*	1,174,945,273	775,382,000	1,174,945,273	775,382,000
<b>Selected Balance Sheet Data</b>				
Liquid Assets**	18,792,840,181	15,972,227,495	10,114,726,932	7,455,303,824
Gross Loans and Receivables	3,127,517,722	2,963,823,276	2,231,946,123	2,387,320,980
Total Assets	53,597,144,126	55,309,193,209	43,670,058,876	46,520,942,616
Bills Payable	25,714,692,549	15,043,282,889	25,911,978,184	15,085,782,889
Total Equity	14,096,557,347	15,759,339,956	13,995,923,806	15,667,670,670
<b>Selected Ratios</b>				
Return on Equity	7.92%	4.58%	7.92%	4.58%
Return on Assets	2.16%	1.22%	2.61%	1.45%
Capital Adequacy Ratio	28.67%	77.89%	30.03%	82.48%
Earnings per Share	3.15	2.08	3.15	2.08
Book Value	37.57	42.05	37.57	42.05
<b>Others</b>				
Cash Dividends Declared			2,849,965,777	3,002,710,540
Headcount				
Officers			124	130
Staff			34	39

\*Attributable to Equity holders of the Parent Company

\*\* Consists of HFT and AFS investments



## 2017 Philippine Capital Markets



■ First Metro Participation

■ Other Transactions

\* Based on publicly available information

# Milestones & Achievements

## Reaching New Heights

**As we strive for excellence as a prime mover of capital, we are proud to share our significant accomplishments, as well as the awards and recognitions we earned from some of the most important and influential domestic and international publications and organizations.**

### Best Investment Bank and M&A House

First Metro was awarded the Best Investment Bank and M&A House at the 11th Annual Best Financial Institution Awards by *Alpha Southeast Asia*. This was the third consecutive year First Metro has received the award from three prestigious institutions: *Euromoney* in 2015, *Global Finance* in 2016, and regional institutional investment magazine *Alpha Southeast Asia*.

### Best Advisory House of 2017

First Metro was named the Best Advisory House of 2017 at the 2nd IHAP Awards of the Investment House Association of the Philippines (IHAP). It was the financial advisor of GT Capital Holdings, Inc. (GTCAP) when the conglomerate sold its 56% equity stake in Global Business Power Corporation (GBP) to Metro Pacific Investments Corporation (MPIC). First Metro also advised GTCAP for its subsequent acquisition of 15.5% equity stake in MPIC. With a total value of P51.95 billion, both GTCAP deals have also been recognized at the 2nd IHAP Awards as the Best Advisory Deal of the Year and the Deal of the Year.

### IPO of the Year Award from *The Asset*

Wilcon Depot, Inc.'s initial public offering (IPO) was awarded Best IPO, Philippines at *The Asset Triple A Country Awards*. First Metro was the sole issue manager, bookrunner, and joint lead underwriter of Wilcon's P7.04 billion IPO.

### Best Bond Deal for Retail Investors: RTB 19

The 19th Tranche issuance of Retail Treasury Bonds (RTB) received the Best Bond Deal for Retail Investors in Southeast Asia 2017 from regional institutional investment magazine *Alpha Southeast Asia*. First Metro was joint lead issue manager for the landmark deal.

### PDS Awards

First Metro and subsidiary, First Metro Securities Brokerage Corporation (FirstMetroSec), both reaped awards at the 2018 PDS Annual Awards. The prestigious award recognizes members of the investment community and market stakeholders that exhibit outstanding performance, leadership, innovation, and contributions to the robustness of the domestic capital markets. First Metro bagged the Top Corporate Securities Market Maker, Top 5 Fixed Income Brokering Participant (ranked 3rd), Top 5 Fixed Income Dealing Participant (ranked 3rd), while FirstMetroSec won Top 5 Depository Brokering Participant (ranked 4th).

### Awards for Infrastructure Deals

First Metro won three awards for its two landmark infrastructure deals at *The Asset Triple A Infrastructure Awards 2017*. Light Rail Manila Corporation's (LRMC) P24 billion project loan facility was recognized as the Transport Deal of the Year, Philippines, and Transport Deal of the Year in Asia. First Metro acted as the mandated lead arranger for the 15-year project loan facility that would partially fund the expansion and rehabilitation of LRT1. First Metro also won the Renewable Energy Deal of the Year - Hydro, Philippines for Hedcor Sibulan Inc.'s (HSI) P4.1 billion multi-tranche project notes facility.

### *The Asset* Benchmark Research Awards

First Metro received another slew of awards from *The Asset Benchmark Research (ABR)* of Hong Kong. It was voted one of the Top Investment Houses in Asian Local Currency Bonds, Philippines (ranked 2nd) and Top Banks in Government Bonds, Philippines (ranked 3rd).

First Metro sales and trading officers were also voted as some of the Philippines' Best Local Currency Bond Individuals in Research, Sales and Trading. Bernice Joyce Nobleza (SM) ranked third in trading, while Mary Grace Ong-Singson (SM) was fourth in sales, and David Ignacio Estacio (VP) was highly commended in trading.

### Launch of Consumer-Themed Index

First Metro, through its subsidiary First Metro Asset Management, Inc. (FAMI), and globally renowned

# RDS ANNUAL RDS NIGHT



## The Asset Triple Awards 2017



index provider MSCI, Inc. launched an index designed to capture the Philippine consumption-led growth story.

The First Metro Index on MSCI Philippines IMI is composed of 21 stocks with huge revenue exposure to industries that benefit from the Philippine family consumption expenditure such as food and beverage manufacturing/processing, fastfood and restaurants, mall development, communications, financial services, tourism, transportation, and more. The index, which is set to track the performance of these 21 stocks, was especially constructed to filter the most fundamentally sound and liquid consumer-related equities.

### Awards for First Metro Subsidiaries

FirstMetroSec was awarded Best Broker in the Philippines by Hong Kong-based financial publishing firm *FinanceAsia* at its Country Awards for Achievement 2017.

FAMI received the Best Managed Fund of the Year award for its First Metro Save & Learn Fixed Income Fund (SALFIF) from the Chartered Financial Analyst Society of the Philippines, Inc. (CFA Society Philippines). A total of 81 funds from 16 houses and trust institutions joined the search. Out of all the long-term fixed income funds in the country, SALFIF took the top spot under the held-to-maturity (HTM) valuation category.

FAMI was also recognized for the outstanding performance of the First Metro Save & Learn Mutual Funds at the Philippine Investment Funds Association (PIFA) Annual Awards Night. SALFIF topped in the 5-year and 10-year return bond fund categories. FAMI placed 2nd in the 10-year return equity fund category for the First Metro Save & Learn Equity Fund (SALEF).

### Launch of Mutual Funds Online Trading Platform

FirstMetroSec launched FundsMart, its online trading platform for investing in mutual funds. The new platform allows clients to invest in more than 25 mutual funds provided by the leading fund houses. With FundsMart, clients gain exclusive access through its online trading facility, [www.firstmetrosec.com.ph](http://www.firstmetrosec.com.ph), to unique and sophisticated tools for analyzing, screening, and comparing mutual funds. The intuitiveness and elegance of the tools are first in the Philippines.

Together with FundsMart, FirstMetroSec also launched its new margin trading facility and the enhanced version

of its mobile app. The new margin trading facility allows investors to borrow additional funds to invest using securities that they already own as collateral. Investors can now double their buying power and magnify their earnings potential for half the cost of their stock investments.

### Launch of Investment Hub

FirstMetroSec inaugurated the First Metro Investment Hub, a learning center for beginner and expert investors alike. The hub was established in line with FirstMetroSec's advocacy to promote financial education and improve financial literacy in the country. FirstMetroSec has long been advocating financial literacy and is committed to continue to invest in various financial literacy programs and activities to help Filipinos take control of their finances.

### Launch of First Access

FirstMetroSec has broken new ground in bringing listed companies, fund managers, and dealers together with the launch of First Access, a pocket event where corporations give news and updates in a more intimate and personal setting. First Access aims to provide a more thorough presentation of the plans and activities of listed companies, giving fund managers a first-hand account of the corporates' growth potential and the available market opportunities.

### First Flight takeoff in Manila Tytana and Ateneo de Davao

FirstMetroSec inked an agreement with two higher education institutions to launch First Flight, a virtual trading platform for the Philippine Stock Exchange (PSE) to be introduced to students under their finance programs. FirstMetroSec signed the agreement with Manila Tytana Colleges (MTC) and Ateneo de Davao University (AddU) in two separate ceremonies. First Flight will be mainly used by students under the two schools' finance program.

It allows students to buy and sell stocks using virtual money, simulating actual trading of stocks online. This platform mirrors the features available on the FirstMetroSec website, giving students access to actual research reports, charting tools, and company reports to help them in taking their first step into the stock investing world.





# 2017 Investment Banking Deals







**Republic of the Philippines  
(Bureau of the Treasury)**

**PHP181,930,575,000**

3-year  
Retail Treasury Bonds

Joint Lead Issue Manager

April 2017



**TOYOTA  
FINANCIAL SERVICES**

**Toyota Financial Services  
Philippines Corporation**

**PHP1,500,000,000**

1.25- and 1.5-year  
Fixed Rate Notes

Sole Arranger

March 2017



**Smart Communications, Inc.**

**PHP4,200,000,000**

Peso-denominated  
Perpetual Notes

Joint Issue Manager  
Joint Bookrunner

March 2017

**WILCON DEPOT**

**Wilcon Depot, Inc.**

**PHP7,039,000,000**

Initial Public Offering

Issue Manager  
Bookrunner  
Joint Lead Underwriter

March 2017



**STI Education Services  
Group, Inc.**

**PHP3,000,000,000**

7- and 10-year  
Fixed Rate Bonds

Joint Issue Manager  
Joint Lead Underwriter

March 2017



**Ayala Corporation**

**PHP10,000,000,000**

8-year  
Fixed Rate Bonds

Joint Lead Underwriter

February 2017

# Landmark Deals

## Riding on Bullish Sentiments

**Up until February 5, 2018 when the U.S. stock market took its worst nosedive in over six years, deal making around the world was seen heading up after a bumper harvest in 2017.**

During the year, global investment banking business surpassed expectations, with more than \$3 trillion worth of M&A deals closed. Capital markets remained strong, with company valuations high and interest rates relatively subdued.

Closer to home, growing intra-regional trade in Asia, the largest trading region in the world, and the expansion of supply-chain networks beyond China, boosted sentiments in regional capital markets.

### Record Highs

Riding on stronger momentum, the benchmark Philippine Stock Exchange index (PSEi) gained 25.1%, posting a record finish of 8,558.42, and reversing a two-year slump. Despite the stronger performance of the equities market, the volume of capital raised from initial public offerings (IPOs) in 2017 was lower than the previous year, with four companies raising a combined P22.5 billion compared with P28.9 billion in 2016.

The Philippine debt market had a record year, with the total volume of fixed income issues surging 151% to P586 billion in 2017. Although the domestic corporate bond market remained small relative to National Government bonds which accounted for nearly 75% of the total volume, it has been growing rapidly over the years. Corporate bond issues grew 19% to P126 billion in 2017 from year-ago's P105 billion. The top four corporate bond issuers during the year were: the San Miguel Corporation Group (P50 billion), SM Prime Holdings, Inc. (P20 billion), Megaworld (P20 billion), and Ayala Corp. (P10 billion).

### Outlook in 2018

With the Duterte administration embarking on an ambitious infrastructure development program, First Metro sees another busy year for investment banking, as the need to fund the massive investment requirement of \$180 billion up to 2022 arises. Public spending on infrastructure is expected to hit 7.3% of GDP by 2022, up from the current 5.1% due to the "Build, Build, Build" program.

To mobilize the required funds, the government will need to further develop the domestic capital markets.

While interest and participation among Philippine market investors has been on the rise, the number of IPOs and bond issues in the country still pales in comparison with other emerging economies in the region. And while participation from retail investors has also been on an uptick, most of the investors are coming from more high net worth individuals. There is still a huge room for broadening the investor base to reach out to many Filipinos, including those working overseas and the unbanked sector.

This is why the government is initiating reforms such as measures to broaden and deepen the market for both government and private debt, integrating the Philippines into the global capital markets, helping agencies adopt international best practices, and increasing the availability of funding for infrastructure.

First Metro expects to ride on the continuing bullishness of the domestic economy, which we forecast to grow by 7-7.5% in GDP in 2018.

The implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law, while nudging up inflation to 3.5-4% in 2018, is seen to give rise to higher disposable income and boost consumer spending among salaried employees. This should also bode well for investors in the Philippine Stock Exchange, as we see the PSEi hitting another record high of 9,400 this year.





2018 should be another exciting year for investment banking and First Metro. We see opportunities for deepening the markets to be unlocked, broadening the menu of investment instruments. Among these are the real estate investment trusts (REIT) and the infrastructure bonds. Investor appetite may also get a boost from the follow-on offering of San Miguel Corp. for its food and beverage business, worth up to \$3 billion, or about P150 billion – emerging as the single biggest issue for the year.

On the other hand, we are also bracing for some headwinds. While the direction of the local currency over the near term remains a question mark, what is certain is that the period of low volatility has already ended. Interest rates have been on the climb due to the withdrawal of the quantitative easing in the U.S. and expectations of three to four rate hikes by the U.S. Federal Reserve in 2018.

However which way the market goes, First Metro will remain relentless in its pursuit of its mission as the prime mover of capital in the country. We have once again demonstrated our deep commitment to fulfilling our purpose when we played active roles in some of the country's biggest deals in 2017. We expect this trend to continue as we ride on bullish sentiments moving forward.

### Wilcon IPO: Defying the Odds

There were four stocks that debuted on the PSE in 2017, but only one IPO held on strongly and remains on the growth path to date.

Not only was Wilcon Depot, Inc. (WLCON) the first company IPO on the PSE in 2017, it was also the most successful – raising P7.04 billion at P5.05 per share. As of end-2017, its share price has gone up by nearly 67% versus the three IPOs that fell as much as 17% from listing date to end-2017.

For First Metro, which acted as both sole issue manager and bookrunner, as well as joint lead underwriter for the Wilcon IPO, it was also a landmark transaction by any measure. This was the largest-ever domestic issuance handled by a single issue manager and bookrunner, while also showcasing First Metro's strong sales distribution capability as it accounted for 78% of the Wilcon IPO shares sold. The offering resulted in an oversubscription of 3.7x as it attracted a broad spectrum of investors – from retail individuals to investment and trust funds, pension and retirement funds, banks, insurance companies, corporations, as well as foreign funds.

Several reasons boosted strong interest in the IPO. One, there was a dearth of maiden share sales in the early part of 2017 so domestic investors encouraged by the company's prospects snapped up the stock. Investors were also on the lookout for a pure-play retail company, and Wilcon fits the bill to a tee. The Philippines just entered year two of a half-decade infrastructure construction boom and the company simply feeds into the story, being the leader in home improvement and construction retail sector.

Wilcon said proceeds from the IPO will be used to bankroll its store network expansion, debt retirement, and general corporate purposes. Since opening its first store in 1977, the company has transformed itself into a one-stop shop for construction supply and home improvement. It has 41 stores nationwide, with 17 in Metro Manila and 24 in Visayas and Mindanao.

First Metro's familiarity with Wilcon's 40-year history also helped spark investor interest in the IPO. Prior to the IPO, First Metro provided advisory services to ensure Wilcon will be capital markets-ready. Wilcon spun off its retailing business to the List Co. as a result. The decision to offer Wilcon Depot's retailing business enabled the company to maximize its valuation in the course of the IPO process.

Wilcon owner William T. Belo, who was 32 when he started the business on a modest 60-square meter store on Quezon Avenue in Quezon City,

is also passing on the torch to daughter Lorraine.

The IPO is part of his legacy building and ensuring the company's sustainable future as Wilcon aims to build a total network of 65 stores nationwide by 2021.

The success of the IPO earned Wilcon the award "Best IPO, Philippines" at *The Asset* Triple A Country Awards. This stirred interest among local midsize companies to tap the capital markets for funding and to seek out the "rainmaker" – First Metro – for their potential market debuts.

### Retail Treasury Bonds (RTB) 19 and 20: Being Staple and Sustainable

Every successful franchise deserves a sequel. This is no truer in show business than in bond issuance.

While it was certainly hard to capture lightning in a bottle twice, First Metro did just that when it acted as joint lead issue manager for the Bureau of the Treasury's (BTr) 19th and joint issue manager for the 20th tranches of Retail Treasury Bonds (RTB) in 2017. This was the first time after five years that the BTr issued two RTBs in one year.

**PERA PALAGUIN, PANGARAP ABUTIN!**

Retail Treasury Bonds ang tamang hakbang tungo sa mas magandang kinabukasan.

**#RTBparaSaPangarap**

Retail Treasury Bonds or RTBs are government-issued financial instruments that help you reach your milestones. Affordable, low-risk, safe, and convenient, RTBs offer quarterly interest income, higher yields than time deposits, and are negotiable and transferable.

For as low as PHP5000, you can invest in a better future for yourself and for every Filipino.

**BENEFITS**

- Affordable
- Low Risk
- Convenient
- Quarterly Interest Income
- Higher yielding than time deposit rates
- Maximize Investment
- Negotiable and Transferable

Participating Banks and Institutions: First Metro, Landbank, BDO, SBI Capital, SB Capital.

The 19th tranche successfully raised P181.93 billion from the sale of the three-year in April 2017. The offer bore a 4.25% coupon and generated strong interest among retail investors, prompting the BTr to increase its offer to accommodate pent-up demand.

Following the successful RTB 19, the government offered RTB 20 with a longer tenor of 5 years and a coupon rate of 4.625%. The offer, which was 8.5x oversubscribed, was the largest to date and raised P255 billion for the government. First Metro and other issue managers took advantage of the flush market liquidity that came with the onset of the Christmas season.

For First Metro, the 2017 RTB issuances marked a milestone. It launched the investment instrument in 2001 to help the government efficiently raise funds and deepen the capital markets. Seventeen years and 20 RTB issuances later, the RTB has evolved into being a staple and reliable investment in the market.

Sold for as low as P5,000, the RTB presents a viable and risk-free option for Filipinos looking to achieve their financial goals while helping meet the National Government's financing needs. Funds raised in 2017 will help meet the government's funding requirements, especially in line with the administration's "Build, Build, Build" infrastructure program.

To promote its "legacy product," First Metro went on investor roadshows nationwide to build greater awareness, not just on RTBs, but on the value of saving and investing. The roadshows also focused on how to benefit from RTBs and showed testimonials from investors who were able to build their personal wealth as a result of investing in RTBs.

### **Metrobank: Banking on Bullish Consumers**

Metropolitan Bank & Trust Company (Metrobank) acquired the 20% stake held by partner ANZ Funds Pty Ltd. in their local credit card venture, Metrobank Card Corporation (MCC), for P7.4 billion in 2017, with an option to acquire the other 20% stake in 2018. Total transaction amount stood at P14.8 billion. The deal, where First Metro acted as advisor to its

parent firm, led to an increase in Metrobank's stake in MCC initially to 80% from 60%, and then to 100% in 2018.

For First Metro, the MCC deal allowed it to once again demonstrate its capabilities in developing and executing complex deal structures. This acquisition, which involves the shareholdings from a foreign company, also exhibited our extensive expertise in handling cross-border M&A transactions. Similarly, this landmark deal opens opportunities for First Metro to further cater to other companies that are planning to acquire and consolidate their various businesses, both locally and abroad.

The joint venture arrangement has created a lot of value for both Metrobank and ANZ as MCC transformed into the number one credit card company in the Philippines. With this transaction, Metrobank will now have a great opportunity to further expand its retail capabilities and leverage on better operational efficiencies as MCC eventually becomes its wholly-owned subsidiary.

Metrobank's joint venture with ANZ began in 2003. Since then, MCC has become a leading provider of credit cards in the Philippines with more than 1.5 million cards in force based on data obtained from the Credit Card Association of the Philippines.





# Regional Initiatives

## Extending Our Reach

We continue to pursue a regional ambition set nearly a decade ago when we envisioned First Metro as one of Asia's most respected investment banks. Our firm belief in Asia's growth story remains and is essential to our success in the years to come.



In June 2017, we marked a milestone with the start of the operations of our International Desk. Our goal is to cater to the financing and financial advisory needs of Philippine companies expanding abroad as well as of foreign firms exploring mergers and acquisition, expansion, or partnership opportunities in the Philippines. Our strategy is to initially gain a foothold in markets such as China, Taiwan, Japan, and South Korea where our parent firm, Metrobank, has built a strong reputation and presence through its overseas branches and offices.

In just six months of operations in 2017, our International Desk has already made a lot of head ways in laying the groundwork for active engagement with our regional neighbors and forging relationships

in new markets to unlock fresh growth opportunities.

In August 2017, First Metro mounted its first-ever economic briefing with the Taiwan Academy of Banking & Finance as partner. The event drew more than 180 corporates and financial institutions in Taiwan.

In September 2017, First Metro attended the China Development Bank (CDB) Forum, a weeklong event held in Beijing and Guangzhou in the People's Republic of China. CDB also invited Philippine government agencies, power companies, and financial institutions for possible business opportunities and cooperation in various infrastructure projects under the administration's "Build, Build, Build" program. First Metro's participation led to a partnership

agreement with CDB, a state-owned development financial institution, to support large-scale infrastructure projects in the Philippines. The opportunity also opened the door for First Metro to gain exposure in the Chinese construction industry. As a result, Beijing-based China National Heavy Machinery Corp. (CHMC), one of China's largest energy contractors and engineering firms, has tapped the services of First Metro to become its exclusive consultant in the country when it pursues projects in the Duterte administration's infrastructure program.

In October 2017, First Metro teamed up with MSCI, Inc. to create the country's first locally organized consumer-related index tracker. The index, called First Metro Index on MSCI Philippines IMI, contains 21 stocks that mirror the Filipino's spending consumption potential and gives investors more opportunities to participate in the capital markets. New York-headquartered MSCI is a provider of investment decision support tools worldwide and comes out with its own methodology to pick a basket of investment securities that investors would want to come into. As of June 30, MSCI had more than 6,800 clients across 88 countries.

In November 2017, First Metro held a roadshow in South Korea to enhance collaboration with the largest Korean financial institutions. This not only succeeded in generating Korean businesses' interest in participating in the Philippines' growth story, but also resulted in a number of potential deals for Korean banks to invest in certain growth industries such as the country's fast-moving consumer goods and fastfood sectors.

In addition to these activities, First Metro is also sustaining its regional collaborations with the following institutions to help achieve its long-term business goals:

#### **DBS Vickers**

Our research collaboration with DBS Vickers Securities (Singapore) Pte. Ltd. through First Metro Securities Brokerage Corporation (FirstMetroSec), our subsidiary, aims to offer best-in-class equity research to local and foreign investors and provide clients with investment ideas in the Philippines. In line with this partnership, FirstMetroSec annually participates in the DBS Vickers' Pulse of Asia Conference held in key cities worldwide.

FirstMetroSec invites listed companies to join in and discuss their company performance and outlook with selected investors and clients.

#### **SMBC Group**

In October 2017, First Metro renewed its partnership with Japanese financial giant Sumitomo Mitsui Banking Corporation (SMBC), along with its subsidiaries SMBC Nikko Securities, Inc. and SMBC Nikko Securities (Hong Kong) Ltd. The signed memorandum of agreement serves as the cornerstone of cooperation between First Metro and the SMBC Group in exploring opportunities in areas of debt capital markets, debt-related transactions, and financial advisory.

#### **Tokai Tokyo**

First Metro formed a strategic alliance in 2013 with Tokai Tokyo Financial Holdings, Inc. (TTFH), a Japan-based holding company engaged primarily in the securities business. The alliance aims to broaden the two companies' product offerings and services for their respective clients. The partnership represents a significant step towards our goal of expanding our business coverage in Asia, opening up a more diverse client base for First Metro.

The Memorandum of Understanding between First Metro and TTFH addresses collaborative and mutual endeavors that include information sharing on the economic environment and the corporate sector, as well as the promotion of certain investment banking businesses. Since 2013, TTFH's subsidiary Tokai Tokyo Securities Co. Ltd. has been trading through FirstMetroSec, constantly coordinating with its research team for equity investments.

Our International Desk will continue to view Asia's next-emerging economies such as Vietnam, Indonesia, and Myanmar with great interest after taking active part in business missions in recent years. We expect to see a number of exciting regional opportunities for deals, even for Filipino companies still awash with liquidity in acquiring firms offshore. We also plan to expand First Metro's reach outside the region and to continents such as North America, as we pursue our international aspirations with greater vigor and newfound confidence after setting up our International Desk.



# Corporate Social Responsibility

## Building a Legacy

**At First Metro, we take our citizenship role seriously and thus realize that corporate social responsibility (CSR) is always a work in progress.**

As an institution, we can only say we have succeeded in fulfilling our mission as the country's prime mover of capital if we are able to contribute to making economic growth inclusive for all Filipinos. This is why we focus our resources on CSR initiatives that empower people to make responsible financial and investment decisions. We also make sure we share our blessings with local communities, particularly reaching out to young Filipinos who will inherit the legacy we are helping build.

### Investment Literacy

#### Sharing Our Insights and Expertise

In 2017, First Metro held four economic briefings – two in Manila, one in Davao, and one in Cebu – for clients and investors. We also conducted two economic briefings for the media. The events gathered a total of 1,061 participants. The briefings enabled First Metro to present its analysis and outlook on the Philippine and global economy. These also served as venue for us to unveil our prospects for the fixed income, equities, and corporate debt markets, as well as those for corporate issuances and emerging growth industries.

#### Helping Achieve Financial Security

First Metro Securities Brokerage Corporation (FirstMetroSec), our wholly-owned subsidiary, organizes seminars and events to raise financial and investment literacy, while building stronger relationships with the communities in which the company operates. Motivated by the desire to help every Filipino achieve financial security, FirstMetroSec conducted over 160 seminars and webinars in schools, companies, and government offices, attended by over 30,000 people here and abroad.

#### Transforming Savers into Investors

Another First Metro subsidiary embracing our CSR advocacy on investment literacy is First Metro Asset Management, Inc. (FAMI), whose objective is to

transform Filipinos from being mere savers into intelligent investors.

In 2017, FAMI mounted over 130 investment literacy sessions that drew more than 4,500 participants, including students, teachers, bank employees, and people of varying backgrounds.

FAMI is also continuously fortifying its distribution base by increasing the number of its Certified Investment Solicitors (CIS) who act as front-liners in sharing investment and personal finance knowledge. To help raise awareness on the role of mutual funds in unlocking financial goals, its CIS are trained on retirement and education planning, and estate planning. The company is also expanding its reach by relocating some branches to more accessible locations in Manila and Cebu.

### Community Outreach

An important aspect of social responsibility is how First Metro supports local communities, even those beyond where we operate. We are committed to advancing quality education, helping the underprivileged, alleviating poverty, and other initiatives that uplift living conditions in communities.

#### Giving the Gift of Vision

Bigay Liwanag is a community outreach project that First Metro started in 2008. It provides eyeglasses to vision-impaired elementary public school children to allow them to pursue their studies with a clear eyesight. In 2017, a total of 146 students from Rafael Palma Elementary School and Graciano Lopez Jaena Elementary School in Manila benefited from free eye checkup and eyeglasses courtesy of First Metro. The eye checkups were conducted by Dr. Ederlinda Marquez of Marquez Optical.

#### Giving Back, Lending a Helping Hand

Other community outreach activities of First Metro were the following:

- **Bags of Blessing** is a nationwide gift-giving activity held to welcome the Chinese New Year in February. It carries on the Metrobank Group and GT Capital Holdings' tradition of sharing prosperity



with their countrymen, making the festivities more meaningful. First Metro helped pack and distribute bags containing P1,000 worth of food items distributed to 10,000 underprivileged families across the country.

- First Metro and FirstMetroSec participated in **Manila Tytana Colleges' 5th Annual Founder's Run**, an event to raise funds for the scholarship of incoming senior high school students.
- Thirty officers and staff of First Metro joined **ANCOP Global Walk**, a project of Couples for Christ Global Mission Foundation, Inc. through its work with the ministry ANCOP (Answering the Cry of the Poor). The activity was organized to rally support for the scholarship programs of ANCOP and create opportunities to help the poorest of the poor.
- In celebration of **National Teachers' Month** in October 2017, First Metro showed appreciation to all teachers through "Isang Daang Piso Mula Sa Puso Para Sa Mga Guro," whose proceeds were used for eyeglasses donated to 75 teachers of

Rafael Palma Elementary School. First Metro also led in offering prayers for teachers in various dialects, featuring inspiring stories and testimonies of selected teachers, and wearing yellow as part of the culminating activity. Another event that First Metro supported was the Metrobank Fiesta Fun Run held for the benefit of the National Teachers' Month Project and Manga Development Livelihood Project in Bohol.

- To mark the 30th anniversary of FirstMetroSec, members of the Board of Directors, officers, and employees of the First Metro subsidiary visited **The Chosen Children Foundation** for a day. Chosen Children houses more than 30 abandoned children with physical and/or mental disabilities. During the visit, more than 50 staff of the foundation received FirstMetroSec "wallets", a seminar about timely budgeting and monthly spending, compartmentalizing salary from groceries, utilities and rent, and providing the ability to readily set aside money for investments.

First Metro commits to sustain and grow its commitment to give back to communities as part of its corporate social responsibility.

# Corporate Governance

## Going Beyond Box Ticking

**First Metro regards corporate governance as a reflection of our value system – encompassing our culture, policies, and relationships with our regulators and other stakeholders. Integrity and transparency are the cornerstones of our corporate governance practices to ensure that we gain and retain the trust of our stakeholders at all times.**



### Compliance

#### Manual on Corporate Governance and Amendments

The Manual on Corporate Governance serves as a guide to our directors, management, officers, and staff in the performance of their respective duties and responsibilities to all stakeholders and in the development and achievement of First Metro's corporate goals. The Manual is regularly updated to include the adoption of the latest regulatory issuances and best industry practices.

Last revised in November 2017, the Manual includes amendments introduced by BSP Circular 970 or the Enhanced Guidelines for BSP-supervised Financial Institutions amending the Manual of Regulations for Non-bank Financial Institutions. Significant revisions involve the definition of terms and numbers of independent directors as well as the composition of Board committees.

#### Board of Directors

Good corporate governance starts at the top, with the Board of Directors setting the tone for the rest of the organization to comply. The Board determines First Metro's strategic goals and draws the roadmap towards achieving them, while always mindful of our mission, vision, and values.

The Board is committed to upholding the highest principles of good corporate governance. The members of the Board shall exhibit honesty and

integrity, diligence and dedication, efficiency and effectiveness, loyalty and fidelity, adherence to sound business practices and the rule of law, as well as fairness and equity to all. It is accountable to shareholders for maximizing shareholder value. It is also directly accountable to the investing public for safeguarding their investments and maintaining their trust.

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

The corporate powers of the company shall be exercised, its business conducted and all of its property controlled and held, by our Board. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the company.

#### Board Composition

The Board is composed of nine directors (three of whom are independent) elected by our voting stockholders during the annual stockholders' meeting. To the extent practicable, the directors are selected from a broad pool of qualified candidates who are screened and nominated based on their qualifications, extensive experience, and expertise.

The Articles of Incorporation of First Metro was amended in 2017 to reduce the number of directors from 11 to 9. This was due to certain developments in the business strategies of First Metro, as well as in regulations and corporate governance best practices, such as:

1. Divestment of non-core assets, in accordance with Basel III requirements;
2. Surrender of our trust license, lessening the number of investments and business activities that need directorial oversight over the past three years; and

3. Compliance with rules that all board committees have more than the adequate number of directors (both independent and non-executive) as members.

As a good corporate citizen, we ensure our strict adherence with all relevant regulations on the election of directors and that the directors remain fit and proper for the duration of their term as members of the Board.

The members of the Board, except for the independent directors, may be nominated

for re-election as long as they possess the qualifications and none of the disqualifications set under the regulations. Under the Manual on Corporate Governance, independent directors shall serve for a maximum cumulative term of nine years; after which, the independent director shall be perpetually barred from re-election, but may continue to qualify as a regular director. The nine-year maximum cumulative term for independent directors shall be reckoned from 2012.

Name of Directors	Type of Directorship	Principal Stockholder Represented if Nominee	Years Served as Director	Direct and Indirect Shares Held	Percentage of Shares Held to Total Outstanding Shares of the QB
Francisco C. Sebastian	Executive	Metrobank	21	10	0.0000027%
Arthur Ty	Executive	Metrobank	6	100	0.0000268%
Rabboni Francis B. Arjonillo	Executive	Metrobank	3	100	0.0000268%
Martin Q. Dy Buncio	Non-Executive	Metrobank	23	1,100	0.0002953%
Ismael G. Cruz	Non-Executive	Metrobank	10	100	0.0000268%
Joshua E. Naing	Non-Executive	Metrobank	3	100	0.0000268%
Abelardo V. Cortez	Independent Director	Metrobank	6	100	0.0000268%
Raphael Perpetuo M. Lotilla	Independent Director	Metrobank	4	100	0.0000268%
Rufino Luis T. Manotok	Independent Director	Metrobank	4	100	0.0000268%

## Top 20 Stockholders as of December 31, 2017

	Name of Stockholder	No. of Common Shares Held	Ratio (%) to Total Amount Subscribed
1	Metropolitan Bank & Trust Co.	369,737,060	99.249%
2	Jose G. Cuaycong	85,320	0.023%
3	Apolinario O. Per	60,800	0.016%
4	Juan G. Yu and/or Grace C. Yu	57,350	0.015%
5	Lea Lee Dudan	49,500	0.013%
6	John Peter C. Yu and/or Juan G. Yu	38,800	0.010%
7	Asilo De San Vicente De Paul	38,080	0.010%
8	Ma. Rosalina T. Suarez	37,560	0.010%
9	Juan Yu and/or John Philip Yu	33,480	0.009%
10	A. P. ITF Madrigal	32,640	0.009%
11	Pura Lim Aco	30,920	0.008%
12	Esperanza M. Calingo	30,780	0.008%
13	Trinidad Ramirez	26,120	0.007%
14	Antonio J. Montinola	24,760	0.007%
15	Inter-Islands Insurance Agency	24,720	0.007%
16	Archbishop Jose Ma. Cuenco Fou	24,400	0.007%
17	Jose Rodriguez, Jr.	21,200	0.006%
18	Ma. Encarnacion Suarez	21,120	0.006%
19	Trusteeship, Inc.	20,000	0.005%
20	Maria Lourdes Tuason	19,240	0.005%

### Role of the Chairman

The chairman of the Board of Directors provides active leadership by ensuring that the Board and its various committees function effectively, including maintaining a relationship of trust among Board members.

### Role of Independent Directors

While all directors have equal responsibility, the role of independent directors is especially significant as they safeguard the interest of the minority stockholders. They ensure that strategies and key policies formulated by management are fully reviewed, examined, and disclosed. Independent directors also provide independent judgment and insight into matters where views may diverge.

Pursuant to BSP Circular 970, we amended our Manual to expand the definition of "independent director."

In 2017, First Metro's independent directors were Rufino Luis T. Manotok, Raphael Perpetuo M. Lotilla, and Abelardo V. Cortez. They chair the Corporate Governance Committee, Related Party Transactions Committee, and Audit Committee, respectively. First Metro is compliant with the required number of independent directors and each is within the term limit prescribed by the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP).

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



## Board Meetings

The Board meets every month, with additional meetings convened as the need arises. During the reporting period, the Board met 12 times to deliberate on and consider a variety of significant matters.

In 2017, all directors complied with the requirement that they attend at least 50% of Board meetings, as prescribed by the SEC and the BSP.

Directors	Board		Executive Committee		Corporate Governance Committee		Audit Committee		Risk Oversight Committee		Nominations Committee		Related Party Transactions Committee	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Francisco C. Sebastian	12/0	100%	8/0	100%							1/0	100%		
Arthur Ty	12/0	100%	8/0	100%							1/0	100%		
Rabboni Francis B. Arjonillo	12/0	100%	8/0	100%	7/2	78%								
Martin Q. Dy Buncio	12/0	100%			9/0	100%			7/0	100%				
Ismael G. Cruz	12/0	100%											8/0	100%
Joshua E. Naing	12/0	100%							7/0	100%				
Abelardo V. Cortez*	12/0	100%			6/0	100%	6/0	100%					8/0	100%
Raphael Perpetuo M. Lotilla	10/2	83%			9/0	100%	5/1	83%			1/0	100%	8/0	100%
Rufino Luis T. Manotok**	11/1	92%			9/0	100%	3/0	100%	7/0	100%				
Solomon S. Cua***	3/1	75%	3/0	100%			3/0	100%						
Bienvenido E. Laguesma***	4/0	100%			1/2	33%								

### Attendance at Board and Committee Meetings

Legend: Present/Absent

\* Appointed as member of Corporate Governance Committee April 27, 2017

\*\* Appointed as member of Audit Committee April 27, 2017

\*\*\* Term of office ended April 26, 2017

## Board Committees

Board-level committees aid the Board in complying with the principles of good corporate governance and in the performance of its corporate functions and responsibilities. Each committee has its own charter detailing its purpose, membership requirements, meetings, and duties and responsibilities. The directors are distributed to sit in different committees to ensure that they are balanced and effective.

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

Executive Committee	
Chairman	Francisco C. Sebastian
Vice Chairman	Arthur Ty
Member	Rabboni Francis B. Arjonillo
Advisers	Mary V. Ty* Carmelo Maria L. Bautista Mary Mylene A. Caparas

\* Adviser from January to April 2017

The **Corporate Governance Committee** assists the Board in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value and protecting shareholders through effective oversight and observance of corporate governance practices and principles, among others. The committee is composed of five directors: three of whom, including the chairman, are independent. It convenes once every two months or as often as necessary.

Corporate Governance Committee	
Chairman	Rufino Luis T. Manotok
Members	Rabboni Francis B. Arjonillo Martin Q. Dy Buncio Raphael Perpetuo M. Lotilla Abelardo V. Cortez

The **Audit Committee** oversees senior management in establishing and maintaining an adequate, effective, and efficient internal control environment. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations,

and safeguarding of assets. It is composed of three independent directors and meets every quarter. Pursuant to BSP Circular No. 749, the president, controller, and treasurer are not part of the Audit Committee.

Audit Committee	
Chairman	Abelardo V. Cortez
Members	Rufino Luis T. Manotok Raphael Perpetuo M. Lotilla

The **Risk Oversight Committee (ROC)** assists the Board in overseeing the formulation and maintenance of written policies and procedures on the management of risk throughout the company. The risk management policy includes a comprehensive risk management approach, detailed structure of limits, risk guidelines, and parameters used to govern risk-taking, the clear delineation of lines of responsibility for managing risks, an adequate system for measuring and monitoring risks and effective internal controls, and a comprehensive risk reporting process. In 2017, the ROC convened seven times. It is composed of three directors, including one independent director and a chairperson who is a non-executive director.

Risk Oversight Committee	
Chairman	Joshua E. Naing
Members	Martin Q. Dy Buncio Rufino Luis T. Manotok
Resource Persons	Rabboni Francis B. Arjonillo Happy Mar S. Lomigo

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

Nominations Committee	
Chairman	Arthur Ty
Members	Francisco C. Sebastian Raphael Perpetuo M. Lotilla

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

#### Compensation and Remuneration Committee

Chairman	Arthur Ty
Members	Francisco C. Sebastian Abelardo V. Cortez

The **Related Party Transactions Committee** assists the Board in ensuring that transactions with related parties (including internal Group transactions) are reviewed to assess risks, are subject to appropriate restrictions to ensure that such are conducted at arm's length terms and that corporate or business resources of the company are neither misappropriated nor misapplied.

#### Related Party Transactions Committee

Chairman	Raphael Perpetuo M. Lotilla
Members	Ismael G. Cruz Abelardo V. Cortez
Resource Person	Representative of Internal Audit Group

#### Performance Assessment Program

The members of the Board conduct an annual self-assessment of the Board as a whole, of themselves as individual members, and as members of the Board committees. The Board has created an internal self-rating system and procedures to determine compliance with the Manual vis-à-vis good corporate governance principles and practices. Results of the assessment are submitted to the Corporate Governance Committee and are considered in making recommendations on the directors to be nominated to the Board and appointed to the Board committees for the following year.

#### Orientation and Education Program

All first-time directors must have attended a special seminar on corporate governance for Board of Directors. First Metro also has a policy on continuing education for directors. In order to ensure that the Board is equipped to provide effective governance and oversight, the Corporate Governance Committee shall liaise with external training providers for training and seminar of directors. First Metro may also provide its own internal training for directors or it may coordinate with Metrobank for the conduct of internal training.

In 2017, First Metro hosted the First Metro Group Annual Seminar on Anti-Money Laundering, Corporate Governance and Data Privacy, which was attended by the directors, senior officers, and representatives of the First Metro Group, GT Capital Holdings, and Metrobank Group of Companies.

### Remuneration Policy

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

### Accountability and Audit

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

Our financial statements comply with Philippine financial reporting standards and Philippine accounting standards prescribed by the Philippine Accounting Standards Board, in line with international accounting standards.

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

An independent internal audit function was set up to provide the Board, through the Audit Committee, with reasonable assurance that key organizational and procedural controls are effective, appropriate, and met. The Internal Audit Group evaluates First Metro's governance, risk management, and compliance systems—encompassing governance structure, operations, information systems, financial and reportorial integrity, safeguarding of assets, and compliance with laws, rules and regulations, and Code of Conduct. As allowed under BSP regulations, First Metro has outsourced its internal audit function to its parent company, Metrobank.

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

### Disclosure and Transparency

The Board is transparent and fair in the conduct of the annual stockholders' meeting. Stockholders are encouraged to personally attend the meeting.

The Board also promotes the rights of stockholders and protects the interests of minority stockholders. The SEC Form 20-IS (Information Statement), which contains corporate disclosures and latest audited financial statements, is disseminated to all stockholders ahead of the annual meeting to give them sufficient time to review.

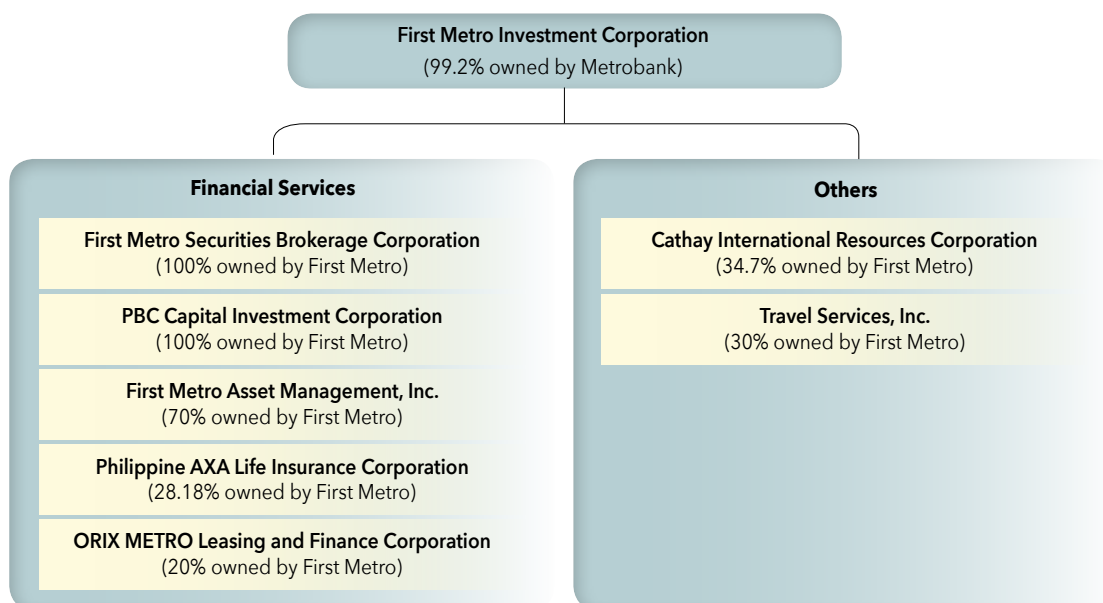
### Policies and Procedures on Related Party Transactions

The latest Related Party Transactions (RPT) Policy was amended and approved by the Board on June 29, 2017. The Related Party Transactions Committee reviews material RPTs and ensures that the terms are no less favorable to First Metro than terms available to any non-related party under the same or similar circumstances.

In the regular course of business, First Metro engages in transactions of related parties, recognizing that they have economic benefits to both clients and to the entire First Metro and Metrobank Group. As such, RPTs are generally allowed provided these are done on an arm's length basis; these transactions are regularly monitored; appropriate steps are taken to control or mitigate the risks; and these transactions are done in accordance with the RPT policy guidelines.

Transactions with related parties are reviewed, depending on the materiality threshold set by First Metro, either by the Senior Management Committee/Manpower Committee, both management level committees composed of senior officers, or the Related Party Transactions Committee, a Board-level committee composed of independent directors.

As defined in the RPT Policy, material RPTs are those that cross the threshold amount of P1 million. For the year 2017, the material RPTs are the following: (1) Toyota Financial Services Corporation Philippines' P1.5 billion fixed rates notes issuance; (2) Toyota Financial Services Corporation Philippines' P2.5 billion fixed rate notes issuance; and (3) Metrobank's acquisition of up to 40% ANZ Banking Group Ltd.'s stake in Metrobank Card Corporation.



### Senior Management Committee

The Senior Management Committee is composed of qualified members selected based on their competence in their respective areas or responsibility and the value they can add to the company. They go through an interview by the president and the chairman who evaluate their appropriateness for the role, considering the individual's coherence with the company's strategic directions. The candidate's qualifications are also reviewed by the Corporate Governance Committee and endorsed to the Board for approval. Similar to the Board, the fit and proper standards are strictly applied in the appointment of senior management officers.

The Senior Management Committee members receive a remuneration package based on the individual's professional background, experience and qualifications, as well as on industry standards. It is commensurate to the position, level of responsibility, and nature of the job of each individual with reference to the company's existing salary scale, and Metrobank's Compensation Policy. The package of all senior officers, from assistant vice president up, is determined by the Office of the Assistant to the Group Chairman of the parent company.

### Succession Management Program

First Metro ensures high quality replacements for those individuals who currently hold positions that are essential to the company's success. Under the First Metro Succession Management Program (SMP), incumbent unit heads are to prepare the identified deputy/successor to assume the position before

his/her separation or retirement date. This will also identify officers in charge in cases of prolonged/permanent absences of key officers/employees and address immediate response to any change in the company's organizational structure. The implementation of the SMP will ensure the preservation, continuity, and resiliency of operations considering an adequate transition among incumbents and the availability of external talents.

### Retirement Policy

Retirement from the service of First Metro is mandatory for employees reaching their 55th birthday or completing a period of continuous service of 30 years, whichever comes first. An employee may retire earlier than the compulsory retirement date, provided he has completed a period of continuous service of not less than ten years. An employee availing of optional retirement is entitled to and is paid an amount equivalent to the applicable vesting percentage of his final salary multiplied by the number of years of credited service.

### Dividend Policy

First Metro's dividend policy is an integral component of its capital management policy rather than a stand-alone process. Its fundamental and overriding principle is sustainability.

Dividends are declared and paid out of unrestricted retained earnings of the company at such intervals as the Board may determine and in accordance with the provisions of law and the regulations of the BSP and the SEC. The payment of dividends in the future



will depend on the company's earnings, cash flow, financial condition, regulatory requirements for capital, and other factors. The Board may, at any time, modify First Metro's dividend payout ratio depending on the results of operations and future projects, and plans of the company.

Cash dividends are subject to approval by at least a majority of the Board of Directors. Cash and stock dividend are subject to regulatory requirements of the BSP and the SEC.

### Compliance System

First Metro adopted a compliance system describing the specific roles of each unit, from the Board down to the last unit in the organization, including responsibilities in complying with applicable laws, rules, and regulations.

The same is embodied in an updated compliance system manual duly approved by the Board in December 2016 and regularly updated to conform with the latest trends and new/amended regulations, particularly BSP Circular No. 972. The Board approved the latest amendment to our compliance system manual in June 2017.

The Compliance System Manual (CSM) forms an integral part of the risk governance framework, designed to specifically identify and mitigate risk that may affect the franchise value of First Metro. It establishes a robust culture of compliance, anticipates, reinforces, and strengthens our compliance with existing laws, rules, and regulations in contributing to the maintenance of a sound and stable quasi-bank.

The chief compliance officer is mandated to oversee and monitor the implementation of the compliance system. He reports to the Board through the Corporate Governance Committee. He is free to report to the Board, without fear of retaliation or disfavor from any of the affected parties, any discovered breaches of laws, rules, and standards.

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

We submitted our Certification on Compliance with the Manual on Corporate Governance on January 22, 2018 covering the calendar year 2017.

### Anti-Money Laundering Compliance

First Metro firmly supports the government's policy to combat money laundering and prevent terrorist financing by promoting the highest ethical and professional standards. This ensures that the company shall not be used as money laundering site or conduit for the proceeds of unlawful activities.

We adopted our own Money Laundering and Terrorist Financing Program, approved by the Board. The program applies to First Metro, our existing/future branches, including our subsidiaries.

We regularly review and update our program to incorporate changes in anti-money laundering (AML) policies and procedures, latest trends in money laundering and terrorist financing typologies, and latest pertinent regulatory issuances. In 2017, we strengthened our AML program to adopt the recent regulatory issuances and to enhance transaction reporting as provided in BSP Circular No. 950.

To strictly ensure company-wide awareness and understanding of AML laws, rules, and regulations, all our personnel, including officers and directors, are required to attend the annual AML training programs.

The AML unit is supported by the AML Automated Compliance System, which captures information required for covered transactions reporting and facilitates the detection of money laundering activities and suspicious transactions for reporting to the Anti-Money Laundering Council.

First Metro is committed to continually prioritize programs for prevention of financial crimes and for the company's compliance with AML laws, rules, and regulations.

### Consumer Protection Practices

The Board and Senior Management are responsible for developing First Metro's consumer protection strategy and establishing an effective oversight and implementation of the company's consumer protection programs. The Board shall be primarily responsible for approving and overseeing the implementation of First Metro's consumer protection policies, as well as the mechanism to ensure compliance with these policies. Senior Management, on the other hand, is responsible for the implementation of these policies.

We developed our own Consumer Protection Risk Management System (CPRMS), which identifies, measures, controls and monitors consumer protection

risks inherent to both the company and our financial consumer. It serves as the foundation for ensuring our adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules, and regulations.

As required in Circular No. 857, Series of 2014, i.e., BSP Regulations on Financial Consumer Protection, First Metro's consumer protection policies and procedures are embedded in the policies and procedures manuals of the Strategic Business Units, the Information Security Department, and the Human Resources Division, among others.

The Internal Audit reviews First Metro's consumer protection practices' adherence to internal policies and procedures, and compliance with existing laws, rules, and regulations. It establishes and implements a well-designed Consumer Protection Audit Program in order to assess adequacy and effectiveness of policies and standards for meeting consumer protection objectives.

The Human Resources Division, as the designated independent unit that handles customer concerns, ensures that customers have access to adequate complaints handling and redress mechanism that is accessible, independent, fair, timely, and efficient. It has clear policies and procedures for handling customer complaints that are contained in the First Metro Customer Complaints Handling Manual. It submits a monthly report to the Senior Management Committee on complaints received for the preceding month.

### **Chinese Walls, Confidentiality, and Confidential Information**

First Metro has adopted its own policies and procedures regarding "Chinese walls"—a system of managing conflict of interest and preventing insider trading within the company. The same was approved by the Board on March 15, 2016 to comply with the requirements of the SEC and the BSP, and prevent the disclosure of confidential information and incidents of insider trading. These policies are intended to restrict the internal flow of confidential information, specifically material, non-public information, between certain units in First Metro or with companies within the First Metro Group performing different and possibly conflicting positions. They are designed to restrict the internal distribution and flow of confidential information only to authorized employees.

In compliance with the SEC mandate, First Metro yearly files its Annual Report on Chinese Wall Rule. This year, First Metro submitted the said report on March 7, 2018.

## **Risk Management**

### **Enterprise-wide Responsibility**

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

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

We continue to pursue an enterprise-wide risk management (ERM) system, which began in 2007. Proactive, vigilant, and integrative, the system focuses on risk management for the entire company.

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

The risk management of the company has a framework that is anchored in a top-down approach starting with the Board and supported by the different Board and Management level committees. The ROC is at the forefront of cultivating a risk culture that has made, not just First Metro, but the entire Metrobank Group one of the strongest in the industry. The risk appetite is set for institutional risk-related activities. The risk policies and all related processes are clearly formulated, established, and disseminated within the entire company. Our policy manuals are updated periodically by the concerned units and subsequently reviewed and approved by the Policies Committee, Senior Management Committee, and the Board.

The ERM framework is guided by the following functional structure:

#### **Board of Directors**

- Establishes risk management strategies and is ultimately accountable for risks within the group;
- Understands major risks faced by the company and approves broad risk tolerance levels/limits and other recommendations of the ROC; and
- Leads in disseminating risk philosophy and control culture throughout the company.

#### **Risk Oversight Committee**

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

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

- recommends for Board approval policies and guidelines on risk measurement, management, and reporting;
- reviews and recommends a system of risk limits for approval by the Board;
- monitors the timely and accurate reporting of risks by risk-taking units and/or the risk control and compliance units;
- analyzes and confirms that the risk infrastructure satisfies corporate policies and is consistent with current technology and techniques;

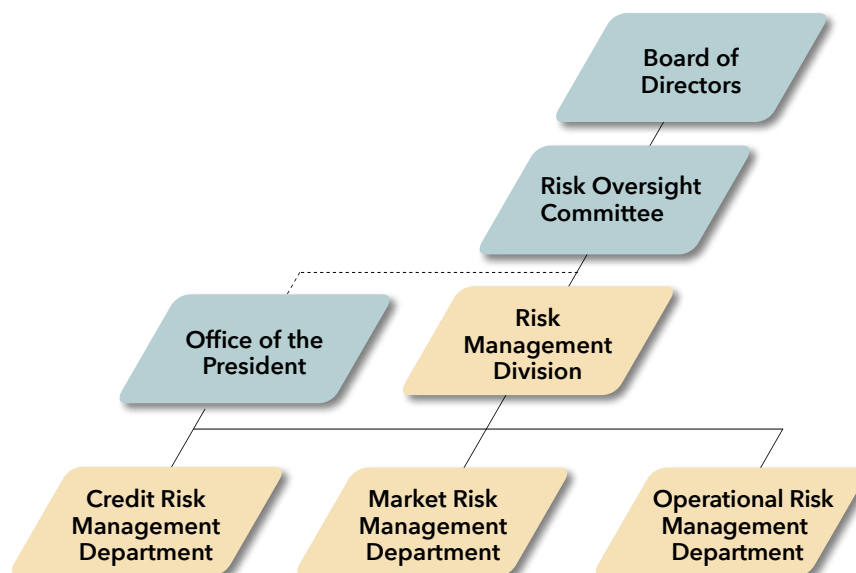
- ensures that business units provide review and validation of the adequacy and soundness of policies and practices;
- creates and promotes a risk culture that requires and encourages the highest standards of ethical behavior among all personnel;
- promotes the professional development and training of staff engaged in both risk management and control activities and risk-taking activities; and
- promotes the continuous development of risk programs and infrastructure.

#### **Risk Management Division and Control Units**

These are composed of the Controllarship & Planning Group, Internal Audit, Compliance Division, and Risk Management Division (RMD). The RMD, together with the control units, is tasked to:

- perform the daily mark-to-market valuation and value-at-risk calculations for all of our risk positions using independent data sources;
- ensure compliance with internal limits and reports limit excesses to appropriate business unit heads and the ROC; and
- oversee that proper accounting, operations, legal, and technology systems are in place to support risk-taking activities at all times.

The following shows the organizational structure of First Metro's Risk Management. The RMD functionally reports to the Risk Oversight Committee, and administratively reports to the Office of the President. It is made up of three departments: Credit Risk Management Department (CRD), Market Risk Management Department (MRD), and Operational Risk Management Department (ORD).



The CRD looks after counterparty and sovereign/issuer risk in the enterprise. The CRD utilizes credit risk tools to manage concentration risk exposures including stress testing analysis. The CRD also conducts credit quality and post process review to complement the Credit Division in effectively monitoring the credit portfolio.

The MRD looks after the risk due to adverse movement of market risk factors such as equity prices, foreign exchange, interest rates as well as risk to earnings and capital arising from inability to meet financial commitments when they fall due, in a timely manner, without incurring unacceptable losses. The MRD also employs market risk tools to manage both the trading and banking books of the company. Market risk tools include Value-at-Risk (VaR), Maximum Cumulative Outflow (MCO), Earnings-at-Risk (EaR), and Profit and Loss Alerts.

The ORD assists management in meeting its responsibility to understand and manage operational risk exposures and ensures the development and consistent implementation of operational risk policies, processes, and procedures throughout the company. The operational risk tools used by the ORD include: Operational Risk Self-Assessment (ORSA), Incident Reporting, Key Risk Indicators (KRI) Monitoring, Risk Event Database (RED), and Contingent Liability Monitoring. The ORD also spearheads the Business Continuity Management Framework of the company.

### Risk Appetite

First Metro's risk appetite is defined by a set of qualitative and quantitative standards and measures in order to maintain robust capital and liquidity position. Our risk measures allow for risk exposure monitoring both for normal and stress scenarios.

The following shows the risk appetite of the company as can be seen in our 2017 Internal Capital Adequacy Assessment Process (ICAAP) document.

Risk Type	Current Limits
Credit	Transactional, ceilings to SBL & Real Estate exposures, counterparty limits, concentration risk limits
Market	Set of position and portfolio limits
Interest Rate Risk in the Banking Book	EaR limits
Liquidity	MCO limits
Operational	Thresholds for various KRI
Reputational	None
Compliance/AML	KRI threshold for Regulatory Compliance
Legal	KRI threshold for Contingent Legal Liability
Strategic	None
Underwriting	Transactional



## Managing Various Types of Risk

The risk issues that affect First Metro are the following:

Risk Type	Description	Action Taken by First Metro
Liquidity Risk	<p>This is the potential risk of being unable to make a timely payment on any of our financial obligations to customers or counterparties.</p> <p>Liquidity can be affected by the inability to access long- or short-term deposit substitutes and repurchase markets, or draw from credit facilities, whether due to factors specific to First Metro or to general market conditions.</p> <p>The timing of difficult-to-predict events and contingencies can also make cash requirements and liquidity tight.</p>	<p>We have a monitoring system in place to support liquidity risk management policies. The system includes MCO analysis, identification of large funds providers, and development of core investors.</p> <p>To strengthen the company's monitoring system, we create additional stressful scenarios in our analysis to comply with the requirements of the BSP.</p>
Interest Rate Risk in the Banking Book	<p>Interest rate risk is a company's exposure to adverse movements in interest rates. Interest rate risk in the banking book more specifically refers to the current or prospective risk to our capital and earnings arising from adverse movements in interest rates that affect our banking book positions.</p>	<p>At present, we primarily assess interest rate risk exposure in the book by way of an Interest Rate Re-pricing Gap analysis and EaR. These tools are further supplemented by performing sensitivity analysis or earnings simulation over specified rate shocks.</p>
Market Risk	<p>This is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in our overall portfolio, both on- and off-balance sheet. Market risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, and equity.</p>	<p>We have an existing framework to measure our market risk.</p> <p>The RMD performs daily market risk analyses to ensure compliance with policies and procedures.</p> <p>Guiding daily monitoring activities are Board-approved limit structures that are based on annual targets.</p>
Credit Risk	<p>This refers to the risk to earnings or capital arising from an obligor's, customer's, or counterparty's failure to perform or to meet the terms of any contract with First Metro, subjecting the company to a financial loss. It also includes sovereign risk for some foreign-owned counterparties, where applicable.</p> <p>Credit risk arises from lending activities, committed underwritings and investments in bonds and equities.</p>	<p>To assess the creditworthiness of counterparties, we evaluate their background, management or ownership, industry and competitors, financials, the mechanics of the deal, and any credit enhancements.</p> <p>Counterparties are rated based on a Basel II compliant, 10-point internal credit rating patterned after the Metrobank model. Management of concentration risk includes compliance to external and internal ceilings approved by the Board as well as stress testing analysis.</p> <p>The RMD also regularly undertakes and reports credit monitoring of risk areas to the ROC covering the exposures of First Metro and our subsidiaries.</p>

Risk Type	Description	Action taken by First Metro
Operational Risk	<p>This refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events but excludes strategic and reputational risk.</p> <p>Operational risk management entails resolute vigilance and continuous enhancement.</p> <p>An effectively managed operational risk improves the quality and stability of earnings, enhancing one's competitive position in the industry.</p>	<p>The Operational Risk Management (ORM) Framework embodies our resolve to effectively manage operational risk via a staged approach. Clear-cut principles and guidelines are stipulated in the ORM manual.</p> <p>We implement a structured five-year information systems strategic plan approved by the Board that is in sync with its strategic business direction.</p> <p>We also adopted proactive risk management practices for effective oversight, due diligence, and management of risks arising from outsourcing, covering the run-up to entering into such an agreement, as well as its lifespan.</p> <p>Metrobank's Internal Audit Group reviews our operational risk management processes and provides independent assurance of their adequacy and effectiveness.</p>
Compliance Risk	<p>These are risks arising from violations or nonconformity with laws, rules and regulations, circulars, and prescribed practices or ethical standards that may expose First Metro to fines, penalties, and even assumption of control by regulatory authorities in case of capital inadequacy.</p>	<p>We have an established compliance function and written compliance policy manual that defines the compliance system, its status, authorities, and independence.</p> <p>The compliance officer leads in identifying, assessing, and reporting compliance issues to ensure that First Metro complies with the laws, rules, regulations, and standards set forth by the different regulatory bodies.</p>
Legal Risk	<p>This refers to breaches of applicable laws and regulatory requirements, unenforceability of contracts, lawsuits, or adverse judgment that may lead to potential losses and disruption or that may result in financial and reputational risk.</p>	<p>First Metro's Legal Division advises the business units on legal constitution of enforceable commitments during negotiations; appropriate governing laws and jurisdiction for agreements; development and documentation of terms for transactions involving collateral, guarantees, syndication, multi-office transactions, and any third-party support; and documentation of waivers and amendments to the original documents.</p> <p>The Legal Division ensures that contracting entities have the legal capacity or are duly empowered to contract with First Metro.</p> <p>It also establishes procedures for safeguarding original documentation and reviews these documents for compliance completeness and enforceability under respective legal jurisdictions.</p>

Risk Type	Description	Action taken by First Metro
Reputational Risk	Reputational risk is defined as any event that may prejudice public perception of First Metro's name, brand, or corporate identity, such that if not addressed immediately or managed properly, may trigger extensive negative news coverage and public scrutiny, long-term public relations damage, breach of trust and outright impact on stakeholders' interest.	<p>We have put in place a Crisis Communication Plan consisting of a step-by-step guide to manage communications in response to a crisis situation brought about primarily by reputational risk events.</p> <p>The plan provides policies and procedures for the coordination of communication within First Metro, between the company and its subsidiaries/affiliates, its clients and counterparties, outside agencies, stakeholders, and the general public.</p>
Strategic Risk	Strategic risk is the exposure to losses resulting from a business decision that turns out to be defective or inappropriate. Strategic risk may also be defined as current and prospective impact of strategic initiatives made by management arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	<p>We use the following methods of strategic risk management:</p> <ul style="list-style-type: none"> <li>• business planning</li> <li>• financial planning</li> <li>• variance monitoring of approved budget</li> <li>• plans implementation</li> <li>• market analysis</li> <li>• readjustment of plans</li> </ul>

# Internal Audit

The 2017 risk-based audit plan, approved by the Audit Committee (AuditCom) before the start of the year, was developed through a detailed and comprehensive evaluation of First Metro's strategy, attendant risks, and significant regulatory requirements, as well as other factors which may affect its delivery. The plan is revisited quarterly, and changes, if any, are approved by the AuditCom. The audit plan developed by the outsourced internal audit covers all critical business areas, control activities, regulatory requirements, and emerging risks, which enables the Internal Audit Activity (IAA) to render an overall assessment on the adequacy and effectiveness of the company's governance, risk management, and internal control processes. The completion of the audit plan complemented the oversight function of the Board, the AuditCom and the Senior Management, supported management initiatives, and encouraged system and process improvements.

The audit objectives are well-defined. These were effectively communicated to and supported by the company as manifested by the increasing requests for consultations and advice from the Metrobank Internal Audit Group (IAG), service provider, particularly in ensuring the appropriateness of risk mitigation measures, staying diligent in regulatory compliance, and improving operational efficiency.

The IAG's activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics. The IAG stays up-to-date with best practices (i.e., increased use of analytics, technology, and electronic data) and adopts effective audit techniques to align with system and process changes, industry

developments, and regulatory requirements. To adapt to and meet the increasing demands for assurance and consulting services, audit skills and knowledge are continuously developed and elevated through formal training and validation, especially on technical and specialized topics (e.g., financial markets, anti-money laundering, risk management, information technology, related party transactions, financial consumer protection), which have become more relevant in recent years.

A collaborative relationship is well-established and effectively observed with other control and monitoring functions of the company, such as the Controllershship & Planning Group, Operations Division, Compliance Division, and Risk Management Division, to achieve greater depth and coverage in assessing risks and to ensure that internal audit functions are effectively designed and performed. In 2018, this will extend to other monitoring and support functions to optimize and expand the use of available systems and work products.

The outsourced internal audit function continues to be strategically positioned as it directly reports to the Board through the AuditCom and is provided with unrestricted access (i.e., functions, records/documents, properties, and personnel) to ensure objectivity, fairness, and independence. The IAA will continue to uphold the highest level of integrity and promote unwavering diligence across the company to concretely affirm its commitment to the stakeholders in ensuring the reliability and integrity of financial and operational information, the safeguarding of assets, and compliance with laws, rules, regulations, and internal policies of the First Metro Group.

# Audit Committee Report

The Audit Committee (Committee) has discharged its responsibilities and affairs independently in compliance with its Board-approved Charter, and has represented and assisted the Board of Directors (BOD) in fulfilling its statutory and fiduciary responsibilities to enhance stakeholders' value and protect their interest by: providing effective oversight on the Company's financial reporting framework, outsourced internal and external audit functions; monitoring and evaluating the adequacy and effectiveness of internal control system; and implementation of corrective actions.

The Committee, composed of three (3) members, who are all independent directors, held six (6) regular meetings with external auditor and outsourced internal auditor over financial reporting and internal operational matters. The Committee periodically reported to the BOD results of its reviews and activities. Moreover, Committee members hold concurrent roles in other Board-level Committees, through which, they are apprised of significant developments and are able to provide advice on risk taking and management activities. In 2017, the Committee comprehensively deliberated the following matters:

## Financial Reporting

Reviewed interim and annual financial reports and disclosures, valuation techniques (i.e., financial instruments), estimates and assumptions used (i.e., allowance and liability provisioning), and impact of significant plans, new accounting standards and regulations.

## Internal Control and Fraud Prevention

Evaluated and monitored management's plans and actions taken to improve internal controls on trading and investment banking processes; conducted discussions with the outsourced internal and external auditors on governance, internal controls and fraud prevention resulting in enhanced internal control, improved audit programs and processes,

including use of data analytics to identify, evaluate and report trends and patterns that may indicate control weaknesses or unusual trading practices; and, assessed Company's programs to: continuously convey a culture of honesty and integrity; ensure effectiveness of the whistleblowing program; discourage malicious acts; and encourage employees to proactively report improprieties.

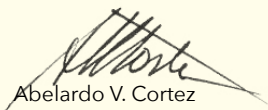
## Regulatory Compliance

Evaluated the results of outsourced internal auditor's review on the adequacy and effectiveness of the Company's AML framework, financial consumer protection framework and information technology and information security risk assessment, and, handling of related party transactions, among others.


## Information System Controls & Cyber Security

Reviewed the results of vulnerability assessment on the Company's networks, systems, servers and devices; and monitored rectification of IT-related weaknesses to prevent exposing the Company's systems and data to unauthorized access and manipulation, and improve operational efficiency. Oversight of External and Internal Audit Functions Evaluated the external and outsourced internal auditor's objectivity, independence and qualifications, scope/plan and performance; regularly received reports, discussed significant matters, including status of resolving control issues, and implementation of recommendations to improve internal controls.

Based on the Committee's accomplishments; representation letter from the Management; an unqualified opinion from the external auditor on the financial statements; and outsourced internal auditor's satisfactory overall assessment on the adequacy and effectiveness of the Company's internal control, risk management, and governance processes, business activities are effectively managed in accordance with the policies set by the BOD and in compliance with relevant regulatory requirements.



Abelardo V. Cortez  
Chairman



Raphael Perpetuo M. Lotilla  
Member



Rufino Luis T. Manotok  
Member



# Board of Directors



**Ismael G. Cruz**  
Director

**Arthur Ty**  
Vice Chairman

**Joshua E. Naing**  
Director

**Raphael Perpetuo M. Lotilla**  
Independent Director

**Francisco C. Sebastian**  
Chairman



**Rabboni Francis B. Arjonillo**  
President & Director

**Martin Q. Dy Buncio**  
Director

**Rufino Luis T. Manotok**  
Independent Director

**Abelardo V. Cortez**  
Independent Director

### **Francisco C. Sebastian**

*Chairman*  
64, Filipino

Mr. Sebastian is concurrently the vice chairman of Metropolitan Bank & Trust Company and GT Capital Holdings, Inc. He is also a director of Metro Pacific Investments Corporation, Federal Land, Inc., and Property Company of Friends, Inc.

He joined the Metrobank Group in 1997 as president of First Metro, a position which he held for 13 years until 2011 when he became chairman.

Mr. Sebastian joined Ayala Investment and Development Corporation in 1975 and was seconded to Hong Kong where he worked as an investment banker in Ayala International Finance Limited and then Filinvest Finance (HK) Ltd. until 1984. He then started his own corporate and financial advisory firm based in Hong Kong, Integrated Financial Services Ltd., which he managed until he returned after 20 years to the Philippines to join the Metrobank Group in 1997.

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

### **Arthur Ty**

*51, Filipino*  
*Vice Chairman*

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

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

### **Rabboni Francis B. Arjonillo**

*59, Filipino*  
*President & Director*

Mr. Arjonillo was appointed president and director of First Metro on January 1, 2016. He has more than three decades of extensive international and local banking experience.

He spent 18 years in Citibank with most recent roles as consumer bank treasurer in Australia and country treasurer in Vietnam where he was the founding chairman of the Vietnam Bond Market Forum, the precursor of the Vietnam Bond Market Association. Prior to joining First Metro, he was the head of Treasury and Investment Banking Sector of Land Bank of the Philippines. Right before that, he was the chief risk officer of China Bank. He started his banking career in Bank of the Philippine Islands as a management trainee and had a brief stint with UCPB.

Mr. Arjonillo was also a former president and director of the Money Market Association of the Philippines and vice president of the ACI Financial Markets Association, where he also acted as organizing

committee chairman of its 18th Asia Pacific Foreign Exchange Congress.

He was an assistant professorial lecturer at the De La Salle University, teaching courses in Economics and Finance for nine years. He is also a regular lecturer in the Bankers Association of the Philippines' Treasury Certification Program.

He holds an AB Economics degree from De La Salle University and a master's degree in Business Management from the Asian Institute of Management.

### **Martin Q. Dy Buncio**

*53, Filipino*  
*Director*

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

Currently, he is the chairman of the board of Pro-Oil Corp. and Pro-Auto Parts; president of HJ Marketing, Design Products Mfg., Proline II Mercantile, and Integra Development Corp.; president/director of Banam Global Holdings Corp.; and president of Proline Sports Center and of DYBCOM CORP.

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

### **Ismael G. Cruz**

*73, Filipino*  
*Director*

Mr. Cruz has over 25 years of experience in investment banking in the Philippines and in the other parts of Asia. He spent 17 years of his career in Hong Kong where he became chief executive of three regional merchant banking organizations: Ayala International Finance Ltd., Filinvest Finance (HK) Ltd., and Elders Finance Group of Australia. He served as the governor of the Philippine Stock Exchange and the Makati Stock Exchange for several years. He was also the governor of the Subdivision and Housing Developers Association.

Currently, he is the president of the Philippine Association of Securities Brokers and Dealers, Inc.; governor of the Market Governance Board of the Philippine Dealing System, Inc. and the Makati Commercial Estate Association, Inc.; trustee of the Securities Investor Protection Fund, Inc.; independent director of Penta Capital Investment Corp.; founder and president of IGC Securities, Inc.; and chairman and president of Carmen Homes, Inc. Mr. Cruz is also a member of the Capital Markets Council of the Philippines.

He holds a BS Economics degree and completed academic requirements for a Master in Business Management degree from the Ateneo de Manila University. In 1981, he was named one of the Ten Outstanding Young Men of the Philippines in the field of International Finance.

**Joshua E. Naing***57, Filipino**Director*

Mr. Naing is a seasoned banker with over 30 years of experience. He started his career with the Bangko Sentral ng Pilipinas until he joined the Metrobank Group in 1989 as OIC. For 11 years since 2002, he served as controller. He also held several directorship positions in the following companies: Global Business Power Corporation; Cebu Energy Development Corporation; Metrobank Technology, Inc.; Data Serve, Inc.; Philippine AXA Life Insurance Corporation; Multi Currency FX Corporation; Toyota Manila Bay; Metro Remittance (Spain), S.A.; Metro Remittance (Italia), S.p.A.; and MBTC Remittance GmbH (Vienna).

From 2013 to present he is assigned as head of the Financial Control Sector of Metrobank. Concurrent to his position as senior executive vice president of Metrobank, he also serves as director of Metro Remittance Center, Inc. (USA) since June 2008, Metro Remittance (Hong Kong) Limited since 2009, and MB Remittance Center (Hawaii), Ltd. since 2010.

Mr. Naing earned his BSC Accountancy degree from the Polytechnic University of the Philippines.

**Abelardo V. Cortez***72, Filipino**Independent Director*

Mr. Cortez has over 30 years of experience in the local and international banking industry, with concentration on treasury, trust, and private banking side of the banking business.

He held the following posts over the years: Money Market head, Rizal Banking Corporation; head, Financial Institutions Division, Bank of the Philippine Islands; vice president - Treasury Operations, Bank of the Philippine Islands; managing director and CEO, BPI International Finance Ltd. (Hong Kong); vice president/head - Private Banking Group, Bank of the Philippine Islands; director for Trust and Investments, ATR KimEng Capital Partners, Inc.; and director, First Metro Asset Management, Inc.

He was former president of the Financial Executives Institute of the Philippines (FINEX) and co-chairman of the country's Capital Market Development Council. He was also elected secretary-general of the International Association of Financial Executives Institutes. Currently, he sits as an independent director for PBC Capital Investment Corporation and First Metro Philippine Equity Exchange-Traded Fund, Inc.

He is a director/trustee of FINEX Foundation and writes a monthly business column for *BusinessWorld* and *Manila Bulletin*. Mr. Cortez finished his Bachelor of Laws degree from San Beda College of Law and was the recipient of the school's highest award, the Abbot Award. He completed his bachelor's degree at San Beda College, graduating Cum Laude. In 2008, he was chosen the Most Distinguished Bedan in the field of banking and finance by San Beda College Alumni Association.

**Rufino Luis T. Manotok***67, Filipino**Independent Director*

Mr. Manotok held several key positions at Ayala Corporation: senior managing director, chief financial officer, chief information officer, and head of Strategic Planning Group. He also served as the chairman and president of Ayala Automotive Holdings Corp., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Iloilo Corporation, and Prime Initiatives, Inc.; president and treasurer of Mandaue Primeland, Inc.; president of Honda Cars Cebu, Inc.; chairman of Ayala Aviation Corporation; and director of Globe Telecom, BPI Family Bank, Ayala Systems Technology, Inc., AC International Finance Ltd., and AYC Holdings Limited.

Mr. Manotok finished his AB Economics degree from the Ateneo de Manila University and obtained his master's degree in Business Management from the Asian Institute of Management. He also completed the Advance Management Program at Harvard Business School.

**Raphael Perpetuo M. Lotilla***59, Filipino**Independent Director*

Mr. Lotilla currently chairs the Board of the Center for the Advancement of Trade Integration and Facilitation and the Asia-Pacific Pathways to Progress Foundation, and serves as a trustee of the Philippine Institute for Development Studies. He is also an independent director of several private companies.

Mr. Lotilla was Secretary of Energy of the Philippines from 2005 to 2007, having previously served as Deputy Director-General of the National Economic and Development Authority, and president and CEO of the government-owned Power Sector Assets and Liabilities Management Corp.

He previously served as Regional Programme director of the Partnerships in Environmental Management for the Seas of East Asia, a regional project funded by the Global Environment Facility and implemented by the United Nations Development Programme.

Mr. Lotilla was also a professor of Law at the University of the Philippines, the same university where he obtained his law, psychology, and history undergraduate degrees. He received his Master of Laws from the University of Michigan.



# Board Advisers



Mayo Jose B. Ongsingco



Lorna Ty



Florencio T. Mallare



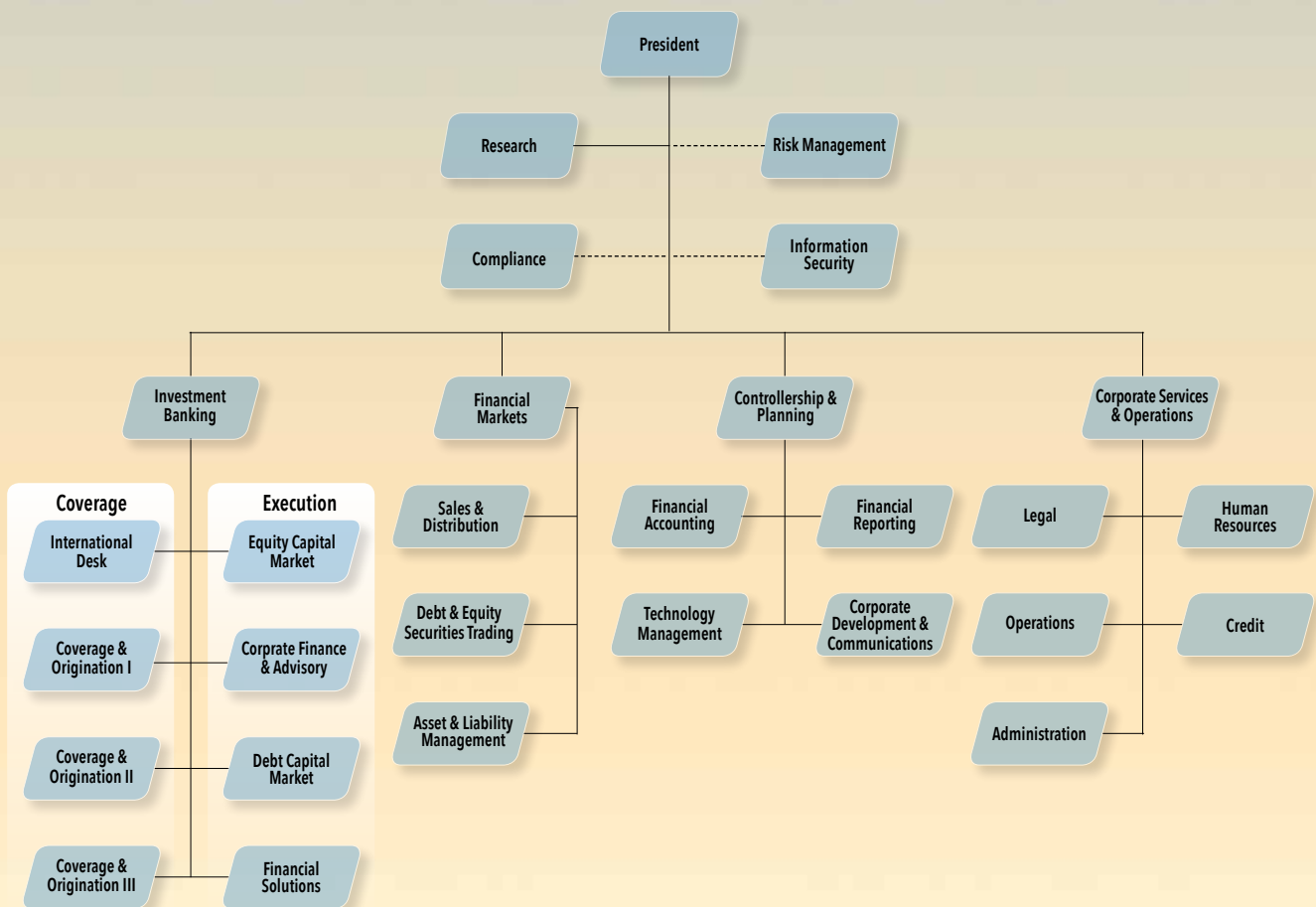


**Alesandra Ty**  
Treasurer & Corporate Secretary

**Nimfa B. Pastrana**  
Assistant Corporate Secretary

# Organizational Structure

First Metro has a lean and mean organization that is designed to meet the needs of its various businesses. In 2017, the company reorganized and bolstered some of its units to adapt to the rapidly evolving business environment. The chart below shows our new organizational structure:



# Senior Management and Principal Officers



## **Christopher Ma, Carmelo Y. Salazar**

*Senior Vice President  
Head - Financial Markets Group  
44, Filipino*

- Former head, Asset and Liability Management Group, Treasury and Investment Banking Sector, Land Bank of the Philippines
- Former head of various units, Standard Chartered Bank
- Former foreign exchange trader, ING Bank
- BS Management Engineering (Cum Laude), Ateneo de Manila University

## **Dennis G. Suico**

*Executive Vice President  
Head - Corporate Services & Operations Group  
65, Filipino*

- Former head, Operations Group, Metropolitan Bank & Trust Company
- Former controller and managing director, First Metro International Investment Co., Ltd.
- Former general manager, Metropolitan Bank & Trust Company, Shanghai Branch, eventually Metropolitan Bank (China), Ltd.
- Former director, Philippine Clearing House Corporation
- Former director, Bancnet, Inc.
- Former member, BAP Operations Committee
- Certified Public Accountant
- BS Commerce, Accounting, Andres Bonifacio College

## **Rabboni Francis B. Arjonillo**

*President  
59, Filipino*

- Former consumer bank treasurer, Citibank Australia
- Former country treasurer and FICC (Fixed Income, Currencies and Commodities) head, Citibank Vietnam
- Founding chairman, Vietnam Bond Market Forum, precursor of the Vietnam Bond Market Association
- Former head, Treasury and Investment Banking Sector, Land Bank of the Philippines
- Former chief risk officer, China Bank
- Former president and director, Money Market Association of the Philippines
- Former vice president, ACI Financial Markets Association
- Former assistant professorial lecturer, De La Salle University
- AB Economics, De La Salle University
- Master's degree in Business Management, Asian Institute of Management

## **Maricel L. Madrid**

*First Vice President  
Controller and Head - Controllershship & Planning Group  
38, Filipino*

- Former controller, East West Banking Corporation
- Former member of the board and audit committee of the then Green Bank, Inc.
- Held various key management positions in companies within the East West Bank Group
- Former external auditor, Punongbayan & Araullo
- Former accounting head of one of the retail companies of SM Group
- Certified Public Accountant
- BS Accountancy (Cum Laude), University of Santo Tomas

## **Jose Pacifico E. Marcelo**

*Senior Executive Vice President  
Head - Investment Banking Group  
58, Filipino*

- Former executive vice president and chief finance officer, Roxas Holdings, Inc.
- Former vice president and head, Investment Banking Division, RCBC Capital Corporation
- BS Business Economics, University of the Philippines
- Master's degree in Business Management, Asian Institute of Management



## Investment Banking

**Arsenio Kenneth M. Ona** - FVP/Division Head, Coverage & Origination I; **Charles Ian Salvador** - FVP/Division Head, International Desk  
**Melissa T. Dimayuga** - VP/Division Head, Coverage & Origination II; **Jose Pacifico E. Marcelo** - SEVP/Group Head  
**Abigail B. Magpayo** - FVP/Division Head, Equity Capital Market and Corporate Finance & Advisory  
**Maria Teresa V. de Vera** - VP/Division Head, Coverage & Origination III



## Financial Markets

**Ina B. Pacheco** - AVP/Department Head, Retail Investors; **David Ignacio C. Estacio** - VP/Department Head, Local Debt Markets  
**Annagraziela S. Banaad** - VP/Division Head, Debt & Equity Securities Trading; **Maricel R. Teng** - SM/Division Head, Asset & Liability Management  
**Christopher Ma. Carmelo Y. Salazar** - SVP/Group Head; **Lalaine C. De Guzman** - FVP/Division Head, Sales & Distribution  
**Percival C. Peña** - AVP/Department Head, Global Debt Markets; **Peter Anthony D. Bautista** - VP/Department Head, Institutional Sales



## Controllership & Planning

**Eric M. Salazar** - VP/Division Head, Technology Management; **Anna Marie S. Tuprio** - SM/Department Head, Corporate Communications  
**Maricel L. Madrid** - FVP/Group Head and Controller; **Girly P. Dollaga** - SM/Division Head, Financial Accounting  
**Mauro B. Placente** - VP/Deputy Group Head



## Corporate Services & Operations

**Ma. Eleanor T. Raz** - AVP/Division Head, Credit; **Rodger Joaquin P. Clemente** - SM/Division Head, Operations  
**Leah Mabel M. Faustino** - VP/Division Head, Human Resources; **Dennis G. Suico** - EVP/Group Head  
**Nimfa B. Pastrana** - FVP/Division Head, Legal; **Ryan Mark T. Sitjar** - M/Division Head, Administration





## Compliance, Information Security, Research, and Risk Management

**Jamie James M. Javier** - AVP/Chief Risk Officer and Division Head, Risk Management; **Arnel Alexis A. Azores** - SM/Chief Information Security Officer and Department Head, Information Security; **Sergio M. Ceniza** - VP/Chief Compliance Officer and Division Head, Compliance; **Cristina S. Ulang** - VP/Department Head, Research; **George B. Arenas** - AVP/Department Head, Operational Risk



## FAMI & FirstMetroSec

**Augusto M. Cosio, Jr.** - President, First Metro Asset Management, Inc.  
**Gonzalo G. Ordoñez** - President, First Metro Securities Brokerage Corporation

# About First Metro

## Solidifying Our Strengths in 2017



First Metro Investment Corporation is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country.

First Metro is the biggest investment bank in the Philippines with assets of P53.6 billion and stockholders' equity of P14.1 billion as of end-2017. Backed by over 50 years of experience in developing the country's capital markets.

We offer a wide range of services – from debt and equity underwriting, loan syndication, project finance, and financial advisory, to investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research.

In 2017, First Metro participated in 67% of the total publicly listed capital transactions in the domestic market, raising P486.3 billion for the public and private sectors. We accounted for 85% of total bond issues for the year, proof of our solid leadership, innovation, and service excellence.

A concrete testament to our industry dominance, we garnered a string of awards and recognitions in 2017. For the third consecutive year, we were named the Philippines' Best Investment Bank and M&A House by *Alpha Southeast Asia*. In a survey of *The Asset Benchmark Research*, First Metro ranked second in the Top Investment Houses in Asian Local Currency Bonds, and third in Top Bank in Government Bonds categories. First Metro was also recognized as the Best Advisory House by the Investment House Association of the Philippines.

## Expanding Our Presence



First Metro offers a complete suite of products and services. Through our various strategic business units, we are able to address the rapidly evolving needs of our growing clientele.

Our **Investment Banking Group** offers debt and equity underwriting, arranging and syndicating large and long-term funding requirements, financial advisory, project finance, and structured financial solutions.

Over the years, our client base has grown to include government institutions and the Philippines' top corporations and conglomerates in vital industries such as power and utilities, telecommunications, property, media, and financial services.

Our unrivaled track record in **debt and equity underwriting** rests on our key strengths: deal origination, structuring, and execution. We are widely recognized as the leader in debt capital market issuances, providing debt-financing solutions to help achieve client objectives that range from expansion, refinancing, strategic acquisitions or buyouts, to complex project financing.

We actively took part in the most successful debt fund raising exercises in the market, including key roles as joint issue manager and joint lead issue manager in the Philippines' two largest-ever retail treasury bond issuances. We also brought new names to the market such as STI Education Service Group, Inc. and Cyberzone Properties, Inc.

The year's most successful initial public offering (IPO) – Wilcon Depot, Inc. – was led solely by First Metro. To date, the Wilcon IPO remains as the largest purely domestic offering in the Philippines with a sole issue manager, raising P7.04 billion.

Our Investment Banking Group also provides a wide range of advisory services covering mergers and acquisitions, capital and corporate restructuring, asset valuation, rendering fairness opinions, and fundraising.

In **capital and corporate restructuring**, we provide strategic advice on maximizing financing options so our clients will be able to pursue their growth ambitions. Mid-tier corporations can seize business opportunities through capital restructuring and piggyback on the country's growth trajectory. Our mergers and acquisitions (M&A) advisory services cover advice on all aspects of acquisitions, disposals, private equity transactions, and finance raising, including deal execution and origination, the preparation of business plans and financial projections, as well as structuring, negotiating, and executing M&A, joint venture, and strategic divestiture transactions.

We provide advice on **fundraising**, debt and equity, whether through a public or private offering, and selecting the activity's optimal structure.

In **asset valuation**, we consider the financial reporting and tax consequences of transactions and other major corporate initiatives, including giving advice to effectively address valuation issues.

We render **fairness opinions**, being a Philippine Stock Exchange-accredited financial advisor. These fairness opinions are used by publicly listed companies, and for listing by way of introduction, debt to equity conversions, share-for-share/asset swaps, and tender offers.

In 2017, we demonstrated our financial advisory expertise by successfully advising Metropolitan Bank & Trust Company in the acquisition of ANZ's 40% stake in Metrobank Card Corporation, the country's top card issuer. The P14.8-billion acquisition will give Metrobank 100% stake in Metrobank Card Corporation.

The Investment Banking Group has gone beyond the domestic market with the creation of the International Desk in mid-2017, bringing to fruition First Metro's regional aspirations. The International Desk aims to expand our market coverage in foreign territories with

focus on Japan, China, Taiwan, and South Korea where Metrobank has a strong presence. It will service the financing and financial advisory needs of Philippine companies expanding abroad as well as of foreign firms exploring mergers and acquisitions, expansions, or partnership opportunities in the Philippines.

Our **Financial Markets Group** is responsible for the **distribution and trading of financial instruments** such as peso- and dollar-denominated government securities and corporate papers, as well as **managing the liquidity requirements of First Metro**.

As a quasi-bank licensed institution, First Metro accesses public funds through the issuance of promissory notes. We are also a Government Securities Eligible Dealer (GSED) authorized by the Bureau of the Treasury (BTr) and one of the most active dealing and brokering participants in the industry.

Driving the success of our underwritten deals is the dynamic synergy between the Investment Banking Group and the Financial Markets Group. First Metro's underwriting strength is complemented by its ability to distribute securities widely.

The Financial Markets Group is also engaged in the trading of fixed income instruments, such as government securities and corporate bonds. As a market maker for most corporate issues, we provide counterparties and clients with active two-way quotes. The Group also trades equities for its proprietary portfolio.

We are able to strengthen relationships with our business partners, both institutional and individual, by delivering financial solutions that address their specific funding requirements.

The Financial Markets Group has a solid track record for its dealing and trading activities. Our brokers are consistently recognized as top salespersons by prestigious publications and organizations.

## Other Allied Services



### Equities Brokering

First Metro Securities Brokerage Corporation (FirstMetroSec) is the stockbrokerage arm of the Metrobank Group. It is licensed to trade in the Philippine Stock Exchange (PSE). Established in 1994, FirstMetroSec has provided clients with accessibility, convenience and innovation for over 20 years. Together with a state-of-the-art online trading platform, a mutual funds portal called FundsMart, a margin trading facility, and dollar-denominated securities and mutual funds selections, FirstMetroSec continues to break barriers by providing more than just equities brokering.

### Fund Management

First Metro Asset Management, Inc. (FAMI) engages in the mutual fund business, promotes savings mobilization, and advocates investment literacy among Filipinos. A partnership between First Metro, the Catholic Educational Association of the Philippines, and the Marist Brothers Foundation, FAMI is an investment company adviser licensed by the Securities and Exchange Commission (SEC) to manage and distribute the First Metro Save & Learn Mutual Funds. These are the products offered by FAMI:

- First Metro Save & Learn Equity Fund, Inc. (SALEF)
- First Metro Save & Learn Fixed Income Fund, Inc. (SALFIF)
- First Metro Save & Learn Balanced Fund, Inc. (SALBF)
- One Wealthy Nation Fund, Inc. (OWN)
- First Metro Save & Learn Dollar Bond Fund, Inc. (SALDBF)

### Exchange-Traded Fund

The First Metro Philippine Equity Exchange-Traded Fund, Inc. (FMETF) is a domestic corporation engaged primarily in investing, reinvesting, trading in, and issuing and redeeming its shares of stock in creation units in exchange for a basket of securities representing an index.

Registered with the SEC on January 15, 2013, the FMETF is the first company to offer exchange-traded funds in the Philippines. The fund aims to provide returns which would reflect the performance of the Philippine equities market by investing in a basket of securities which are included in the Philippine Stock Exchange index (PSEi).

## Franchise Value



- **Best Investment Bank and M&A House**  
2017
- **Best Project Finance Deal of the Year in Southeast Asia: Light Rail Manila Corporation's P24 billion Project Loan Facility**  
2016
- **Best Project Finance Deal of the Year in Southeast Asia: Pagbilao Energy Corporation's P33.3 billion (US\$750 million) Project Finance Facility**  
2014
- **Best Small Cap Equity Deal of the Year in Southeast Asia: Xurpas' P1.36 billion (US\$30 million) Initial Public Offering**  
2014



- **Best Advisory House**  
2017
- **Deal of the Year: GT Capital Holding's P22.06 billion Sale of 56% Equity Stake in Global Business Power and P29.89 billion Acquisition of 15.5% Stake in Metro Pacific Investments Corporation**  
2017
- **Best Advisory Deal of the Year: GT Capital Holding's P22.06 billion Sale of 56% Equity Stake in Global Business Power and P29.89 billion Acquisition of 15.5% Stake in Metro Pacific Investments Corporation**  
2017



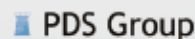
- **Best Investment Bank in the Philippines**  
2016



- **Best Investment Bank in the Philippines**  
2015



- **Best Domestic Bond House**  
2015, 2014, 2013, 2012, 2011, 2010, 2009, 2004
- **Best M&A House**  
2015
- **Best Domestic Investment Bank**  
2005, 2002
- **Best IPO, Philippines: Wilcon Depot, Inc.'s P7.04 billion Initial Public Offering**  
2017
- **Best Power Deal, Philippines: San Buenaventura Power Ltd. Co.'s P42.15 billion Project Finance Loan Facility**  
2016
- **Most Innovative Deal: Therma Visayas, Inc.'s P31.97 billion Project Loan Facility**  
2016
- **Deal of the Year, Philippines: Bureau of the Treasury's P264.038 billion Domestic Liability Management Exercise (bond exchange)**  
2015
- **Best Power Deal, Philippines: Pagbilao Energy Corporation's P33.31 billion Project Finance Facility**  
2015
- **Best Deal, Philippines: Century Pacific Food, Inc.'s P3.16 billion Initial Public Offering**  
2014
- **Best Deal, Philippines: San Miguel Brewery's P38.8 billion Bond**  
2009
- **Best Deal, Philippines: Ayala Corporation's P5.8 billion Perpetual Hybrid**  
2006



Philippine Dealing System Holdings Corp. & Subsidiaries

- **Cesar E.A. Virata Award for Best Securities House (Investment House Category)**  
2014, 2013, 2012, 2011
- **Top Corporate Securities Market Maker**  
2017, 2016, 2015, 2014, 2013, 2012, 2011
- **Top 5 Fixed Income Brokering Participant**  
2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010
- **Top 5 Fixed Income Dealing Participant**  
2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009
- **Top 5 Corporate Issue Manager/Arranger**  
2015, 2014, 2013, 2012, 2011
- **Top Brokering Participant for Corporate Securities**  
2013, 2012
- **Innovative Listed Corporate Bond Issue of the Year (First Covered Bond Listed)**  
2011



- **Best Domestic Bond House in the Philippines**  
2016



- **Best Bond House in the Philippines**  
2014, 2013, 2011, 2009, 2006, 2005
- **Top 10 Best Managed Companies in the Philippines**  
2013
- **Top 10 Best Investor Relations in the Philippines**  
2013
- **Best Equity House in the Philippines**  
2012
- **Best Investment Bank**  
2005





- Top Investment Houses in Asian Local Currency Bonds, Philippines 2017
- Top Banks in Government Bonds, Philippines 2017, 2016
- Top Banks in Corporate Bonds, Philippines 2016
- Top Bank Arranger, Investors' Choice for Primary Issues in Asian Currency Bonds, Corporate Bonds, Philippines 2016, 2015
- Top Bank Arranger, Investors' Choice for Primary Issues in Asian Currency Bonds, Government Bonds, Philippines 2015
- Top Bank in the Secondary Market, Government Bonds, Philippines 2015
- Best Primary Bank for Corporate Bonds, Investors' Vote, Philippines 2013



- One of the Ten Best Performing Government Securities Eligible Dealers 2015, 2014, 2013, 2008, 2007
- Plaque for Excellence for Retail Treasury Bonds 4 2003
- Most Outstanding Underwriter and Selling Agent for Retail Treasury Bonds 2001



- Philippines Capital Markets Deal of the Year: GT Capital Holdings, Inc.'s P21.567 billion Initial Public Offering 2012
- Domestic Bond Deal of the Year: San Miguel Brewery's P38.8 billion Bond 2009
- Philippines Capital Markets Deal of the Year: San Miguel Brewery's P38.8 billion Bond 2009
- Philippines Capital Markets Deal of the Year: Metrobank's P8.5 billion Lower Tier 2 Notes 2007
- Philippines Capital Markets Deal of the Year: Ayala Corporation's P5.8 billion Perpetual Hybrid 2006



- Asia Financing Transaction of the Year: Pagbilao Energy Corp.'s P33.3 billion Project Finance Facility 2014



## The Banker

- Deal of the Year, Loans category for Asia Pacific: Monde Nissin's Acquisition of Quorn Foods Ltd. 2016
- Deal of the Year for SSA Bonds category for Asia Pacific: Republic of the Philippines' P323.4 billion Domestic Debt Consolidation Program 2012



- Asia Pacific Infrastructure Deal of the Year: Light Rail Manila Corporation's P24 billion Project Loan Facility 2016
- Asia Pacific Power Deal of the Year: San Buenaventura Power Ltd. Co.'s P42.15 billion Project Finance Loan Facility 2015

- Best Investment Bank, Philippines 2013
- Best Equity House, Philippines 2013
- Best Domestic Bond House, Philippines 2013



- Gold Awardee in the ICD Corporate Governance Scorecard for Publicly Listed Companies 2011
- Silver Awardee in the ICD Corporate Governance Scorecard for Publicly Listed Companies 2010



- Top 100 ASEAN Companies based on Relative Wealth Added Index 2009



- Asia's Best Emerging Market ETF: First Metro Philippine Equity Exchange-Traded Fund 2015
- ASEAN's Best ETF Manager 2015

**Made Stronger by  
Metrobank**



First Metro is the subsidiary of Metropolitan Bank & Trust Company (Metrobank), a leading financial conglomerate in the Philippines.

Established in 1962 to serve the Filipino-Chinese community, Metrobank's solid track record spans 55 years. It has grown to become the premier universal bank in the Philippines, offering a full range of banking and other financial products and services, including corporate, commercial and consumer banking, as well as credit cards, remittances, leasing, investment banking, and trust banking.

Its consolidated network covers 2,352 ATMs nationwide, 952 domestic branches and 33 foreign branches, subsidiaries, and representative offices.

Metrobank is majority-owned by the Ty family, whose major business interests include financial services, real estate development, infrastructure, and insurance. Its local and international subsidiaries include Metrobank Card Corporation, Toyota Motors Philippines Corporation (a partnership with Japan's largest automotive manufacturer), and Philippine AXA Life Insurance Corporation (with global giant AXA Group).

Metrobank has also been steadily expanding internationally. In the late 1990s, Metrobank opened branches and offices in London, Taichung, Tokyo, and Seoul. It was the first Philippine bank granted a banking license by the Japan Ministry of Finance, and the first Philippine bank in South Korea and China.

Metrobank has been consistently regarded as a systemically important player in the Philippine banking industry, consistently recognized as the strongest bank in the country by prestigious international and regional publications.

#### Domestic Branch Network

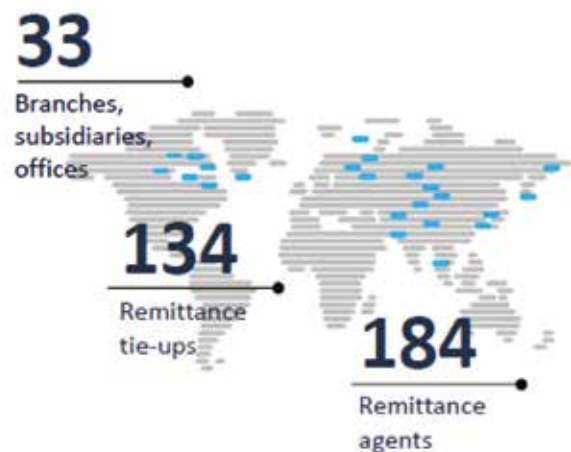
##### Provincial Distribution:

Luzon outside MM: 30%

Visayas + Mindanao: 24%



#### Overseas Network Coverage



# Subsidiaries & Affiliates



First Metro Securities Brokerage Corporation (FirstMetroSec) had a record-breaking year in 2017. Value traded soared to P144 billion versus P129 billion in 2016. This resulted in a market share of 3.7% from 3.4% the previous year.

FirstMetroSec ranked 9th out of the 132 active trading participants in the Philippine Stock Exchange (PSE) in 2017.

In early 2017, FirstMetroSec enhanced its suite of financial services, with the launch of FundsMart for mutual fund investing, Margin Trading for more flexible funding options, and its latest, more intuitive mobile app. In the latter half of 2017, the company again enhanced its services through the introduction of dollar-denominated securities and mutual funds, giving clients access to multi-currency, multi-asset portfolios.

2017 also proved to be one of the company's milestone years, as *FinanceAsia*, a Hong Kong-based

financial publishing firm, named FirstMetroSec the Philippines' Best Broker. The company also received six recognitions from the 2017 *AsiaMoney* Brokers Poll for its research output. These include the personal recognition of two of the company's research analysts.

FirstMetroSec has also stepped up its efforts to promote financial and investment literacy nationwide. It complemented its in-house seminars with the launch of Mutual Funds 101. This coincided with its Basic Education for Stock Trading (BEST), Guided Investor Fearless Trader (GIFT), and GIFT Advanced, a program designed to help clients build their own trading system. These seminars comprised the company's Learning Series curriculum.

FirstMetroSec has also been actively broadening its reach through webinars and live streaming sessions in its social media platforms for viewers, both local and abroad. In 2017, FirstMetroSec conducted over 160 seminars for more than 30,000 individuals, more than triple that of the previous year.

FOR THE YEAR	2017	2016
Gross Revenues	348,110,612	247,891,802
Total Expenses	251,204,397	191,524,148
Net Income	96,906,215	56,367,654
AT YEAR END		
Total Assets	2,271,899,949	1,596,249,963
Total Liabilities	1,810,022,264	1,196,460,022
Total Shareholder's Equity	461,877,685	399,789,941

## Contact Details

Gonzalo G. Ordoñez (President)  
18th Floor, PSBank Center  
777 Paseo de Roxas cor. Sedeño St.  
Salcedo Village, Makati City  
Tel: (02) 859 0600  
[www.firstmetrosec.com.ph](http://www.firstmetrosec.com.ph)

## First Metro Asset Management, Inc.



First Metro Asset Management, Inc. (FAMI) engages in the mutual fund business, promotes savings mobilization, and advocates investment literacy among Filipinos. FAMI is a partnership among First Metro Investment Corporation, the Catholic Educational Association of the Philippines, and the Marist Brothers Foundation. It manages six mutual funds, with more products in the pipeline. Various securities houses with online platforms have asked to make FAMI funds available on their platforms.

In 2017, the Philippine mutual fund industry's growth accelerated to 21.56% from 2.34% in 2016, with assets under management (AUM) reaching P295 billion. In step with the industry's robust performance, FAMI ended the year with P11.3 billion in AUM, with a client base exceeding over 25,000 accounts.

An improving global growth, a benign inflation environment, a strong domestic economy, the enactment of the Tax Reform for Acceleration and Inclusion (TRAIN) Law, and an expectation of increased infrastructure spending contributed to FAMI's bullish positioning in the equities market.

These positive developments led to the growth of FAMI's funds in 2017, as follows:

- Save & Learn Equity Fund: 22.55% – Managed to keep its 10-year average growth strong at 11.48%
- Save & Learn Fixed Income Fund: 0.42%
- Save & Learn Balanced Fund: 14.46%
- One Wealthy Nation Fund: 11.70%
- Save & Learn Dollar Bond Fund: 1.21%

FOR THE YEAR	2017	2016
Gross Revenues	<b>220,721,317</b>	225,611,672
Total Expenses	<b>166,453,920</b>	173,826,321
Net Income	<b>54,267,397</b>	51,785,351
AT YEAR END		
Total Assets	<b>352,154,883</b>	325,557,103
Total Liabilities	<b>16,500,928</b>	18,641,323
Total Shareholder's Equity	<b>335,653,955</b>	306,915,780

### Contact Details:

Augusto M. Cosio, Jr. (President)  
18th Floor, PSBank Center  
777 Paseo de Roxas cor. Sedeño St.  
Salcedo Village, Makati City  
Tel: (02) 891 2860 to 65  
[www.fami.com.ph](http://www.fami.com.ph)

## First Metro Philippine Equity Exchange-Traded Fund



The First Metro Philippine Equity Exchange-Traded Fund (FMETF) posted a record year-on-year return of 26.44% in 2017, beating all other mutual funds in the Philippine market. It also minimized its tracking error at 0.05% against the Philippine Stock Exchange index's 24.66%. In its four-year existence, the FMETF has already delivered a total return of 30.52% compared to 23.04% average return of equity mutual funds in the industry for the same period.

In 2017, the product was also more actively introduced to the retail market through webinars and social media channels like Facebook.

### Contact Details:

Eduardo S. Mendiola (President)  
18th Floor, PSBank Center  
777 Paseo de Roxas cor. Sedeño St.  
Salcedo Village, Makati City  
Tel: (02) 891 2860 to 65  
[www.firstmetroetf.com.ph](http://www.firstmetroetf.com.ph)



AXA Philippines closed 2017 with P26.4 billion in total premium income, and one million customers protected under various individual and group life insurance products.

Following its entry into the non-life insurance business with the acquisition of Charter Ping-An, the fourth largest non-life insurance company in the Philippines, AXA Philippines ended 2017 with P5.7 billion in gross premium written for its general insurance arm. The acquisition was completed in 2016, providing an opportunity to expand AXA's product portfolio and customer base. Integration of critical functional work streams and preparation for business synergies are currently under way.

AXA Philippines expanded its footprint in the country with the opening of centers in Laoag, Cebu, and in Eastwood City, Libis in Metro Manila. Over the last few years, it has installed close to 200 AXA Advisory Corners in Metrobank and PSBank branches nationwide.

The insurance company entered into a partnership with the National Basketball Association (NBA) to become its official insurance partner in the country. The strategic partnership highlights both companies' shared principles of teamwork, integrity, courage, and innovation. It also encourages the mindset for customers to power up their game plan, not just on the physical playing field, but also on the hard court that is life.

Aligned with its goal of being a customer-centric insurer, AXA Philippines launched its Financial Needs Analysis (FNA) platform, both a service and a tool that an AXA financial coach (or advisor) can use to explain to the customer in easy terms why life protection is important, especially in cases of unforeseen setbacks and emergencies. It is complemented by the eFNA Lite, a page on the AXA Philippines website that offers the same functionality and benefits as the FNA tool, but with faster and easier implementation.

AXA Philippines was one of the seven entities in the AXA Group that rolled out its global brand campaign which tells the story of Lisa, an AXA customer, who was one of the victims of the Nepal earthquake in 2015.

The campaign was well received and contributed immensely to the heightened brand awareness that the company now enjoys.

AXA Philippines also continued to expand its portfolio of products that cater to very specific markets: MyAmbition, the first single premium variable life plan for young professionals that can be completely availed online; Retire Smart, a regular premium variable life plan intended for disciplined fund build-up paid until retirement date; and Smart Traveller, a travel insurance available to purchase online.

Before 2017 closed, the AXA Shared Services Centre Philippines received its permit to operate and began to enable business transformation and innovation for AXA entities. One of two centers in Asia, the AXA Shared Services Centre in Manila is envisioned to help fulfill the company's future-ready business strategy in the region. It will also serve as central hubs of actuarial expertise, serving as centers of excellence in technical subjects, including actuarial product pricing and valuation. It provides guidance to Asian entities on improvements to processes and methodologies.

FOR THE YEAR	2017	2016
Gross Premiums	<b>26,359,115,868</b>	21,624,920,993
Total Expenses	<b>7,472,474,388</b>	5,264,368,758
Net Income	<b>2,360,573,603</b>	2,204,840,247
AT YEAR END		
Total Assets	<b>114,378,624,489</b>	90,374,796,118
Total Liabilities	<b>106,814,470,190</b>	84,380,685,244
Stockholders' Equity	<b>7,564,154,299</b>	5,994,110,874

#### Contact Details

Rahul Hora (President & CEO)  
34th Floor, GT Tower International  
6813 Ayala Ave. cor. H.V. dela Costa St.  
Makati City  
Tel: (02) 885 0101  
[www.axa.com.ph](http://www.axa.com.ph)



## ORIX METRO Leasing and Finance Corporation



With another solid performance in 2017, ORIX METRO Leasing and Finance Corporation continued to solidify its position in the industry as one of the country's most profitable leasing and financing companies.

The company is a partnership among Metrobank (40%), ORIX Corporation of Japan (40%), and First Metro Investment Corporation (20%). ORIX METRO ended fiscal year 2017 with P1.23 billion in net income after tax, an increase of 18.84% from the previous year's P1.03 billion. Its total group resources grew to P43.97 billion, a 30% increase from P33.3 billion in FY 2016. The company's gross revenue also increased to P5.43 billion from P4.47 billion during the period in review.

ORIX METRO's strategic business units contributed to this growth as they brought in total new bookings amounting to P30.72 billion in FY 2017, up by 37% compared to P22.47 billion in FY 2016. Its lending units in countryside branches delivered a stellar performance by contributing 77% to the company's new bookings. This enabled ORIX METRO to surpass

practically every financial metric it had set out to achieve in 2017.

ORIX METRO's wholly-owned subsidiary, ORIX Rental Corporation (ORC), engaged in long-term full service operating lease of cars and light trucks, also delivered outstanding results in 2017 with a total fleet of more than 7,000 units.

The overall financial results of ORIX METRO in FY 2017 resulted in a return on average equity (ROE) of 20.01%. The average ROE for the past 12 years stands at over 20%, strengthening ORIX METRO's position as one of the most profitable leasing and financing companies in the Philippines.

ORIX METRO celebrated its 40th year in the leasing and finance industry in 2017. After four decades, the company has become one of the country's most profitable financial institutions. It now has a formidable network of 99 branches, ready to offer expert leasing and financial solutions to customers nationwide.

FOR THE YEAR	2017 (September)	2016 (September)
Gross Revenues	5,432,560,728	4,467,547,176
Total Expenses	3,688,284,136	2,979,227,946
Income before tax	1,744,276,592	1,488,319,230
AT YEAR END		
Total Assets	43,968,225,186	33,796,158,384
Total Liabilities	37,222,971,964	28,264,599,032
Stockholders' Equity	6,745,253,222	5,531,559,352

### Contact Details:

Protacio C. Bantayan, Jr. (President)  
21st Floor, GT Tower International  
6813 Ayala Ave. cor. H.V. Dela Costa St.  
Makati City  
Tel: (02) 825 8888  
[www.orix.com.ph](http://www.orix.com.ph)

# Summary Group Financial Statements

(In Million Pesos, Except Per Share Amounts)

<i>At Year End</i>	<b>2017</b>	<b>2016</b>		
<b>Total Assets</b>	<b>53,597</b>	<b>55,309</b>		
Cash and Other Cash Equivalents	9,721	10,336		
Interbank loans receivable and securities purchased under resale agreements	500	2,219		
Financial Assets at Fair Value Through Profit or Loss	10,605	9,394		
Available-for-Sale Investments	8,187	6,578		
Held-to-Maturity Investments	14,250	17,839		
Loans and receivables	3,024	2,861		
Investments in Subsidiaries, Associates and Joint Venture	5,847	5,014		
Property and equipment	95	82		
Investment properties	314	331		
Deferred tax assets	50	39		
Other assets	1,002	617		
<b>Total Liabilities</b>	<b>39,501</b>	<b>39,550</b>		
Bills Payable	25,715	15,043		
Accounts Payable	2,195	1,562		
Bonds Payable	2,910	11,498		
Accrued taxes, interest and other expenses	208	221		
Other Liabilities	8,472	11,225		
<b>Total Equity</b>	<b>14,097</b>	<b>15,759</b>		
Attributable to:				
Equity Holders of the Parent Company	13,996	15,668		
Non-controlling Interest	101	92		
<b>Book value per share</b>	<b>37.57</b>	<b>42.05</b>		

<i>For the Year</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Net Interest Income</b>	<b>525</b>	<b>598</b>	<b>641</b>
Interest Income	1,326	1,607	2,045
Interest Expense	801	1,009	1,404
<b>Non Interest Income</b>	<b>1,592</b>	<b>1,858</b>	<b>1,068</b>
Service Charges, Fees and Commissions	557	884	899
Dividend Income	163	134	471
Trading and Securities Gain (Loss)	799	375	(313)
Gain (Loss) on Sale of Asset	34	8	(23)
Miscellaneous	39	457	33
<b>Total Operating Income</b>	<b>2,117</b>	<b>2,455</b>	<b>1,709</b>
<b>Total Expenses</b>	<b>1,755</b>	<b>2,207</b>	<b>1,837</b>
Operating Expenses	1,368	1,592	1,415
Provision for Income Tax	387	616	422
Share in Net Income of Associates	830	543	752
<b>Net Income</b>	<b>1,192</b>	<b>791</b>	<b>624</b>
Attributable to:			
Equity Holders of the Parent Company	1,175	775	608
Non-controlling Interest	17	15	16
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	3.15	2.08	1.63

<i>Key Ratios</i>	<b>2017</b>	<b>2016</b>
Net Interest Margin	1.57%	1.40%
Return on Average Equity	7.92%	4.58%
Return on Average Assets	2.16%	1.22%
Non-performing Loans Ratio	-	-
Cost-to-Income Ratio	40.46%	75.43%
Capital Adequacy Ratio	28.67%	77.89%
Tier 1 Capital	28.09%	77.33%
Common Equity Tier 1	28.09%	77.33%

## *Results of Operations*

First Metro reported ₱1.17 billion consolidated net income attributable to equity holders of the Parent Company, 52% higher than that of the previous year.

Total gross operating income reached ₱2.12 billion, consisting of investment banking and other fees, net interest income, dividends from our investee companies, net trading gains, share in the net earnings of investee companies and other operating income.

Investment banking and other related fees were lower by ₱327 million despite of numerous landmark deals. Net interest income derived from lending, investment and borrowing activities contributed ₱525 million, lower than that of previous year due to the decline in volume of loans and investments on account of maturities and sales during the year. Dividends earned from our investment in tradable and non-tradable stocks and share in the net earnings of associate companies likewise contributed ₱163 million and ₱830 million, respectively. Net gains of ₱799 million from trading activities reported this year is much better than last year's ₱375 million net gains.

Total expenses consisting mainly of compensation and benefits, taxes and licenses, occupancy and equipment-related costs and other miscellaneous expenses registered a 20% decrease to ₱1.76 billion level.

Provision for income taxes totaled ₱387 million, 37% or ₱229 million lower than last year.

First Metro recorded 7.92% return on average equity and 2.16% return on average assets.

## *Financial Position*

The Group closed the year with a total resources of ₱53.60 billion, lower by 3.1% or ₱1.71 billion from ₱55.31 billion level last year.

Deposits maintained with local banks and Bangko Sentral ng Pilipinas, as reserves for deposit, reached ₱9.72 billion, lower by 5.9% or ₱615 million.

Total investment securities consisting of financial assets as fair value through profit or loss, available for sale and held to maturity, amounted to ₱33.04 billion or a decrease of ₱769 million.

Loans and Receivables comprising of unquoted private debt securities, loans and discount and other receivables amounted to ₱3.02 billion, or an increase of ₱163 million.

Investments in Subsidiaries, Associates and Joint Venture represent the carrying value of investments in shares of stocks in allied/non-allied undertakings.

Investment Properties consists of land and condominium units held for sale or for lease.

Meanwhile, consolidated total liabilities decreased to ₱39.50 billion from ₱39.55 billion in previous year. Bills payable consisting of deposit substitute borrowings and other borrowings obtained from local banks, private firms and individuals increased by 70.9% or ₱10.7 billion from ₱15.0 billion to ₱25.7 billion. Bonds payable decreased by 74.7% or ₱8.6 billion from ₱11.5 billion to ₱2.9 billion on account of maturities in 2017.

Equity attributable to equity holders of the Parent Company ended at ₱14.0 billion, 10.7% or ₱1.7 billion lower from last year's ₱15.7 billion due to the net effect of ₱2.9 billion cash dividend declaration and reported net income for the year, which translates to 30.03% capital adequacy ratio (CAR). This is above the 10.0% CAR required by BSP for non-bank financial intermediaries with quasi-banking function.

## Supplementary Management's Discussion

The capital-to-risk assets of the Group and the Parent Company as reported to the BSP as of December 31, 2017 and 2016, respectively, follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
CET 1 capital	<b>₱16,659,362,114</b>	₱18,432,365,546	<b>₱16,659,362,114</b>	₱18,432,366,800
Less: Required deductions	<b>13,855,473,779</b>	11,598,386,653	<b>14,150,123,109</b>	12,072,411,811
Net Tier 1 capital	<b>2,803,888,335</b>	6,833,978,893	<b>2,509,239,005</b>	6,359,954,989
Tier 2 capital	<b>57,596,239</b>	49,973,039	<b>56,311,901</b>	43,273,880
Total qualifying capital	<b>₱2,861,484,574</b>	₱6,883,951,932	<b>₱2,565,550,906</b>	₱6,403,228,869
Risk weighted assets	<b>₱9,981,674,184</b>	₱8,837,581,580	<b>₱8,542,557,516</b>	₱7,763,764,372
CET 1 ratio*	<b>28.1%</b>	77.3%	<b>29.4%</b>	81.9%
*Capital conservation buffer	<b>22.1%</b>	71.3%	<b>23.4%</b>	75.9%
Tier 1 capital ratio	<b>28.1%</b>	77.3%	<b>29.4%</b>	81.9%
Total capital ratio	<b>28.7%</b>	77.9%	<b>30.0%</b>	82.4%

CET 1, Tier 1 and Total Capital Ratio are computed by dividing the CET 1 Capital, Tier 1 Capital and Total Qualifying Capital, respectively, by the Total Risk Weighted Assets. Capital Conservation Buffer is computed by deducting the required 6.0% CET 1 ratio from the actual CET 1 ratio.

The breakdown of the CET 1 capital for 2017 and 2016 is presented as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Paid-up common stock	<b>₱4,208,692,400</b>	₱4,208,692,400	<b>₱4,208,692,400</b>	₱4,208,692,400
Additional paid-in capital	<b>1,848,345,743</b>	1,848,345,743	<b>1,848,345,743</b>	1,848,345,743
Retained earnings	<b>9,199,113,547</b>	11,192,012,775	<b>9,199,113,547</b>	11,192,012,775
Undivided profits	<b>942,888,967</b>	826,950,401	<b>942,888,967</b>	826,950,401
Net unrealized gain on AFS	<b>375,186,125</b>	285,833,678	<b>332,747,574</b>	239,236,333
Remeasurement of Defined Benefit Assets (Liabilities)	<b>(22,606,880)</b>	(8,113,978)	<b>(22,606,880)</b>	(8,113,978)
Other comprehensive income	<b>107,742,212</b>	78,644,527	<b>150,180,763</b>	125,243,126
Total CET 1 capital	<b>₱16,659,362,114</b>	₱18,432,365,546	<b>₱16,659,362,114</b>	₱18,432,366,800

As of December 31, 2017 and 2016, the Group has outstanding and issued common shares of 372.54 million, out of the 800.00 million authorized shares at ₱10.00 par value.

Tier 2 capital represents the BSP required general loan loss provisioning of the Group as December 31, 2017 and 2016.



The breakdown of the regulatory adjustments for 2017 and 2016 is presented as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Treasury shares	<b>₱2,662,140,699</b>	₱2,661,275,975	<b>₱2,662,140,699</b>	₱2,661,275,975
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	—	157,579,979	—	157,579,979
Other intangible assets	<b>34,413,237</b>	58,430,611	<b>34,413,237</b>	58,430,611
Deferred tax assets (DTA)	<b>57,902,779</b>	31,064,139	<b>33,424,983</b>	31,064,139
Defined benefit pension fund assets (DBPFA)	<b>16,035,891</b>	6,130,016	<b>16,035,891</b>	6,130,016
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any	<b>2,908,176,866</b>	2,784,155,697	<b>3,085,182,045</b>	2,959,753,327
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any	<b>3,642,171</b>	3,677,547	<b>478,382,594</b>	405,877,276
Significant minority investments (10%-50% of voting stock) in banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any	<b>1,641,300,507</b>	1,360,776,396	<b>1,641,300,507</b>	1,360,776,396
Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any	<b>2,028,375,978</b>	1,709,701,291	<b>2,028,375,978</b>	1,709,701,291
Minority investments (below 10% of voting stock) in subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any	<b>640,797,169</b>	172,751,352	<b>415,372,163</b>	94,975,866
Other equity investments in non-financial allied undertakings and non-allied undertakings	<b>3,862,688,482</b>	2,652,843,650	<b>3,755,495,012</b>	2,626,846,935
<b>Total regulatory deductions</b>	<b>₱13,855,473,779</b>	₱11,598,386,653	<b>₱14,150,123,109</b>	₱12,072,411,811

The reconciliation of the regulatory adjustments back to the statement of financial position as of December 31, 2017 and 2016 is as follows:

	Consolidated								
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	DTA	DBPFA	Equity Securities		Equity Investments	Total
						FVPL	AFS		
Balance per CAR Report at December 31, 2017	<b>₱2,662,140,699</b>	<b>₱—</b>	<b>₱34,413,237</b>	<b>₱57,902,779</b>	<b>₱16,035,891</b>	<b>₱560,461,880</b>	<b>₱4,229,900,683</b>	<b>₱6,294,618,610</b>	<b>₱13,855,473,779</b>
Investments in MF/additional investments of subsidiaries	—	—	—	—	—	7,358,583,603	(2,850,497,123)	—	4,508,086,480
Share in net earnings of subsidiaries and affiliates	—	—	—	—	—	—	—	(447,384,765)	(447,384,765)
Others	(2,766,264)	—	12,308,203	(7,632,997)	63,732,716	—	—	—	65,641,658
Balance per Statement of Financial Position at December 31, 2017	<b>₱2,659,374,435</b>	<b>₱—</b>	<b>₱46,721,440</b>	<b>₱50,269,782</b>	<b>₱79,768,607</b>	<b>₱7,919,045,483</b>	<b>₱1,379,403,560</b>	<b>₱5,847,233,845</b>	<b>₱17,981,817,152</b>

Consolidated									
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	DTA	DBPFA	Equity Securities		Equity Investments	Total
Balance per CAR Report at December 31, 2016	₱2,661,275,975	₱157,579,979	₱58,430,611	₱31,064,139	₱6,130,016	₱25,463,351	₱3,107,645,230	₱5,550,797,352	₱11,598,386,653
Investments in MF/additional investments of subsidiaries	—	—	—			6,910,671,697	(2,727,619,686)	—	4,183,052,011
Share in net earnings of subsidiaries and affiliates	—	—	—			—	—	(536,514,021)	(536,514,021)
Others	(2,766,264)	—	10,611,013	7,652,098	40,035,982	—	—	—	55,532,829
Balance per Statement of Financial Position at December 31, 2016	₱2,658,509,711	₱157,579,979	₱69,041,624	₱38,716,237	₱46,165,998	₱6,936,135,048	₱380,025,544	₱5,014,283,331	₱15,300,457,472

Parent									
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	DTA	DBPFA	Equity Securities		Equity Investments	Total
Balance per CAR Report at December 31, 2017	₱2,662,140,699	₱—	₱34,413,237	₱33,424,983	₱16,035,891	₱308,766,495	₱3,947,715,101	₱7,147,626,703	₱14,150,123,109
Investments in MF/additional investments of subsidiaries	—	—	—			—	(2,638,170,700)	—	(2,638,170,700)
Share in net earnings of subsidiaries and affiliates	—	—	—			—	—	2,569,506,471	2,569,506,471
Others	(2,766,264)	—	—	(8,730,301)	58,264,104	—	—	—	46,767,539
Balance per Statement of Financial Position at December 31, 2017	₱2,659,374,435	₱—	₱34,413,237	₱24,694,682	₱74,299,995	₱308,766,495	₱1,309,544,401	₱9,717,133,174	₱14,128,226,419

Parent									
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	DTA	DBPFA	Equity Securities		Equity Investments	Total
Balance per CAR Report at December 31, 2016	₱2,661,275,975	₱157,579,979	₱58,430,611	₱31,064,139	₱6,130,016	₱—	₱2,865,761,029	₱6,292,170,062	₱12,072,411,811
Investments in MF/additional investments of subsidiaries	—	—	—			—	(2,558,316,332)	—	(2,558,316,332)
Share in net earnings of subsidiaries and affiliates	—	—	—			—	—	2,422,197,579	2,422,197,579
Others	(2,766,264)	—	—	7,063,904	33,677,697	—	—	—	37,975,337
Balance per Statement of Financial Position at December 31, 2016	₱2,658,509,711	₱157,579,979	₱58,430,611	₱38,128,043	₱39,807,713	₱—	₱307,444,697	₱8,714,367,641	₱11,974,268,395

The breakdown of the risk-weighted assets for 2017 and 2016 is presented as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Total credit risk-weighted assets	₱6,642,541,634	₱4,995,544,160	₱5,629,905,776	₱4,318,929,106
Total market risk-weighted assets	714,024,361	425,659,831	689,234,404	425,949,871
Total operational risk-weighted assets	2,625,108,189	3,416,377,589	2,223,417,336	3,018,885,395
Total risk-weighted assets	₱9,981,674,184	₱8,837,581,580	₱8,542,557,516	₱7,763,764,372

The specific capital requirements of each risk weighted assets for 2017 and 2016 is presented as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Total credit risk-weighted assets	₱664,254,163	₱499,554,416	₱562,990,578	₱431,892,911
Total market risk-weighted assets	71,402,436	42,565,983	68,923,440	42,594,987
Total operational risk-weighted assets	262,510,819	341,637,759	222,341,734	301,888,539
Total capital requirements	₱998,167,418	₱883,758,158	₱854,255,752	₱776,376,437

Breakdown of the credit and market risk-weighted assets are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Total risk-weighted on-balance sheet assets (Schedule A)	<b>₱6,232,541,634</b>	₱4,586,928,910	<b>₱5,221,190,114</b>	₱3,917,013,015
Total risk-weighted off-balance sheet assets (Schedule B)	<b>410,000,000</b>	410,375,000	<b>410,000,000</b>	410,375,000
Excess general loan loss provision	—	(1,759,749)	<b>(1,284,338)</b>	(8,458,908)
Total credit risk-weighted assets	<b>₱6,642,541,634</b>	₱4,995,544,161	<b>₱5,629,905,776</b>	₱4,318,929,107

	Consolidated		Parent Company	
	2017	2016	2017	2016
Interest rate exposures	<b>₱685,073,323</b>	₱374,623,481	<b>₱685,073,323</b>	₱374,623,481
Equity exposures	—	—	—	—
Foreign exposures	<b>28,951,038</b>	51,036,350	<b>4,161,081</b>	51,326,390
Total market risk-weighted assets	<b>₱714,024,361</b>	₱425,659,831	<b>₱689,234,404</b>	₱425,949,871

	Schedule A			
	Consolidated			
	2017	2016	2017	2016
	Total credit risk exposure after risk mitigation	Total credit risk weighted assets	Total credit risk exposure after risk mitigation	Total credit risk weighted assets
Cash and other cash items	<b>₱3,793,914,658</b>	<b>₱1,651,951,167</b>	₱1,648,621,295	₱632,157,161
Due from BSP	<b>4,399,997,307</b>	—	7,231,151,183	—
AFS investments	<b>6,793,219,175</b>	<b>131,331,932</b>	5,605,158,870	209,327,053
HTM investments	<b>13,501,771,622</b>	<b>575,366,536</b>	17,449,648,741	575,423,508
Unquoted commercial papers	<b>493,277,770</b>	<b>493,277,770</b>	487,500,000	487,500,000
Loans and receivables	<b>1,903,147,535</b>	<b>1,500,904,655</b>	1,567,030,689	1,562,269,083
Loans and receivables arising from repurchase agreements, certificates of assignment / participation with recourse and securities lending and borrowing transactions	—	—	2,219,292,587	—
Sales contract receivable	—	—	8,479,598	8,479,598
Investment properties	<b>173,552,354</b>	<b>260,328,531</b>	174,633,848	261,950,772
Total exposures excluding other assets	<b>31,058,880,421</b>	<b>4,613,160,591</b>	36,391,516,811	3,737,107,175
Other assets	<b>1,619,381,043</b>	<b>1,619,381,043</b>	849,821,735	849,821,735
Total exposures including other assets	<b>32,678,261,464</b>	<b>6,232,541,634</b>	37,241,338,546	4,586,928,910
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants		<b>6,232,541,634</b>		4,586,928,910
Total risk-weighted on-balance sheet assets covered by credit risk mitigants		—		—
Total credit risk-weighted on-balance sheet assets		<b>₱6,232,541,634</b>		₱4,586,928,910

Schedule A				
Parent Company				
	2017		2016	
	Total credit risk exposure after risk mitigation	Total credit risk weighted assets	Total credit risk exposure after risk mitigation	Total credit risk weighted assets
Cash and other cash items	₱2,233,523,832	₱1,291,928,913	₱397,647,510	₱321,451,926
Due from BSP	4,399,997,307	—	7,231,151,183	—
AFS investments	6,691,083,774	111,625,694	5,486,894,186	189,232,162
HTM investments	13,501,771,622	575,366,536	17,449,648,741	575,423,508
Unquoted commercial papers	493,277,770	493,277,770	487,500,000	487,500,000
Loans and receivables	1,899,460,717	1,497,217,837	1,565,510,265	1,560,748,660
Loans and receivables arising from repurchase agreements, certificates of assignment / participation with recourse and securities lending and borrowing transactions	—	—	2,219,292,587	—
Sales contract receivable	—	—	8,479,598	8,479,598
Investment properties	173,552,354	260,328,531	174,633,848	261,950,772
Total exposures excluding other assets	29,392,667,376	4,229,745,281	35,020,757,918	3,404,786,626
Other assets	991,444,833	991,444,833	512,226,389	512,226,389
Total exposures including other assets	30,384,112,209	5,221,190,114	35,532,984,307	3,917,013,015
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants		5,221,190,114		3,917,013,015
Total risk-weighted on-balance sheet assets covered by credit risk mitigants		—		—
Total risk-weighted on-balance sheet assets		₱5,221,190,114		₱3,917,013,015

Schedule B				
Consolidated Parent Company				
	2017	2016	2017	2016
Direct credit substitutes (financial stand-by letters of credit)	₱410,000,000	₱410,000,000	₱410,000,000	₱410,000,000
Transaction-related contingencies (legal claims)	—	375,000	—	375,000
Total risk-weighted off-balance sheet assets	₱410,000,000	₱410,375,000	₱410,000,000	₱410,375,000

# Statement of Management's Responsibility for Financial Statements

The management of First Metro Investment Corporation (the Company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

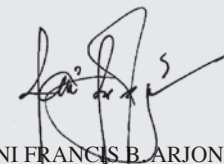
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.


The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip Gorres Velayo and Co., the independent auditor appointed by the stockholders has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
FRANCISCO C. SEBASTIAN  
Chairman

  
RABBONI FRANCIS B. ARJONILLO  
President

  
MARICEL L. MADRID  
FVP/Controller

Signed this 23rd day of February 2018

SUBSCRIBED AND SWORN to before me this 8th day of March 2018 affiants exhibiting to me their identification, as follows:

Name	Identification	Place of Issue	Date of Expiry
Francisco C. Sebastian	Passport No. EB9047722	DFA Manila	09/02/2018
Rabboni Francis B. Arjonillo	Passport No. EC1136176	DFA Manila	05/18/2019
Maricel L. Madrid	Passport No. EC3441643	West, Metro Manila	02/11/2020

Notary Public

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Book No. XI  
Series of 2018

  
NOTARY PUBLIC CITY OF PASAY  
UNTIL DECEMBER 31, 2018  
NOTARIAL COMMISSION 17-23  
KNIGHT OF RIZAL BLDG.,  
GROUND FLOOR BESIDE PASAY CITY HALL  
IBP NO. 022811 / 01/03/2018 PASIG  
PTR NO. 5826667 / 01/03/2018 P.C.  
VEHICLE COMPLIANCE NO. VI-0002830 - 4/14/2017  
ROLL OF ATTORNEYS NO. 29779  
© TIN: 172-528-620-007



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
First Metro Investment Corporation

### Report on the Consolidated and Parent Company Financial Statements

#### Opinion

We have audited the consolidated financial statements of First Metro Investment Corporation and its subsidiaries (the Group) and the parent company financial statements of First Metro Investment Corporation (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2017 and 2016, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated and parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

### ***Applicable to the Audit of the Consolidated and Parent Company Financial Statements***

#### ***Assessment of recoverability of Investment in an Associate***

The Group assesses the recoverability of its investments in associates whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. In 2017, there has been a significant and prolonged decline in the fair value of an investment in an associate. The Group performed impairment testing using the value-in-use (VIU) of the investment. We considered the impairment testing of the Group's investment in this associate a key audit matter as the determination of the investment's VIU requires significant judgment and is based on assumptions, specifically, expected production volume, capital expenditures, price assumption, exchange rates, long-term growth rate and discount rate.

The disclosures relating to the investment in this associate are included in Notes 3 and 10 to the financial statements.

#### ***Audit response***

We discussed with the management the investee's current business performance and prospects and how these were reflected in the Group's VIU calculation. We involved our internal specialist in evaluating the methodology and assumptions used. We compared the key assumptions used, such as the expected production volume and capital expenditures to historical performance and plans of the investee, and the price assumption, exchange rates and long-term growth rate to available industry, economic and financial data, including consensus market forecasts. We also tested whether the discount rate used represents current market assessment of risks associated with the investment.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent company financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent company financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated and Parent Company Financial Statements**

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

In preparing the consolidated and parent company financial statements, management is responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and Parent Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

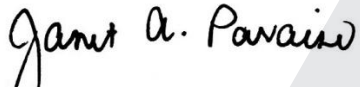
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 35 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of First Metro Investment Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Janet A. Paraiso.

SYCIP GORRES VELAYO & CO.



Janet A. Paraiso

Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-2 (Group A),

May 1, 2015, valid until April 30, 2018

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 6621221, January 9, 2018, Makati City

February 23, 2018

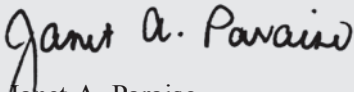


## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
First Metro Investment Corporation  
45th Floor, GT Tower International  
Ayala Avenue corner H.V. dela Costa Street  
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of First Metro Investment Corporation and Subsidiaries (the Group) as at and for the years ended December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017 and have issued our report thereon dated February 23, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Janet A. Paraiso  
Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-2 (Group A),  
May 1, 2015, valid until April 30, 2018

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 6621221, January 9, 2018, Makati City

February 23, 2018

# FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

## STATEMENTS OF FINANCIAL POSITION

	Consolidated			Parent Company		
	December 31, 2017	December 31, 2016 (As restated - Note 2)	January 1, 2016 (As restated - Note 2)	December 31, 2017	December 31, 2016 (As restated - Note 2)	January 1, 2016 (As restated - Note 2)
<b>ASSETS</b>						
Cash and other cash items (Note 27)	<b>₱5,320,741,050</b>	₱3,104,612,987	₱3,329,162,749	<b>₱2,233,603,832</b>	₱397,697,510	₱385,452,536
Due from Bangko Sentral ng Pilipinas (Notes 14 and 16)	<b>4,399,997,307</b>	7,231,151,183	6,600,000,000	<b>4,399,997,307</b>	7,231,151,183	6,600,000,000
Interbank loans receivable and securities purchased under resale agreements (Note 32)	<b>500,000,000</b>	2,218,848,817	3,200,000,000	<b>500,000,000</b>	2,218,848,817	3,200,000,000
Financial assets at fair value through profit or loss (Notes 7, 27 and 28)	<b>10,605,469,783</b>	9,394,007,104	10,695,236,220	<b>2,141,780,898</b>	1,682,890,095	635,471,667
Available-for-sale investments (Notes 7, 16 and 27)	<b>8,187,370,398</b>	6,578,220,391	19,694,541,526	<b>7,972,946,034</b>	5,772,413,729	19,048,807,641
Held-to-maturity investments (Notes 7, 14, 16, and 27)	<b>14,250,114,946</b>	17,838,843,510	17,560,603,719	<b>13,381,508,355</b>	17,261,860,578	17,315,633,239
Loans and receivables (Notes 8, 13 and 27)	<b>3,024,239,472</b>	2,860,803,223	4,336,465,808	<b>2,159,663,681</b>	2,315,038,538	3,838,834,264
Property and equipment (Note 9)	<b>95,165,814</b>	81,537,260	97,223,978	<b>56,334,056</b>	51,284,531	64,538,862
Investments in subsidiaries, associates and joint venture (Notes 10 and 27)	<b>5,847,233,845</b>	5,014,283,331	4,741,752,939	<b>9,717,133,174</b>	8,714,367,641	8,719,965,939
Investment properties (Note 11)	<b>314,485,607</b>	330,702,829	345,004,757	<b>314,297,147</b>	330,514,369	343,968,226
Deferred tax assets (Note 26)	<b>50,269,782</b>	38,716,237	2,621,194	<b>24,694,682</b>	38,128,043	—
Other assets (Notes 12 and 27)	<b>1,002,056,122</b>	617,466,337	685,807,872	<b>768,099,710</b>	506,747,582	591,304,343
	<b>₱53,597,144,126</b>	₱55,309,193,209	₱71,288,420,762	<b>₱43,670,058,876</b>	₱46,520,942,616	₱60,743,976,717
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
Bills payable (Notes 14 and 27)	<b>₱25,714,692,549</b>	₱15,043,282,889	₱29,781,522,908	<b>₱25,911,978,184</b>	₱15,085,782,889	₱29,881,667,575
Accounts payable (Note 27)	<b>2,195,069,559</b>	1,562,183,048	1,206,421,848	<b>346,182,703</b>	374,850,667	178,406,885
Accrued taxes, interest and other expenses (Notes 15 and 27)	<b>147,566,088</b>	180,991,034	261,570,318	<b>97,011,661</b>	131,780,270	241,599,911
Bonds payable (Note 16)	<b>2,909,949,893</b>	11,498,497,579	11,516,298,180	<b>2,992,580,674</b>	11,981,719,616	11,971,195,297
Income taxes payable	<b>60,699,885</b>	30,967,046	1,620,183	<b>16,865,628</b>	20,685,481	—
Deferred tax liabilities (Note 26)	<b>200,086</b>	8,754,368	173,740,706	<b>—</b>	—	163,085,770
Puttable instruments of mutual fund subsidiaries classified as liability (Note 17)	<b>8,002,041,695</b>	7,942,584,367	9,908,429,186	<b>—</b>	—	—
Other liabilities (Notes 17 and 27)	<b>470,367,024</b>	3,282,592,922	154,572,434	<b>309,516,220</b>	3,258,453,023	106,454,566
	<b>39,500,586,779</b>	39,549,853,253	53,004,175,763	<b>29,674,135,070</b>	30,853,271,946	42,542,410,004
<b>EQUITY</b>						
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>						
Common stock (Note 19)	<b>4,208,692,400</b>	4,208,692,400	4,208,692,400	<b>4,208,692,400</b>	4,208,692,400	4,208,692,400
Capital paid in excess of par value	<b>2,065,694,042</b>	2,065,694,042	2,065,694,042	<b>2,065,694,042</b>	2,065,694,042	2,065,694,042
Retained earnings (Note 19)	<b>10,866,281,472</b>	12,541,301,976	14,768,630,516	<b>10,866,281,472</b>	12,541,301,976	14,768,630,516
Treasury stock (Note 19)	<b>(2,659,374,435)</b>	(2,658,509,711)	(2,655,268,331)	<b>(2,659,374,435)</b>	(2,658,509,711)	(2,655,268,331)
Net unrealized loss on available-for-sale investments (Notes 7 and 27)	<b>(339,746,149)</b>	(253,487,934)	(18,529,720)	<b>(339,746,149)</b>	(253,487,934)	(18,529,720)
Remeasurements of retirement liability (Note 22)	<b>54,005,802</b>	11,425,453	10,096,094	<b>54,005,802</b>	11,425,453	10,096,094
Cumulative translation adjustment	<b>20,821,280</b>	22,254,825	9,826,358	<b>20,821,280</b>	22,254,825	9,826,358
Equity in other comprehensive income of associates (Note 10)	<b>(220,450,606)</b>	(269,700,381)	(187,574,646)	<b>(220,450,606)</b>	(269,700,381)	(187,574,646)
	<b>13,995,923,806</b>	15,667,670,670	18,201,566,713	<b>13,995,923,806</b>	15,667,670,670	18,201,566,713
Equity attributable to non-controlling interests	<b>100,633,541</b>	91,669,286	82,678,286	<b>—</b>	—	—
	<b>14,096,557,347</b>	15,759,339,956	18,284,244,999	<b>13,995,923,806</b>	15,667,670,670	18,201,566,713
	<b>₱53,597,144,126</b>	₱55,309,193,209	₱71,288,420,762	<b>₱43,670,058,876</b>	₱46,520,942,616	₱60,743,976,717

See accompanying Notes to Financial Statements.

# FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

## STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As restated - Note 2)	2015 (As restated - Note 2)	2017	2016 (As restated - Note 2)	2015 (As restated - Note 2)
INTEREST INCOME (Notes 7, 8, 20 and 27)	₱1,325,694,820	₱1,607,084,277	₱2,044,652,843	₱1,174,659,378	₱1,447,452,719	₱1,905,163,604
INTEREST EXPENSE (Notes 14, 16, 21 and 27)	800,676,446	1,009,203,285	1,403,618,809	816,129,433	1,034,493,995	1,430,138,991
NET INTEREST INCOME	525,018,374	597,880,992	641,034,034	358,529,945	412,958,724	475,024,613
OTHER OPERATING INCOME (LOSSES)						
Trading and securities gain (loss) (Notes 7 and 27)	799,103,600	374,570,652	(312,564,192)	269,644,694	402,314,075	(290,629,791)
Service charges, fees and commissions (Note 27)	556,636,117	883,855,142	899,380,439	350,869,143	679,959,748	745,129,545
Dividends (Notes 7, 10 and 27)	162,962,719	134,256,019	470,706,424	35,554,325	26,590,697	300,210,489
Gain (loss) on sale of assets (Notes 9 and 11)	33,605,247	8,313,825	(22,999,699)	33,605,247	8,313,825	(22,999,699)
Miscellaneous (Notes 23 and 24)	39,423,143	456,580,329	33,441,503	13,434,564	464,591,992	50,242,986
TOTAL OPERATING INCOME	2,116,749,200	2,455,456,959	1,708,998,509	1,061,637,918	1,994,729,061	1,256,978,143
OTHER EXPENSES						
Compensation and fringe benefits (Notes 22 and 27)	513,746,343	515,051,557	568,489,434	389,319,812	397,522,384	455,616,091
Taxes and licenses	207,478,879	387,813,782	340,474,234	197,815,434	379,145,761	285,064,695
Rent, light and water (Note 24)	66,435,245	78,546,854	69,767,663	44,635,519	58,228,594	51,288,207
Broker's commission	39,326,883	45,666,503	48,905,552	19,087,439	23,571,434	27,832,882
Depreciation and amortization of property and equipment (Note 9)	36,033,632	41,264,701	46,333,504	21,846,532	29,816,736	35,294,515
Representation and entertainment (Note 26)	18,497,885	19,004,794	25,920,103	12,131,920	13,852,672	18,178,133
Depreciation of investment properties (Note 11)	3,115,595	3,906,207	4,094,667	3,115,595	3,906,207	3,906,207
Provision for (recovery from) impairment and other probable losses (Notes 13 and 29)	1,610,058	64,649,490	(150,167,367)	1,610,058	65,856,213	(148,644,583)
Foreign exchange losses (gains)	(914,760)	(9,349,906)	(10,347,822)	(166,939)	(474,750)	(2,951,093)
Miscellaneous (Notes 11 and 25)	482,874,510	445,061,932	471,391,034	234,783,693	258,456,490	278,175,355
	1,368,204,270	1,591,615,914	1,414,861,002	924,179,063	1,229,881,741	1,003,760,409
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND INCOME TAX	748,544,930	863,841,045	294,137,507	137,458,855	764,847,320	253,217,734
SHARE IN NET INCOME (LOSS) OF SUBSIDIARIES (Note 10)	—	—	—	486,461,515	(36,559,106)	(30,706,408)
SHARE IN NET INCOME OF ASSOCIATES (Note 10)	829,874,136	542,856,111	752,198,807	824,240,519	539,036,593	752,409,526
INCOME BEFORE INCOME TAX	1,578,419,066	1,406,697,156	1,046,336,314	1,448,160,889	1,267,324,807	974,920,852
PROVISION FOR INCOME TAX (Note 26)	386,592,941	615,870,282	422,473,301	273,215,616	491,942,807	366,707,716
NET INCOME	₱1,191,826,125	₱790,826,874	₱623,863,013	₱1,174,945,273	₱775,382,000	₱608,213,136
Attributable to:						
Equity holders of the Parent Company (Note 31)	₱1,174,945,273	₱775,382,000	₱608,213,136			
Non-controlling interests	16,880,852	15,444,874	15,649,877			
	₱1,191,826,125	₱790,826,874	₱623,863,013			
Basic/Diluted Earnings Per Share						
Attributable to Equity Holders of the Parent Company (Note 31)	₱3.2	₱2.1	₱1.6			

See accompanying Notes to Financial Statements.

# FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

## STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As restated - Note 2)	2015 (As restated - Note 2)	2017	2016 (As restated - Note 2)	2015 (As restated - Note 2)
NET INCOME FOR THE YEAR	₱1,191,826,125	₱790,826,874	₱623,863,013	₱1,174,945,273	₱775,382,000	₱608,213,136
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net loss on available-for-sale investments (Note 7)	(82,973,098)	(247,476,361)	(158,146,659)	(96,268,336)	(228,838,670)	(146,105,383)
Income tax effect (Notes 7 and 26)	3,353,231	5,150,335	5,477,293	11,249	(1,012,102)	(746,481)
	(79,619,867)	(242,326,026)	(152,669,366)	(96,257,087)	(229,850,772)	(146,851,864)
Cumulative translation adjustment	(1,433,545)	12,428,467	11,414,910	—	—	—
Share in other comprehensive income of subsidiaries (Note 10)	—	—	—	8,565,327	7,321,025	7,862,542
Share in other comprehensive loss of associates (Note 10)	(33,198,236)	(77,874,960)	(73,187,377)	(33,198,236)	(77,874,960)	(73,187,377)
Other comprehensive income (loss) attributable to puttable instruments	(5,553,708)	5,416,188	(2,090,768)	—	—	—
	(119,805,356)	(302,356,331)	(216,532,601)	(120,889,996)	(300,404,707)	(212,176,699)
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurements of retirement liability (Note 22)	61,555,897	3,867,332	104,652,933	58,264,104	338,395	85,723,984
Income tax effect (Notes 22 and 26)	(18,975,548)	(2,537,973)	(10,175,987)	(17,479,231)	(101,518)	(4,497,313)
	42,580,349	1,329,359	94,476,946	40,784,873	236,877	81,226,671
Share in other comprehensive income of subsidiaries (Note 10)	—	—	—	1,795,476	1,092,482	11,714,247
Share in other comprehensive income (loss) of associates (Note 10)	82,448,011	(4,250,775)	23,334,187	82,448,011	(4,250,775)	23,334,187
	125,028,360	(2,921,416)	117,811,133	125,028,360	(2,921,416)	116,275,105
TOTAL COMPREHENSIVE INCOME, NET OF TAX	₱1,197,049,129	₱485,549,127	₱525,141,545	₱1,179,083,637	₱472,055,877	₱512,311,542
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	₱1,179,083,637	₱472,055,877	₱512,311,542			
Non-controlling interests	17,965,492	13,493,250	12,830,003			
	₱1,197,049,129	₱485,549,127	₱525,141,545			

See accompanying Notes to Financial Statements.

## FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

### STATEMENTS OF CHANGES IN EQUITY

	Consolidated										
	Equity Attributable to Equity Holders of the Parent Company										Non-Controlling Interest
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Notes 7 and 27)	Remeasurements of Retirement Liability (Note 22)	Cumulative Translation Adjustment	Equity in Other Comprehensive Income of Associates (Note 10)	Total	Total Equity	
Balance at January 1, 2017	₱4,208,692,400	₱2,065,694,042	₱12,541,301,976	(₱2,658,509,711)	(₱253,487,934)	₱11,425,453	₱22,254,825	(₱269,700,381)	₱15,667,670,670	₱91,669,286	₱15,759,339,956
Total comprehensive income	—	—	1,174,945,273	—	(86,258,215)	42,580,349	(1,433,545)	49,249,775	1,179,083,637	17,965,492	1,197,049,129
Dividends declared (Note 19)	—	—	(2,849,965,777)	—	—	—	—	—	(2,849,965,777)	(9,001,237)	(2,858,967,014)
Acquisition of treasury shares (Note 19)	—	—	—	(864,724)	—	—	—	—	(864,724)	—	(864,724)
<b>Balance at December 31, 2017</b>	<b>₱4,208,692,400</b>	<b>₱2,065,694,042</b>	<b>₱10,866,281,472</b>	<b>(₱2,659,374,435)</b>	<b>(₱339,746,149)</b>	<b>₱54,005,802</b>	<b>₱20,821,280</b>	<b>(₱220,450,606)</b>	<b>₱13,995,923,806</b>	<b>₱100,633,541</b>	<b>₱14,096,557,347</b>
Balance at January 1, 2016, as previously reported	₱4,208,692,400	₱2,065,694,042	₱14,736,325,880	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	₱129,547,118	₱18,486,383,841	₱82,678,286	₱18,569,062,127
Effect of changes in valuation of insurance reserve of an associate	—	—	32,304,636	—	—	—	—	(317,121,764)	(284,817,128)	—	(284,817,128)
Balance at January 1, 2016, as restated	₱4,208,692,400	₱2,065,694,042	₱14,768,630,516	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	(₱187,574,646)	₱18,201,566,713	₱82,678,286	₱18,284,244,999
Total comprehensive income, as restated	—	—	775,382,000	—	(234,958,214)	1,329,359	12,428,467	(82,125,735)	472,055,877	13,493,250	485,549,127
Dividends declared (Note 19)	—	—	(3,002,710,540)	—	—	—	—	—	(3,002,710,540)	(4,502,250)	(3,007,212,790)
Acquisition of treasury shares (Note 19)	—	—	—	(3,241,380)	—	—	—	—	(3,241,380)	—	(3,241,380)
<b>Balance at December 31, 2016</b>	<b>₱4,208,692,400</b>	<b>₱2,065,694,042</b>	<b>₱12,541,301,976</b>	<b>(₱2,658,509,711)</b>	<b>(₱253,487,934)</b>	<b>₱11,425,453</b>	<b>₱22,254,825</b>	<b>(269,700,381)</b>	<b>₱15,667,670,670</b>	<b>₱91,669,286</b>	<b>₱15,759,339,956</b>
Balance at January 1, 2015, as previously reported	₱4,208,692,400	₱2,065,694,042	₱14,350,786,117	(₱2,653,434,041)	₱131,874,512	(₱82,844,824)	(₱1,588,552)	₱211,345,129	₱18,230,524,783	₱75,098,283	₱18,305,623,066
Effect of changes in valuation of insurance reserve of an associate	—	—	(190,368,737)	—	—	—	—	(349,066,585)	(539,435,322)	—	(539,435,322)
Balance at January 1, 2015, as restated	₱4,208,692,400	₱2,065,694,042	₱14,160,417,380	(₱2,653,434,041)	₱131,874,512	(₱82,844,824)	(₱1,588,552)	(₱137,721,456)	₱17,691,089,461	₱75,098,283	₱17,766,187,744
Total comprehensive income, as restated	—	—	608,213,136	—	(150,404,232)	92,940,918	11,414,910	(49,853,190)	512,311,542	12,830,003	525,141,545
Dividends declared (Note 19)	—	—	—	—	—	—	—	—	—	(5,250,000)	(5,250,000)
Acquisition of treasury shares (Note 19)	—	—	—	(1,834,290)	—	—	—	—	(1,834,290)	—	(1,834,290)
<b>Balance at December 31, 2015</b>	<b>₱4,208,692,400</b>	<b>₱2,065,694,042</b>	<b>₱14,768,630,516</b>	<b>(₱2,655,268,331)</b>	<b>(₱18,529,720)</b>	<b>₱10,096,094</b>	<b>₱9,826,358</b>	<b>(₱187,574,646)</b>	<b>₱18,201,566,713</b>	<b>₱82,678,286</b>	<b>₱18,284,244,999</b>



Parent Company

	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for- Sale Investments (Notes 7 and 27)	Remeasurements of Retirement Liability (Note 22)	Cumulative Translation Adjustment (Note 10)	Equity in Other Comprehensive Income of Associates (Note 10)	Total Equity
Balance at January 1, 2017, as restated	₱4,208,692,400	₱2,065,694,042	₱12,541,301,976	(₱2,658,509,711)	(₱253,487,934)	₱11,425,453	₱22,254,825	(₱269,700,381)	₱15,667,670,670
Total comprehensive income	—	—	1,174,945,273	—	(86,258,215)	42,580,349	(1,433,545)	49,249,775	1,179,083,637
Dividends declared (Note 19)	—	—	(2,849,965,777)	—	—	—	—	—	(2,849,965,777)
Acquisition of treasury shares (Note 19)	—	—	—	(864,724)	—	—	—	—	(864,724)
<b>Balance at December 31, 2017</b>	<b>₱4,208,692,400</b>	<b>₱2,065,694,042</b>	<b>₱10,866,281,472</b>	<b>(₱2,659,374,435)</b>	<b>(₱339,746,149)</b>	<b>₱54,005,802</b>	<b>₱20,821,280</b>	<b>(₱220,450,606)</b>	<b>₱13,995,923,806</b>
Balance at January 1, 2016, as previously reported	₱4,208,692,400	₱2,065,694,042	₱14,736,325,880	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	₱129,547,118	₱18,486,383,841
Effect of changes in valuation of insurance reserve of an associate	—	—	32,304,636	—	—	—	—	(317,121,764)	(284,817,128)
Balance at January 1, 2016, as restated	₱4,208,692,400	₱2,065,694,042	₱14,768,630,516	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	(₱187,574,646)	₱18,201,566,713
Total comprehensive income, as restated	—	—	775,382,000	—	(234,958,214)	1,329,359	12,428,467	(82,125,735)	472,055,877
Dividends declared (Note 19)	—	—	(3,002,710,540)	—	—	—	—	—	(3,002,710,540)
Acquisition of treasury shares (Note 19)	—	—	—	(3,241,380)	—	—	—	—	(3,241,380)
<b>Balance at December 31, 2016</b>	<b>₱4,208,692,400</b>	<b>₱2,065,694,042</b>	<b>₱12,541,301,976</b>	<b>(₱2,658,509,711)</b>	<b>(₱253,487,934)</b>	<b>₱11,425,453</b>	<b>₱22,254,825</b>	<b>(269,700,381)</b>	<b>₱15,667,670,670</b>
Balance at January 1, 2015, as previously reported	₱4,208,692,400	₱2,065,694,042	₱14,350,786,117	(₱2,653,434,041)	₱131,874,512	(₱82,844,824)	(₱1,588,552)	₱211,345,129	₱18,230,524,783
Effect of changes in valuation of insurance reserve of an associate	—	—	(190,368,737)	—	—	—	—	(349,066,585)	(539,435,322)
Balance at January 1, 2015, as restated	₱4,208,692,400	₱2,065,694,042	₱14,160,417,380	(₱2,653,434,041)	₱131,874,512	(₱82,844,824)	(₱1,588,552)	(₱137,721,456)	₱17,691,089,461
Total comprehensive income, as restated	—	—	608,213,136	—	(150,404,232)	92,940,918	11,414,910	(49,853,190)	512,311,542
Acquisition of treasury shares (Note 19)	—	—	—	(1,834,290)	—	—	—	—	(1,834,290)
<b>Balance at December 31, 2015</b>	<b>₱4,208,692,400</b>	<b>₱2,065,694,042</b>	<b>₱14,768,630,516</b>	<b>(₱2,655,268,331)</b>	<b>(₱18,529,720)</b>	<b>₱10,096,094</b>	<b>₱9,826,358</b>	<b>(₱187,574,646)</b>	<b>₱18,201,566,713</b>

See accompanying Notes to Financial Statements.

# FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

## STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015		2016	2015	
	(As restated -	(As restated -		(As restated -	(As restated -	
	Note 2)	Note 2)		Note 2)	Note 2)	
	2017		2017			
<b>CASH FLOWS FROM</b>						
<b>OPERATING ACTIVITIES</b>						
Income before income tax	<b>₱1,578,419,066</b>	₱1,406,697,156	₱1,046,336,314	<b>₱1,448,160,889</b>	₱1,267,324,807	₱974,920,852
Adjustments for:						
Gain on sale of available-						
for-sale investments (Note 7)	<b>(136,851,739)</b>	(464,259,642)	(92,473,207)	<b>(146,864,610)</b>	(462,818,464)	(53,637,690)
Share in net (income) loss of						
subsidiaries (Note 10)	—	—	—	<b>(486,461,515)</b>	36,559,106	30,706,408
Share in net income of						
associates (Note 10)	<b>(829,874,136)</b>	(542,856,111)	(752,198,807)	<b>(824,240,519)</b>	(539,036,593)	(752,409,526)
Unrealized loss on held for trading						
securities (Note 7)	<b>434,407,729</b>	380,117,967	795,259,969	<b>6,704,892</b>	40,346,361	31,541,801
Dividend income (Notes 7 and 10)	<b>(162,962,719)</b>	(134,256,019)	(470,706,424)	<b>(35,554,325)</b>	(26,590,697)	(300,210,489)
Depreciation and amortization						
(Notes 9, 11 and 12)	<b>80,716,045</b>	98,201,173	102,999,576	<b>61,567,740</b>	81,123,218	86,648,187
Gain on return of investments						
(Notes 10 and 23)	—	(71,151,471)	—	—	(71,151,471)	—
Provision for (recovery from)						
impairment and other probable						
losses (Note 13)	<b>1,610,058</b>	64,649,490	(150,167,367)	<b>1,610,058</b>	65,856,213	(148,644,583)
Unrealized foreign exchange loss	<b>6,526,715</b>	25,462,289	85,249,627	<b>7,202,989</b>	30,531,075	90,517,941
Gain from sale/redemption						
of unquoted commercial						
papers (Note 8 and 23)	<b>1,330,274</b>	—	—	<b>1,660,140</b>	—	—
(Gain) loss on sale of:						
Investments in subsidiaries						
and associates (Note 10)	—	(8,267,789)	(4,003,856)	—	(8,267,789)	(4,003,856)
Property and equipment						
(Note 9)	<b>(709,191)</b>	(64,211)	(1,744,371)	<b>(709,191)</b>	(64,211)	(1,744,371)
Investment properties (Note 11)	<b>(32,386,056)</b>	18,175	28,747,926	<b>(32,386,056)</b>	18,175	28,747,926
Amortization of:						
Net premium on held-to-						
maturity investments	<b>119,515,573</b>	219,652,814	211,719,776	<b>117,355,444</b>	220,359,126	212,046,698
Net premium on available-for-						
sale investments	<b>20,157,905</b>	25,803,092	80,319,979	<b>10,892,444</b>	24,482,290	82,278,879
Debt issuance cost	<b>12,658,175</b>	21,156,310	20,373,009	<b>12,658,175</b>	41,529,319	20,373,009
Net premium on bonds payable	<b>(1,797,117)</b>	(10,631,992)	(11,310,302)	<b>(1,797,117)</b>	(31,005,001)	(11,310,302)
Net discount on unquoted						
debt securities classified						
as loans	—	(1,790,599)	(2,372,389)	—	(1,790,599)	(2,372,389)
Changes in operating assets						
and liabilities:						
Decrease (increase) in the						
amounts of:						
Financial assets at fair						
value through profit						
or loss	<b>(385,133,723)</b>	921,111,149	3,235,882,947	<b>(465,595,695)</b>	(1,087,764,789)	4,199,622,132
Loans and receivables	<b>(163,025,884)</b>	404,893,628	1,714,325,915	<b>151,912,716</b>	348,688,549	1,203,749,569
Other assets	<b>(401,304,802)</b>	25,400,166	(72,720,068)	<b>(277,402,285)</b>	48,262,614	(82,614,935)
Increase (decrease) in the						
amounts of:						
Accounts payable	<b>632,886,511</b>	355,761,200	(355,821,072)	<b>(28,667,964)</b>	196,443,782	134,831,429
Accrued taxes, interest						
and other expenses	<b>(30,220,043)</b>	(87,661,438)	(6,411,591)	<b>(34,768,609)</b>	(109,819,641)	(59,046)
Other liabilities	<b>(995,231,802)</b>	(1,717,073,048)	(336,929,452)	<b>69,420,445</b>	257,239,298	(116,893,332)
Net cash generated from (used in)						
operations	<b>(251,269,161)</b>	910,912,289	5,064,356,132	<b>(445,301,954)</b>	320,454,678	5,622,084,312
Income taxes paid	<b>(381,453,440)</b>	(991,298,543)	(514,543,708)	<b>(267,636,729)</b>	(874,798,571)	(412,328,570)
Net cash provided by (used in)						
operating activities	<b>(632,722,601)</b>	(80,386,254)	4,549,812,424	<b>(712,938,683)</b>	(554,343,893)	5,209,755,742

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As restated - Note 2)	2015 (As restated - Note 2)	2017	2016 (As restated - Note 2)	2015 (As restated - Note 2)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Acquisitions of:						
Available-for-sale investments	(P6,624,047,230)	(P5,039,746,052)	(P17,893,605,049)	(P6,606,815,301)	(P4,876,852,025)	(P18,440,214,603)
Held-to-maturity investments	(1,293,109,432)	(498,330,030)	(1,423,950,487)	(1,000,000,000)	(150,000,000)	(1,423,950,487)
Property and equipment (Note 9)	(49,634,120)	(26,170,231)	(23,134,521)	(26,693,526)	(18,639,931)	(18,604,603)
Software licenses (Note 12)	(19,246,634)	(12,263,410)	(42,702,122)	(15,382,770)	(11,731,209)	(37,281,627)
Capital infusion to subsidiaries (Note 10)	(235,621,037)	—	—	(543,816,764)	—	(241,489,699)
Proceeds from sale/redemption/ maturities of:						
Available-for-sale investments	5,035,528,883	18,379,175,095	14,001,723,826	4,448,280,451	18,373,041,421	14,000,860,476
Unquoted commercial papers	—	928,286,123	915,900,000	—	877,036,123	514,650,000
Investment in subsidiaries and associates (Note 10)	—	287,426,683	—	608,566,528	531,352,795	—
Held-to maturity investments	4,764,326,000	22,066,076	18,789,050	4,764,326,000	—	18,789,050
Investment properties (Note 11)	37,709,000	11,499,625	75,164,623	37,709,000	11,499,625	75,164,623
Property and equipment (Note 9)	3,366,338	1,880,962	5,314,087	3,366,338	2,141,737	4,301,955
Dividends received from investment securities	160,963,883	281,534,254	326,183,339	35,492,769	172,063,229	155,707,711
Dividends received from subsidiaries and associates (Notes 10 and 32)	281,794,433	—	—	302,797,321	165,519,450	130,223,000
Net cash provided by (used in) investing activities	2,062,030,084	14,335,359,095	(4,040,317,254)	2,007,830,046	15,075,431,215	(5,261,844,204)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from issuance of bills payable	228,168,582,653	145,537,687,948	584,242,824,772	228,799,346,957	145,580,187,948	584,342,969,435
Payments of bills payable	(217,507,999,008)	(160,333,343,487)	(582,202,152,716)	(217,983,977,677)	(160,433,488,152)	(582,202,152,717)
Purchase of Parent Company bonds by subsidiaries (Note 16)	—	(28,324,920)	—	—	—	—
Proceeds from the sale of Parent Company bonds by subsidiaries (Note 16)	—	—	63,019,907	—	—	—
Redemption of bonds payable	(8,599,408,744)	—	—	(9,000,000,000)	—	—
Dividends paid (Notes 19 and 33)	(5,823,492,290)	(2,300,764)	—	(5,823,492,290)	(2,300,764)	—
Acquisition of treasury shares (Notes 19 and 33)	(864,724)	(3,241,380)	(1,834,290)	(864,724)	(3,241,380)	(1,834,290)
Net cash provided by (used in) financing activities	(3,763,182,113)	(14,829,522,603)	2,101,857,673	(4,008,987,734)	(14,858,842,348)	2,138,982,428
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>						
	(2,333,874,630)	(574,549,762)	2,611,352,843	(2,714,096,371)	(337,755,026)	2,086,893,966
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>						
Cash and other cash items	3,104,612,987	3,329,162,749	3,577,809,906	397,697,510	385,452,536	1,158,558,570
Due from Bangko Sentral ng Pilipinas	7,231,151,183	6,600,000,000	6,940,000,000	7,231,151,183	6,600,000,000	6,940,000,000
Interbank loans receivable	2,218,848,817	3,200,000,000	—	2,218,848,817	3,200,000,000	—
	12,554,612,987	13,129,162,749	10,517,809,906	9,847,697,510	10,185,452,536	8,098,558,570
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>						
Cash and other cash items	5,320,741,050	3,104,612,987	3,329,162,749	2,233,603,832	397,697,510	385,452,536
Due from Bangko Sentral ng Pilipinas	4,399,997,307	7,231,151,183	6,600,000,000	4,399,997,307	7,231,151,183	6,600,000,000
Interbank loans receivable	500,000,000	2,218,848,817	3,200,000,000	500,000,000	2,218,848,817	3,200,000,000
	P10,220,738,357	P12,554,612,987	P13,129,162,749	P7,133,601,139	P9,847,697,510	P10,185,452,536

#### OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
Interest paid	₱823,326,593	₱1,042,860,573	₱1,434,305,457	₱840,989,974	₱1,068,087,741	₱1,460,980,340
Interest received	1,399,125,206	1,734,162,412	2,251,715,448	1,240,588,571	1,576,428,761	2,112,922,619

See accompanying Notes to Financial Statements

## **FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

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

The Parent Company is primarily engaged in investment banking and has a quasi-banking license from the Bangko Sentral ng Pilipinas (BSP). It provides services such as equity and debt underwriting and private placements, loan syndication and arrangements, financial advisory and securities dealership. In September 2011, the BSP authorized the Parent Company to perform trust and other fiduciary business. In June 2016, the trust and other fiduciary business of the Parent Company ceased its operations.

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

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#### **2. Accounting Policies**

##### Basis of Preparation

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

The financial statements provide comparative information in respect of the previous periods. In addition, First Metro Investment Corporation and Subsidiaries (the Group) presents an additional statement of financial position at the beginning of the earliest period i.e. January 1, 2016 due to retrospective restatement of the following:

- a. retrospective application of the change in the valuation methodology of an Associate's life insurance reserves for traditional insurance products from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) in accordance with Insurance Commission Circular Letter 2016-66, "Valuation for Life Insurance Policy Reserves" effective starting January 1, 2017. The GPV considers other assumptions which were not considered under NPV, such as morbidity, lapse, expenses, non-guaranteed benefits and margins for adverse deviations in respect of the risks that arise under the insurance policy. The GPV uses the current market rates to discount future cash flows, while NPV had a cap on the discount rate at 6%. In addition, under GPV, the increase or decrease in the reserves is recognized in profit or loss, except for the effect of changes in discount rates, which is recognized in other comprehensive income as 'share in other comprehensive income of associates'. Previously, under NPV, any increase or decrease in the reserves is recognized in full in the profit or loss.

- b. retrospective application of the change in the valuation methodology of an Associate's non-life insurance reserves in accordance with Insurance Commission Circular Letter 2016-67. In addition to the unearned premium reserves, the concept of unexpired risk reserves is included in the calculation of the premium liability. Under the new Circular, the Incurred But Not Reported (IBNR) reserves are now required to be computed using actuarial projection techniques, and by applying the current risk-free rates as the discount rate. In addition, margin for adverse deviation is also required to be estimated based on standard projection techniques.

The effects of the retrospective application for the Consolidated and Parent Company are presented below:

### Statement of Financial Position

	Consolidated		
	As previously reported	Effect of retrospective application	As restated
As of December 31, 2016:			
Investment in subsidiaries, associates and joint venture	₱5,160,027,820	(₱145,744,489)	₱5,014,283,331
Retained earnings	12,378,673,039	162,628,937	12,541,301,976
Equity in other comprehensive income of associates	38,673,045	(308,373,426)	(269,700,381)
As of January 1, 2016:			
Investment in subsidiaries, associates and joint venture	5,026,570,067	(284,817,128)	4,741,752,939
Retained earnings	14,736,325,880	32,304,636	14,768,630,516
Equity in other comprehensive income of associates	129,547,118	(317,121,764)	(187,574,646)
	Parent Company		
	As previously reported	Effect of retrospective application	As restated
As of December 31, 2016:			
Investment in subsidiaries, associates and joint venture	₱8,860,112,130	(₱145,744,489)	₱8,714,367,641
Retained earnings	12,378,673,039	162,628,937	12,541,301,976
Equity in other comprehensive income of associates	38,673,045	(308,373,426)	(269,700,381)
As of January 1, 2016:			
Investment in subsidiaries, associates and joint venture	9,004,783,067	(284,817,128)	8,719,965,939
Retained earnings	14,736,325,880	32,304,636	14,768,630,516
Equity in other comprehensive income of associates	129,547,118	(317,121,764)	(187,574,646)



## Statement of Income

	Consolidated		
	As previously reported	Effect of retrospective application	As restated
For the year ended December 31, 2016:			
Share in net income of associates	₱412,531,810	₱130,324,301	₱542,856,111
For the year ended December 31, 2015:			
Share in net income of associates	529,525,434	222,673,373	752,198,807
	Parent Company		
	As previously reported	Effect of retrospective application	As restated
For the year ended December 31, 2016:			
Share in net income of associates	₱408,712,292	₱130,324,301	₱539,036,593
For the year ended December 31, 2015:			
Share in net income of associates	529,736,153	222,673,373	752,409,526

## Statement of Comprehensive Income

	Consolidated and Parent Company		
	As previously reported	Effect of retrospective application	As restated
<i>Items that do not recycle to profit or loss in subsequent periods:</i>			
For the year ended December 31, 2016:			
Share in other comprehensive income of associates	(₱12,999,113)	₱8,748,338	(₱4,250,775)
For the year ended December 31, 2015:			
Share in other comprehensive income of associates	(8,610,634)	31,944,821	(23,334,187)

## Statement of Compliance

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

## Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding the recovery of assets or settlement of liabilities within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (noncurrent) is presented in Note 18.

## Basis of Consolidation

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

The Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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

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

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The consolidated financial statements are prepared for the same reporting period as the Parent Company's financial statements, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

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

#### Non-Controlling Interests

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

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the Parent Company's shareholders' equity.

## **Changes in Accounting Policies and Disclosures**

The Group applied, for the first time, the following pronouncements which are effective for annual periods beginning on or after January 1, 2017. Unless otherwise indicated, these pronouncements have no impact to the Group. Except for these pronouncements which were adopted as of January 1, 2017, the accounting policies adopted are consistent with those of previous financial year.

### **Amendments**

PFRS 12, *Disclosure of Interests in Other Entities – Clarification on the disclosure requirements on the investments in other entities*.

The amendments clarify that the disclosure requirements apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale. The amendment is applied retrospectively.

### **PAS 7, Disclosure Initiative**

This requires entities to provide disclosure about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes such as foreign exchange gains and losses. The Group has provided the required information in Note 33 to the financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

### **PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses – Clarification on the accounting for deferred tax assets on debt instruments measured at fair value**

This requires entities to consider whether tax law restricts the sources of taxable profit against which it may make deductions on the reversal of that deductible temporary difference. Entities should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than carrying amount.

## **Significant Accounting Policies**

### **Foreign Currency Translation**

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

The functional currency of the Parent Company and its subsidiaries is Philippine peso (Php), except for First Metro Save and Learn Dollar Bond Fund (FMSLDBF) whose functional currency is United States dollar (USD).

### ***Transactions and balances***

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rates as at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *Subsidiary with different functional currency*

As at the reporting date, the assets and liabilities of FMSLDBF are translated into the Parent Company's presentation currency at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDS weighted average rate (PDSWAR) for the year. Exchange differences arising on translation are taken to statement of comprehensive income as 'Cumulative translation adjustment'. Upon disposal of FMSLDBF or when the Parent Company ceases to have control, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

#### Fair Value Measurement

The Group measures financial instruments at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

## Financial Instruments - Initial Recognition and Subsequent Measurement

### *Date of recognition*

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

### *Initial recognition of financial instruments*

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

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

### *'Day 1' profit or loss*

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

### *Derivatives recorded at FVPL - Embedded derivatives*

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

Derivatives that are embedded in bonds payable are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and securities gain'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. In 2017, the bonds payable and its embedded derivative contract have already matured.



#### *Financial assets or financial liabilities at FVPL*

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

#### *Puttable instruments of mutual fund subsidiaries classified as financial liabilities at FVPL*

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated with the shares held by investors other than the Group are considered as puttable instruments, recorded under 'Puttable instruments of mutual fund subsidiaries classified as liability' account in the statement of financial position, with changes in the net asset value per unit of the mutual funds recognized in 'Trading and securities gain (loss)' in the consolidated statement of income.

#### *HTM investments*

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

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

#### *Loans and receivables*

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

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

#### *AFS investments*

AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. AFS equity securities are subsequently measured at its current quoted price. However, for unquoted equity securities where there are no observable current market transactions and no reliable basis of fair value, the Group measures them at cost less allowance for impairment losses. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from the reported earnings and are included in the statement of comprehensive income as 'Net unrealized gain (loss) on AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain' in the statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of using the weighted average cost (WAC) method starting 2016. Prior to 2016, the Group applied first-in first-out (FIFO) method in determining the cost of the investment. The change from FIFO to WAC is to align the Group policy with its Ultimate Parent Company. The impact of the change from FIFO to WAC is not material to the financial statements.

Interest earned on holding AFS debt investments are reported in the statement of income as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Dividends' when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

#### *Financial liabilities carried at amortized cost*

Issued financial instruments or their components, which are not designated at FVPL, are classified as financial liabilities carried at amortized cost accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. Financial liabilities carried at amortized cost include 'Bills payable', 'Bonds payable', or other appropriate financial liability accounts.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement on foreign currency-denominated liabilities are recognized in the statement of income.

#### *Treasury bonds*

Issued bonds payable by the Parent Company that are being held by a subsidiary are deducted from the carrying value of the bond. Treasury bonds are recognized in the consolidated accounts at acquisition cost, and any related unamortized premium, discount and issue costs at the Parent Company are cancelled. The difference between the acquisition cost and the book value of the treasury bonds is treated as gain or loss and recorded under 'Miscellaneous income' or 'Miscellaneous expense' in the statement of income.

#### Repurchase and Reverse Repurchase Agreements

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

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

#### Reclassification of Financial Assets

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

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

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

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

#### Classification of Financial Instruments Between Debt and Equity

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

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

### Impairment of Financial Assets

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

#### *Impairment of financial assets carried at amortized cost*

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

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

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the

effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

#### *Restructured loans*

Where possible, the Group seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

#### *AFS investments*

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

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

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

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

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

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or



- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liabilities*

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

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

#### Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments are recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income.

#### Current versus Noncurrent Classification

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

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

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

### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (i.e., Due from Banks and Cash on Hand), amounts due from BSP, and IBLR with original maturities of three months or less from the dates of placements and are subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost. Due from BSP includes the statutory reserves required by the BSP, which the Company considers as cash equivalents wherein drawings can be made to meet cash requirements.

### Investments in Subsidiaries, Associates and Joint Venture

#### *Investment in subsidiaries*

Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

#### *Investment in associates and joint venture*

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

#### *Consolidated financial statements*

The Group's consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries.

The Group's investments in its associates and joint venture are accounted for using the equity method. (See discussion below on accounting using the equity method).

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

#### *Parent Company financial statements*

The Parent Company's investments in subsidiaries, associates and joint venture are accounted for using the equity method. Under the equity method, the investment in subsidiaries, associates or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Parent Company's share of net assets of the subsidiary, associate or joint venture since the acquisition date. Goodwill relating to the subsidiary, associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Parent Company's share of the results of operations of the subsidiary, associate or joint venture. Any change in OCI of those investees is presented as part of the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary, associate or joint venture, the Parent Company recognizes its share of any

changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Parent Company and the subsidiary, associate or joint venture are eliminated to the extent of the interest in the subsidiary, associate or joint venture.

The aggregate of the Parent Company's share of profit or loss of subsidiaries, associates and a joint venture is shown on the face of the statement of income outside operating profit and represents share in the profit or loss after tax.

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

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

#### Equity in Translation Adjustment

First Metro International Investment Company Ltd. - Hongkong (FMIIC), an associate, has Hongkong dollars as its functional currency. Adjustments resulting from the translation of the financial statements of FMIIC into Philippine peso are shown in the statement of comprehensive income.

#### Property and Equipment

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

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

Furniture, fixtures and equipment	3 to 5 years
Condominium Units	34 years
Leasehold improvements	5 years or the terms of the related lease agreements, whichever is shorter

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

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

### Investment Properties

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

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

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

Depreciation is calculated on a straight-line basis using the useful life of 5 and 34 years from the time of acquisition for land improvements and condominium units, respectively.

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

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

### Intangible Assets

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Miscellaneous expense' (Note 25).

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. An intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be

supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. With respect to investments in associates and joint venture, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on Impairment of Nonfinancial Assets).

#### Impairment of Nonfinancial Assets

At each statement of financial position date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged against operations in the year in which it arises.

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

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

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

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

#### *Investments in associates and joint venture*

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



### *Goodwill*

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its impairment test of goodwill annually.

### Common Stock

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

### Treasury Shares and Contracts on Own Shares

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

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment but excluding any taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

### *Interest income*

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

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

### *Fees and commission income*

The Group earns fees and commission income from a diverse range of services it provides to its customers.



Fee income can be divided into the following two categories:

- a) Fee income earned from services that are provided over a certain period of time  
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.
- b) Fee income from providing transaction services  
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

#### *Dividends*

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

#### *Trading and securities gain*

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

Unrealized gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealized gains and losses for financial instruments, including puttable instruments classified as financial liability, which were realized in the reporting period.

Realized gains and losses on disposals of financial instruments classified as at fair value through profit or loss are calculated using the WAC method in 2017 and 2016 and FIFO method in 2015. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

#### *Gain on sale of assets*

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

#### *Rental income*

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

#### *Gain on sale or redemption of unquoted commercial papers*

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

### *Expenses*

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

### Leases

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

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

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

### *Group as lessee*

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

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

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

### *Group as lessor*

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

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

### Retirement Benefits

The Group has a funded noncontributory defined benefit retirement plan. The retirement cost of the Parent Company, First Metro Securities Brokerage Corporation (FMSBC) and First Metro Asset Management Inc. (FAMI) is determined using the projected unit credit method.

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

Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income under 'Compensation and fringe benefits' in the statement of income.

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

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

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

### Provisions

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

current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

### Contingencies

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

### Income Taxes

#### *Current tax*

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

#### *Deferred tax*

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and foreign associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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

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

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

#### Earnings per Share

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

#### Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective Board of Directors (BOD) of the Parent Company and its subsidiaries. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

#### Subsequent Events

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

#### Segment Reporting

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

#### Fiduciary Activities

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

#### **Standards Issued but not yet Effective**

Pronouncements issued but not yet effective up to the date of the Group's financial statements are listed below. The Group intends to adopt these pronouncements when they become effective. Except



as otherwise indicated, the Group does not expect the adoption of these pronouncements to have significant impact on its financial statements.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*  
Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

*PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. Considering that an Associate of the Group has activities that are predominantly connected with insurance and issues insurance contracts, the Group is currently assessing the impact of the standard.

*New Standards*

*PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Group has performed an assessment of the population of financial instruments impacted by the classification and measurement requirements of PFRS 9 and has developed impairment methodologies to support the calculation of expected credit losses (ECL) for qualified credit exposures.

a. *Classification and Measurement*

PFRS 9 requires that the Group classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

As a result of the application of the classification and measurement requirements of PFRS 9, debt securities currently held as AFS investments under PAS 39 are expected to be classified as either at amortized cost for securities belonging to portfolios managed under a “hold-to-collect” (HTC) business model or at FVOCI with recycling to profit or loss for securities belonging to portfolios managed under a “hold-to-collect-and-sell” business model. The Group expects to reclassify

more debt securities currently held as AFS investments to amortized cost than to FVOCI. Loans and other receivables are expected to be managed under an “HTC” business model and thus qualify for amortized cost measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are expected to be measured at FVOCI. Quoted equity shares currently held as AFS investments can be measured at FVTPL, which will increase volatility in profit or loss, except for certain AFS investments that will be designated as FVOCI with no recycling to profit or loss.

b. Impairment

PFRS 9 requires the Group to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

*Incurred loss versus expected credit loss methodology*

The application of ECL will significantly change the Group’s credit loss methodology and models. ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment. The ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier under PFRS 9.

*Staging assessment*

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

*Definition of “default” and “cure”*

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as

defaulted. An instrument is considered to be no longer in default (i.e. to have been cured) when it no longer meets any of the default criteria for a period of 90 consecutive days and has exhibited a satisfactory track record.

#### *Credit risk at initial recognition*

The Group uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

#### *Significant increase in credit risk*

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with welldefined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

#### *Modification*

In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

#### *ECL parameters and methodologies*

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

#### *Forward-looking information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Group has determined that the financial and operational aspects of the ECL methodologies under PFRS 9 will have an impact to the 2018 consolidated financial statements.

#### c. Hedge Accounting

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Group has assessed that the adoption of these amendments will not have any impact in the 2018 consolidated financial statements.

The Group has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Group is continuously refining its internal controls and processes which are relevant in the proper implementation of the PFRS 9.

#### *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of adopting PFRS 15.

*Effective beginning on or after January 1, 2019*

#### *New Standards*

##### *PFRS 16, Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17.

Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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### 3. Significant Accounting Judgments and Estimates

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

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

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

Judgments

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

*a. Classification of HTM investments*

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



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

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

The Group directly holds 38.8%, 23.9%, 21.4%, and 20.4% in First Metro Philippines Equity Exchange Traded Fund, Inc. (FMPEETFI), First Metro Save and Learn Equity Fund (FMSALEF), First Metro Save and Learn Balanced Fund (FMSALBF) and First Metro Save and Learn Fixed Income Fund (FMSLFIF), respectively, as of December 31, 2017 and 46.2%, 24.7%, 20.8%, and 19.5%, respectively, as of December 31, 2016. The Group assessed that control over FMPEETFI, FMSLFIF, FMSALEF and FMSALBF (the Funds) exists because the Parent Company is acting as principal of the Funds, through the fund manager of the Funds, FAMI, which is a 70.0% owned subsidiary of the Parent Company, and given the Parent Company's economic interests (comprising direct interests and future management and advisory fees) over these Funds. The following factors were considered in the assessment: (a) the Parent Company has wide decision making rights over the relevant activities of the Funds and (b) the removal rights are not substantive since there are multiple parties (widely dispersed shareholders) who hold the removal rights; further, members of the BOD of the Funds are normally nominated/appointed by the Parent Company.

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

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

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

The Parent Company and another investor of Lepanto Consolidated Mining Company (LCMC) entered into a collaboration agreement to: (a) jointly vote their fully paid "A" and "B" common shares during stockholders meeting in all matters affecting their right as stockholders; (b) for the parties' respective nominees in the BOD to decide and vote jointly for every corporate act and purpose during meetings of the BOD; and (c) to consult each other on all the issues and corporate acts raised in the BOD and in the stockholders' meetings and come up with a common decision and vote uniformly at the said meetings. The Parent Company and the other investor, together, have two (2) board seats out of the nine (9) or equivalent to 22.2% of the members of the BOD of LCMC. As a result of the collaboration agreement, management assessed that the Parent Company has significant influence over LCMC.

### Estimates

a. *Impairment of non-financial assets (Investments in subsidiaries, associates and a JV)*

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

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

The Group uses the higher of fair value less costs to sell and VIU in determining recoverable amount. The carrying value of investments in subsidiaries and associates and a JV of the Group and the Parent Company are disclosed in Note 10.

As of December 31, 2017, there has been a significant and prolonged decline in the fair value of an associate. The Group performed impairment testing using the associate's VIU. The recoverable amount of the investment in the associate has been determined based on a VIU calculation using cash flow projections from financial budgets approved by the associate's BOD. Key assumptions in VIU calculation are most sensitive to the following assumptions: a) production volume; b) price; c) exchange rates; d) capital expenditures; and e) forecasted long-term growth rates. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

*b. Recognition of deferred taxes*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, future tax planning strategies, and type of deductions to be availed in the future i.e. either itemized deductions or optional standard deduction (OSD).

As of December 31, 2017 and 2016, certain subsidiaries of the Group did not recognize deferred tax assets on NOLCO and carryforward benefits of MCIT. The Group believes that it is not probable that these temporary differences will be realized before the three-year expiration. The income of these subsidiaries mainly pertain to trading gains and interest income which are not subject to regular corporate income tax.

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

*c. Present value of retirement obligation*

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

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

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates, seniority, promotion and other market factors.

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

As of December 31, 2017 and 2016, the balance of the Group's present value of defined benefit obligations and other employee benefits and the assumptions used in the actuarial valuation are shown in Note 22.

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#### 4. Financial Risk Management

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

- Operational risk
- Regulatory Compliance risk
- Credit risk
- Liquidity risk
- Market risk

##### *Risk Management Framework*

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

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

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

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

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

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

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

The Polcom is tasked with reviewing the policy proposals from all FMIC units which are subsequently confirmed and approved by appropriate body.

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

RMD is tasked with identifying, analyzing, measuring, controlling and evaluating risk exposures arising from fluctuations in the prices or market values of instruments, products and transactions of the Parent Company and certain subsidiaries. It is responsible for recommending trading risk and liquidity management policies, setting uniform standards of risk assessment and measurement, providing senior management with periodic evaluation and simulation and analyzing limit compliance exceptions. The RMD furnishes daily reports to Senior Management and RTUs and provide monthly reports to ROC. The RMD also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regard to the submission of requisite reports on their risk compliance and control activities.

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

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

#### *Operational Risk*

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

In line with the framework, various methodologies and tools were established to facilitate management of operational risk. These include operational risk incident data management, risk event database maintenance, risk assessment, key risk indicator monitoring and contingent legal liability reporting. The Parent Company, likewise, has in place a responsive risk management policy for effective oversight, due diligence and management of risks arising from outsourcing, prior to entering into, as well as, during the lifespan of an outsourcing agreement/arrangement. This is recognizing that while outsourcing can be cost effective and brings other competitive advantages, it also poses an

**Outsourcing Risk.** Outsourcing Risk is the risk that third party service providers may not act within the intended limits of their authority and/or not perform in a manner consistent with outsourcing party's strategies, objectives and desired results, as well as, legal and regulatory requirements.

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

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

#### *Credit Risk*

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

The management of credit risk is outlined in the Credit Policy Manual where credit authority and approval bodies are formalized within the institution. This is further supported by various operating manuals from relevant units subject to periodic review, any changes are elevated to appropriate approving body. The Parent Company operates under sound, well-defined credit-granting criteria which include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, risks and risk mitigants and its source of repayment. Independent validation of credit reviews is done annually. Credit ratings of counterparties are likewise periodically tracks and reported to board committee level. The Parent Company gathers sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counterparty through the use of Internal Credit Risk Rating System (ICRRS) as well as rating information from independent credit rating providers.

The management of credit risk is outlined in the Credit Policy Manual where credit authority and approval bodies are formalized within the institution. This is further supported by various operating manuals from relevant units subject to periodic review; any changes are elevated to appropriate approving body.

#### *Concentrations of Credit Risk*

Concentrations of credit risk arise when the company is exposed to particular group of counterparties or a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location. The Parent Company is guided by the regulatory ceilings on the management of concentration risk. In addition, internal limits were set at not more than 20.0% and 25.0% of the selected financial assets for counterparties and industry exposures, respectively.

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



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

#### *Management of Credit Risk*

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

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

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

The ICRRS contains the following:

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

The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually by the Credit Division.	40.0%

Component	Description	Credit Factor Weight
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.0%
Management Quality	Refers to the management's ability to run the company successfully.	30.0%

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

The following table shows the description of ICRRS grade:

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

#### *1 - Excellent*

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

#### *2 - Strong*

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

#### *3 - Good*

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

#### *4 - Satisfactory*

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

#### *5 - Acceptable*

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

#### *6 - Watchlist*

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

#### *7 - Especially Mentioned*

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

#### *8 - Substandard*

For a “substandard” borrower, the debt burden has become too heavy, only to be made worse by weak or negative cash flows and interest coverage. This makes the collection of principal or interest payments questionable, causing an assessment of default of up to 25.0%. Unless given closer supervision, the institution will likely suffer a future loss. External factors may be causing an adverse trend, or there may be a significant weakness in the entity’s collateral. Management has an unfavorable record and lacks managerial capability.

#### *9 - Doubtful*

This rating is given to a nonperforming borrower where a payment default has occurred, due to the borrower’s inability or unwillingness to service debt over an extended period of time. Loss is unavoidable and significant, the extent of probable loss on the loan assessment of default is up to 50.0%. However, there may be external factors that may strengthen the entity’s assets, e.g. merger, acquisition, and capital injection. Management has an unfavorable record and lacks managerial capability.

#### *10 - Loss*

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

- Risk Rating References - Investment Securities

In ensuring a quality investment portfolio, the Parent Company uses the ICRRS as well as credit risk ratings from eligible external credit rating agencies like Philratings, CRISP, Moody's, Standard & Poor's and other reputable rating agencies.

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

- Cash and other cash items

Cash and other cash items of the Group were rated based on credit risk ratings from published data providers like Moody's, Standard & Poor's and other reputable rating agencies.

- Collateral

The Parent Company's Credit Policy Manual incorporated the list of acceptable collaterals and corresponding valuation parameters. For real estate mortgages, it provides for a separate collateral appraisal by an independent appraisal firm as required by regulators and a re-appraisal for at least every two years as circumstances warrant.

Monitoring of compliance by the RMD of the approved exposure limits, likewise, with concentration limit.

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

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

	Consolidated			
	2017			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
<b>Credit risk exposure relating to on-balance sheet assets are as follows:</b>				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	₱1,338,730,014	₱4,214,836,462	₱—	₱1,338,730,014
	1,338,730,014	4,214,836,462	—	1,338,730,014
Others				
Fully secured	8,412,881	9,711,302	—	8,412,881
Unsecured	6,961,241	—	6,961,241	—
	15,374,122	9,711,302	6,961,241	8,412,881
Commercial papers				
Unsecured	834,250,000	—	834,250,000	—
	₱2,188,354,136	₱4,224,547,764	₱841,211,241	₱1,347,142,895

Consolidated 2016				
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable and securities purchased under resale agreements	₱2,218,848,817	₱2,218,848,817	₱–	₱2,218,848,817
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	1,521,430,119	3,551,459,034	–	1,521,430,119
	3,740,278,936	5,770,307,851	–	3,740,278,936
Others				
Fully secured	10,261,208	19,568,604	–	10,261,208
Unsecured	10,842,548	–	10,842,548	–
	21,103,756	19,568,604	10,842,548	10,261,208
Commercial papers				
Unsecured	810,000,000	–	810,000,000	–
Sales contract receivable				
Fully secured	8,479,598	8,598,400	–	8,479,598
	₱4,579,862,290	₱5,798,474,855	₱820,842,548	₱3,759,019,742

Parent Company 2017				
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	₱1,338,730,014	₱4,214,836,462	₱–	₱1,338,730,014
	1,338,730,014	4,214,836,462	–	1,338,730,014
Others				
Fully secured	5,147,538	6,060,781	–	5,147,538
Unsecured	4,785,480	–	4,785,480	–
	9,933,018	6,060,781	4,785,480	5,147,538
Unquoted commercial papers				
Unsecured	485,000,000	–	485,000,000	–
	₱1,833,663,032	₱4,220,897,243	₱489,785,480	₱1,343,877,552

Parent Company 2016				
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable	₱2,218,848,817	₱2,218,848,817	₱–	₱2,218,848,817
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	1,521,430,119	3,551,459,034	–	1,521,430,119
	3,740,278,936	5,770,307,851	–	3,740,278,936
Others				
Fully secured	10,261,208	19,568,604	–	10,261,208
Unsecured	5,727,285	–	5,727,285	–
	15,988,493	19,568,604	5,727,285	10,261,208
Unquoted commercial papers				
Unsecured	487,500,000	–	487,500,000	–
Sales contract receivable				
Fully secured	8,479,598	8,598,400	–	8,479,598
	₱4,252,247,027	₱5,798,474,855	₱493,227,285	₱3,759,019,742



For the other financial assets of the Group and of the Parent Company not presented in the table above, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2017 and 2016.

#### *Collateral and other credit enhancements*

The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and these are periodically updated following the internally approved guidelines on accepted collaterals. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral valuations are monitored periodically by an independent unit of the Parent Company. Collateral, usually, is not held against investment securities and no such collateral was held as of December 31, 2017 and 2016.

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

#### *Concentration of risks of financial assets with credit risk exposure*

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

Consolidated				
2017				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱1,312,547,669	₱5,820,586,049	₱4,021,244,131	₱11,154,377,849
Real estate, renting and business activities	464,844,716	—	3,858,335,523	4,323,180,239
Electricity, gas and water	565,373,350	—	633,096,231	1,198,469,581
Philippine government	152,638,879	4,399,997,307	21,155,327,604	25,707,963,790
Construction	122,014,259	—	646,768,167	768,782,426
Wholesale and retail trade	1,736,080	—	661,915,627	663,651,707
Manufacturing	—	—	905,009,865	905,009,865
Mining and quarrying	—	—	216,761,200	216,761,200
Water supply, sewage, waste management and remediation activities	493,277,770	—	199,155,000	692,432,770
Information and communication	32,917	—	353,901,718	353,934,635
Transportation and storage	—	—	313,400,426	313,400,426
Sovereign Government	1,139,722	—	54,196,726	55,336,448
Others (various industries)	423,912,360	—	155,616,894	579,529,254
	3,537,517,722	10,220,583,356	33,174,729,112	46,932,830,190
Less allowance for credit losses	103,278,250	—	131,773,985	235,052,235
	₱3,434,239,472	₱10,220,583,356	₱33,042,955,127	₱46,697,777,955

\* Comprises Loans and receivables including commitments which amounted to ₱410,000,000.

\*\* Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱155,001.

\*\*\* Comprises Financial assets at FVPL, AFS and HTM investments.

Consolidated				
2016				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱1,201,795,030	₱5,323,346,803	₱4,077,588,200	₱10,602,730,033
Real estate, renting and business activities	476,380,860	—	3,329,475,912	3,805,856,772
Electricity, gas and water	629,240,012	—	1,424,579,981	2,053,819,993
Philippine government	208,886,093	7,231,151,183	22,885,343,408	30,325,380,684
Construction	128,303,888	—	112,785,243	241,089,131
Wholesale and retail trade	—	—	663,984,750	663,984,750
Manufacturing	—	—	898,758,708	898,758,708
Mining and quarrying	—	—	10,173,800	10,173,800
Water supply, sewage, waste management and remediation activities	496,170,806	—	—	496,170,806
Information and communication	88,969	—	152,688,192	152,777,161
Transportation and storage	—	—	181,403,193	181,403,193
Accommodation and food service activities	691,901	—	66,963,350	67,655,251
Others (various industries)	232,265,717	—	139,084,331	371,350,048
	3,373,823,276	12,554,497,986	33,942,829,068	49,871,150,330
Less allowance for credit losses	103,020,053	—	131,773,985	234,794,038
	₱3,270,803,223	₱12,554,497,986	₱33,811,055,083	₱49,636,356,292

\* Comprises Loans and receivables including commitments which amounted to ₱410,000,000.

\*\* Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱155,001.

\*\*\* Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.

Parent Company				
2017				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱956,689,168	₱2,733,523,832	₱572,023,970	₱4,262,236,970
Electricity, gas and water	564,433,936		270,296,513	834,730,449
Real estate, renting and business activities	463,318,817		1,887,231,594	2,350,550,411
Philippine government	147,614,219	4,399,997,307	19,975,150,021	24,522,761,547
Water supply, sewage, waste management and remediation activities	493,277,770	—	—	493,277,770
Wholesale and retail trade	—	—	159,121,534	159,121,534
Information and communication	32,917	—	5,107,318	5,140,235
Transportation and storage	—	—	179,007,125	179,007,125
Manufacturing	—	—	49,786,675	49,786,675
Construction	173,723	—	141,691,875	141,865,598
Mining and quarrying	—	—	181,422,160	181,422,160
Sovereign Government	1,139,722	—	54,196,726	55,336,448
Others (various industries)	15,265,851	—	22,533,181	37,799,032
	2,641,946,123	7,133,521,139	23,497,568,692	33,273,035,954
Less allowance for credit losses	72,282,442	—	1,333,404	73,615,846
	₱2,569,663,681	₱7,133,521,139	₱23,496,235,288	₱33,199,420,108

\* Comprises Loans and receivables including commitments which amounted to ₱410,000,000.

\*\* Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱50,000.

\*\*\* Comprises Financial assets at FVPL, AFS and HTM investments.

Parent Company				
2016				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱969,093,617	₱2,616,496,327	₱296,283,117	₱3,881,873,061
Electricity, gas and water	628,198,527	—	314,182,931	942,381,458
Real estate, renting and business activities	472,680,970	—	1,607,498,394	2,080,179,364
Philippine government	204,055,102	7,231,151,183	22,296,041,906	29,731,248,191
Water supply, sewage, waste management and remediation activities	496,170,806	—	—	496,170,806
Wholesale and retail trade	—	—	21,965,970	21,965,970
Information and communication	82,515	—	8,598,186	8,680,701
Transportation and storage	—	—	—	—
Manufacturing	—	—	34,314,920	34,314,920
Construction	5,206,667	—	11,266,614	16,473,281
Accommodation and food service activities	691,901	—	13,972,500	14,664,401
Mining and quarrying	—	—	—	—
Others (various industries)	21,140,875	—	114,357,346	135,498,221
	2,797,320,980	9,847,647,510	24,718,481,884	37,363,450,374
Less allowance for credit losses	72,282,442	—	1,333,404	73,615,846
	₱2,725,038,538	₱9,847,647,510	₱24,717,148,480	₱37,289,834,528

\* Comprises Loans and receivables including commitments which amounted to ₱410,000,000.

\*\* Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱50,000.

\*\*\* Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.

The following tables show the credit quality of financial assets:

Consolidated				
2017				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	₱3,072,724,402	₱10,220,580,380	₱33,042,955,127	₱46,336,259,909
Impaired	54,793,320	—	131,773,985	186,567,305
Gross	3,127,517,722	10,220,580,380	33,174,729,112	46,522,827,214
Less allowance for credit losses***	103,278,250	—	131,773,985	235,052,235
Net	₱3,024,239,472	₱10,220,580,380	₱33,042,955,127	₱46,287,774,979

\* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱155,001.

\*\* Comprises Financial assets at FVPL, AFS and HTM investments.

\*\*\* Includes allowance for collective impairment.

Consolidated				
2016				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	₱2,846,054,119	₱12,554,497,986	₱33,811,055,083	₱49,211,607,188
Impaired	117,769,157	—	131,773,985	249,543,142
Gross	2,963,823,276	12,554,497,986	33,942,829,068	49,461,150,330
Less allowance for credit losses***	103,020,053	—	131,773,985	234,794,038
Net	₱2,860,803,223	₱12,554,497,986	₱33,811,055,083	₱49,226,356,292

\* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱115,001.

\*\* Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.

\*\*\* Includes allowance for collective impairment.

Parent Company				
2017				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	2,187,697,923	7,133,521,139	23,496,235,288	32,807,521,330
Impaired	44,248,200	—	1,333,404	45,581,605
Gross	2,231,946,123	7,133,521,139	23,497,568,692	32,863,035,954
Less allowance for credit losses***	72,282,442	—	1,333,404	73,615,846
Net	2,159,663,681	7,133,521,139	23,496,235,288	32,789,420,108

\* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to 80,000.

\*\* Comprises Financial assets at FVPL, AFS and HTM investments.

\*\*\* Includes allowance for collective impairment.

Parent Company				
2016				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	₱2,343,130,191	₱9,847,647,510	₱24,717,148,480	₱36,907,926,181
Impaired	44,190,789	—	1,333,404	45,524,193
Gross	2,387,320,980	9,847,647,510	24,718,481,884	36,953,450,374
Less allowance for credit losses***	72,282,442	—	1,333,404	73,615,846
Net	₱2,315,038,538	₱9,847,647,510	₱24,717,148,480	₱36,879,834,528

\* Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱50,000.

\*\* Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.

\*\*\* Includes allowance for collective impairment.

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

	Consolidated					
	December 31, 2017					
	Neither past due nor impaired					Total
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	
Loans and advances to banks						
Due from BSP	₱4,399,997,307	₱—	₱—	₱—	₱—	₱4,399,997,307
Cash and other cash items*	4,361,567,556	3,623,601	—	955,391,912	—	5,320,586,049
Interbank loans receivable and securities purchased under resale agreements	500,000,000	—	—	—	—	500,000,000
	9,261,564,863	3,623,601	—	955,391,912	—	10,220,583,356
Financial assets at FVPL**						
Government debt securities	2,483,677,417	40,240,856	—	—	—	2,523,918,273
Private debt securities	130,394,363	32,111,663	—	—	—	162,506,027
Equity securities	5,343,501,997	2,575,536,772	—	6,714	—	7,919,045,483
	7,957,573,777	2,647,889,291	—	6,714	—	10,605,469,783
AFS investments						
Government debt securities	6,450,370,001	220,758,825	—	—	—	6,671,128,826
Private debt securities	136,838,011	—	—	—	—	136,838,011
Equity securities						
Quoted	683,908,892	588,734,766	—	—	—	1,272,643,658
Unquoted	—	98,787,402	—	7,972,500	131,773,986	238,533,888
	7,271,116,904	908,280,993	—	7,972,500	131,773,986	8,319,144,383
HTM investments						
Government debt securities	11,587,597,404	426,879,826	—	—	—	12,014,477,230
Private debt securities	1,313,817,882	906,819,834	15,000,000	—	—	2,235,637,716
	12,901,415,286	1,333,699,660	15,000,000	—	—	14,250,114,946
Loans and receivables						
Loans and discounts						
Corporate lending	—	1,366,817,418	—	—	—	1,366,817,418
Others	—	—	—	15,374,122	—	15,374,122
	—	1,366,817,418	—	15,374,122	—	1,382,191,540
Unquoted commercial papers	121,250,000	713,000,000	—	—	—	834,250,000
Dividends receivable	3,801,045	647,539	—	—	—	4,448,584
Accrued interest receivable	155,149,988	43,881,647	73,644	95,047	—	199,200,326
Accounts receivable	7,070,014	202,637,814	10,623,056	275,603,721	74,872,148	570,806,753
Other receivables	111,346	324,120	—	136,185,053	—	136,620,519
	287,382,393	960,491,120	10,696,700	411,883,821	74,872,148	1,745,326,182
	37,679,053,223	7,220,802,083	25,696,700	1,390,629,069	206,646,134	46,522,830,190

\*Excludes petty cash fund amounting to ₱155,001.

	Consolidated					
	December 31, 2016					
	Neither past due nor impaired					Total
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	
Loans and advances to banks						
Due from BSP	₱7,231,151,183	₱—	₱—	₱—	₱—	₱7,231,151,183
Cash and other cash items*	1,995,009,760	—	—	1,109,488,226	—	3,104,497,986
Interbank loans receivable and securities purchased under resale agreements	2,218,848,817	—	—	—	—	2,218,848,817
	11,445,009,760	—	—	1,109,488,226	—	12,554,497,986
Financial assets at FVPL**						
Government debt securities	1,803,783,500	31,147,908	—	—	—	1,834,931,408
Private debt securities	579,831,956	43,092,770	—	—	—	622,924,726
Equity securities	4,630,734,706	2,227,290,912	57,580,388	20,529,042	—	6,936,135,048
	7,014,350,162	2,301,531,590	57,580,388	20,529,042	—	9,393,991,182
AFS investments						
Government debt securities	5,223,219,869	265,833,055	—	—	—	5,489,052,924
Private debt securities	560,976,717	148,165,206	—	—	—	709,141,923
Equity securities						
Quoted	134,792,469	62,779,498	—	57,240,761	—	254,812,728
Unquoted	—	249,014,301	—	7,972,500	—	256,986,801
	5,918,989,055	725,792,060	—	65,213,261	—	6,709,994,376

(Forward)

Consolidated						
December 31, 2016						
	Neither past due nor impaired					Total
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	
HTM investments						
Government debt securities	15,265,870,030	426,350,880	—	—	—	15,692,220,910
Private debt securities	1,902,132,539	244,490,061	—	—	—	2,146,622,600
	17,168,002,569	670,840,941	—	—	—	17,838,843,510
Loans and receivables						
Loans and discounts						
Corporate lending	—	1,549,521,772	—	—	—	1,549,521,772
Others	—	—	—	21,103,576	—	21,103,576
	—	1,549,521,772	—	21,103,576	—	1,570,625,348
Unquoted commercial papers	—	810,000,000	—	—	—	810,000,000
Dividends receivable	602,698	483,370	—	1,363,680	—	2,449,748
Accrued interest receivable	230,295,123	42,047,507	—	288,082	—	272,630,712
Accounts receivable	12,058,353	16,667,623	—	136,373,028	117,769,157	282,868,161
Sales contract receivable	—	8,479,598	—	—	—	8,479,598
Other receivables	—	—	—	16,769,529	—	16,769,529
	242,956,174	2,427,199,870	—	175,897,895	117,769,157	2,963,823,096
	<b>₱41,789,307,720</b>	<b>₱6,125,364,461</b>	<b>₱57,580,388</b>	<b>₱1,371,128,424</b>	<b>₱117,769,157</b>	<b>₱49,461,150,150</b>

\*Excludes petty cash fund amounting to ₱115,001.

\*\*Excludes derivatives amounting to ₱15,922.

Parent Company						
December 31, 2017						
	Neither past due nor impaired					Total
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	
Loans and advances to banks						
Due from BSP	<b>₱4,399,997,307</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱4,399,997,307</b>
Cash and other cash items*	<b>2,233,523,832</b>	—	—	—	—	<b>2,233,523,832</b>
Interbank loans receivable and securities purchased under resale agreements	<b>500,000,000</b>	—	—	—	—	<b>500,000,000</b>
	<b>7,133,521,139</b>	—	—	—	—	<b>7,133,521,139</b>
Financial assets at FVPL**						
Government debt securities	1,670,508,377	—	—	—	—	1,670,508,376
Private debt securities	130,394,363	32,111,663	—	—	—	162,506,027
Equity securities	145,079,631	163,686,863	—	—	—	308,766,495
	<b>1,945,982,371</b>	<b>195,798,526</b>	—	—	—	<b>2,141,780,898</b>
AFS investments						
Government debt securities	6,663,352,431	—	—	—	—	6,663,352,431
Private debt securities	49,203	—	—	—	—	49,203
Equity securities						
Quoted	683,892,892	518,891,606	—	—	—	1,202,784,498
Unquoted	—	98,787,402	—	7,972,500	1,333,405	108,093,307
	<b>7,347,294,526</b>	<b>617,679,008</b>	—	<b>7,972,500</b>	<b>1,333,405</b>	<b>7,974,279,439</b>
HTM investments						
Government debt securities	11,386,918,690	308,567,251	—	—	—	11,695,485,941
Private debt securities	991,648,360	694,374,054	—	—	—	1,686,022,414
	<b>12,378,567,050</b>	<b>1,002,941,305</b>	—	—	—	<b>13,381,508,355</b>
Loans and receivables						
Loans and discounts						
Corporate lending	<b>₱1,366,817,418</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱1,366,817,418</b>
Others	—	—	—	9,933,018	—	9,933,018
	<b>1,366,817,418</b>	—	—	<b>9,933,018</b>	—	<b>1,376,750,436</b>
Unquoted commercial papers	—	485,000,000	—	—	—	485,000,000
Dividends receivable	97,269	—	—	—	—	97,269
Accrued interest receivable	150,501,421.11	36,709,039.27	—	—	—	187,210,460
Accounts receivable	348,723	132,958,201.32	—	5,332,834	44,248,200	182,887,958
	<b>1,517,764,831</b>	<b>654,667,241</b>	—	<b>5,332,834</b>	<b>44,248,200</b>	<b>2,231,946,123</b>
	<b>₱30,323,129,917</b>	<b>₱1,989,086,080</b>	—	<b>₱23,238,352</b>	<b>₱45,581,605</b>	<b>₱32,642,777,299</b>

\*Excludes petty cash fund amounting to ₱80,000.



Parent Company						
December 31, 2016						
Neither past due nor impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱7,231,151,183	₱—	₱—	₱—	₱—	₱7,231,151,183
Cash and other cash items*	397,647,510	—	—	—	—	397,647,510
Interbank loans receivable and securities purchased under resale agreements	2,218,848,817	—	—	—	—	2,218,848,817
	9,847,647,510	—	—	—	—	9,847,647,510
Financial assets at FVPL**						
Government debt securities	1,355,373,633	6,445,915	—	—	—	1,361,819,548
Private debt securities	282,972,448	38,082,177	—	—	—	321,054,625
	1,638,346,081	44,528,092	—	—	—	1,682,874,173
AFS investments						
Government debt securities	5,199,573,724	265,346,217	—	—	—	5,464,919,941
Private debt securities	49,091	—	—	—	—	49,091
Equity securities						
Quoted	134,776,469	47,455,412	—	—	—	182,231,881
Unquoted	—	118,573,720	—	7,972,500	—	126,546,220
	5,334,399,284	431,375,349	—	7,972,500	—	5,773,747,133
HTM investments						
Government debt securities	15,265,870,031	309,592,231	—	—	—	15,575,462,262
Private debt securities	1,491,814,538	194,583,778	—	—	—	1,686,398,316
	16,757,684,569	504,176,009	—	—	—	17,261,860,578
Loans and receivables						
Loans and discounts						
Corporate lending	—	1,549,521,772	—	—	—	1,549,521,772
Others	—	—	—	15,988,493	—	15,988,493
	—	1,549,521,772	—	15,988,493	—	1,565,510,265
Unquoted commercial papers	—	487,500,000	—	—	—	487,500,000
Dividends receivable	35,712	—	—	—	—	35,712
Accrued interest receivable	215,086,130	38,053,523	—	—	—	253,139,653
Accounts receivable	12,058,353	13,235,499	—	3,150,870	44,190,789	72,635,511
Sales contract receivable	—	8,479,598	—	—	—	8,479,598
Other receivables	—	—	—	20,241	—	20,241
	227,180,195	2,096,790,392	—	19,159,604	44,190,789	2,387,320,980
	₱33,805,257,639	₱3,076,869,842	₱—	₱27,132,104	₱44,190,789	₱36,953,450,374

\*Excludes petty cash fund amounting to ₱50,000.

\*\*Excludes derivatives amounting to ₱15,922.

*Impaired loans and receivables* - are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory note and security agreements. Loan classification in terms provisioning are aligned with regulatory guidelines.

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

As of December 31, 2017 and 2016, the Group and the Parent Company has no outstanding past due but not impaired loans and receivables.

#### *Liquidity Risk and Funding Management*

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

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

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

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

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

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

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

	Consolidated								
	December 31, 2017								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱5,320,741,050	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱5,320,741,050
Due from BSP	4,399,997,307	–	–	–	–	–	–	–	4,399,997,307
Interbank loans receivable	500,000,000	–	–	–	–	–	–	–	500,000,000
	10,220,738,357	–	–	–	–	–	–	–	10,220,738,357
Loans and receivables									
Loans and discounts									
Corporate lending	308,875,817	–	56,687,363	97,750,545	154,437,908	308,875,817	576,688,452	-	1,503,315,901
Others	–	5,407	48,031	46,201	562,581	2,950,919	9,271,456	10,475,490	23,360,086
	308,875,817	5,407	56,735,394	97,796,746	155,000,489	311,826,736	585,959,908	10,475,490	1,526,675,987
Unquoted commercial papers	–	8,975,895	125,598,383	39,663,395	20,639,290	46,653,580	571,105,370	221,500,000	1,034,135,913
Accrued interest receivable	–	–	199,200,326	–	–	–	–	–	199,200,326
Accounts receivable	–	–	570,806,753	–	–	–	–	–	570,806,753
Dividends receivable	–	–	4,448,584	–	–	–	–	–	4,448,584
Other receivables	–	–	136,620,519	–	–	–	–	–	136,620,519
	308,875,817	8,981,302	1,093,409,959	137,460,141	175,639,779	358,480,316	1,157,065,278	231,975,490	3,471,888,082
Financial assets at FVPL									
Government debt securities	–	2,523,918,273	–	–	–	–	–	–	2,523,918,273
Private debt securities	–	162,506,027	–	–	–	–	–	–	162,506,027
Equity securities	–	7,919,045,483	–	–	–	–	–	–	7,919,045,483
AFS investments									
Government debt securities	–	1,462,560	40,416,205	90,425,176	132,303,941	1,138,231,883	2,170,678,971	5,106,272,150	8,679,790,886
Private debt securities	–	–	–	1,816,543	3,219,043	6,438,085	100,204,255	65,009,113	176,687,038
Quoted equity investments	–	–	–	–	–	–	–	1,212,075,273	1,212,075,273
Unquoted equity investments	–	–	–	–	–	–	–	238,533,887	238,533,887
Held-to-maturity investments									
Government debt securities	–	11,687,500	1,873,875,520	2,354,057,471	321,505,182	973,010,363	2,213,192,119	10,173,283,225	17,920,611,381
Private debt securities	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	23,497,043,595
	₱13,466,744,623	₱13,564,731,594	₱5,944,832,133	₱5,520,889,780	₱3,569,798,394	₱5,413,291,096	₱8,578,271,072	₱19,964,279,587	₱76,022,838,282

(Forward)

	Consolidated							
	December 31, 2017							
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years
<b>Financial Liabilities</b>								
Bills payable	P–	P18,005,730,763	P6,740,729,924	P1,158,670,637	P7,823,980	P–	P–	P–
Bonds payable	–	–	–	–	–	3,043,125,000	–	–
Accrued interest and other expenses	–	–	80,021,439	–	–	–	–	–
Accounts payable	–	–	2,195,069,559	–	–	–	–	–
Other liabilities	–	–	532840863	–	–	–	–	–
	–	18,005,730,763	9,548,661,785	1,158,670,637	7,823,980	3,043,125,000	–	–
<b>Puttable instruments classified as liability</b>	8,002,041,695	–	–	–	–	–	–	–
	P8,002,041,695	P18,005,730,763	P9,548,661,785	P1,158,670,637	P7,823,980	P3,043,125,000	P–	P–
<b>Commitments</b>	P410,000,000	P–	P–	P–	P–	P–	P–	P–
	P410,000,000	P–	P–	P–	P–	P–	P–	P–

	Consolidated							
	December 31, 2016							
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years
<b>Financial Assets</b>								
Loans and advances								
Cash and other cash items	P3,104,612,987	P–	P–	P–	P–	P–	P–	P–
Due from BSP	7,231,151,183	–	–	–	–	–	–	–
Interbank loans receivable	2,218,848,817	–	–	–	–	–	–	–
	12,554,612,987	–	–	–	–	–	–	–
Loans and receivables								
Loans and discounts								
Corporate lending	–	–	62,842,955	81,651,879	144,494,834	288,989,668	785,317,124	62,842,955
Others	–	15,715	61,367	41,674	622,595	2,494,021	11,535,629	17,021,547
	–	15,715	62,904,322	81,693,553	145,117,429	291,483,689	796,852,753	79,864,502
Unquoted commercial papers	12,417,969	51,522,163	4,365,505	13,387,668	24,087,835	171,016,655	609,971,625	232,250,000
Accrued interest receivable	–	–	275,882,106	–	–	–	–	–
Accounts receivable	–	–	355,530,070	–	–	–	–	–
Sales contract receivable	–	–	–	–	254,388	1,017,552	10,514,701	–
Dividends receivable	–	–	2,449,748	–	–	–	–	–
Other receivables	–	–	16,769,529	–	–	–	–	–
	12,417,969	51,537,878	717,901,280	95,081,221	169,459,652	463,517,896	1,417,339,079	312,114,502

(Forward)

	Consolidated								
	December 31, 2016								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial assets at FVPL									
Government debt securities	–	1,834,931,408	–	–	–	–	–	–	1,834,931,408
Private debt securities	–	622,924,726	–	–	–	–	–	–	622,924,726
Equity securities	–	6,936,135,048	–	–	–	–	–	–	6,936,135,048
AFS investments									
Government debt securities	517,181,225	605,217	23,043,563	105,865,015	99,268,396	207,768,918	1,468,265,824	5,227,028,500	7,649,026,658
Private debt securities	–	5,012,691	64,393,377	16,545,811	52,626,182	34,765,864	346,956,379	578,013,708	1,098,314,012
Quoted equity investments	–	–	–	–	–	–	–	254,812,728	254,812,728
Unquoted equity investments	–	–	–	–	–	–	–	125,212,816	125,212,816
Held-to-maturity investments									
Government debt securities	–	30,745,705	3,292,705,128	532,694,721	1,645,386,321	4,409,813,548	1,629,855,744	10,417,111,870	21,958,313,037
Private debt securities	–	3,907,442	20,333,788	21,043,665	45,284,895	90,569,789	1,024,006,299	1,049,382,585	2,254,528,463
	517,181,225	9,434,262,237	3,400,475,856	676,149,212	1,842,565,794	4,742,918,119	4,469,084,246	17,651,562,207	42,734,198,896
	₱13,084,212,181	₱9,485,800,115	₱4,118,377,136	₱771,230,433	₱2,012,025,446	₱5,206,436,015	₱5,886,423,325	₱17,963,676,709	₱58,528,181,360

	Consolidated								Total
	December 31, 2016								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	
Financial Liabilities									
Bills payable	₱113,745,285	₱8,105,312,878	₱6,735,257,726	₱230,091,531	₱15,120,754	₱—	₱—	₱—	₱15,199,528,174
Bonds payable	—	—	5,169,062,500	98,125,000	4,141,250,000	172,500,000	3,086,250,000	—	12,667,187,500
Accrued interest and other expenses	—	161,539,869	—	—	—	—	—	—	161,539,869
Accounts payable	—	1,623,935,301	—	—	—	—	—	—	1,623,935,301
Other liabilities	—	3,067,106,046	—	—	—	—	—	—	3,067,106,046
	113,745,285	12,957,894,094	11,904,320,226	328,216,531	4,156,370,754	172,500,000	3,086,250,000	—	32,719,296,890
Puttable instruments classified as liability	7,942,584,367	—	—	—	—	—	—	—	7,942,584,367
	₱8,056,329,652	₱12,957,894,094	₱11,904,320,226	₱328,216,531	₱4,156,370,754	₱172,500,000	₱3,086,250,000	₱—	₱40,661,881,257
Commitments	₱410,000,000	₱—	₱—	₱—	₱—	₱—	₱—	₱—	₱410,000,000

Parent Company									
December 31, 2017									
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
<b>Financial Assets</b>									
<b>Loans and advances</b>									
Cash and other cash items	₱2,233,603,832	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱2,233,603,832
Due from BSP	4,399,997,307	–	–	–	–	–	–	–	4,399,997,307
Interbank loans receivable	500,000,000	–	–	–	–	–	–	–	500,000,000
	7,133,601,139	–	–	–	–	–	–	–	7,133,601,139
<b>Loans and receivables</b>									
<b>Loans and discounts</b>									
Corporate lending	308,875,817	–	56,687,363	97,750,545	154,437,908	308,875,817	576,688,452	–	1,503,315,901
Others	–	5,407	43,934	21,920	420,978	1,723,504	4,961,458	8,221,639	15,398,840
	308,875,817	5,407	56,731,297	97,772,465	154,858,886	310,599,321	581,649,910	8,221,639	1,518,714,741
Unquoted commercial papers	–	8,975,895	–	8,975,895	17,951,790	35,903,580	538,855,370	–	610,662,530
Accrued interest receivable	–	–	182,887,958	–	–	–	–	–	182,887,958
Accounts receivable	–	–	187,210,460	–	–	–	–	–	187,210,460
Sales contract receivable	–	–	–	–	–	–	–	–	–
Dividends receivable	–	–	97,269	–	–	–	–	–	97,269
Other receivables	–	–	–	–	–	–	–	–	–
	308,875,817	8,981,302	426,926,984	106,748,360	172,810,676	346,502,901	1,120,505,280	8,221,639	2,499,572,958
<b>Financial assets at FVPL</b>									
Government debt securities	–	1,670,508,377	–	–	–	–	–	–	1,670,508,377
Private debt securities	–	162,506,027	–	–	–	–	–	–	162,506,027
Equity Securities	–	308,766,495	–	–	–	–	–	–	308,766,495
<b>AFS investments</b>									
Government debt securities	–	1,395,960	40,416,205	90,269,526	132,081,692	1,137,787,383	2,164,875,610	5,102,902,184	8,669,728,560
Private debt securities	–	1,475	–	–	1,475	2,950	8,850	54,425	69,175
Quoted equity investments	–	–	–	–	–	–	–	–	–
Unquoted equity investments	–	–	–	–	–	–	–	1,195,823,256	1,195,823,256
<b>Held-to-maturity investments</b>									
Government debt securities	–	10,625,000	1,873,875,520	2,350,216,127	217,663,838	965,327,676	2,100,769,057	10,046,741,882	17,565,219,100
Private debt securities	–	3,907,442	20,333,788	21,043,665	61,295,497	287,079,622	1,413,978,116	1,129,492,321	2,937,130,449
	–	2,157,710,775	1,934,625,513	2,461,529,319	395,031,899	2,218,546,426	5,357,475,906	17,319,753,132	31,844,672,970
	₱10,529,614,173	₱10,631,508,587	₱3,028,035,471	₱2,604,802,996	₱693,963,442	₱2,763,240,268	₱7,055,118,738	₱18,156,641,458	₱55,462,925,134

(Forward)



Parent Company									
December 31, 2017									
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Liabilities									
Bills payable	P–	18,005,730,763	6,740,729,924	1,158,670,637	7,823,980	P–	P–	P–	25,912,955,304
Bonds payable	–	–	–	–	–	3,043,125,000	–	–	3,043,125,000
Accrued interest and other expenses	–	80,607,818	–	–	–	–	–	–	80,607,818
Accounts payable	–	346,182,703	–	–	–	–	–	–	346,182,703
Other liabilities	–	90,666,163	–	–	–	–	–	–	90,666,163
	P–	P18,523,187,447	P6,740,729,924	P1,158,670,637	P7,823,980	P3,043,125,000	P–	P–	P29,473,536,988
Commitments	P410,000,000	P–	P–	P–	P–	P–	P–	P–	P410,000,000

Parent Company									
December 31, 2016									
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	P397,697,510	P–	P–	P–	P–	P–	P–	P–	P397,697,510
Due from BSP	7,231,151,183	–	–	–	–	–	–	–	7,231,151,183
Interbank loans receivable	2,218,848,817	–	–	–	–	–	–	–	2,218,848,817
	9,847,697,510	–	–	–	–	–	–	–	9,847,697,510
Loans and receivables									
Loans and discounts									
Corporate lending	–	–	62,842,955	81,651,879	144,494,834	288,989,668	785,317,124	62,842,955	1,426,139,415
Others	–	11,288	20,482	25,837	500,589	1,538,703	7,128,166	17,021,547	26,246,612
	–	11,288	62,863,437	81,677,716	144,995,423	290,528,371	792,445,290	79,864,502	1,452,386,027
Unquoted commercial papers	–	9,022,163	–	9,022,163	18,044,325	36,088,650	577,721,625	–	649,898,926
Accrued interest receivable	–	–	256,391,047	–	–	–	–	–	256,391,047
Accounts receivable	–	–	72,635,511	–	–	–	–	–	72,635,511
Sales contract receivable	–	–	–	–	254,388	1,017,552	10,514,701	–	11,786,641
Dividends receivable	–	–	35,712	–	–	–	–	–	35,712
Other receivables	–	–	20,241	–	–	–	–	–	20,241
	–	9,033,451	391,945,948	90,699,879	163,294,136	327,634,573	1,380,681,616	79,864,502	2,443,154,105
Financial assets at FVPL									
Government debt securities	–	1,361,819,548	–	–	–	–	–	–	1,361,819,548
Private debt securities	–	321,054,625	–	–	–	–	–	–	321,054,625

(Forward)

Parent Company									
December 31, 2016									
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
AFS investments									
Government debt securities	₱517,181,225	₱538,617	₱22,664,500	₱105,730,832	₱96,473,949	₱192,947,899	₱1,462,206,086	₱5,224,031,500	₱7,621,774,608
Private debt securities	—	1,250	—	—	1,250	2,500	7,500	56,250	68,750
Quoted equity investments	—	—	—	—	—	—	—	177,062,733	177,062,733
Unquoted equity investments	—	—	—	—	—	—	—	126,546,220	126,546,220
Held-to-maturity investments									
Government debt securities	—	30,745,705	3,292,705,128	532,694,721	1,645,386,321	4,409,813,548	1,629,855,744	10,417,111,870	21,958,313,037
Private debt securities	—	3,907,442	20,333,788	21,043,665	45,284,895	90,569,789	1,024,006,299	1,049,382,585	2,254,528,463
	517,181,225	1,718,067,187	3,335,703,416	659,469,218	1,787,146,415	4,693,333,736	4,116,075,629	16,994,191,158	33,821,167,984
	₱10,364,878,735	₱1,727,100,638	₱3,727,649,364	₱750,169,097	₱1,950,440,551	₱5,020,968,309	₱5,496,757,245	₱17,074,055,660	₱46,112,019,599

Parent Company									
December 31, 2016									
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Liabilities									
Bills payable	₱113,745,285	₱8,105,312,878	₱6,735,257,726	₱230,091,531	₱15,120,754	₱—	₱—	₱—	₱15,199,528,174
Bonds payable	—	—	5,169,062,500	98,125,000	4,141,250,000	172,500,000	3,086,250,000	—	12,667,187,500
Accrued interest and other expenses	—	131,933,482	—	—	—	—	—	—	131,933,482
Accounts payable	—	375,048,735	—	—	—	—	—	—	375,048,735
Other liabilities	—	3,074,541,501	—	—	—	—	—	—	3,074,541,501
	₱113,745,285	₱11,686,836,596	₱11,904,320,226	₱328,216,531	₱4,156,370,754	₱172,500,000	₱3,086,250,000	₱—	₱31,448,239,392
Commitments	₱410,000,000	₱—	₱—	₱—	₱—	₱—	₱—	₱—	₱410,000,000

### *Financial assets*

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

### *Financial liabilities*

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

### *Market Risk*

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The Parent Company's market risk originates from its holdings of debt securities and equities.

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

The RMD serves under the ROC and performs daily market risk analyses to ensure compliance with the company's policies and procedures. The methodologies used in managing the risk include the daily marking-to-market, monitoring of loss alerts and stop loss limits, profit alert and start sell limits, nominal position limits as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits.

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

A summary of the VaR levels of the trading portfolio of the Parent Company appears below:

		Bonds	
	Equities	PHP	USD
As of December 31, 2017			
(in millions)			
December 29	₱7,288,499	₱23,747,414	₱557,429
Average	3,431,809	23,813,173	5,351,703
Highest	7,909,276	97,025,950	13,315,398
Lowest	357,682	5,710,557	56,014
As of December 31, 2016			
(in millions)			
December 29	—	13,680,833	189,935
Average	7,685,408	45,603,538	3,401,869
Highest	15,358,654	166,833,755	9,643,345
Lowest	432,333	2,207,313	153

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

The Group follows a prudent policy in managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Majority of the Parent Company's loan portfolio have no repricing rate arrangements. The determination of the applicable rates is sourced from the Parent Company's approved lending rates. Lending rates are determined based on funding cost plus certain spreads. As of December 31, 2017 and 2016, total loans and discounts earned fixed annual interest rates ranging from 3.0% to 15.0% for the Group and the Parent Company.

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

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

Consolidated December 31, 2017							
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity				Total
			0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Currency							
PhP	+10	(P28,273,050)	P-	P-	(P8,330,758)	(P26,383,241)	(P34,713,999)
USD	+10	-	-	-	(29,939)	(3,567,202)	(3,597,141)
Currency							
PhP	-10	28,372,088	-	-	8,367,654	26,585,486	34,953,140
USD	-10	-	-	-	30,042	3,631,410	3,661,452

Consolidated December 31, 2016							
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity				Total
			0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Currency							
PhP	+10	(P5,897,277)	(P24,513)	(P30,205)	(P3,703,516)	(P33,200,739)	(P36,958,973)
USD	+10	-	-	-	-	(3,927,239)	(3,927,239)
Currency							
PhP	-10	5,949,206	24,527	30,237	3,716,735	33,481,383	37,252,882
USD	-10	-	-	-	-	4,001,884	4,001,884

Parent Company December 31, 2017							
	Increase in basis points	Sensitivity of net interest income and trading gains	Sensitivity of equity				Total
			0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	
Currency							
PhP	+10	(P28,895,114)	P-	P-	(P8,122,011)	(P25,982,516)	(P34,104,526)
USD	+10	-	-	-	-	(2,626,484)	(2,626,484)
Currency							
PhP	-10	28,981,081	-	-	8,157,944	26,181,162	34,339,106
USD	-10	-	-	-	-	2,671,067	2,671,067

Parent Company							
December 31, 2016							
	Increase in basis points	Sensitivity of net interest income and trading gains	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Currency							
PhP	+10	(₱2,537,363)	(₱12,561)	₱–	(₱2,808,589)	(₱30,073,456)	(₱32,894,606)
USD	+10	–	–	–	–	(3,924,354)	(3,924,354)
Currency							
PhP	-10	2,572,787	12,571	–	2,818,380	30,330,044	33,160,995
USD	-10	–	–	–	–	3,998,979	3,998,979

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

#### Foreign exchange risk

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

The tables below summarize the Group and the Parent Company's exposure to foreign currency risk as of December 31, 2017 and 2016:

	Consolidated	
	2017	
	US Dollar	Euro
<b>Financial assets</b>		
Loans and advances		
Cash and other cash items	\$202,017,043	€10,078,773
Financial assets at FVPL		
Government securities	14,863,539	–
Accrued interest receivable	223,388	–
	<b>\$217,103,969</b>	<b>€ 10,078,773</b>
<b>Financial liabilities</b>		
Bills payable	\$6,437,012	€–
IBCL Payable	15,000,000	24,532
Accrued interest payable	32,505	–
	<b>\$21,469,517</b>	<b>€24,532</b>
Net assets in foreign currency	<b>\$195,634,452</b>	<b>€10,054,241</b>
	Consolidated	
	2016	
	US Dollar	Euro
Financial assets		
Loans and advances		
Cash and other cash items	\$2,378,790	€6,283,755
Financial assets at FVPL		
Government securities	14,548,273	–
Accrued interest receivable	165,705	–
	<b>\$17,092,768</b>	<b>€6,283,755</b>
Financial liabilities		
Bills payable	\$3,884,069	€–
IBCL Payable	15,000,000	–
Accrued interest payable	11,613	–
	<b>\$18,895,682</b>	<b>€–</b>
Net assets in foreign currency	<b>(\$1,802,914)</b>	<b>€6,283,755</b>

	Parent Company	
	2017	
	US Dollar	Euro
<b>Financial assets</b>		
Loans and advances		
Cash and other cash items	\$653,695	€10,078,773
AFS investments		
Government securities	11,187,854	–
Accrued interest receivable	127,470	–
	<b>\$11,969,019</b>	<b>€10,078,773</b>
<b>Financial liabilities</b>		
Bills payable	\$6,437,012	€–
IBCL Payable	15,000,000	24,532
Accrued interest payable	32,505	–
	<b>\$21,469,517</b>	<b>€24,532</b>
Net assets in foreign currency	<b>(\$9,500,498)</b>	<b>€10,054,241</b>

	Parent Company	
	2016	
	US Dollar	Euro
<b>Financial assets</b>		
Loans and advances		
Cash and other cash items	\$5,833	€6,283,755
AFS investments		
Government securities	11,693,336	–
Accrued interest receivable	147,957	–
	<b>\$11,847,126</b>	<b>€6,283,755</b>
<b>Financial liabilities</b>		
Bills payable	\$3,884,069	€–
IBCL Payable	15,000,000	–
Accrued interest payable	11,613	–
	<b>\$18,895,682</b>	<b>€–</b>
Net assets in foreign currency	<b>(\$7,048,556)</b>	<b>€6,283,755</b>

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

	US Dollar- Philippine Peso	Euro- Philippine Peso
Exchange rate		
<b>2017</b>	<b>₱49.93 to US\$1.0</b>	<b>₱60.23 to €1.0</b>
2016	₱49.72 to US\$1.0	₱52.03 to €1.0



The following tables set forth the impact of the range of reasonable possible changes in the US Dollar-Philippine Peso exchange rate and Euro-Philippine Peso exchange rate on the Group's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2017 and 2016 (in millions):

	Consolidated and Parent Company			
	2017		2016	
Reasonable Possible Change	Change in Income Before Tax	Change in Equity	Change in Income Before Tax	Change in Equity
<b>US Dollar</b>				
1.0%	0.29	6.04	0.36	–
(1.0%)	(0.29)	(6.04)	(0.36)	–
<b>Euro</b>				
1.0%	2.20	–	0.14	–
(1.0%)	(2.20)	–	(0.14)	–

#### Equity price risk

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

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

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

	Consolidated			
	2017		2016	
<b>Changes in PSEi</b>	<b>9.8%</b>	<b>(9.8%)</b>	<b>9.6%</b>	<b>(9.6%)</b>
Change on trading income under:				
Mining and oil industry	₱3,794,146	(₱3,794,146)	₱641,338	(₱641,338)
Holding firm industry	265,765,463	(265,765,463)	245,271,794	(245,271,794)
Financial industry	89,243,750	(89,243,750)	51,477,728	(51,477,728)
Property industry	206,450,333	(206,450,333)	135,072,875	(135,072,875)
Industrial industry	89,205,895	(89,205,895)	134,871,871	(134,871,871)
Services industry	79,136,454	(79,136,454)	66,976,759	(66,976,759)
<b>Total</b>	<b>₱733,596,041</b>	<b>(₱733,596,041)</b>	<b>₱634,312,365</b>	<b>(₱634,312,365)</b>
<b>As a percentage of the Group's net trading gain for the year</b>	<b>38.2%</b>	<b>(38.2%)</b>	<b>127.8%</b>	<b>(127.8%)</b>

	Parent Company			
	2017		2016	
<b>Changes in PSEi</b>	<b>9.8%</b>	<b>(9.8%)</b>	<b>9.6%</b>	<b>(9.6%)</b>
Change on trading income under:				
Mining and oil industry	₱1,115,679	(₱1,115,679)	₱–	₱–
Holding firm industry	11,416,525	(11,416,525)	–	–
Property industry	8,285,243	(8,285,243)	–	–
Financial industry	–	–	–	–
Industrial industry	–	–	–	–
Services industry	4,971,168	(4,971,168)	–	–
<b>Total</b>	<b>₱25,788,615</b>	<b>(₱25,788,615)</b>	<b>₱–</b>	<b>₱–</b>
<b>As a percentage of the Parent Company's net trading gain for the year</b>	<b>1.3%</b>	<b>(1.3%)</b>	<b>–</b>	<b>–</b>

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

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

	Consolidated			
	2017		2016	
<b>Changes in PSEi</b>	<b>9.8%</b>	<b>(9.8%)</b>	<b>9.6%</b>	<b>(9.6%)</b>
Change on equity under:				
Mining and oil industry	₱12,634,926	(₱12,634,926)	₱–	(₱–)
Financial industry	35,041,882	(35,041,882)	3,044,252	(3,044,252)
Property industry	1,625,571	(1,625,571)	2,899,277	(2,899,277)
Services industry	31,523,175	(31,523,175)	1,590,579	(1,590,579)
Holding Company	5,416,276	(5,416,276)	7,641,235	(7,641,235)
Industrial	17,489,113	(17,489,113)	4,438,963	(4,438,963)
<b>Total</b>	<b>₱103,730,943</b>	<b>(₱103,730,943)</b>	<b>₱19,614,306</b>	<b>(₱19,614,306)</b>
<b>As a percentage of the Group's net unrealized gain for the year</b>	<b>171.3%</b>	<b>(171.3%)</b>	<b>34.0%</b>	<b>(34.0%)</b>

	Parent Company			
	2017		2016	
<b>Changes in PSEi</b>	<b>9.8%</b>	<b>(9.8%)</b>	<b>9.6%</b>	<b>(9.6%)</b>
Change on equity under:				
Mining and oil industry	₱12,634,926	(₱12,634,926)	₱–	(₱–)
Property industry	35,041,882	(35,041,882)	2,899,277	(2,899,277)
Financial industry	1,625,571	(1,625,571)	3,044,252	(3,044,252)
Holding Company	31,523,175	(31,523,175)	7,641,235	(7,641,235)
Industrial	5,068,888	(5,068,888)	4,438,963	(4,438,963)
Services industry	17,487,231	(17,487,231)	1,588,906	(1,588,906)
<b>Total</b>	<b>103,381,673</b>	<b>(103,381,673)</b>	<b>₱19,612,633</b>	<b>(₱19,612,633)</b>
<b>As a percentage of the Parent Company's net unrealized gain for the year</b>	<b>1,461.8%</b>	<b>(1,461.8%)</b>	<b>320.5%</b>	<b>(320.5%)</b>

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

## 5. Fair Value Measurement

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

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

Trading and investment securities - Fair values of debt securities (HFT, AFS and HTM investments) and quoted equity investments are generally based on their quoted market prices. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments - Fair values are estimated based on prices derived using acceptable valuation models. The model utilizes published underlying rates (e.g. interest rates and quoted price volatilities) and are implemented through validated calculation engines.

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

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

Bills payable - Carrying value approximates fair value for borrowings with relatively short maturity. For certain borrowings which are long-term in nature, fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The Company's nonperformance risk as at December 31, 2017 and 2016 was assessed to be insignificant.

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

	Consolidated				
	2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets measured at fair value:</b>					
<b>Financial assets</b>					
Financial assets at FVPL:					
Debt securities:					
Government	₱1,670,508,377	₱1,088,711,631	₱581,796,746	₱—	₱1,670,508,377
Private	162,506,027	162,506,027	—	—	162,506,027
Equity securities	7,919,045,483	7,919,045,483	—	—	7,919,045,483
AFS investments:					
Debt securities:					
Government	6,671,128,827	4,521,100,719	2,142,251,712	—	6,671,128,827
Private	136,838,011	136,838,011	—	—	136,838,011
Equity securities	1,272,643,658	1,272,643,658	—	—	1,272,643,658
	₱17,832,670,383	₱15,100,845,529	₱2,724,048,458	₱—	₱17,832,670,383
<b>Assets and liabilities for which fair values are disclosed</b>					
<b>Financial assets</b>					
Loans and receivables:					
Loans and discounts:					
Corporate lending	₱1,338,730,014	₱—	₱—	₱1,454,009,316	₱1,454,009,316
Others	15,374,122	—	15,978,381	—	15,978,381
Other receivables:					
Unquoted commercial papers	834,250,000	—	—	877,068,372	877,068,372
HTM investments					
Government	12,014,477,230	11,690,207,111	—	—	11,690,207,111
Private	2,235,637,716	2,226,183,851	—	—	2,226,183,851
	₱16,438,469,082	₱13,916,390,962	₱15,978,381	₱2,331,077,688	₱16,263,447,031
<b>Financial liabilities</b>					
Bonds payable	₱2,909,949,893	₱—	₱—	₱2,992,249,000	₱2,992,249,000
Puttable instruments classified as financial liability at FVPL	8,002,041,695	—	8,002,041,695	—	8,002,041,695
	₱10,911,991,588	₱—	₱8,002,041,695	₱2,992,249,000	₱10,911,991,588
<b>Nonfinancial assets</b>					
Investment properties	₱314,297,147	₱—	₱—	₱840,609,740	₱840,609,740

Consolidated					
2016					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets measured at fair value:</b>					
<b>Financial assets</b>					
<b>Financial assets at FVPL:</b>					
Debt securities:					
Government	₱1,834,931,408	₱1,694,010,238	₱140,921,170	₱—	₱1,834,931,408
Private	622,924,726	622,924,726	—	—	622,924,726
Equity securities	6,936,135,048	6,936,135,048	—	—	6,936,135,048
Derivative assets	15,922	—	—	15,922	15,922
<b>AFS investments:</b>					
Debt securities:					
Government	5,489,052,924	5,489,052,924	—	—	5,489,052,924
Private	709,141,923	709,141,923	—	—	709,141,923
Equity securities	254,812,728	254,812,728	—	—	254,812,728
	₱15,847,014,679	₱15,706,077,587	₱140,921,170	₱15,922	₱15,847,014,679
<b>Assets and liabilities for which fair values are disclosed</b>					
<b>Financial assets</b>					
<b>Loans and receivables:</b>					
Loans and discounts:					
Corporate lending	₱1,521,430,119	₱—	₱—	₱1,693,928,640	₱1,693,928,640
Others	21,103,756	—	23,568,817	—	23,568,817
Other receivables:					
Unquoted commercial papers	810,000,000	—	—	882,189,722	882,189,722
Sales contract receivable	8,479,598	—	—	10,012,811	10,012,811
<b>HTM investments</b>					
Government	15,692,220,908	7,425,043,575	8,184,121,301	—	15,609,164,876
Private	2,146,622,602	2,177,894,555	—	—	2,177,894,555
	₱20,199,856,983	₱9,602,938,130	₱8,207,690,118	₱2,586,131,173	₱20,396,759,421
<b>Financial liabilities</b>					
Bonds payable	₱11,498,497,579	₱—	₱—	₱11,756,474,049	₱11,756,474,049
<b>Puttable instruments classified as financial liability at FVPL</b>					
	7,942,584,367	—	7,942,584,367	—	7,942,584,367
	₱19,441,081,946	₱—	₱7,942,584,367	₱11,756,474,049	₱19,699,058,416
<b>Nonfinancial assets</b>					
Investment properties	₱330,514,369	₱—	₱—	₱986,540,680	₱986,540,680

Parent Company					
2017					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets measured at fair value:</b>					
<b>Financial assets</b>					
<b>Financial assets at FVPL:</b>					
Debt securities:					
Government	₱1,670,508,377	₱1,088,711,630	₱581,796,746	₱—	₱1,670,508,376
Private	162,506,027	162,506,027	—	—	162,506,027
Equity securities	308,766,495	308,766,495	—	—	308,766,495
<b>AFS investments:</b>					
Debt securities:					
Government	6,663,352,431	4,521,100,720	2,142,251,712	—	6,663,352,431
Private	49,203	49,203	—	—	49,203
Equity securities	1,202,784,498	1,202,784,498	—	—	1,202,784,498
	₱10,007,967,031	₱7,283,918,572	₱2,724,048,458	₱—	₱10,007,967,031
<b>Assets and liabilities for which fair values are disclosed</b>					
<b>Financial assets</b>					
<b>Loans and receivables:</b>					
Loans and discounts:					
Corporate lending	₱1,338,730,014	₱—	₱—	₱1,454,009,316	₱1,454,009,316
Others	9,933,018	—	10,537,277	—	10,537,277
Other receivables:					
Unquoted commercial papers	485,000,000	—	—	522,007,657	522,007,657

(Forward)

Parent Company					
2017					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
HTM investments					
Government	₱11,695,485,940	₱5,804,612,610	₱5,560,485,075	₱–	₱11,365,097,685
Private	1,686,022,414	1,679,392,731	–	–	1,679,392,731
	₱15,215,171,386	₱7,484,005,341	₱5,571,022,352	₱1,976,016,973	₱15,031,044,666
<b>Financial liabilities</b>					
Bonds payable	₱2,992,580,674	₱–	₱–	₱3,074,228,425	₱3,074,228,425
<b>Nonfinancial assets</b>					
Investment properties	₱314,297,147	₱–	₱–	₱840,609,740	₱840,609,740

Parent Company					
2016					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	₱1,361,819,548	₱1,220,898,378	₱140,921,170	₱–	₱1,361,819,548
Private	321,054,625	321,054,625	–	–	321,054,625
Derivative assets	15,922	–	–	15,922	15,922
AFS investments:					
Debt securities:					
Government	5,464,919,941	5,464,919,941	–	–	5,464,919,941
Private	49,091	49,091	–	–	49,091
Equity securities	182,231,881	182,231,881	–	–	182,231,881
	₱7,330,091,008	₱7,189,153,916	₱140,921,170	₱15,922	₱7,330,091,008
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	₱1,521,430,119	₱–	₱–	₱1,693,928,640	₱1,693,928,640
Others	15,988,493	–	18,453,553	–	18,453,553
Other receivables:					
Unquoted commercial papers	487,500,000	–	–	545,433,815	545,433,815
Sales contract receivable	8,479,598	–	–	10,012,811	10,012,811
HTM investments					
Government	15,575,462,262	7,303,334,110	8,184,121,301	–	15,487,455,411
Private	1,686,398,316	1,710,857,605	–	–	1,710,857,605
	₱19,295,258,788	₱9,014,191,715	₱8,202,574,854	₱2,249,375,266	₱19,466,141,835
<b>Financial liabilities</b>					
Bonds payable	₱11,981,719,616	₱–	₱–	₱12,248,277,404	₱12,248,277,404
<b>Nonfinancial assets</b>					
Investment properties	₱330,514,369	₱–	₱–	₱986,540,680	₱986,540,680

As of December 31, 2017 and 2016, no transfers were made among the three levels in the fair value hierarchy.

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

Significant (decreases) increases in the risk-free rates and risk premium, in isolation, would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in volatility, in isolation, would result in a significantly higher (lower) fair value measurement.

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## 6. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit.

As of December 31, 2017 and 2016, the Group's operating segments are as follows:

- **Financial Markets Group** - manages the liquidity and funding requirements of the Parent Company and the distribution of financial instruments such as government securities and corporate papers. It offers a wide variety of profitable and secure instruments such as treasury bills, treasury notes/bonds, commercial papers, and promissory notes. As a quasi-bank licensed by the BSP, it borrows money from the public and issues its own financial instruments. Moreover, it is an accredited government securities eligible dealer authorized by the Bureau of Treasury in trading government securities and it remains a dominant selling agent in the distribution of government securities, government-owned or controlled corporations and other corporate issuances;
- **Investment Banking** - is responsible for raising long-term funding requirements of the government and the private sectors. Its products and services include debt and equity underwriting, loan syndication, financial advisory, project finance and structured financial solutions.
- **Investment Advisory & Trust Group** - develops and enhances the wealth of private clients, uncovering investment opportunities and seeking a thorough understanding of the market through first-hand research. It also provides meticulous and comprehensive professional portfolio advisory and research services to both individuals and firms.

In June 2016, the trust and other fiduciary business of the Parent Company, comprising this segment, ceased its operations. The Parent Company applied for the revocation of its trust license on July 5, 2016 and was subsequently approved by the BSP on February 1, 2017. The Group and the Parent Company did not present the results of operations of this segment as a discontinued operation on the face of the statement of income for the years ended December 31, 2017, 2016 and 2015 as the amounts are not material. Results of this segment included in the statement of income of the Group pertain only to trust fee income amounting to nil, ₱2.6 million and ₱6.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

- **Mutual Funds** - these are the fund business of the Group;
- **Strategic Investments** - these are the business of the Group which are involved in leasing and finance, lifeinsurance and mining industries.
- **Others** - principally consists of institutions with significant presence in each of its respective markets which include stock brokerage and real estate. This also includes non-interest income and expenses managed on a group basis that are not allocated to operating segments.

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

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



The following tables present revenue and income information of the Group's operating segments measured in accordance with PFRS as of and for the years ended December 31, 2017, 2016 and 2015:

	2017							
	Financial Markets	Investment Banking	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
<b>Results of Operations</b>								
Net interest income	₱356,630,860	₱—	₱130,405,196	₱—	₱37,982,318	₱525,018,374	₱—	₱525,018,374
Non-interest income	323,439,049	306,991,141	1,899,241,100	—	883,799,616	3,413,470,906	—	3,413,470,906
Total revenue	680,069,909	306,991,141	2,029,646,296	—	921,781,934	3,938,489,280	—	3,938,489,280
Intersegment income	11,961,327	—	44,605,159	—	217,880,614	274,447,100	(844,017,904)	(569,570,804)
Revenue - net of interest expense	692,031,236	306,991,141	2,074,251,455	—	1,139,662,548	4,212,936,380	(844,017,904)	3,368,918,476
Non-interest expense	192,218,991	27,826,598	1,536,056,030	—	1,070,858,131	2,826,959,750	(206,586,204)	2,620,373,546
Income before share in net income of subsidiaries, associates, income tax and net income attributable to non-controlling interests	499,812,245	279,164,543	538,195,425	—	68,804,417	1,385,976,630	(637,431,700)	748,544,930
Share in net income of associates	—	—	—	825,870,768	4,003,368	829,874,136	—	829,874,136
Provision for income tax	(244,721,577)	—	(73,650,861)	—	(83,907,804)	(402,280,242)	15,687,301	(386,592,941)
Net income attributable to non-controlling interest	—	—	—	—	(16,880,852)	(16,880,852)	—	(16,880,852)
<b>Net income attributable to the Parent Company</b>	<b>₱255,090,668</b>	<b>₱279,164,543</b>	<b>₱464,544,564</b>	<b>₱825,870,768</b>	<b>(₱27,980,871)</b>	<b>₱1,796,689,673</b>	<b>(₱621,744,399)</b>	<b>₱1,174,945,273</b>
<b>Statement of Financial Position</b>								
Total assets	₱30,397,562,678	—	₱11,422,075,798	₱3,057,747,213	₱9,441,973,516	₱54,319,359,205	(₱722,215,079)	₱53,597,144,126
Total liabilities	28,989,173,755	—	159,686,025	—	2,780,475,131	31,929,334,911	7,571,251,868	39,500,586,779
<b>Other Segment Information</b>								
Capital expenditures	—	—	—	—	38,439,191	38,439,191	—	38,439,191
Deferred tax assets	—	—	—	—	50,269,782	50,269,782	—	50,269,782
Depreciation and amortization	—	—	—	—	80,716,045	80,716,045	—	80,716,045
Provision for impairment and other probable losses	—	—	—	—	641,688	641,688	—	641,688

## 2016

	Financial Markets	Investment Banking	Investment Advisory & Trust*	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations									
Net interest income	₱415,898,189	₱–	₱–	₱159,113,575	₱–	₱22,869,228	₱597,880,992	₱–	₱597,880,992
Non-interest income (loss)	(367,037,418)	626,360,441	2,571,490	(355,656,902)	–	**1,530,662,744	1,436,900,355	–	1,436,900,355
Total revenue	48,860,771	626,360,441	2,571,490	(196,543,327)	–	1,553,531,972	2,034,781,347	–	2,034,781,347
Intersegment income	(8,201,398)	–	13,639,081	16,149,157	–	237,734,044	259,320,884	(269,826,134)	(10,505,250)
Revenue - net of interest expense	40,659,373	626,360,441	16,210,571	(180,394,170)	–	1,791,266,016	2,294,102,231	(269,826,134)	2,024,276,097
Non-interest expense	154,360,257	43,001,227	1,134,740	(123,077,846)	–	1,349,236,763	1,424,655,141	(264,220,089)	1,160,435,052
Income (loss) before share in net income of subsidiaries, associates, income tax and net income attributable to non-controlling interests	(113,700,884)	583,359,214	15,075,831	(57,316,324)	–	442,029,253	869,447,090	(5,606,045)	863,841,045
Share in net income of associates	–	–	–	–	539,036,593	3,819,518	542,856,111	–	542,856,111
Provision for income tax	(291,174,090)	–	–	(82,267,170)	–	(242,429,022)	(615,870,282)	–	(615,870,282)
Net income attributable to non-controlling interest	–	–	–	–	–	(15,444,874)	(15,444,874)	–	(15,444,874)
Net income attributable to the Parent Company	(₱404,874,974)	₱583,359,214	₱15,075,831	(₱139,583,494)	₱539,036,593	₱187,974,875	₱780,988,045	(₱5,606,045)	₱775,382,000
Statement of Financial Position									
Total assets	₱36,406,189,227	₱–	₱–	₱11,157,820,160	₱2,822,126,176	₱6,369,022,142	₱56,755,157,705	(₱1,445,964,497)	₱55,309,193,209
Total liabilities	27,181,158,814	–	–	108,298,644	–	4,931,547,559	32,221,005,017	7,328,848,236	39,549,853,253
Other Segment Information									
Capital expenditures	–	–	–	–	–	38,433,641	38,433,641	–	38,433,641
Deferred tax assets	–	–	–	–	–	38,716,237	38,716,237	–	38,716,237
Depreciation and amortization	–	–	–	–	–	98,201,173	98,201,173	–	98,201,173
Provision for impairment and other probable losses	–	–	–	–	–	64,649,490	64,649,490	–	64,649,490

\*In June 2016, the trust and other fiduciary business of the Group ceased its operations. The total income recognized by the Group from this segment amounted to ₱2.6 million is presented under 'Miscellaneous income'.

\*\*Includes gain from sale of AFS amounting to ₱875.7 million.

	2015								
	Financial Markets	Investment Banking	Investment Advisory & Trust*	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations									
Net interest income	₱465,967,672	₱4,571,111	₱–	₱154,160,083	₱–	₱16,335,168	₱641,034,034	₱–	₱641,034,034
Non-interest income (loss)	(146,267,911)	646,456,972	6,374,688	(195,087,091)	–	419,999,537	731,476,195	–	731,476,195
Total revenue	319,699,761	651,028,083	6,374,688	(40,927,008)	–	436,334,705	1,372,510,229	–	1,372,510,229
Intersegment income	(10,151,510)	–	29,203,170	22,467,835	–	264,532,434	306,051,929	(306,051,929)	–
Revenue – net of interest expense	309,548,251	651,028,083	35,577,858	(18,459,173)	–	700,867,139	1,678,562,158	(306,051,929)	1,372,510,229
Non-interest expense	261,246,090	(45,267,991)	2,490,450	47,766,535	–	1,115,106,194	1,381,341,278	(302,968,556)	1,078,372,722
Income (loss) before share in net income of associates, income tax and net income attributable to non-controlling interests	48,302,161	696,296,074	33,087,408	(66,225,708)	–	(414,239,055)	297,220,880	(3,083,373)	294,137,507
Share in net income (loss) of associates	–	–	–	–	752,409,526	(210,719)	752,198,807	–	752,198,807
Provision for income tax	(383,310,324)	–	–	(25,754,386)	–	(13,408,591)	(422,473,301)	–	(422,473,301)
Net income attributable to non-controlling interest	–	–	–	–	–	(15,649,877)	(15,649,877)	–	(15,649,877)
Net income attributable to the Parent Company	(₱335,008,163)	₱696,296,074	₱33,087,408	(₱91,980,094)	₱752,409,526	(₱443,508,242)	₱611,296,509	(₱3,083,373)	₱608,213,136
Statement of Financial Position									
Total assets	₱45,076,930,782	₱–	₱–	₱13,573,635,196	₱2,987,437,863	₱12,145,836,408	₱73,783,840,249	(₱2,495,419,487)	₱71,288,420,762
Total liabilities	41,989,993,203	–	–	91,086,333	–	1,836,368,795	43,917,448,331	9,086,727,432	53,004,175,763
Other Segment Information									
Capital expenditures	–	–	–	–	–	65,836,643	65,836,643	–	65,836,643
Deferred tax assets	–	–	–	–	–	2,621,194	2,621,194	–	2,621,194
Depreciation and amortization	–	–	–	–	–	102,999,576	102,999,576	–	102,999,576
Recovery from impairment and other probable losses	–	(90,950,087)	–	–	–	(59,217,280)	(150,167,367)	–	(150,167,367)

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

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

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

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

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

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

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

For the years ended December 31, 2017, 2016 and 2015, the Group has a significant customer in its Financial Markets segment, which contributed ₱0.9 billion, ₱0.6 billion and ₱1.3 billion, respectively, to the consolidated revenue.

## 7. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Financial assets at FVPL	<b>₱10,605,469,783</b>	₱9,394,007,104	<b>₱2,141,780,898</b>	₱1,682,890,095
AFS investments	<b>8,187,370,398</b>	6,578,220,391	<b>7,972,946,034</b>	5,772,413,729
HTM investments	<b>14,250,114,946</b>	17,838,843,510	<b>13,381,508,355</b>	17,261,860,578
	<b>₱33,042,955,127</b>	₱33,811,071,005	<b>₱23,496,235,287</b>	₱24,717,164,402

### Financial Assets at FVPL

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

	Consolidated		Parent Company	
	2017	2016	2017	2016
Debt securities:				
Government	<b>₱2,523,918,273</b>	₱1,834,931,408	<b>₱ 1,670,508,377</b>	₱1,361,819,548
Private	<b>162,506,027</b>	622,924,726	<b>162,506,027</b>	321,054,625
	<b>2,686,424,300</b>	2,457,856,134	<b>1,833,014,404</b>	1,682,874,173
Equity securities	<b>7,919,045,483</b>	6,936,135,048	<b>308,766,494</b>	—
Derivative asset	—	15,922	—	15,922
	<b>₱10,605,469,783</b>	₱9,394,007,104	<b>₱2,141,780,898</b>	₱1,682,890,095

HFT securities include fair value gain (loss) of ₱826.3 million, (₱355.5 million) and (₱775.4 million) in 2017, 2016 and 2015, respectively, for the Group, and fair value loss of ₱6.7 million, ₱10.2 million and ₱11.7 million in 2017, 2016 and 2015, respectively, for the Parent Company.

Peso-denominated HFT debt securities bear nominal annual interest rates ranging from 2.1% to 14.4%, 1.6% to 13.0% and from 1.6% to 10.2% in 2017, 2016 and 2015, respectively, for the Group and the Parent Company. US dollar-denominated HFT debt securities bear nominal annual interest rates ranging from 3.7% to 7.4%, from 3.7% to 6.4% and from 4.0% to 9.5% in 2017, 2016 and 2015, respectively, for the Group and the Parent Company.

As of December 31, 2016, peso-denominated HFT debt securities with a total face value of ₱32.0 million, are deposited with BSP for trust operations (Note 28).

Dividends earned from HFT equity securities amounted to ₱128.7 million, ₱110.4 million and ₱184.1 million in 2017, 2016 and 2015, respectively, for the Group, and ₱1.3 million, ₱2.7 million and ₱13.6 million in 2017, 2016 and 2015, respectively, for the Parent Company.

#### AFS Investments

AFS investments consist of the following:

	<b>Consolidated</b>		<b>Parent Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Debt securities (Note 16):				
Government	<b>₱6,671,128,827</b>	₱5,489,052,924	<b>₱6,663,352,431</b>	₱5,464,919,941
Private	<b>136,838,011</b>	709,141,923	<b>49,203</b>	49,091
	<b>6,807,966,838</b>	6,198,194,847	<b>6,663,401,634</b>	5,464,969,032
Equity securities:				
Quoted	<b>1,272,643,658</b>	254,812,728	<b>1,202,784,498</b>	182,231,881
Unquoted	<b>106,759,902</b>	125,212,816	<b>106,759,902</b>	125,212,816
	<b>1,379,403,560</b>	380,025,544	<b>1,309,544,400</b>	307,444,697
	<b>₱8,187,370,398</b>	₱6,578,220,391	<b>₱7,972,946,034</b>	₱5,772,413,729

Peso-denominated AFS debt securities bear nominal annual interest rates ranging from 2.9% to 6.1%, from 2.9% to 8.0%, and from 1.6% to 8.0% in 2017, 2016 and 2015, respectively, for the Group and the Parent Company. Foreign currency-denominated AFS debt securities bear nominal annual interest rates ranging from 3.7% to 6.4% in 2017 and 2016, and from 2.8% to 6.4% in 2015 for the Group and the Parent Company.

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

As of December 31, 2015, unquoted AFS equity investments include the Group's 4.7% ownership interest in Global Business Power Corporation (GBPC) which was sold to GT Capital Holdings, Inc. (GT Capital) for ₱3.3 billion in 2016. As part of the sales agreement, GT Capital reimbursed the Parent Company for the related taxes in connection with the sale of the investment. The taxes reimbursed by the Parent Company amounting to ₱361.5 million was recognized by the Group and the Parent Company in 'Miscellaneous income' (Note 23).

Dividends earned from AFS equity securities amounted to ₱34.3 million, ₱23.8 million and ₱286.6 million in 2017, 2016 and 2015, respectively, for the Group, and ₱34.3 million ₱23.8 million and ₱286.6 million in 2017, 2016 and 2015, respectively, for the Parent Company.

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

	2017		
	Equity Holders of the Parent Company	Non-controlling interest and puttable instruments	Total
Balance at January 1	(₱253,487,934)	(₱5,880,754)	(₱259,368,688)
Net fair value changes during the year on AFS investments, net of tax	(227,352,550)	10,880,945	(216,471,605)
Realized gain (loss) on sale of AFS investments	141,094,335	(4,242,597)	136,851,739
Net change during the year	(86,258,215)	6,638,348	(79,619,867)
Balance at December 31	(₱339,746,149)	₱757,954	(₱338,988,555)

	2016		
	Equity Holders of the Parent Company	Non-controlling interest and puttable instruments	Total
Balance at January 1	(₱18,529,720)	₱1,487,058	(₱17,042,662)
Net fair value changes during the year on AFS investments, net of tax	(699,217,884)	(7,367,783)	(706,585,668)
Realized gain (loss) on sale of AFS investments	464,259,670	(28)	464,259,642
Net change during the year	(234,958,214)	(7,367,812)	(242,326,026)
Balance at December 31	(₱253,487,934)	(₱5,880,754)	(₱259,368,688)

	2015		
	Equity Holders of the Parent Company	Non-controlling interest and puttable instruments	Total
Balance at January 1	₱131,874,512	₱3,752,192	₱135,626,704
Net fair value changes during the year on AFS investments, net of tax	(902,096,698)	27,200,512	(874,896,186)
Reclassification from AFS investment to investment in associate (Note 10)	629,753,613	—	629,753,613
Realized gain (loss) on sale of AFS investments	121,938,853	(29,465,646)	92,473,207
Net change during the year	(150,404,232)	(2,265,134)	(152,669,366)
Balance at December 31	(₱18,529,720)	₱1,487,058	(₱17,042,662)

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

	Parent Company		
	2017	2016	2015
Balance at January 1	(₱302,850,991)	(₱73,000,219)	₱73,851,645
Net fair value changes during the year on AFS investments, net of tax	(243,121,697)	(692,669,236)	(93,214,174)
Realized gain (loss) on sale of AFS investments	146,864,610	462,818,464	(53,637,690)
Net change during the year	(96,257,087)	(229,850,772)	(146,851,864)
Balance at December 31	(₱399,108,078)	(₱302,850,991)	(₱73,000,219)



### HTM Investments

As of December 31, 2017 and 2016, HTM investments consist of government bonds amounting to ₱12.0 billion and ₱15.7 billion, respectively, for the Group, and ₱11.7 billion and ₱15.6 billion, respectively, for the Parent Company and bonds issued by private companies amounting to ₱2.3 billion and ₱2.1 billion, respectively, for the Group and ₱1.7 billion, for the Parent Company.

As of December 31, 2017 and 2016 the unamortized premium related to HTM investments amounted to ₱1.3 billion and ₱1.4 billion, respectively, for the Group and the Parent Company. Effective interest rates on the HTM investments ranges from 2.9% to 3.1% and from 2.1% to 6.4% for the Group and the Parent Company in 2017 and 2016, respectively. HTM investments bear nominal annual interest rates ranging from 2.1% to 14.4%.

### Trading and Securities Gain (Loss)

The composition of trading and securities gain (loss) follows:

	Consolidated		
	2017	2016	2015
Realized gain (loss) from sale of:			
HFT securities	<b>₱1,096,659,590</b>	(₱140,751,885)	₱53,734,290
AFS investments	<b>136,851,739</b>	464,259,642	92,473,207
	<b>1,233,511,329</b>	323,507,757	146,207,497
Changes in fair value of financial instruments at FVPL:			
HFT securities	<b>826,344,878</b>	(355,543,773)	(775,395,303)
Derivative asset	<b>(15,922)</b>	(24,574,194)	(19,864,666)
	<b>826,328,956</b>	(380,117,967)	(795,259,969)
Gain (loss) from increase (decline) in NAV of puttable instruments (Note 17)	<b>(1,260,736,685)</b>	431,180,862	336,488,280
	<b>₱799,103,600</b>	₱374,570,652	(₱312,564,192)

	Parent Company		
	2017	2016	2015
Realized gain (loss) from sale of:			
HFT securities	<b>₱129,484,976</b>	(₱20,158,028)	(₱312,725,680)
AFS investments	<b>146,864,610</b>	462,818,464	53,637,690
	<b>276,349,586</b>	442,660,436	(259,087,990)
Changes in fair value of financial instruments at FVPL:			
HFT securities	<b>(6,688,970)</b>	(10,156,864)	(11,677,135)
Derivative asset	<b>(15,922)</b>	(30,189,497)	(19,864,666)
	<b>(6,704,892)</b>	(40,346,361)	(31,541,801)
	<b>₱269,644,694</b>	₱402,314,075	(₱290,629,791)

### Derivative Financial Instruments

#### *Embedded derivatives from issuance of corporate fixed bonds with call option*

On November 25, 2011, the Parent Company issued fixed corporate bonds amounting to ₱5.0 billion which contain an embedded call option. The call option allows the Parent Company to redeem the bonds at 102.0% of its face value plus accrued interest on any interest period date after November 25, 2015. At the date of inception, the fair value of the embedded call option amounted to ₱55.7 million and ₱56.6 million for the Group and the Parent Company, respectively.

As of December 31, 2017 and 2016, the fair value of the embedded call option amounted to nil and ₱0.02 million, respectively, for the Group and the Parent Company (Note 16).

Details of the Group's and the Parent Company's derivatives follow:

	<b>Consolidated</b>		<b>Parent Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of year				
Derivative asset	<b>₱15,922</b>	₱24,590,116	<b>₱15,922</b>	₱30,205,419
Net changes in fair value of derivatives recognized in statement of income:				
Trading and securities loss	<b>(15,922)</b>	(24,574,194)	<b>(15,922)</b>	(30,189,497)
Balance at end of year				
Derivative asset	<b>₱—</b>	₱15,922	<b>₱—</b>	₱15,922

## 8. Loans and Receivables

This account consists of:

	<b>Consolidated</b>		<b>Parent Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Loans and discounts:				
Corporate lending	<b>₱1,366,817,418</b>	₱1,549,521,772	<b>₱1,366,817,418</b>	₱1,549,521,772
Others	<b>15,374,122</b>	21,103,756	<b>9,933,018</b>	15,988,493
	<b>1,382,191,540</b>	1,570,625,528	<b>1,376,750,436</b>	1,565,510,265
Unquoted commercial papers	<b>834,250,000</b>	810,000,000	<b>485,000,000</b>	487,500,000
Accounts receivable	<b>570,806,753</b>	282,868,161	<b>182,887,958</b>	72,635,511
Accrued interest receivable	<b>199,200,326</b>	272,630,712	<b>187,210,460</b>	253,139,653
Dividends receivable	<b>4,448,584</b>	2,449,748	<b>97,269</b>	35,712
Sales contracts receivable	<b>—</b>	8,479,598	<b>—</b>	8,479,598
Other receivables	<b>136,620,519</b>	16,769,529	<b>—</b>	20,241
	<b>3,127,517,722</b>	2,963,823,276	<b>2,231,946,123</b>	2,387,320,980
Allowance for credit losses (Note 13)	<b>(103,278,250)</b>	(103,020,053)	<b>(72,282,442)</b>	(72,282,442)
	<b>₱3,024,239,472</b>	₱2,860,803,223	<b>₱2,159,663,681</b>	₱2,315,038,538

The following table shows the breakdown of loans and receivables to related parties as of December 31, 2017 and 2016:

	<b>Consolidated</b>		<b>Parent Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Loans and discounts:				
Others	<b>₱37,933,018</b>	₱15,988,493	<b>₱9,933,018</b>	₱15,988,493
Accounts receivable	<b>172,912,716</b>	44,190,788	<b>174,395,303</b>	44,190,788
Accrued interest receivable	<b>1,756,481</b>	2,194,327	<b>132,813</b>	—
	<b>₱212,602,215</b>	₱62,373,608	<b>₱184,461,134</b>	₱60,179,281

As of December 31, 2017 and 2016, none of the total loans and discounts were subject to periodic interest repricing for the Group and the Parent Company. Total loans and discounts earned fixed annual interest rates ranging from 7.5% to 10.8% and from 7.2% to 10.4% in 2017 and 2016, respectively, for the Group and the Parent Company.

#### Unquoted Commercial Papers

This account consists of various debt instruments issued by government-owned or controlled corporations and private corporations. As of December 31, 2017, 2016 and 2015, the nominal annual interest for these securities ranges from 3.5% to 7.4%, 5.9% to 8.9% and from 5.4% to 11.0%, respectively, for the Group, and 7.4%, from 5.9% to 8.9% and from 5.9% to 11.0%, respectively, for the Parent Company.

Unquoted commercial papers earned fixed annual interest rates ranging from 3.5% to 7.4%, from 5.9% to 7.4% and from 5.4% to 8.9% in 2017, 2016 and 2015, respectively, for the Group and the Parent Company.

In 2017, realized loss from sale of unquoted commercial papers amounted to ₱1.3 million and ₱1.7 million for the Group and Parent Company, respectively. No sale of unquoted commercial papers occurred in 2016 and 2015.

#### Accounts Receivable

As of December 31, 2017 and 2016, accounts receivable is comprised mainly of receivables from customers arising from brokerage services rendered by FMSBC and various advances of the Parent Company.

#### Other Receivables

As of December 31, 2017 and 2016, other receivables mainly consists of receivables from clearing house amounting to ₱105.5 million and ₱75.9 million, respectively, which arise from selling transactions of FMSBC for the account of customers.

#### BSP Reporting

As of December 31, 2017 and 2016, the Group and the Parent Company have no secured and unsecured non-performing loans (NPL).

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This applies to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.0% of the total receivable balance.

Receivables are classified as non-performing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and that future payments appear assured.

Restructured receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

Current banking regulations allow banks and non-bank financial intermediaries with quasi-banking functions with no unbooked valuation reserves and capital adjustments to exclude from the non-performing classification those receivables from customers classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued. As of December 31, 2017 and 2016, the Group and the Parent Company have no receivables classified as NPLs.

As of December 31, 2017 and 2016, the Group and the Parent Company have no outstanding restructured loans.

The following table shows the breakdown of loans and discounts, gross of unearned discounts, of the Group and of the Parent Company as to secured and unsecured, and the breakdown of secured loans as to type of security as of December 31, 2017 and 2016 (amounts in thousands).

	Consolidated				Parent Company			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Secured loans:								
Shares of stock	₱816,000	59.0	₱936,000	59.6	₱816,000	59.3	₱936,000	59.8
Chattel	476,570	34.5	536,767	34.2	472,943	34.3	531,722	34.0
Real estate	82,660	6.0	92,061	5.9	82,660	6.0	92,061	5.9
	1,375,230	99.5	1,564,828	99.6	1,371,603	99.6	1,559,783	99.6
Unsecured loans	6,962	0.5	5,798	0.4	5,147	0.4	5,727	0.4
	₱1,382,192	100.0	₱1,570,626	100.0	₱1,376,750	100.0	₱1,565,510	100.0

As of December 31, 2017 and 2016, information on the concentration of credit risk as to industry of the Group's and the Parent Company's loans and discounts follows (amounts in thousands, gross of unearned discounts):

	Consolidated				Parent Company			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial intermediaries	₱816,000	59.0	₱936,000	59.6	₱816,000	59.3	₱936,000	59.8
Electricity, gas and water	550,817	39.9	613,522	39.1	550,817	40.0	613,522	39.2
Private households	15,375	1.1	21,104	1.3	9,933	0.7	15,988	1.0
	₱1,382,192	100.0	₱1,570,626	100.0	₱1,376,750	100.0	₱1,565,510	100.0

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.0% of the total loan portfolio.

## 9. Property and Equipment

The composition of and movements in property and equipment account follow:

	Consolidated							
	2017				2016			
	Leasehold Improvements	Furniture, Fixtures and Equipment	Building	Total	Leasehold Improvements	Furniture, Fixtures and Equipment	Building	Total
<b>Cost</b>								
Balance at beginning of year	₱144,714,069	₱222,322,027	₱4,711,631	₱371,747,727	₱141,908,050	₱211,682,432	₱—	₱353,590,482
Reclassification	—	—	31,816,780	31,816,780	—	—	4,711,631	4,711,631
Acquisitions	7,088,812	31,397,024	11,148,284	49,634,120	2,806,019	18,652,581	—	21,458,600
Disposals	(31,681,002)	(90,793,775)	—	(122,474,777)	—	(8,012,986)	—	(8,012,986)
Balance at end of year	120,121,879	162,925,276	47,676,695	330,723,850	144,714,069	222,322,027	4,711,631	371,747,727
<b>Accumulated depreciation and amortization</b>								
Balance at beginning of year	113,139,389	173,207,518	3,863,560	290,210,467	98,602,186	154,089,218	—	252,691,404
Reclassification	—	—	23,784,597	23,784,597	—	—	3,675,100	3,675,100
Depreciation and amortization	12,657,199	22,798,062	578,371	36,033,632	14,537,203	26,539,038	188,460	41,264,701
Disposals	(26,508,496)	(87,962,164)	—	(114,470,660)	—	(7,420,738)	—	(7,420,738)
Balance at end of year	99,288,092	108,043,416	28,226,528	235,558,036	113,139,389	173,019,058	3,863,560	290,210,467
<b>Net book value at end of year</b>	₱20,833,787	₱54,881,860	₱19,450,167	₱95,165,814	₱31,574,680	₱49,114,509	₱848,071	₱81,537,260

	Parent Company							
	2017				2016			
	Leasehold Improvements	Furniture, Fixtures and Equipment	Building	Total	Leasehold Improvements	Furniture, Fixtures and Equipment	Building	Total
<b>Cost</b>								
Balance at beginning of year	₱111,750,477	₱173,444,796	₱—	₱285,195,273	₱109,395,860	₱169,991,305	₱—	₱279,387,165
Reclassification	—	—	31,816,780	31,816,780	—	—	—	—
Acquisitions	1,720,100	13,825,142	11,148,284	26,693,526	2,354,617	16,285,314	—	18,639,931
Disposals	(31,681,003)	(90,532,776)	—	(122,213,779)	—	(12,831,823)	—	(12,831,823)
Balance at end of year	81,789,574	96,737,162	42,965,064	221,491,800	111,750,477	173,444,796	—	285,195,273
<b>Accumulated depreciation and amortization</b>								
Balance at beginning of year	94,000,113	139,910,629	—	233,910,742	84,643,681	130,204,622	—	214,848,303
Reclassification	—	—	23,784,597	23,784,597	—	—	—	—
Depreciation and amortization	6,836,846	14,619,775	389,911	21,846,532	9,356,432	20,460,304	—	29,816,736
Disposals	(26,508,498)	(87,875,630)	—	(114,384,128)	—	(10,754,297)	—	(10,754,297)
Balance at end of year	74,328,461	66,654,774	24,174,508	165,157,743	94,000,113	139,910,629	—	233,910,742
<b>Net book value at end of year</b>	<b>₱7,461,113</b>	<b>₱30,082,388</b>	<b>₱18,790,556</b>	<b>₱56,334,056</b>	<b>₱17,750,364</b>	<b>₱33,534,167</b>	<b>₱—</b>	<b>₱51,284,531</b>

As of December 31, 2017 and 2016, the gross carrying value of fully depreciated property and equipment that are still in use amounted to ₱135.6 million and ₱144.1 million, respectively, for the Group, and ₱104.2 million and ₱127.7 million, respectively, for the Parent Company.

In 2017, the Parent Company utilized for its own operations condominium units costing ₱31.8 million with accumulated depreciation of ₱23.8 million. In 2016, FMSBC also utilized for its own operations condominium units costing ₱4.71 million with accumulated depreciation of ₱3.68 million. Upon commencement of owner-occupation, the condominium units were reclassified from ‘Investment property’ to ‘Property and equipment’ (Note 11).

The Group and the Parent Company recognized gain from sale of property and equipment amounting to ₱0.7 million, ₱0.06 million and ₱1.7 million in 2017, 2016 and 2015, respectively, booked under ‘Gain on sale of assets’ account in the statements of income.

## 10. Investments in Subsidiaries, Associates and Joint Venture

The consolidated financial statements of the Group include:

Subsidiaries	Principal Activities	Country of Incorporation	Effective Percentage of Ownership	
			2017	2016
First Metro Securities Brokerage Corporation (FMSBC)	Stock Brokerage	The Republic of the Philippines	100.0	100.0
Multi-Currency FX Corp.	Foreign Exchange Trading	-do-	100.0	100.0
PBC Capital Investment Corporation (PBC)	Investment Banking	-do-	100.0	100.0
First Metro Insurance Agency, Inc.	Insurance	-do-	100.0	100.0
First Metro Insurance Brokers Corporation (FMIBC)	-do-	-do-	100.0	100.0
Prima Ventures Development Corporation (PVDC)	Holding Company	-do-	100.0	100.0
FMIC Equities, Inc. (FEI)	Holding Company	-do-	100.0	100.0
SBC Properties, Inc. (SPI)	Real Estate	-do-	100.0	100.0
Resiliency (SPC), Inc. (Resiliency)	Financial Holding Company	-do-	100.0	100.0
First Metro Asia Focus Equity Fund (FMAFEF)*	Mutual Fund	-do-	100.0	100.0
First Metro Save and Learn Dollar Bond Fund, Inc. (FMSLDBF)	-do-	-do-	94.8	94.7

(Forward)

Subsidiaries	Principal Activities	Country of Incorporation	Effective Percentage of Ownership	
			2017	2016
First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPEETF)	Exchange Traded Fund	-do-	38.8	46.2
First Metro Asset Management, Inc. (FAMI)	Asset Management	-do-	70.0	70.0
First Metro Save and Learn Equity Fund, Inc. (FMSALEF)	Mutual Fund	-do-	23.9	24.7
First Metro Save and Learn Balanced Fund, Inc. (FMSALBF)	-do-	-do-	21.4	20.8
First Metro Save and Learn Fixed Income Fund (FMSLFIF)	-do-	-do-	20.4	19.5
One Wealthy Nation Fund, Inc.	-do-	-do-	57.9	—
Paradigm Global Growth Fund (PGGF)	-do-	-do-	70.0	70.0

\* Formerly First Metro Global Opportunity Fund

The Group's percentage ownership in its investment in associates and joint venture follow:

	Effective Percentage of Ownership	
	2017	2016
<b>Associates:</b>		
Cathay International Resources, Corp. (CIRC)	34.7	34.7
Travel Services, Inc. (TSI)	30.0	30.0
Philippine AXA Life Insurance Corporation (PALIC)	28.2	28.2
Skyland Realty Development Corporation (SRDC)	20.0	20.0
Orix Metro Leasing and Finance Corp (OMLFC)	20.0	20.0
Dahon Realty Corporation	20.0	20.0
LCMC	13.5	14.3
<b>Joint Venture:</b>		
Aurora Towers, Inc.	50.0	50.0

The movements on 'Investments in subsidiaries, associates and joint venture' account follow:

	Consolidated			Parent Company		
	2017	2016 (As restated)	2015 (As restated)	2017	2016 (As restated)	2015 (As restated)
<b>Acquisition cost</b>						
Balance at beginning of year	₱2,853,606,081	₱3,217,173,715	₱925,344,963	₱5,563,159,406	₱6,162,385,363	₱3,629,066,910
Additions	235,621,037	—	—	543,816,764	—	257,724,500
Disposals	—	(363,567,634)	—	(413,676,611)	(599,225,957)	(16,234,801)
Reclassification	—	—	2,291,828,752	—	—	2,291,828,754
	3,089,227,118	2,853,606,081	3,217,173,715	5,693,299,559	5,563,159,406	6,162,385,363
<b>Accumulated equity in net earnings</b>						
Balance at beginning of year	2,430,377,631	1,740,229,099	988,030,292	3,348,595,888	2,709,331,230	2,272,865,312
Equity share in net earnings	829,874,136	542,856,111	752,198,807	1,310,702,034	502,477,487	721,703,118
Cash dividends	(281,794,433)	—	—	(302,797,321)	(10,505,250)	(285,237,200)
Disposals	—	147,292,421	—	(194,889,917)	147,292,421	—
Balance at end of year	2,978,457,334	2,430,377,631	1,740,229,099	4,161,610,684	3,348,595,888	2,709,331,230
<b>Equity in net unrealized gain on AFS investments</b>						
Balance at beginning of year	64,521,249	175,054,888	260,044,562	113,884,306	229,525,387	318,067,429
Equity share in changes in fair value of AFS investments	(33,198,236)	(110,533,639)	(84,989,674)	(23,199,364)	(115,641,081)	(88,542,042)
Balance at end of year	31,323,013	64,521,249	175,054,888	90,684,942	113,884,306	229,525,387
<b>Equity in translation adjustment</b>						
Balance at beginning of year	—	(32,658,679)	(44,460,976)	22,254,825	(22,832,321)	(46,049,528)
Share in changes in translation adjustment	—	32,658,679	11,802,297	(1,433,544)	45,087,146	23,217,207
Balance at end of year	—	—	(32,658,679)	20,821,281	22,254,825	(22,832,321)

(Forward)



	Consolidated			Parent Company		
	2017	2016 (As restated)	2015 (As restated)	2017	2016 (As restated)	2015 (As restated)
<b>Equity in remeasurement on insurance reserves</b>						
Balance at beginning of year	(308,373,426)	(317,121,764)	(349,066,585)	(308,373,426)	(317,121,764)	(349,066,585)
Share in changes in remeasurement of insurance reserves	96,688,860	8,748,338	31,9444,821	96,688,860	8,748,338	(330,966,607)
Balance at end of year	(211,684,566)	(308,373,426)	(317,121,764)	(211,684,566)	(308,373,426)	(330,966,607)
<b>Equity in remeasurement of retirement benefits</b>						
Balance at beginning of year	(25,848,204)	(12,849,091)	(4,238,457)	(25,153,358)	(13,246,727)	(16,350,340)
Share in changes in remeasurement of retirement liability	(14,240,849)	(12,999,113)	(8,610,634)	(12,445,373)	(11,906,631)	3,103,613
Balance at end of year	(40,089,053)	(25,848,204)	(12,849,091)	(37,598,731)	(25,153,358)	(13,246,727)
<b>Allowance for impairment losses (Note 13)</b>	—	—	(28,075,229)	—	—	(28,075,229)
	<b>₱5,847,233,845</b>	<b>₱5,014,283,331</b>	<b>₱4,741,752,939</b>	<b>₱9,717,133,174</b>	<b>₱8,714,367,641</b>	<b>₱8,719,965,939</b>

The carrying values of the Group's and the Parent Company's investments in investee companies are shown below:

	Consolidated			Parent Company		
	2017	2016 (As restated)	2015 (As restated)	2017	2016 (As restated)	2015 (As restated)
Carrying value:						
Subsidiaries:						
FMSALEF	₱—	₱—	₱—	₱1,136,497,468	₱1,221,147,405	₱1,322,133,047
PBC	—	—	—	328,409,896	313,845,092	559,424,326
FMPEETFI	—	—	—	472,603,334	324,014,527	319,360,412
FMSALBF	—	—	—	365,202,744	328,631,526	368,684,285
FMSLFIF	—	—	—	399,519,751	424,242,074	419,526,405
FMSLDBF	—	—	—	234,731,667	231,129,911	216,107,501
FMSBC	—	—	—	475,888,438	399,528,669	351,744,035
FMAFEF	—	—	—	160,025,620	158,658,783	151,948,957
SPI	—	—	—	64,509,146	64,347,110	63,881,494
FEI	—	—	—	12,730,009	12,787,722	12,849,484
FAMI	—	—	—	216,661,683	218,258,354	188,652,403
Resiliency	—	—	—	2,608,468	2,707,462	2,824,254
PVDC	—	—	—	29,925,998	23,681,406	20,069,351
FMIBC	—	—	—	2,856,282	2,895,783	2,979,041
	—	—	—	<b>3,902,170,504</b>	<b>3,725,875,824</b>	<b>4,000,184,995</b>
Associates:						
LCMC	₱2,246,530,452	₱2,134,048,023	₱2,254,459,364	₱2,246,530,452	₱2,134,048,023	₱2,254,459,364
PALIC	1,961,107,039	1,506,682,891	1,172,571,531	1,961,107,039	1,506,682,891	1,172,571,531
OMLFC	1,399,159,279	1,146,429,263	928,290,045	1,399,159,279	1,146,429,263	928,290,045
CIRC	208,165,897	201,331,637	208,634,225	208,165,897	201,331,637	208,634,225
FMHC	—	—	155,825,776	—	—	155,825,776
TSI	32,271,175	25,791,514	21,971,995	—	—	—
SRDC	1	1	1	1	1	1
Dahon Realty Corporation	1	1	1	1	1	1
	<b>5,847,233,844</b>	<b>5,014,283,330</b>	<b>4,741,752,938</b>	<b>5,814,962,669</b>	<b>4,988,491,816</b>	<b>4,719,780,943</b>
Joint Venture:						
Aurora Towers, Inc.	1	1	1	1	1	1
	<b>₱5,847,233,845</b>	<b>₱5,014,283,331</b>	<b>₱4,741,752,939</b>	<b>₱9,717,133,174</b>	<b>₱8,714,367,641</b>	<b>₱8,719,965,939</b>

#### *Acquisition of One Wealthy Nation Fund, Inc. by FAMI*

In December 2017, FAMI acquired 57.9% interest in One Wealthy Nation Fund, Inc., a mutual fund company, for ₱34.0 million.

#### *Investment in LCMC*

In July 2015, the Parent Company entered into a collaboration agreement with another investor to jointly vote their 18.6% ownership in LCMC. As such, the Parent Company's 14.3% investment in LCMC was reclassified from 'AFS investment' to an equity investment in an associate presented

under 'Investments in subsidiaries, associates and joint venture'. The Group and the Parent Company recognized investment in associate amounting to ₱2.3 billion at the date of reclassification. The net unrealized loss on the investment amounting to ₱0.6 billion at the date of reclassification was taken out from OCI and reclassified as part of the cost of the investment in associate.

On July 17, 2017, LCMC's Board of Directors approved a 1:4.685 Stock Rights Offering (SRO) of its outstanding shares at a price of ₱0.15 per share. Ex-date and record date were then set to be on October 30, 2017 and November 6, 2017, respectively. FMIC availed of this offering which entitled them into an additional 1.57 billion shares payable on 2 installment terms. Even with the Parent Company's participation in the SRO, the Group's direct ownership in LCMC still dropped to 13.45% due to a private placement of 3.35 billion shares that was listed on October 25, 2017.

As of December 31, 2016 and 2015, the Group's direct ownership in LCMC is 14.3%.

As of December 31, 2017, the fair value of the Group's and the Parent Company's investment in LCMC amounted to ₱1.35 billion. The Group performed an assessment of the recoverability of its investment in LCMC. The recoverable amount of the investment has been determined based on VIU calculations using cash flow projections based on financial budgets approved by LCMC's BOD covering a five-year period, which include forecast on production volume and capital expenditures, among others. For the assumptions on gold and copper price, exchange rate and long-term growth rate, the Group used the available economic, industry and market data. Further, the Group used the associate's weighted average cost of capital (WACC) as the discount rate for the VIU calculation. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

#### *Investment in FMIIC*

On August 11, 2016, FMIIC executed the buy-back of its outstanding shares held by the Group and the Parent Company with a carrying value amounting to ₱216.2 million (after the accumulated equity in net earnings or losses and adjustment on dividends) at a consideration of ₱287.4 million which resulted in a gain of ₱71.2 million for the Group and Parent Company, and is included under 'Miscellaneous income' (Note 23).

The following tables present the financial information of significant associates with classified statements of financial position as of and for the years ended December 31, 2017, 2016, and 2015 (amounts in thousands):

Year	Name of Company	Statement of Financial Position				Statement of Comprehensive Income						
		Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Carrying amount of the investment	Revenue	Costs and Expenses	Net Income (Loss)	Other Comprehensive Loss	Total Comprehensive Income	Share in net earnings for the year
2017	CIRC	₱896,541	₱1,377,633	₱950,440	₱719,002	₱208,166	₱347,078	₱347,479	(₱401)	₱—	(₱401)	(₱139)
	LCMC	1,223,299	8,357,176	1,307,077	1,656,828	2,246,530	1,559,200	2,276,927	(717,727)	—	(717,727)	(107,416)
2016	CIRC	1,012,244	1,455,158	887,392	709,164	201,332	297,599	293,388	3,063	—	3,063	1,064
	LCMC	868,884	8,090,976	1,289,572	1,746,434	2,134,048	1,431,928	2,082,947	(623,830)	—	(623,830)	(89,377)
2015	CIRC	1,158,349	1,464,765	570,279	1,733,406	208,634	291,009	254,474	25,657	—	25,657	8,913
	LCMC	936,671	8,410,418	958,858	2,903,589	2,254,459	1,048,553	1,686,791	(642,367)	—	(642,367)	(37,369)

The following tables present the financial information of significant associates with unclassified statements of financial position as of and for the years ended December 31, 2017, 2016, and 2015 (amounts in thousands):

Year	Name of Company	Statement of Financial Position			Statement of Income			
		Total Assets	Total Liabilities (As restated)	Carrying amount of the investment (As restated)	Gross Income	Operating Income (Loss) (As restated)	Net Income (Loss) (As restated)	Share in net earnings (As restated)
2017	PALIC	₱122,854,874	₱115,759,335	₱2,010,163	₱14,639,181	₱3,203,567	₱2,433,843	₱685,857
	OMLFC	47,756,739	40,680,246	1,399,159	5,748,010	1,807,409	1,278,540	255,708
2016	PALIC	97,299,890	91,440,038	1,652,427	10,087,661	1,783,468	1,129,719	318,355
	OMLFC	36,797,923	30,977,976	1,146,429	4,708,418	1,564,913	1,091,543	218,309
2015	PALIC	79,978,147	74,810,413	1,457,389	7,188,601	1,925,084	1,383,471	390,593
	OMLFC	28,769,661	24,039,663	928,290	4,060,543	1,301,778	892,066	178,378
	FMIIC	920,899	1,394	155,826	5,508	(3,803)	(3,803)	(761)

Major assets of significant associates with unclassified statements of financial position include the following (amounts in thousands):

Year	Name of Company	Cash and cash equivalents	AFS investments	Financial assets at FVPL	Receivables-net of allowance for credit losses	Investment in unit-linked funds	Equipment for lease
2017	PALIC	₱4,617,161	₱11,692,703	₱1,445,046	₱3,747,504	₱62,065	₱521,916
	OMLFC	477,348	926	—	36,383,266	—	2,754,242
2016	PALIC	4,103,683	11,414,488	867,848	2,500,878	48,812	397,353
	OMLFC	468,882	905	—	27,593,205	—	2,497,615
2015	PALIC	4,240,563	8,088,586	1,069,732	783,515	49,997	199,345
	OMLFC	587,595	809	—	21,298,959	—	2,210,481
	FMIIC	883,940	—	—	—	—	—

The Group received dividends from PALIC amounting to ₱281.8 million in 2017.

Aggregate financial information of associates and joint venture that are not individually significant follows:

	2017	2016
<b>Associates</b>		
Statements of Financial Position		
Total assets	₱231,064,657	₱212,151,455
Total liabilities	108,787,240	104,451,126
Statements of Income		
Gross income	67,594,162	79,494,069
Operating income	67,594,162	79,494,069
Net income	14,577,090	7,853,548
<b>Joint Venture</b>		
Statements of Financial Position		
Total assets	12,237,172	12,275,687
Total liabilities	79,927,221	78,401,656
Statements of Income		
Gross income	1,223	1,394
Operating income	1,223	1,394
Net loss	(1,564,080)	(1,518,599)

Unrecognized share of losses of the Group from its investment in Aurora Towers, Inc., a joint venture, amounted to ₱0.8 million in 2017 and 2016.

The cumulative unrecognized share of losses of the Group from its investment in Aurora Towers, Inc. amounted to ₱33.8 million and ₱33.1 million as of December 31, 2017 and 2016, respectively.

FAMI is deemed to have a non-controlling interest that is material to the Group. The proportion of equity interest held by the non-controlling interest is 30.0% as of December 31, 2017 and 2016. The accumulated balance of the non-controlling interest in FAMI as of December 31, 2017 and 2016 amounted to ₱100.6 million and ₱97.2 million, respectively. Profit allocated to non-controlling interest in 2017 and 2016 amounted to ₱16.8 million and ₱15.4 million, respectively.

The following table presents the financial information of FAMI as of and for the years ended December 31, 2017 and 2016 (amounts in thousands):

	2017	2016
<b>Statement of Financial Position</b>		
Cash and other cash items	₱131,789	₱74,621
Financial assets at FVPL	54,748	—
AFS investments	40,717	153,248
HTM investments	—	—
Loans and receivables	20,851	21,395
Other assets	144,734	61,777
Other liabilities	74,498	13,566
Non-controlling interests	100,634	97,502
<b>Statement of Income</b>		
Gross income	232,567	225,612
Operating income	81,513	(73,738)
Net income	56,270	51,785
Net income attributable to non-controlling interests	16,881	15,445
Total comprehensive income	59,399	43,755
<b>Statement of Cash Flows</b>		
Net cash provided by operating activities	₱30,041	52,382
Net cash used in investing activities	8,184	(3,626)
Net cash provided by (used in) financing activities	(30,004)	(15,008)
Net increase in cash and cash equivalents	8,221	33,748
Cash and other cash items at beginning of year	74,621	40,873
Cash and other cash items at end of year	82,843	74,621

Material ownership interest of shareholders outside the Group in mutual fund subsidiaries that issue equity instruments redeemable by the holders at the net asset value per unit of the mutual funds are classified as 'Puttable instruments of mutual fund subsidiaries classified as liability' (Note 17). Movement in the accumulated balances due to changes in the net asset value per unit of the mutual funds are recognized in as trading gains (losses).

#### **Limitation on dividend declaration of subsidiaries and associates**

##### *PALIC*

Section 195 of the Insurance Code provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and
- a sum sufficient to pay all net lossess reported or in the course of settlement and all liabilities for expenses and taxes

As of December 31, 2017 and 2016, the Parent Company has no share on commitments and contingencies of its associates and joint venture.

As of December 31, 2017 and 2016, there were no guarantees or other requirements entered into by the subsidiaries of the Parent Company that may restrict dividends and other capital distributions to be paid, or loans and advances to be made or repaid to or from other entities within the Group.

## 11. Investment Properties

The composition of and movements in this account for the Group and the Parent Company follow:

	Consolidated and Parent Company					
	2017			2016		
	Land	Building/land improvements/condominium for sale/lease	Total	Land	Building/land improvements/condominium for sale/lease	Total
<b>Cost</b>						
Balances at beginning of year	₱319,769,938	₱116,196,276	₱435,966,214	₱331,287,738	₱120,907,907	₱452,195,645
Reclassification	—	(31,816,780)	(31,816,780)	—	(4,711,631)	(4,711,631)
Disposals	(1,482,000)	(14,441,264)	(15,923,264)	(11,517,800)	—	(11,517,800)
Balances at end of year	318,287,938	69,938,232	388,226,170	319,769,938	116,196,276	435,966,214
<b>Accumulated depreciation</b>						
Balances at beginning of year	—	78,152,463	78,152,463	—	78,109,816	78,109,816
Depreciation	—	3,115,595	3,115,595	—	3,906,207	3,906,207
Reclassification	—	(23,784,597)	(23,784,597)	—	(3,863,560)	(3,863,560)
Disposal	—	(10,600,320)	(10,600,320)	—	—	—
Balances at end of year	—	46,883,141	46,883,141	—	78,152,463	78,152,463
Allowance for impairment losses (Note 13)	(26,857,422)	—	(26,857,422)	(27,110,922)	—	(27,110,922)
<b>Net book value at end of year</b>	<b>₱291,430,516</b>	<b>₱23,055,091</b>	<b>₱314,485,607</b>	<b>₱292,659,016</b>	<b>₱38,043,813</b>	<b>₱330,702,829</b>

The aggregate fair value of investment properties as of December 31, 2017 and 2016 amounted to ₱840.6 million and ₱986.5 million, respectively, for the Group and Parent Company (Note 5).

In 2017, 2016 and 2015, the Group and the Parent Company recognized gain (loss) from the disposal of investment properties amounting to ₱32.4 million, (₱0.02 million) and (₱28.7 million), respectively, booked under 'Gain (loss) on sale of assets' accounts in the statements of income.

Rental income from investment properties in 2017, 2016 and 2015 amounted to ₱4.6 million, ₱11.3 million and ₱11.8 million respectively, for the Group and ₱4.6 million, ₱11.3 million and ₱11.3 million, respectively for the Parent Company (Note 23).

Reclassification to 'Property and equipment' resulted from owner occupation of condominium units by the Parent Company in 2017 and by FMSBC in 2016 (Note 9).

Direct operating expenses on investment properties that generated rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to ₱0.9 million, ₱3.5 million and ₱4.6 million in 2017, 2016 and 2015, respectively. Direct operating expenses on investment properties that did not generate rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to ₱3.7 million, ₱4.1 million and ₱4.2 million in 2017, 2016 and 2015, respectively.

## 12. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Creditable withholding tax	₱444,651,506	₱405,661,302	₱340,783,061	₱334,576,948
Escrow account	240,526,977	—	240,526,977	—
Retirement asset (Note 22)	79,768,607	46,105,998	74,299,995	39,807,713

(Forward)



	Consolidated		Parent Company	
	2017	2016	2017	2016
Prepaid expenses	48,697,027	35,988,576	34,046,829	27,315,047
Software licenses	46,721,440	69,041,624	34,413,237	58,430,611
Other investments	25,789,380	25,879,380	25,789,380	25,879,380
Tax credit certificates	5,230,784	6,474,605	5,230,784	6,474,605
Goodwill	445,000	456,153	—	—
Miscellaneous (Note 27)	110,225,401	27,858,699	13,009,447	14,263,278
	<b>₱1,002,056,122</b>	<b>₱617,466,337</b>	<b>₱768,099,710</b>	<b>₱506,747,582</b>

Movements in software licenses follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
<b>Cost</b>				
Balance at beginning of year	₱245,748,413	₱233,485,003	₱213,216,500	₱201,485,291
Additions	19,246,634	12,263,410	12,588,239	11,731,209
Balance at end of year	264,995,047	245,748,413	225,804,739	213,216,500
<b>Accumulated amortization</b>				
Balance at beginning of year	176,706,789	123,676,524	154,785,889	107,385,614
Amortization (Note 25)	41,566,818	53,030,265	36,605,613	47,400,275
Balance at end of year	218,273,607	176,706,789	191,391,502	154,785,889
<b>Net book value at end of year</b>	<b>₱46,721,440</b>	<b>₱69,041,624</b>	<b>₱34,413,237</b>	<b>₱58,430,611</b>

Creditable withholding taxes arise from income such as service charges, fees and commissions, interest income and rental income, in which customers are required to withhold taxes.

In July 2017, the Parent Company deposited ₱318.08 million in escrow, pertaining to unclaimed money balances of customers. As of December 31, 2017, the balance in the escrow fund amounted to ₱240.53 million.

Prepaid expenses consist of prepaid taxes (i.e., real estate tax, documentary stamp tax) and other prepaid expenses (i.e., licenses, insurance and membership fees).

Miscellaneous assets include unused office supplies and rental and other deposits.

### 13. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balance at beginning of year				
Loans and receivables	₱103,020,053	₱104,818,134	₱72,282,442	₱72,907,522
Investment properties	27,110,922	29,081,072	27,110,922	29,081,072
Investments in associates	—	28,075,229	—	28,075,229
Other assets	8,446,506	8,446,506	8,446,506	8,446,506
	138,577,481	170,420,941	107,839,870	138,510,329
Provision for (recovery from)				
impairment and credit losses	4,697	(31,843,460)	(253,500)	(30,670,459)
Balance at end of year				
Loans and receivables (Note 8)	₱103,278,250	₱103,020,053	₱72,282,442	₱72,282,442
Investment properties (Note 11)	26,857,422	27,110,922	26,857,422	27,110,922
Other assets	8,446,506	8,446,506	8,446,506	8,446,506
	<b>₱138,582,178</b>	<b>₱138,577,481</b>	<b>₱107,586,370</b>	<b>₱107,839,870</b>

Below is the breakdown of the provision for (recovery from) impairment and other probable losses in 2017, 2016 and 2015:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
<b>Provision for (recovery from) impairment and credit losses</b>						
Loans and receivables	<b>₱258,197</b>	(₱1,798,081)	(₱184,399,742)	<b>₱–</b>	(₱625,080)	(₱182,573,970)
Investment in associates	–	(28,075,229)	–	–	(28,075,229)	–
Investment properties	<b>(253,500)</b>	(1,970,150)	(29,839,149)	<b>(253,500)</b>	(1,970,150)	(29,839,149)
Other assets	–	–	244,652	–	–	244,652
	<b>4,697</b>	(31,843,460)	(213,994,239)	<b>(253,500)</b>	(30,670,459)	(212,168,467)
<b>Provision (reversal of provisions) for other probable losses (Note 29)</b>	<b>1,605,361</b>	96,492,950	63,826,872	<b>1,863,558</b>	96,526,672	63,523,884
	<b>₱1,610,058</b>	₱64,649,490	(₱150,167,367)	<b>₱1,610,058</b>	₱65,856,213	(₱148,644,583)

With the foregoing level of allowance for impairment and other credit losses, management believes that the Group and the Parent Company have sufficient allowance to cover any losses that the Group and the Parent Company may incur from the noncollection or nonrealization of receivables and other risk assets.

A reconciliation of the allowance for credit losses on loans and receivables by class follows:

	Consolidated		
	2017		
	Corporate lending	Accounts receivable	Total
At January 1, 2017	<b>₱28,091,653</b>	<b>₱74,928,400</b>	<b>₱103,020,053</b>
Provision for (recovery from) credit losses	<b>(4,250)</b>	<b>262,447</b>	<b>258,197</b>
At December 31, 2017	<b>₱28,087,403</b>	<b>₱75,190,847</b>	<b>₱103,278,250</b>
Individual impairment	<b>₱–</b>	<b>₱75,190,847</b>	<b>₱75,190,847</b>
Collective impairment	<b>28,087,403</b>	<b>–</b>	<b>28,087,403</b>
	<b>₱28,087,403</b>	<b>₱75,190,847</b>	<b>₱103,278,250</b>
Gross amount of loans and receivables individually determined to be impaired	<b>₱–</b>	<b>₱170,746,673</b>	<b>₱170,746,673</b>

	Consolidated		
	2016		
	Corporate lending	Accounts receivable	Total
At January 1, 2016	<b>₱28,720,983</b>	<b>₱76,097,151</b>	<b>₱104,818,134</b>
Recovery from credit losses	<b>(629,330)</b>	<b>(1,168,751)</b>	<b>(1,798,081)</b>
At December 31, 2016	<b>₱28,091,653</b>	<b>₱74,928,400</b>	<b>₱103,020,053</b>
Individual impairment	<b>₱–</b>	<b>₱74,928,400</b>	<b>₱74,928,400</b>
Collective impairment	<b>28,091,653</b>	<b>–</b>	<b>28,091,653</b>
	<b>₱28,091,653</b>	<b>₱74,928,400</b>	<b>₱103,020,053</b>
Gross amount of loans and receivables individually determined to be impaired	<b>₱–</b>	<b>₱79,808,339</b>	<b>₱79,808,339</b>

	Parent Company		
	2017		
	Corporate lending	Accounts receivable	Total
At January 1, 2017	<b>₱28,091,653</b>	<b>₱44,190,789</b>	<b>₱72,282,442</b>
Provision for (recovery from) credit losses	<b>(4,250)</b>	<b>4,250</b>	<b>–</b>
At December 31, 2017	<b>₱28,087,403</b>	<b>₱44,195,039</b>	<b>₱72,282,442</b>
Individual impairment	<b>₱–</b>	<b>₱44,195,039</b>	<b>₱44,195,039</b>
Collective impairment	<b>28,087,403</b>	<b>–</b>	<b>28,087,403</b>
	<b>₱28,087,403</b>	<b>₱44,195,039</b>	<b>₱72,282,442</b>
Gross amount of loans and receivables individually determined to be impaired	<b>₱–</b>	<b>₱44,195,039</b>	<b>₱44,195,039</b>

(Forward)

Parent Company			
2016			
	Corporate lending	Accounts receivable	Total
At January 1, 2016	₱28,720,983	₱44,186,539	₱72,907,522
Provision for (recovery from) credit losses	(629,330)	4,250	(625,080)
At December 31, 2016	₱28,091,653	₱44,190,789	₱72,282,442
Individual impairment	₱—	₱44,190,789	₱44,190,789
Collective impairment	28,091,653	—	28,091,653
	₱28,091,653	₱44,190,789	₱72,282,442
Gross amount of loans and receivables individually determined to be impaired	₱—	₱44,190,789	₱44,190,789

Movements in the allowance for impairment losses on investments in associates, investment properties and other assets follow:

Consolidated				
	Investments in associates	Investment properties	Other assets	Total
At January 1, 2017	₱—	₱27,110,922	₱8,446,506	₱35,557,428
Recovery from credit losses	—	(253,500)	—	(253,500)
At December 31, 2017	₱—	₱26,857,422	₱8,446,506	₱35,303,928
At January 1, 2016	₱28,075,229	₱29,081,072	₱8,446,506	₱65,602,807
Recovery from credit losses	(28,075,229)	(1,970,150)	—	(30,045,379)
At December 31, 2016	₱—	₱27,110,922	₱8,446,506	₱35,557,428

Parent Company				
	Investments in associates	Investment properties	Other assets	Total
At January 1, 2017	₱—	₱27,110,922	₱8,446,506	₱35,557,428
Recovery from credit losses	—	(253,500)	—	(253,500)
At December 31, 2017	₱—	₱26,857,422	₱8,446,506	₱35,303,928
At January 1, 2016	₱28,075,229	₱29,081,072	₱8,446,506	₱65,602,807
Recovery from credit losses	(28,075,229)	(1,970,150)	—	(30,045,379)
At December 31, 2016	₱—	₱27,110,922	₱8,446,506	₱35,557,428

#### 14. Bills Payable

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deposit substitutes:				
Promissory notes issued	₱18,633,399,029	₱14,297,482,889	₱18,830,684,664	₱14,339,982,889
Repurchase Agreement	1,832,343,520	—	1,832,343,520	—
Overnight Borrowing – BSP	3,000,000,000	—	3,000,000,000	—
Interbank call loans	1,500,000,000	—	1,500,000,000	—
Borrowings from other banks (Note 27)	748,950,000	745,800,000	748,950,000	745,800,000
	₱25,714,692,549	₱15,043,282,889	₱25,911,978,184	₱15,085,782,889

Deposit substitutes have maturities of 15-364 days. Peso-denominated deposit substitutes bear annual interest rates ranging from 0.1% to 3.3% in 2017, from 0.1% to 2.9% in 2016 and from 0.1% to 4.5% in 2015. US dollar-denominated deposit substitutes bear annual interest rates ranging from 0.6% to 1.6%, from 0.8% to 1.4% and from 0.8% to 1.6% in 2017, 2016 and 2015, respectively.

Borrowings from other banks represent US dollar-, Euro- and peso-denominated loans. Outstanding borrowings from other banks denominated in US dollar amounted to ₱749.0 million and

₱745.8 million as of December 31, 2017 and 2016, respectively, bearing annual interest rates ranging from 1.7% to 2.5%, from 1.5% to 1.9% and from 1.6% to 2.3% in 2017, 2016 and 2015 respectively.

The following are the carrying values of the investment securities pledged under borrowings from other banks transactions of the Group and the Parent Company:

	2017		2016	
	Pledged securities	Borrowings From other banks	Pledged securities	Borrowings From other Banks
HTM investments (Notes 7 and 33)	<b>₱842,000,000</b>	<b>₱748,950,000</b>	₱1,063,931,997	₱745,800,000

Interbank call loans are short-term borrowings that have terms of 1-5 days and bear annual interests ranging from 2.5% to 3.5%, 2.5%, and from 2.5% to 2.6% in 2017, 2016 and 2015, respectively.

Interest expense on bills payable of the Group and the Parent Company follow (Note 21):

	Consolidated		
	2017	2016	2015
Deposit substitutes:			
Promissory notes issued	<b>₱364,274,912</b>	₱330,777,682	₱586,711,833
Repurchase agreements	<b>3,848,296</b>	—	83,437,500
Borrowings from other banks	<b>20,637,513</b>	17,048,665	35,007,327
Interbank call loans	<b>10,317,569</b>	42,188	39,002,999
Overnight Borrowing - BSP	<b>1,652,778</b>	—	—
	<b>₱400,731,068</b>	₱347,868,535	₱744,159,659

	Parent Company		
	2017	2016	2015
Deposit substitutes:			
Promissory notes issued	<b>₱364,943,659</b>	₱331,457,042	₱587,378,458
Repurchase agreements	<b>3,848,296</b>	—	83,437,500
Borrowings from other banks	<b>20,610,181</b>	16,220,448	35,007,327
Interbank call loans	<b>10,317,569</b>	42,188	39,002,999
Overnight- BSP	<b>1,652,778</b>	—	—
	<b>₱401,372,483</b>	₱347,719,678	₱744,826,284

The Parent Company's deposit substitutes are subject to reserve requirement of 20.0%. As of December 31, 2017 and 2016, the Parent Company's available reserves on these deposits as reported to the BSP amounted to ₱4.4 billion and ₱4.2 billion, respectively, booked under 'Due from BSP' account in the statements of financial position.

As of December 31, 2017 and 2016, the Parent Company is in compliance with the regulations on reserve requirements.

## 15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Financial liabilities:				
Accrued interest payable	<b>₱64,772,708</b>	₱87,422,855	<b>₱65,375,542</b>	₱90,236,083
Accrued other expenses payable	<b>30,011,801</b>	11,984,270	<b>9,179,469</b>	9,172,703
Accrued fees payable	<b>22,380,162</b>	41,341,680	<b>5,990,758</b>	20,794,179

(Forward)

	Consolidated		Parent Company	
	2017	2016	2017	2016
Accrued rent payable	<b>₱2,797,221</b>	₱5,458,022	<b>₱1,233,616</b>	₱4,154,545
Accrued salaries payable	—	9,842,259	—	66,685
	<b>119,961,892</b>	156,049,086	<b>81,779,385</b>	124,424,195
Nonfinancial liabilities:				
Accrued taxes and licenses	<b>15,248,731</b>	9,381,579	<b>15,232,276</b>	7,356,075
Retirement liability (Note 22)	<b>12,355,465</b>	15,560,369	—	—
	<b>27,604,196</b>	24,941,948	<b>15,232,276</b>	7,356,075
	<b>₱147,566,088</b>	₱180,991,034	<b>₱97,011,661</b>	₱131,780,270

The following table shows the breakdown of accrued taxes, interest and other expenses to related parties as of December 31, 2017 and 2016 for the Group and the Parent Company:

	2017	2016
Accrued interest payable	<b>₱1,679,274</b>	₱391,942
Accrued other expenses payable	<b>6,870,714</b>	10,321,463
	<b>₱8,549,989</b>	₱10,713,405

## 16. Bonds Payable

Details of this account follow:

	Consolidated	
	2017	2016
Bonds payable	<b>₱2,920,000,000</b>	₱11,525,045,000
Unamortized (discount) premium	—	885,462
	<b>2,920,000,000</b>	11,525,930,462
Unamortized deferred finance charges	<b>(10,050,107)</b>	(27,432,883)
	<b>₱2,909,949,893</b>	₱11,498,497,579

	Parent Company	
	2017	2016
Bonds payable	<b>₱3,000,000,000</b>	₱12,000,000,000
Unamortized (discount) premium	—	1,797,117
	<b>3,000,000,000</b>	12,001,797,117
Unamortized deferred finance charges	<b>(7,419,326)</b>	(20,077,501)
	<b>₱2,992,580,674</b>	₱11,981,719,616

### *Fixed Rate Corporate Bonds Due 2017 and 2019*

On August 10, 2012, the Parent Company issued ₱7.0 billion fixed rate corporate bonds. The bonds have two tenors:

- ₱4.0 billion worth of bonds have a tenor of five years and three months at an interest rate of 5.50% which matured on November 10, 2017 (Five Year Bonds), and
- ₱3.0 billion worth of bonds have a tenor of seven years at an interest rate of 5.75% which will mature on August 10, 2019 (Seven Year Bonds).

The Parent Company shall pay interest on the outstanding principal amount of the bonds on each quarterly interest payment date. All payments of interest shall be computed on the basis of 30/360 days.

The Bonds are scripless in form and sold in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth and fifth anniversary of the issue date of the Five Year Bonds and Seven Year Bonds, respectively, at 102.0% of its face value plus accrued interest.

The Bonds are exempt securities pursuant to certain provisions of the SRC and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 102.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%.

As of December 31, 2017 and 2016, the carrying amount of the government securities assigned as collateral for the ₱3.0 billion and ₱7.0 billion bonds, respectively, follows:

	2017	2016
AFS investments (Notes 7)	<b>₱858,291,779</b>	₱862,523,326
HTM investments (Notes 7)	<b>2,599,602,264</b>	6,580,208,791
	<b>₱3,457,894,043</b>	₱7,442,732,117

As of December 31, 2017 and 2016, the Parent Company had complied with the terms of the issue.

In 2017, 2016 and 2015, the amount of interest expense recognized on the Bonds amounted to ₱357.7 million, ₱380.5 million and ₱383.5 million, respectively, for the Group, and ₱372.6 million, ₱404.3 million and ₱401.5 million, respectively, for the Parent Company, which includes amortization of premium and deferred finance charges amounting to ₱14.9 million, ₱10.5 million and ₱10.8 million, respectively, for the Group and ₱11.4 million, ₱9.5 million and ₱9.1 million, respectively, for the Parent Company.

#### *Fixed Rate Corporate Bonds Due 2017*

On November 25, 2011, the Parent Company issued fixed rate corporate bonds (the Bonds) amounting to ₱5.0 billion with fixed interest rate of 5.7% per annum computed based on 30/360 days, payable every quarter starting February 25, 2012. These bonds have matured last February 25, 2017.

The Bonds are scripless in form and sold in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth anniversary of the issue date of the Bonds at 102.0% of its face value plus accrued interest. At initial transaction date, the Parent Company assessed that the prepayment option qualified for bifurcation. As a result, the Group and the Parent Company initially recognized ₱55.7 million derivative asset (Note 7).

The Bonds are exempt securities pursuant to certain provisions of the SRC and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 100.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%.



As of December 31, 2016, the carrying amount of the government securities assigned as collateral follows:

	2016	
	Pledged securities	Bonds payable
HTM investments (Notes 7 and 33)	₱5,137,902,281	₱5,000,000,000

As of December 31, 2017 and 2016, the Parent Company had complied with the terms of the issue.

In 2017, 2016 and 2015, the amount of interest expense recognized on the Bonds amounted to ₱42.2 million, ₱280.8 million and ₱276.0 million, respectively, for the Group, and ₱42.2 million, ₱282.5 million and ₱283.8 million, respectively, for the Parent Company, net of amortization of premium and deferred finance charges amounting to ₱0.3 million, ₱1.9 million and ₱2.2 million, respectively, for the Group, and ₱0.4 million, ₱1.3 million and ₱2.2 million, respectively, for the Parent Company.

The Parent Company's bonds payable are subject to reserve requirement of 6.0%.

As of December 31, 2017 and 2016, the Parent Company's available reserves on the bonds payable amounted to ₱0.2 billion and ₱0.7 billion, respectively, booked under 'Due from BSP' account in the statements of financial position.

As of December 31, 2017 and 2016, the Parent Company is in compliance with the regulations on reserve requirements.

## 17. Puttable Instruments of Mutual Fund Subsidiaries Classified as Liability and Other Liabilities

The Parent Company has mutual fund subsidiaries that issue shares of stock that are redeemable by the holders at the net asset value per unit of the mutual funds. 'Puttable instruments of mutual fund subsidiaries classified as liability' carried at fair value through profit or loss represents the ownership interest of other shareholders outside the Group in these mutual fund subsidiaries. As of December 31, 2017 and 2016, the balances amounted to ₱8,002.0 million and ₱7,942.6 million, respectively. The changes in the net asset value per unit of the puttable instruments recognized in 'Trading and securities gain (loss)' in the statement of income amounted to (₱1,260.7 million), ₱431.2 million and ₱336.5 million in 2017, 2016 and 2015, respectively.

Other liabilities consist of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Financial liabilities:				
Dividends payable	₱90,666,163	₱3,064,192,676	₱90,666,163	₱3,064,192,676
Payables for securities purchased	74,327,656	1,436,894	—	—
Premiums payable	814,837	846,934	461,985	487,660
Subscriptions payable	—	—	9,375,000	9,375,000
Miscellaneous	63,259,788	46,531,133	62,945,977	46,387,757
	229,068,444	3,113,007,637	163,449,125	3,120,443,093

(Forward)

	Consolidated		Parent Company	
	2017	2016	2017	2016
Nonfinancial liabilities:				
Withholding taxes payable	₱25,999,065	₱29,795,812	₱18,984,754	₱23,658,680
Other deferred credits	4,270,834	4,270,833	4,270,833	4,270,833
Miscellaneous (Note 29)	211,028,681	135,518,640	122,811,508	110,080,417
	241,298,580	169,585,285	146,067,095	138,009,930
	₱470,367,024	₱3,282,592,922	₱309,516,220	₱3,258,453,023

## 18. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Group and of the Parent Company by expected maturity and settlement dates as of December 31, 2017 and 2016:

	Consolidated			Parent Company		
	2017			2017		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
<b>Financial Assets</b>						
Cash and other cash items	₱5,320,741,050	₱–	₱5,320,741,050	₱2,233,603,832	₱–	₱2,233,603,832
Due from BSP	4,399,997,307	–	4,399,997,307	4,399,997,307	–	4,399,997,307
Interbank loans receivable	500,000,000	–	500,000,000	500,000,000	–	500,000,000
Financial assets at FVPL	10,605,469,783	–	10,605,469,783	2,141,780,898	–	2,141,780,898
AFS investments	–	8,319,144,383	8,319,144,383	–	7,974,279,438	7,974,279,438
HTM investments	3,965,337,936	10,284,777,010	14,250,114,946	3,940,418,443	9,441,089,912	13,381,508,355
Loans and receivables - at gross (Note 8)	1,060,693,569	2,066,824,153	3,127,517,722	370,858,763	1,861,087,360	2,231,946,123
	25,852,239,645	20,670,745,546	46,522,985,191	13,586,659,243	19,276,456,710	32,863,115,953
<b>Nonfinancial Assets</b>						
Property and equipment	–	95,354,274	95,354,274	–	56,334,056	56,334,056
Investments in subsidiaries, associates and joint venture - at gross of allowance for impairment (Note 10)	–	5,847,233,846	5,847,233,846	–	9,717,133,174	9,717,133,174
Investment properties - at gross of allowance for impairment (Note 11)	–	341,154,569	341,154,569	–	341,154,569	341,154,569
Deferred tax assets	–	50,269,782	50,269,782	–	24,694,682	24,694,682
Other assets	493,348,533	517,154,095	1,010,502,628	374,829,889	401,716,329	776,546,218
	493,348,533	6,851,166,566	7,344,515,099	374,829,889	10,541,032,810	10,915,862,699
Allowance for impairment and credit losses (Note 13)	–	(270,356,164)	(270,356,164)	–	(108,919,775)	(108,919,776)
	₱26,345,588,178	₱27,251,555,948	₱53,597,144,126	₱13,961,489,132	₱29,817,489,520	₱43,670,058,876
<b>Financial Liabilities</b>						
Bills payable	₱25,714,692,549	₱–	₱25,714,692,549	₱25,911,978,184	₱–	₱25,911,978,184
Accounts payable	2,195,069,559	–	2,195,069,559	346,182,703	–	346,182,703
Accrued interest and other expenses payable (Note 15)	119,961,892	–	119,961,892	81,779,385	–	81,779,385
Bonds payable	–	2,909,949,893	2,909,949,893	–	2,992,580,674	2,992,580,674
Puttable instruments of mutual fund subsidiaries classified as liability (Note 17)	8,002,041,695	–	8,002,041,695	–	–	–
Other liabilities (Note 17)	229,068,444	–	229,068,444	163,449,125	–	163,449,125
	36,260,834,139	2,909,949,893	39,170,784,032	26,503,389,397	2,992,580,674	29,495,970,071
<b>Nonfinancial Liabilities</b>						
Accrued taxes and other expenses payable (Note 15)	15,248,731	12,355,465	27,604,196	15,232,276	–	15,232,276
Income taxes payable	60,699,885	–	60,699,885	16,865,628	–	16,865,628
Deferred tax liabilities	–	200,086	200,086	–	–	–
Other liabilities (Note 17)	237,027,746	4,270,834	241,298,580	141,796,262	4,270,833	146,067,095
	312,976,362	16,826,385	329,802,747	173,894,166	4,270,833	178,164,999
	₱36,573,810,501	₱2,926,776,278	₱39,500,586,779	₱26,677,283,563	₱2,996,851,507	₱29,674,135,070

	Consolidated			Parent Company		
	2016			2016		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
<b>Financial Assets</b>						
Cash and other cash items	₱3,104,612,987	₱–	₱3,104,612,987	₱397,697,510	₱–	₱397,697,510
Due from BSP	7,231,151,183	–	7,231,151,183	7,231,151,183	–	7,231,151,183
Interbank loans receivable	2,218,848,817	–	2,218,848,817	2,218,848,817	–	2,218,848,817
Financial assets at FVPL	9,394,007,104	–	9,394,007,104	1,682,890,095	–	1,682,890,095
AFS investments	44,418,315	6,665,576,061	6,709,994,376	32,071,688	5,741,675,444	5,773,747,132
HTM investments	4,808,955,113	13,029,888,397	17,838,843,510	4,808,955,113	12,452,905,465	17,261,860,578
Loans and receivables - at gross (Note 8)	575,493,346	2,388,329,930	2,963,823,276	326,494,193	2,060,826,787	2,387,320,980
	27,377,486,865	22,083,794,388	49,461,281,253	16,698,108,599	20,255,407,696	36,953,516,295
<b>Nonfinancial Assets</b>						
Property and equipment	–	81,725,720	81,725,720	–	51,284,531	51,284,531
Investments in subsidiaries, associates and joint venture - at gross of allowance for impairment (Note 10)	–	5,014,283,331	5,014,283,331	–	8,860,112,130	8,860,112,130
Investment properties - at gross of allowance for impairment (Note 11)	–	357,625,291	357,625,291	–	357,625,291	357,625,291
Deferred tax assets	–	38,716,237	38,716,237	–	38,128,043	38,128,043
Other assets	441,649,878	184,262,966	625,912,844	361,891,995	153,302,094	515,194,089
	441,649,878	5,676,613,545	6,118,263,423	361,891,995	9,314,707,602	9,676,599,597
Allowance for impairment and credit losses (Note 13)	–	(270,351,467)	(270,351,467)	–	(109,173,276)	(109,173,276)
	₱27,819,136,743	₱27,490,056,466	₱55,309,193,209	₱17,060,000,594	₱29,460,942,022	₱46,520,942,616
<b>Financial Liabilities</b>						
Bills payable	₱15,043,282,889	₱–	₱15,043,282,889	₱15,085,782,889	₱–	₱15,085,782,889
Accounts payable	1,562,183,048	–	1,562,183,048	374,850,667	–	374,850,667
Accrued interest and other expenses payable (Note 15)	156,049,086	–	156,049,086	124,424,195	–	124,424,195
Bonds payable	8,707,839,274	2,790,658,305	11,498,497,579	8,993,476,257	2,988,243,359	11,981,719,616
Puttable instruments of mutual fund subsidiaries classified as liability (Note 17)	7,942,584,367	–	7,942,584,367	–	–	–
Other liabilities (Note 17)	3,113,007,637	–	3,113,007,637	3,120,443,093	–	3,120,443,093
	36,524,946,301	2,790,658,305	39,315,604,606	27,698,977,101	2,988,243,359	30,687,220,460
<b>Nonfinancial Liabilities</b>						
Accrued taxes and other expenses payable (Note 15)	9,382,579	15,560,369	24,941,948	7,356,075	–	7,356,075
Income taxes payable	30,967,046	–	30,967,046	20,685,481	–	20,685,481
Deferred tax liabilities	–	8,754,368	8,754,368	–	–	–
Other liabilities (Note 17)	165,314,450	4,270,833	169,585,283	133,739,097	4,270,833	138,009,930
	205,663,077	28,585,570	234,248,647	161,780,653	4,270,833	166,051,486
	₱36,730,609,378	₱2,819,243,875	₱39,549,853,253	₱27,860,757,754	₱2,992,514,192	₱30,853,271,946

## 19. Equity

Details of the Parent Company's capital stock as of December 31, 2017 and 2016 follow:

	2017		2016	
	Shares	Amount	Shares	Amount
Common stock - ₱10 par value				
Authorized - 800,000,000 shares				
Issued - 420,869,240 shares				
Issued and paid-up capital	420,869,240	₱4,208,692,400	420,869,240	₱4,208,692,400
Less: treasury shares	48,334,224	2,659,374,435	48,324,508	2,658,509,711
Total issued and outstanding at end of year	372,535,016	₱1,549,317,965	372,544,732	₱1,550,182,689

As of December 31, 2017 and 2016, there are 1,381 and 1,385 shareholders, respectively, of the Parent Company's common shares.

### Acquisition of Treasury Shares

In 2017, 2016 and 2015, the Parent Company bought back 9,716, 36,420 and 20,610, respectively, of its own shares for a total cost of ₱0.9 million, ₱3.2 million and ₱1.8 million, respectively.

### Dividend Declaration

Details of the Parent Company's dividend distribution follow:

Date of Declaration	Dividend		Record Date	Payment Date
	Per Share	Total Amount		
May 25, 2017	₱7.65	₱2,849,965,777	June 9, 2017	June 23, 2017
December 19, 2016	₱8.06	₱3,002,710,540	December 29, 2016	January 12, 2017

### Capital Management

The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure attuned to the changes in economic conditions and the risk characteristics of its activities. The Group may adjust the amount of dividend payments to shareholders or issue capital securities in order to maintain or adjust its capital structure.

### Regulatory Qualifying Capital

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

Effective January 1, 2014, the Group complied with 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 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

Basel III also requires that existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital. In addition, capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals) and before the effectivity of BSP Circular No. 781, are recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The details of CAR, as reported to the BSP, as of December 31, 2017 and 2016, respectively, follow (in millions):

	Consolidated		Parent Company	
	2017	2016	2017	2016
CET 1 capital	<b>₱16,659.4</b>	₱18,432.4	<b>₱16,659.4</b>	₱18,432.4
Less: Required deductions	<b>13,855.5</b>	11,598.4	<b>14,150.1</b>	12,072.4
Net Tier 1 capital	<b>2,803.9</b>	6,834.0	<b>2,509.3</b>	6,360.0
Tier 2 capital	<b>57.6</b>	50.0	<b>56.3</b>	43.3
Total qualifying capital	<b>₱2,861.5</b>	₱6,884.0	<b>₱2,565.6</b>	₱6,403.3

(Forward)

	Consolidated		Parent Company	
	2017	2016	2017	2016
Credit risk-weighted assets	<b>₱6,642.5</b>	₱4,995.5	<b>₱5,629.9</b>	₱4,318.9
Market risk-weighted assets	<b>714.0</b>	425.7	<b>689.2</b>	425.9
Operational risk-weighted assets	<b>2,625.1</b>	3,416.4	<b>2,223.4</b>	3,018.9
Total risk-weighted assets	<b>₱9,981.6</b>	₱8,837.6	<b>₱8,542.5</b>	₱7,763.7
CET 1 ratio*	<b>28.1%</b>	77.3%	<b>29.4%</b>	81.9%
*Capital conservation buffer	<b>22.1%</b>	71.3%	<b>23.4%</b>	75.9%
Tier 1 capital ratio	<b>28.1%</b>	77.3%	<b>29.4%</b>	81.9%
Total capital ratio	<b>28.7%</b>	77.9%	<b>30.0%</b>	82.5%

CET 1, Tier 1 and Total Capital Ratio are computed by dividing the CET 1 Capital, Tier 1 Capital and Total Qualifying Capital, respectively, by the Total Risk Weighted Assets. Capital Conservation Buffer is computed by deducting the required 6.0% CET 1 ratio from the actual CET 1 ratio.

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, surplus including current year profit, surplus reserves, net unrealized gains or losses on AFS securities, cumulative foreign currency translation) and other comprehensive income (equity share on decline in value of investment securities of investees and unrealized loss on remeasurement of retirement obligation) less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI), subsidiaries and affiliates, deferred tax assets, other intangible assets, defined benefit pension fund assets and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital which includes general loan loss provision.

The RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

As of December 31, 2017 and 2016, the Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products.

Standardized credit risk weights were used in the credit assessment of asset exposures. Credit risk rating assessments from Moodys, Fitch and PhilRatings are applied for cash on hand, while assessment from PhilRatings are applied for the investment exposures. The eligible credit risk mitigants are investments with guarantees from the Government.

Operational RWA are computed using the Basic Indicator Approach.

The Group and its individual regulated operations have complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that the appropriate level and quality of capital is maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit,

market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory edicts. The Group follows the Metrobank Group's ICAAP framework and submits the result of its assessment to the Ultimate Parent Company. The BSP requires submission of ICAAP documents on a group-wide basis every January 31. The Group, through the Ultimate Parent Company, has complied with the requirement.

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

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following the BSP guidelines.

In the consolidated financial statements, a portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates amounting to ₱4.0 billion and ₱3.2 billion as of December 31, 2017 and 2016, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

#### Minimum Capital Requirement

As required by the 'Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered as Underwriters of Securities', investment houses shall have a minimum initial paid-in capital of ₱300.0 million or such amount as the BSP may prescribe at the time of incorporation. Further, BSP requires a ₱200.0 million minimum paid-in capital for investment houses to be established in Metro Manila.

The Parent Company's paid-in capital is ₱3.6 billion, which is above the required externally imposed minimum paid-in capital.

## 20. Interest Income

This account consists of interest income on:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
HTM investments	<b>₱682,788,434</b>	₱762,183,240	₱744,827,600	<b>₱650,826,799</b>	₱744,382,122	₱726,945,282
AFS investments	<b>231,883,025</b>	219,456,065	592,978,134	<b>207,479,989</b>	185,333,147	563,186,986
Loans and receivables	<b>197,986,340</b>	241,538,670	354,073,727	<b>178,041,850</b>	223,016,827	327,272,259
Financial assets at FVPL	<b>115,555,986</b>	127,898,001	306,239,236	<b>77,717,258</b>	84,923,521	251,553,897
IBLR and SPURA	<b>46,461,156</b>	106,982,383	9,935,694	<b>46,461,156</b>	106,982,383	9,935,694
Deposits with banks	<b>37,088,074</b>	46,306,127	12,405,129	<b>200,521</b>	94,928	2,076,163
Due from BSP	<b>13,931,805</b>	102,719,791	24,193,323	<b>13,931,805</b>	102,719,791	24,193,323
	<b>₱1,325,694,820</b>	₱1,607,084,277	₱2,044,652,843	<b>₱1,174,659,378</b>	₱1,447,452,719	₱1,905,163,604



## 21. Interest Expense

This account consists of interest expense on:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Bonds payable (Note 16)	<b>₱399,945,378</b>	₱661,334,750	₱659,459,150	<b>₱414,756,950</b>	₱686,774,317	₱685,312,707
Deposit substitutes (Note 14):						
Promissory notes issued	<b>364,274,912</b>	330,777,682	586,711,833	<b>364,943,659</b>	331,457,042	587,378,458
Repurchase agreements	<b>3,848,296</b>	—	83,437,500	<b>3,848,296</b>	—	83,437,500
Borrowings from other banks (Note 14)	<b>20,637,513</b>	17,048,665	35,007,327	<b>20,610,181</b>	16,220,448	35,007,327
Interbank call loans (Note 14)	<b>10,317,569</b>	42,188	39,002,999	<b>10,317,569</b>	42,188	39,002,999
Borrowings from BSP	<b>1,652,778</b>	—	—	<b>1,652,778</b>	—	—
	<b>₱800,676,446</b>	₱1,009,203,285	₱1,403,618,809	<b>₱816,129,433</b>	₱1,034,493,995	₱1,430,138,991

## 22. Retirement Plans

The Parent Company, FMSBC and FAMI have funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's, FMSBC's and FAMI's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The costs of defined benefit retirement plans as well as the present value of the retirement liability are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining the retirement liability for the defined benefit retirement plans are shown below:

December 31, 2017					
Actuarial Assumptions					
	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	55	7	10.7%	5.0%	5.6%
FMSBC	55	7	9.1%	5.0%	5.7%
FAMI	55	9	9.8%	5.0%	5.8%
December 31, 2016					
Actuarial Assumptions					
	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	55	9	7.6%	5.0%	5.1%
FMSBC	55	10	2.6%	5.0%	5.3%
FAMI	55	9	9.8%	5.0%	5.5%
December 31, 2015					
Actuarial Assumptions					
	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	55	7	12.9%	5.0%	4.4%
FMSBC	55	10	15.6%	5.0%	4.5%
FAMI	55	7	10.4%	5.0%	4.7%

The amounts recognized in the Group's and the Parent Company's statements of financial position follows:

Consolidated												
	January 1, 2017	Net benefit cost				Benefits paid	Remeasurements in other comprehensive income				Contributions paid	December 31, 2017
		Current service cost	Past Service Cost	Net interest	Subtotal		Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Subtotal	
Present value of defined benefit obligation	P275,980,807	P37,260,251	P700,664	P13,518,023	P51,478,938	(P20,662,912)	P-	(P36,685,839)	(P8,125,586)	(P9,413,253)	(P54,224,678)	P-
Fair value of plan assets	(306,526,436)	-	-	(15,236,030)	(15,236,030)	P20,662,912	(7,331,219)	-	-	-	(7,331,219)	(11,763,648)
Net pension asset	(P30,545,629)	P37,260,251	P700,664	(P1,718,007)	P36,242,908	P-	(P7,331,219)	(P36,685,839)	(P8,125,586)	(P9,413,253)	(P61,555,897)	(P11,763,648)
*The Parent Company and FAMI are in a net pension asset position amounting to P74.3 million and P5.5 million, respectively and presented under 'Other Assets' (Note 12). FMSBC is in a net liability position amounting to P12.4 million and presented under 'Accrued Taxes, Interest and Other Expenses' (Note 15).												
Parent Company												
	January 1, 2017	Net benefit cost				Benefits paid	Remeasurements in other comprehensive income				Contributions paid	December 31, 2017
		Current service cost	Net interest	Acquired/ transferred obligation	Subtotal		Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Subtotal	
Present value of defined benefit obligation	P226,533,320	P30,922,469	P10,951,681	P-	P41,874,150	(P19,554,112)	P-	(P37,819,609)	(P6,663,355)	(P9,305,110)	(P53,788,074)	P-
Fair value of plan assets	(266,341,033)	-	(12,985,855)	-	(12,985,855)	(19,554,112)	(4,476,030)	-	-	-	(4,476,030)	(5,116,473)
Net pension asset (Note 12)	(P39,807,713)	P30,922,469	(P2,034,174)	P-	P28,888,295	P-	(P4,476,030)	(P37,819,609)	(P6,663,355)	(P9,305,110)	(P58,264,104)	(P5,116,473)

Consolidated													
Remeasurements in other comprehensive income													
	January 1, 2016	Net benefit cost				Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Subtotal	Contributions paid	December 31, 2016
		Current service cost	Past Service Cost	Net interest	Subtotal								
Present value of defined benefit obligation	₱262,501,999	₱34,177,446	₱4,734,511	₱11,883,594	₱50,795,551	(₱24,789,658)	₱–	(₱1,134,277)	(₱6,071,263)	(₱5,321,545)	(₱12,527,085)	₱–	₱275,980,807
Fair value of plan assets	(260,222,751)	–	–	(11,759,942)	(11,759,942)	24,789,658	8,659,753	–	–	–	8,659,753	(67,993,154)	(306,526,436)
Net pension asset	₱2,279,248	₱34,177,446	₱4,734,511	₱123,652	₱39,035,609	₱–	₱8,659,753	(₱1,134,277)	(₱6,071,263)	(₱5,321,545)	(₱3,867,332)	(₱67,993,154)	(₱30,545,629)

\*The Parent Company and FAMI are in a net pension asset position amounting to ₱39.8 million and ₱6.3 million, respectively and presented under 'Other Assets' (Note 12). FMSBC is in a net liability position amounting to ₱15.6 million and presented under 'Accrued Taxes, Interest and Other Expenses' (Note 15).

Parent Company													
						Remeasurements in other comprehensive income							
Net benefit cost						Return on plan assets	Actuarial changes arising	Actuarial changes arising	Actuarial changes arising				
						(excluding amount included	changes arising	from changes	from changes in				
January 1, 2016	Current service cost	Net interest	Acquired/ transferred obligation	Subtotal	Benefits paid	in net interest)	from experience adjustments	in financial assumptions	from changes in demographic assumptions	Subtotal	Contributions paid	December 31, 2016	
Present value of defined benefit obligation	₱220,943,848	₱28,466,939	₱9,823,776	(₱574,280)	₱37,716,435	(₱24,789,658)	₱–	₱3,685,198	(₱5,026,398)	(₱5,996,105)	(₱7,337,305)	₱–	₱226,533,320
Fair value of plan assets	(227,073,864)	–	(10,118,016)	459,954	(9,658,062)	24,789,658	6,998,910	–	–	–	6,998,910	(61,397,675)	(₱266,341,033)
Net pension asset (Note 12)	(₱6,130,016)	₱28,466,939	(₱294,240)	(₱114,326)	₱28,058,373	₱–	₱6,998,910	₱3,685,198	(₱5,026,398)	(₱5,996,105)	(₱338,395)	(₱61,397,675)	(₱39,807,713)

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair values of plan assets by each class as at the end of the reporting periods are as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	<b>₱15,930,793</b>	₱20,077,955
Equity instruments		
Holding firms	<b>79,407,861</b>	10,615,805
Services	<b>10,854,098</b>	11,998,200
Industrial	<b>5,560,300</b>	4,137,600
Real estate	<b>8,489,147</b>	4,245,148
Others	<b>8,393,040</b>	15,840,230
Debt instruments		
Government securities	<b>139,451,379</b>	182,473,141
Below AAA and not rated private debt securities	<b>34,407,112</b>	36,749,014
Investment in mutual funds/UITF	<b>16,247,972</b>	18,608,025
Loans and receivables		
Interest and other receivables	<b>1,876,026</b>	2,281,911
Other assets	<b>3,460</b>	5,414
	<b>320,621,188</b>	307,032,443
Less: Accrued trust fee payable	<b>424,508</b>	491,575
Other payables	<b>2,259</b>	14,432
Fair value of plan assets	<b>₱320,194,421</b>	₱306,526,436

	<b>Parent Company</b>	
	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	<b>₱9,503,929</b>	₱18,739,132
Equity instruments		
Holding firms	<b>79,407,861</b>	10,615,805
Services	<b>10,830,000</b>	11,998,200
Industrial	<b>2,324,858</b>	4,137,600
Real estate	<b>1,151,000</b>	4,245,148
Others	<b>2,023,703</b>	2,663,300
Debt instruments		
Government securities	<b>123,143,046</b>	167,475,380
Below AAA and not rated private debt securities	<b>31,382,155</b>	33,688,801
Investment in mutual funds/UITF	<b>8,417,476</b>	11,091,243
Loans and receivables		
Interest and other receivables	<b>1,678,143</b>	2,148,351
Other assets	<b>3,460</b>	5,414
	<b>269,865,631</b>	266,808,374
Less: Accrued trust fee payable	<b>498,093</b>	452,909
Other payables	<b>2,259</b>	14,432
Fair value of plan assets	<b>₱269,365,279</b>	₱266,341,033

As of December 31, 2017 and 2016, equity securities included in the plan assets include shares from the Ultimate Parent Company and other related parties amounting to ₱88.9 million and ₱15.1 million, respectively (Note 27).

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

	December 31, 2017			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rates	+1.0% -1.0%	(P237,374,375) 269,615,230	+1.0% -1.0%	(P182,985,051) 208,523,265
Turnover rate	+2.0% -2.0%	247,282,408 (258,202,636)	+2.0% -2.0%	191,007,556 (199,321,089)
Future salary increase rate	+1.0% -1.0%	271,245,446 (235,644,129)	+1.0% -1.0%	209,788,672 (181,639,147)

The Group and the Parent Company expect to contribute ₱6.6 million and nil, respectively, to its defined benefit pension plan in 2018.

The average duration of the defined benefit retirement liability at the end of the reporting period ranges from 10.8 years to 18.3 years for the Group and 10.8 years for the Parent Company.

## 23. Miscellaneous Income (Loss)

This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
<b>Miscellaneous income</b>						
Rental income (Note 24)	₱4,638,480	₱11,305,804	₱11,814,931	₱4,638,480	₱11,305,804	₱11,293,354
Sales load and redemption fees	3,090,899	3,923,736	6,260,611	—	—	—
Trust fee income	—	2,571,490	6,374,688	—	16,210,570	35,577,857
Gain on return of investments (Note 10)	—	71,151,471	—	—	71,151,471	—
Others	33,024,038	367,627,828	8,991,273	10,456,224	365,924,147	3,371,775
	40,753,417	456,580,329	33,441,503	15,094,704	464,591,992	50,242,986
<b>Miscellaneous loss</b>						
Loss from sale/redemption of unquoted commercial papers (Note 8)	(1,330,274)	—	—	(1,660,140)	—	—
	(1,330,274)	—	—	(1,660,140)	—	—
	₱39,423,143	₱456,580,329	₱33,441,503	₱13,434,564	₱464,591,992	₱50,242,986

Others in 2016 include taxes reimbursed by GT Capital amounting to ₱361.5 million related to the sale of investment in GBPC (Note 7).

## 24. Leases

### *Operating Lease Commitments - Group as Lessee*

The Subsidiaries lease the premises they occupy. Lease contracts are for periods ranging from two to five years and are renewable upon mutual agreement of parties. Annual lease payments are generally fixed. The Parent Company also leased its premises until it transferred to its own office unit in October 2017. In 2017, 2016 and 2015, rent expense recognized under 'Rent, light and water expenses' in the statements of income amounted to ₱59.7 million, ₱71.5 million and ₱62.5 million, respectively, for the Group, and ₱39.4 million, ₱52.9 million and ₱45.7 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancellable operating leases of the Group as of December 31, 2017 and 2016 follow:

	2017	2016
Within one year	<b>₱16,684,670</b>	₱43,490,970
After one year but not more than five years	–	22,421,162
	<b>₱16,684,670</b>	<b>₱65,912,132</b>

## 25. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Professional fees	<b>₱77,427,362</b>	₱80,133,929	₱68,705,854	<b>₱39,356,513</b>	₱32,797,833	₱32,634,637
Advertising	<b>42,610,292</b>	18,572,553	14,646,239	<b>5,629,747</b>	3,739,159	2,863,746
Amortization of software cost (Note 12)	<b>41,566,818</b>	53,030,265	52,571,405	<b>36,605,613</b>	47,400,275	47,447,465
Transfer and exchange fees	<b>39,870,007</b>	36,534,967	39,779,295	<b>10,434,035</b>	13,272,430	15,578,255
Communication	<b>34,416,129</b>	40,484,909	38,187,715	<b>28,072,939</b>	28,548,953	30,153,681
Online trading fees	<b>28,420,327</b>	22,379,092	17,553,524	–	–	–
Information technology expenses	<b>20,550,762</b>	16,133,238	21,508,702	<b>13,393,637</b>	12,253,491	18,663,870
Security, messengerial and janitorial	<b>18,383,812</b>	19,975,660	27,918,801	<b>12,033,405</b>	13,096,370	20,757,044
Insurance	<b>18,210,656</b>	16,897,766	14,735,989	<b>11,896,156</b>	11,681,485	10,778,017
Transportation and travel	<b>15,334,896</b>	12,217,778	17,842,206	<b>8,013,560</b>	7,078,521	12,099,026
Referral and service fees	<b>16,399,652</b>	1,428,930	19,627,587	–	–	–
Supervision fees	<b>13,393,637</b>	17,969,779	22,216,049	<b>13,393,637</b>	17,969,779	22,216,049
Membership dues	<b>9,642,958</b>	10,165,003	10,609,212	<b>8,464,742</b>	8,856,872	9,443,397
Research and other technical cost	<b>8,908,420</b>	9,960,945	8,478,963	<b>1,600,000</b>	1,760,000	–
Custodianship, collateral agent, and maintenance fees	<b>5,857,784</b>	4,179,725	6,062,649	<b>2,953,934</b>	4,179,725	3,883,068
Fuel and lubricants	<b>5,536,864</b>	5,612,208	11,800,232	<b>5,536,864</b>	5,612,208	11,800,232
Bank service charges and other service fees	<b>5,350,013</b>	17,693,324	3,902,401	<b>2,224,668</b>	2,241,431	3,548,269
Repairs and maintenance	<b>5,003,419</b>	5,864,031	5,340,599	<b>3,199,100</b>	5,041,635	3,808,335
Stationery and supplies used	<b>4,983,479</b>	5,056,731	7,014,483	<b>1,347,769</b>	2,750,798	3,607,682
Litigation/asset-acquired expenses	<b>712,586</b>	813,976	993,420	<b>712,586</b>	813,976	993,420
Donations	<b>300,000</b>	230,000	388,000	<b>300,000</b>	230,000	388,000
Periodical and magazine subscriptions	<b>240,383</b>	227,802	575,904	<b>174,182</b>	194,771	553,684
Others	<b>69,754,254</b>	49,499,321	60,931,805	<b>29,162,181</b>	38,936,778	26,957,478
	<b>₱482,874,510</b>	<b>₱445,061,932</b>	<b>₱471,391,034</b>	<b>₱234,783,693</b>	<b>₱258,456,490</b>	<b>₱278,175,355</b>

Others consist mostly of expenses for advertising and publicity, company sponsorships, corporate social responsibility initiatives, corporate giveaways, maintenance and administrative costs.

## 26. Income and Other Taxes

The provision for income tax consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Current						
Final tax	<b>₱325,956,231</b>	₱625,912,685	₱411,408,151	<b>₱244,721,577</b>	₱541,106,616	₱383,310,325
Corporate	<b>65,122,220</b>	193,651,340	36,728,887	<b>32,528,660</b>	153,163,624	6,495,226
	<b>391,078,451</b>	819,564,025	448,137,038	<b>277,250,237</b>	694,270,240	389,805,551
Deferred	<b>(4,485,510)</b>	(203,693,743)	(25,663,737)	<b>(4,034,621)</b>	(202,327,433)	(23,097,835)
	<b>₱386,592,941</b>	<b>₱615,870,282</b>	<b>₱422,473,301</b>	<b>₱273,215,616</b>	<b>₱491,942,807</b>	<b>₱366,707,716</b>



Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST).

Income taxes include regular corporate income tax (RCIT), as discussed below, as well as final withholding taxes paid at the rates of 20.0% of gross interest income from peso-denominated debt instruments and other deposit substitutes, 7.5% of gross interest income from foreign currency deposits in a depository bank under the expanded foreign currency deposit system and a final tax (5.0% for the first ₱100,000 and 10.0% on any amount in excess of ₱100,000) imposed upon the net capital gains realized during the taxable year from the disposition of shares of stock in a domestic corporation not traded in the stock exchange.

The RCIT rate shall be 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. The regulations also provide for an MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group’s and Parent Company’s income tax liability and taxable income, respectively, over a three-year period from the year of inception.

The components of the net deferred tax assets follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deferred tax assets on:				
Allowance for impairment losses	<b>₱29,741,959</b>	₱29,818,009	<b>₱29,741,960</b>	₱29,818,009
Unamortized past service cost	<b>20,548,676</b>	20,907,974	<b>17,165,789</b>	19,952,755
Unrealized foreign exchange loss	<b>1,522,460</b>	1,522,460	—	—
Unrealized loss on HFT investments	<b>76,932</b>	310,842	<b>76,932</b>	310,842
Accrued expenses	<b>3,867,063</b>	—	—	—
Retirement liability	<b>3,706,639</b>	—	—	—
Others	<b>15,780,951</b>	—	—	—
	<b>75,244,680</b>	52,559,285	<b>46,984,681</b>	50,081,606
Deferred tax liabilities on:				
Retirement asset	<b>22,289,999</b>	11,942,314	<b>22,289,999</b>	11,942,314
Rent receivable	<b>1,889,485</b>	1,889,485	—	—
Unrealized gain on HFT investments	<b>459,985</b>	—	—	—
Unrealized gain on AFS debt investments	<b>335,429</b>	11,249	—	11,249
	<b>24,974,898</b>	13,843,048	<b>22,289,999</b>	11,953,563
	<b>₱50,269,782</b>	₱38,716,237	<b>₱24,694,682</b>	₱38,128,043

The components of the net deferred tax liabilities follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deferred tax liabilities on:				
Unrealized foreign exchange gain	<b>₱200,086</b>	₱2,581,927	<b>₱—</b>	₱—
Unrealized gain on AFS debt investments	—	15,664,728	—	—
Unrealized gain on HFT investments	—	81,504	—	—
	<b>200,086</b>	18,328,159	—	—

(Forward)

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deferred tax assets on:				
Accrued retirement liability	P—	P4,668,110	P—	P—
Accrued expenses	—	2,856,672	—	—
Unamortized pension cost contribution	—	2,005,996	—	—
Accrued lease liability	—	43,013	—	—
	—	9,573,791	—	—
	<b>P200,086</b>	<b>P8,754,368</b>	<b>P—</b>	<b>P—</b>

Provision for deferred tax recognized in other comprehensive income (loss) follow:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Unrealized gain on AFS debt investments	<b>P3,353,231</b>	P5,150,335	P5,477,293	<b>P11,249</b>	(P1,012,102)	(P746,481)
Remeasurements of retirement liability	<b>(18,975,548)</b>	(2,537,973)	(10,175,987)	<b>(17,479,231)</b>	(101,518)	(4,497,313)
	<b>(P15,622,317)</b>	<b>P2,612,362</b>	<b>(P4,698,694)</b>	<b>(P17,467,982)</b>	<b>(P1,113,620)</b>	<b>(P5,243,794)</b>

Certain subsidiaries did not set up deferred tax assets on the following:

	Consolidated	
	2017	2016
Temporary differences on:		
NOLCO	<b>P852,126,496</b>	P951,828,463
Carryforward benefits of MCIT	<b>8,287</b>	7,003
	<b>P852,134,783</b>	<b>P951,835,466</b>

The Group believes that it is not probable that these temporary differences will be realized before the three-year expiration.

As of December 31, 2017 and 2016, deferred tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries and associates, and the related equity in translation adjustment since such amounts are not taxable.

Details of NOLCO for the Group as of December 31, 2017 are as follows:

Consolidated					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2014	P335,376,766	P—	P335,376,766	P—	2017
2015	315,746,711	—	—	315,746,711	2018
2016	300,704,986	—	—	300,704,986	2019
2017	235,674,799	—	—	235,674,799	2020
	<b>P1,187,503,262</b>	<b>P—</b>	<b>P335,376,766</b>	<b>P852,126,496</b>	

Parent Company					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2015	P15,234,852	P15,234,852	P—	P—	2018

Details of MCIT for the Group as of December 31, 2017 are as follows:

Consolidated					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2014	P1,548	P—	P1,548	P—	2017
2015	2,753	—	—	2,753	2018
2016	2,702	—	—	2,702	2019
2017	2,832	—	—	2,832	2020
	<b>P9,835</b>	<b>P—</b>	<b>P1,548</b>	<b>P8,287</b>	

Inception Year	Parent Company				
	Amount	Used	Expired	Balance	Expiry Year
2015	₱6,495,226	₱6,495,226	₱–	₱–	2017

A reconciliation between the statutory income tax and effective income tax follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Statutory income tax rate	<b>30.0%</b>	30.0%	30.0%	<b>30.0%</b>	30.0%	30.0%
Tax effects of:						
Tax-exempt and tax-paid income	<b>(26.2)</b>	(23.2)	(16.8)	<b>(13.2)</b>	(18.7)	(20.8)
Equity in net earnings of subsidiaries and associates	<b>(15.8)</b>	(11.6)	(21.6)	<b>(17.1)</b>	(12.8)	(22.2)
Non-deductible expenses	<b>28.5</b>	51.9	53.5	<b>23.9</b>	45.5	47.6
Unrecognized deferred tax assets	<b>8.0</b>	(3.3)	(4.7)	<b>(4.7)</b>	(5.2)	3.0
Effective income tax rate	<b>24.5%</b>	43.8%	40.4%	<b>18.9%</b>	38.8%	37.6%

## 27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group and the Parent Company have transactions with its subsidiaries, associated companies, affiliates, and with certain related interests collectively referred to as directors, officers, stockholders and other related interests (DOSRI). These transactions consist primarily of loan transactions, management contracts, outright purchases and sales of trading and investment securities, business and development support and other regular banking transactions.

Existing BSP regulations limit the amount of individual loans to DOSRI, of which 70.0% must be secured, to the total amount of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed 100.0% of the Parent Company's combined capital accounts, net of deferred income tax, unbooked valuation reserves and other capital adjustments as may be required by the BSP.

The following table shows information on loans to DOSRI as of December 31, 2017 and 2016:

	2017	2016
Total outstanding DOSRI loans	<b>₱9,183,753</b>	₱15,206,506
Percent of DOSRI loans to total loans	<b>1.0%</b>	1.0%
Percent of unsecured DOSRI loans to total DOSRI	<b>0.0%</b>	0.0%

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

Total interest income on DOSRI loans amounted to ₱1.1 million, ₱1.9 million and ₱8.2 million in 2017, 2016 and 2015, respectively.

The following table provides the total amounts of transactions that have been entered into with related parties for the relevant financial year:

Consolidated							
2016							
	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱459,574,207,706	₱458,274,246,152	₱6,992,528,614	₱5,048,757,857	₱89,265,000,000	₱–	₱798,319,000
Subsidiaries	–	–	2,825,176,764	3,328,446,404	–	617,808,069	–
Associates	1,458,410,301	901,785,185	535,703,290	477,843,460	1,500,000,000	180,075,736	–
Affiliates	22,356,322,467	22,001,971,486	2,944,598,842	1,343,431,760	5,050,000,000	5,961,389,407	–
	₱483,388,940,474	₱481,178,002,823	₱13,298,007,510	₱10,198,479,481	₱95,815,000,000	₱6,759,273,212	₱798,319,000
Consolidated							
2016							
	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱381,157,776,787	₱382,113,384,580	₱30,819,310,170	₱18,416,621,849	₱227,885,000,000	₱–	₱1,665,305,000
Subsidiaries	–	–	11,258,364,836	11,039,940,799	–	367,844,026	–
Associates	–	–	846,689,813	261,142,157	–	–	–
Affiliates	17,294,973,102	16,250,609,732	1,623,678,704	922,844,165	12,030,000,000	4,952,000,000	–
	₱398,452,749,889	₱398,363,994,312	₱44,548,043,523	₱30,640,548,970	₱239,915,000,000	₱5,319,844,026	₱1,665,305,000
Parent							
2017							
	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱228,659,164,142	₱226,928,365,474	₱6,578,080,720	₱5,035,258,539	₱89,265,000,000	₱–	₱798,319,000
Subsidiaries	–	–	2,825,176,764	3,328,446,404	–	617,808,069	–
Associates	–	–	535,703,290	477,843,460	–	–	–
Affiliates	–	–	2,163,585,704	984,247,885	4,750,000,000	5,961,389,407	–
	₱228,659,164,142	₱226,928,365,474	₱12,102,546,478	₱9,825,796,288	₱94,015,000,000	₱6,579,197,476	₱798,319,000
Parent							
2016							
	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱234,496,696,371	₱234,543,546,768	₱30,819,310,170	₱18,416,621,849	₱227,885,000,000	₱–	₱1,665,305,000
Subsidiaries	–	–	11,258,364,836	11,039,940,799	–	367,844,026	–
Associates	–	–	846,689,813	261,142,157	–	–	–
Affiliates	–	–	1,623,678,704	922,844,165	12,030,000,000	4,952,000,000	–
	₱234,496,696,371	₱234,543,546,768	₱44,548,043,523	₱30,640,548,970	₱239,915,000,000	₱5,319,844,026	₱1,665,305,000

The following are the balances of the Group's related party transactions as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 (amounts in thousands):

Category	As of and for the year ended December 31, 2017		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate Parent Company</b>			
Cash and other items		<b>₱2,412,235</b>	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.3% to 1.4% while US dollar deposits carry interest from 0.3% to 1.1%
Financial assets at FVPL		<b>54,959</b>	Investments in the Ultimate Parent Company's shares of stock
Loans and receivables		<b>139,434</b>	Various receivables arising from financial advisory fees, reimbursements and order placements, non-interest bearing rent receivable and accrued interest receivable from time deposit
Other assets		<b>240,527</b>	Escrow account
Bills payable		<b>748,950</b>	Short-term borrowings in foreign currency with interest ranging from 1.5% to 1.9%, unsecured and are settled in cash
Accounts payable and other liabilities		<b>75,040</b>	Includes ceded fees, advance lease deposits, accrued interest payable from Interbank loans payable in foreign currency, retainer's fee and internal audit fees
Interest income	<b>₱13,544</b>		From interbank loans, savings, current and time deposits
Service charges, fees commissions	<b>142,942</b>		Broker's commissions, contractual and other financial advisory services
Dividend income	<b>3,022</b>		Dividends from stocks investments
Trading and securities gain	<b>55,775</b>		Realized and unrealized loss from investments in debt and equity securities
Interest expense	<b>22,309</b>		Interest expense from interbank borrowings
Rent, light and water	<b>983</b>		Rent and utilities expense
Miscellaneous expense	<b>17,848</b>		Internal audit fee for the current year, stock and transfer agency fee

Category	As of and for the year ended December 31, 2017		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Joint Venture/Associates</b>			
Cash and other items		<b>₱607,156</b>	Short-term money market placements with interest ranging from 2.6% to 4.6%
Interbank loans receivable		<b>500,000</b>	Short-term Interbank loans receivable with interest of 3.19%
Loans and receivables		<b>44,778</b>	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Accounts payable and other liabilities		<b>56,495</b>	Payable arising out of trading transactions in behalf of customers; non-interest bearing; secured by shares of stocks; insurance expense
Interest income	<b>₱2,819</b>		From interbank loans receivable
Fees and commissions	<b>3,726</b>		Management fees; broker's commissions
Trading and securities gain	<b>439</b>		Realized gain from sale of investments in debt
Rental income	<b>2,147</b>		Rental income from sublease agreement
Miscellaneous expense	<b>2,079</b>		Insurance expense

As of and for the year ended December 31, 2017			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Other Related Parties</b>			
Cash and other cash items		<b>₱1,401,977</b>	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 2.2% per annum
Financial assets at FVPL		<b>155,555</b>	Investments in shares of stocks of other related parties
AFS investments		<b>152,380</b>	Investments in equity securities and debt securities issued by other related parties; Debt securities includes investments in preferred shares with interest rate of 4.6%
HTM investments		<b>30,452</b>	Investments in private bonds issued by other related parties with interest rates ranging from 4.7% to 5.6%
Loans and receivables		<b>39,079</b>	Includes receivables from financial advisory fee and management fee, rent receivables and accrued interest receivable from time deposits; Fringe benefit loans to employees with terms ranging from 1.9 to 15.0 years and interest rates ranging from 8.0% to 10.0%;
Other assets		<b>18,315</b>	Rent deposits
Accounts payable and other liabilities		<b>9,647</b>	Payable to customer, rent payable and accrued interest payable from bills payable
Interest income	<b>₱35,039</b>		Interest income from investment in debt securities, short-term placements, savings and time deposits and fringe benefit loans
Fees and commissions	<b>26,045</b>		Financial advisory and arranger fees
Dividend income	<b>2,845</b>		Dividends from stocks investments
Trading and securities loss	<b>16,256</b>		Realized and unrealized gain on investments in debt and equity securities
Gain on sale of assets	<b>32,035</b>		Gain on sale of investment properties
Rent income	<b>398</b>		Rent income from condominium units
Interest expense	<b>12,912</b>		From interbank borrowings, short-term bills payable
Rent, light and water	<b>43,961</b>		Rental payments for office premises
Miscellaneous expense	<b>1,914</b>		Insurance expense and membership dues

As of and for the year ended December 31, 2017			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Loans and discounts		<b>₱3,033</b>	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Interest income	<b>₱416</b>		Interest income from fringe benefit loans
Miscellaneous expense	<b>12,498</b>		Per diems given to directors during board meetings



As of and for the year ended December 31, 2016			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Cash and other items		₱1,566,585	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.3% to 1.4% while US dollar deposits carry interest from 0.3% to 1.1%
Financial assets at FVPL		434,178	Investments in the Ultimate Parent Company's share of stock
Loans and receivables		428	Various receivables arising from reimbursements and order placements, non-interest bearing rent receivable and accrued interest receivable from time deposit
Bills payable		745,800	Short-term borrowings in foreign currency with interest ranging from 1.5% to 1.9%, unsecured and are settled in cash
Accounts payable and other liabilities		5,967	Includes ceded fees, advance lease deposits, accrued interest payable from Interbank loans payable in foreign currency, retainer's fee and internal audit fees
Interest income	₱41,448		From interbank loans, savings, current and time deposits
Service charges, fees commissions	1,725		Broker's commissions, contractual and other services
Dividend income	3,897		Dividends from stocks investments
Trading and securities loss	205,600		Realized and unrealized loss from investments in debt and equity securities. Includes gain from sale of Philippine Savings Bank shares classified as AFS at a gain of ₱212.6 million
Interest expense	10,268		Interest expense from interbank borrowings
Rent, light and water	1,106		Rent and utilities expense
Miscellaneous expense	13,861		Internal audit fee for the current year, stock and transfer agency fee

As of and for the year ended December 31, 2016			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Joint Venture/Associates			
Loans and receivables		₱44,270	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Accounts payable and other liabilities		14,450	Payable arising out of trading transactions in behalf of customers; non-interest bearing; secured by shares of stocks and insurance expense
Fees and commissions	₱2,096		Management fees; broker's commissions
Trading and securities gain	396		Realized gain from sale of investments in debt
Rental income	7,551		Rental income from sublease agreement
Miscellaneous expense	1,063		Insurance expense

As of and for the year ended December 31, 2016			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Cash and other cash items		₱1,049,929	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 2.2% per annum
Financial assets at FVPL		496,945	Investments in shares of stocks of and debt securities issued by other related parties; debt securities includes investments in private bonds with net yield of 4.7%
AFS investments		151,169	Investments in shares of stocks of and debt securities issued by other related parties; debt securities includes investments in private bonds with net yield ranging from 4.9% to 5.9%
HTM investments		29,441	Investments in private bonds issued by other related parties with net yield of 6.0%
Loans and discounts		15,988	Fringe benefit loans to employees with terms ranging from 1.9 years to 15.0 years and interest rates ranging from 3.0% to 12.0%
Receivables		2,026	Management fee, rent receivables and accrued interest receivable from time deposits and time loans
Other assets		5,946	Rent deposits
Accounts payable and other liabilities		6,799	Rent payable to customers and accrued interest payable from bills payable
Interest income	₱42,550		Interest income from investment in private bonds, unquoted commercial papers, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Fees and commissions	460,191		Advisory and underwriting fees from GT Capital
Dividend income	17,583		Dividends from stocks investments
Trading and securities loss	39,329		Realized and unrealized gain on investments in debt and equity securities
Rent income	1,051		Rent income from condominium units
Miscellaneous income	361,534		Income related to sale of Global Business Power equity shares to GT Capital
Interest expense	10,684		From interbank borrowings, short-term bills payable
Rent, light and water	55,914		Rental payments for office premises
Taxes and licenses	112,169		Taxes related to sale of equity securities to GT Capital
Miscellaneous expense	938		Insurance expense and membership dues

As of and for the year ended December 31, 2016			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans and discounts		₱5,004	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Accrued taxes, interest and other expenses		48	Directors' fees payable
Interest income	₱900		Interest income from fringe benefit loans
Miscellaneous expense	13,161		Per diems given to directors during board meetings

As of and for the year ended December 31, 2015			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Cash and other items		₱2,592,130	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.3% to 1.4% while US dollar deposits carry interest from 0.3% to 1.1%
Financial assets at FVPL		165,742	Investments in Ultimate Parent Company's share of stock
IBCL receivable		3,200,000	Short-term interbank loans receivable with interest of 3.1%
Loans and receivable		1,913	Various receivables arising from reimbursements and order placements, non-interest bearing rent receivable, receivable from customer and accrued interest receivable from time deposit
Bills payable		470,600	Short-term borrowings in foreign currency with interest ranging from 1.4% to 1.7%, unsecured and are settled in cash
Accounts payable and other liabilities		2,134	Includes ceded fees, accrued interest payable from Interbank loans payable in foreign currency, retainer's fee, advance lease deposits and internal audit fees
Interest income	₱13,210		From interbank loans, savings, current and time deposits
Service charges, fees commissions	112,460		Broker's commissions, contractual and other services
Dividend income	500		Dividends from stocks investments
Trading and securities loss	339,936		Realized and unrealized loss from investments in debt and equity securities
Rental income	522		Rental income from lease term of five (5) years and annual escalation rate of 5%
Interest expense	15,692		Interest expense from interbank borrowings
Rent expense	328		Rent expense
Miscellaneous expense	12,617		Internal audit fee for the current year, stock and transfer agency fee

As of and for the year ended December 31, 2015			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Joint Venture/Associates			
Loans and receivables		₱44,187	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Interest income	₱137		Short-term placements with interest rates of 1.9%
Fees and commissions	5		Management fees
Trading and securities gain	1,553		Realized gain from sale of investments in debt
Rental income	4,045		Rental income from sublease agreement

As of and for the year ended December 31, 2015			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Cash and other cash items		₱155,419	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 2.2% per annum
Financial assets at FVPL		844,858	Investments in shares of stocks of and debt securities issued by other related parties; debt securities includes investments in private bonds with net yield of 4.7%
AFS investments		4,152,389	Investments in shares of stocks of and debt securities issued by other related parties; debt securities includes investments in private bonds with net yield ranging from 4.9% to 5.9%
HTM investments		2,937	Investments in private bonds issued by other related parties with net yield of 6.0%
Loans and discounts		706,960	Time loans with 11.0-12.0 years original term and with interest rates of 10.4% per annum; fringe benefit loans to employees with terms ranging from 1.9 years to 15.0 years and interest rates ranging from 3.0% to 12.0%
Unquoted commercial papers		350,000	Unquoted commercial papers with original term of 5 years and with interest of 8.9%
Receivable		20,437	Management fee, dividends from stocks investments and accrued interest receivable from time deposits and time loans
Other assets		2,893	Rent deposits
Bills payable		1,060,000	Promissory notes issued with term of 43-52 days and interest of 1.95%
Accounts payable and other liabilities		2,198	Payable to customers, rent payable and accrued interest payable from bills payable
Interest income	₱123,071		Interest income from investment in private bonds, unquoted commercial papers, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Fees and commissions	84,674		Arranger fees from Panay Energy Development Corp., and advisory and underwriting fees from GT Capital
Dividend income	272,114		Dividends from stocks investments
Trading and securities gain	237,355		Realized and unrealized gain on investments in debt and equity securities
Rent income	5,588		Rent income from condominium units
Interest expense	67,687		From interbank borrowings, short-term bills payable
Rent, light and water	41,603		Rental payments for office premises
Miscellaneous expense	518		Insurance expense and membership dues

As of and for the year ended December 31, 2015			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans and discounts		₱920	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Accrued taxes, interest and other expenses		1,178	Directors' fees payable
Interest income	₱913		Interest income from fringe benefit loans
Miscellaneous expense	17,517		Per diems given to directors during board meetings

The Group and the Parent Company granted credit lines to related parties (Note 29). As of December 31, 2017 and 2016, undrawn commitments/facilities is nil for the Group and the Parent Company.

## Terms of Transactions with other related parties

### *Transactions with retirement plans*

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group and the Parent Company's retirement plans are being managed by the Ultimate Parent Company's Trust Banking Group. The total carrying amount and fair value of the retirement plan as of December 31, 2017 and 2016 amounted to ₱320.2 million and ₱306.5 million for the Group and the Parent Company, respectively. The details of the assets of the fund as of December 31, 2017 and 2016 are disclosed in Note 22. The Group's retirement funds may hold or trade its related parties' shares or securities. A summary of transactions with related party of the retirement plans follows.

	Consolidated		Parent Company	
	2017	2016	2017	2016
Equity shares				
Metrobank	₱1,250,363	₱895,231	₱1,250,363	₱895,231
Subsidiaries	87,653,327	13,176,930	70,913,961	—
Other related parties	—	990,600	—	990,600
<b>Total</b>	<b>₱88,903,690</b>	<b>₱15,062,761</b>	<b>₱72,164,324</b>	<b>₱1,885,831</b>

The President of the Parent Company exercises the voting rights for the foregoing equity shares.

Transactions with related parties are approved by all members of the Retirement Committee whom are senior officers of the Parent Company.

The following are the balances of the consolidated retirement fund's related party transactions as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017:

Counterparty		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
		2017	2016	2017	2016	2015
Metrobank	Cash and other cash items	₱16,735,427	₱19,861,657	₱—	₱—	₱—
	Equity investments	1,250,363	895,231	—	—	—
	Accrued interest receivable	20,680	27,717	—	—	—
	Accrued trust fee payable	519,316	490,031	—	—	—
	Interest income	455,984	—	455,984	56,404	24,002
	Trust fee expense	2,068,984	—	2,068,984	1,904,659	1,796,361
GT Capital	Equity investments	—	990,600	—	—	—
FMSLBF	Investment in mutual funds	8,286,000	8,226,154	—	—	—
FMSALEF	Investment in mutual funds	1,006,478	—	—	—	—
FMPEETFI	Equity investments	87,653,327	13,176,930	—	—	—
MBTC-UITF	Investment in UITF	131,476	4,692,497	—	—	—

### *Compensation of key management personnel*

The compensation of key management personnel are as follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Short-term employee benefits	₱231,442,062	₱216,160,711	₱215,957,211	₱185,234,917	₱182,236,312	₱186,627,504
Post-employment benefits	20,439,273	19,273,659	28,113,444	17,222,858	16,665,537	25,175,282
	<b>₱251,881,335</b>	<b>₱235,434,370</b>	<b>₱244,070,655</b>	<b>₱202,457,775</b>	<b>₱198,901,849</b>	<b>₱211,802,786</b>

### Transactions with Subsidiaries

The following are the balances of the Parent Company's related party transactions as of and for the years ended December 31, 2017 and 2016 that have been eliminated at the consolidated level (amounts in thousands):

As of and for the year ended December 31, 2017			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Subsidiaries</b>			
Loans and receivables		<b>₱1,580</b>	Receivables from sale of securities and management/advisory fees and advances for various expenses
Bills payable		<b>197,286</b>	Promissory notes issued with term of 30 days and interest ranging from 1.3% to 3.3%
Bonds payable		<b>80,494</b>	Amortized cost of bonds payable with term of 5 years and interest rate of 5.7%
Accounts payable		<b>5,419</b>	Payable arising out of trading transactions in behalf of customers and accrued interest payable on bond payable
Miscellaneous liabilities		<b>9,375</b>	Subscriptions payable
Trading and securities gain	<b>₱590</b>		Realized trading gain from sale of various debt securities to subsidiaries
Service charges, fees and commissions	<b>20,443</b>		Management fees and advisory fees for services rendered to subsidiaries
Interest expense	<b>15,462</b>		Interest expense from bonds payable and promissory notes issues with interest ranging from 5.5% to 5.7% and 1.3% to 3.3%, respectively
Broker's commission	<b>8,145</b>		Broker's commission on stock trading transactions
Miscellaneous expense	<b>5,000</b>		Research fee
As of and for the year ended December 31, 2016			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Subsidiaries</b>			
Accounts receivable		<b>₱7,031</b>	Receivables from sale of securities and management/advisory fees and advances for various expenses
Bills payable		<b>42,500</b>	Promissory notes issued with term of 45 days and interest of 2.1%
Bonds payable		<b>483,222</b>	Amortized cost of bonds payable with term of 5-7 years and interest ranging from 5.5% to 5.7%
Accounts payable		<b>2,870</b>	Payable arising out of trading transactions in behalf of customers and accrued interest payable on bond payable
Miscellaneous liabilities		<b>9,375</b>	Subscriptions payable
Trading and securities loss	<b>₱339</b>		Realized trading loss from sale of various debt securities
Service charges, fees and commissions	<b>13,923</b>		Management fees and advisory fees for services rendered to subsidiaries
Gain on sale of assets	<b>8,268</b>		Gain on sale/redemption of investments in FMPEETFI and FMSLDBF
Dividend income	<b>10,505</b>		Dividend income
Interest expense	<b>25,659</b>		Interest expense from bonds payable and promissory notes issues with interest ranging from 5.5% to 5.7% and 2.1%
Broker's commission	<b>7,084</b>		Broker's commission on stock trading transactions



#### *Investment in debt securities of the Parent Company*

The subsidiaries had investments in debt securities of the Parent Company amounting to ₱80.5 million and ₱475.0 million as of December 31, 2017 and 2016, respectively, which are eliminated and classified as treasury bonds in the consolidated financial statements of the Group.

#### *Management fees*

The Parent Company and its subsidiaries executed a management contract for a monthly fee. Management fee represents payments for services rendered by seconded employees from the Parent Company such as accounting, taxation, financial control, legal and related services, administrative services and government reportorial requirements.

Management fee charged by the Parent Company to the subsidiaries amounted to ₱2.9 million and ₱2.8 million in 2017 and 2016, respectively.

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## 28. Trust Operations

Properties held by the Parent Company in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company.

In compliance with current banking regulations relative to the Parent Company's trust functions, as of December 31, 2017 and 2016, government securities classified as HFT investments with a total face value of nil and ₱32.0 million, respectively, are deposited with the BSP (Note 7).

In June 2016, the trust and other fiduciary business of the Parent Company ceased its operations.

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## 29. Commitments and Contingent Accounts

### Commitments

The following is a summary of commitments/facilities at their peso-equivalent contractual amounts arising from off-balance sheet items of the Group and Parent Company:

	2017	2016
Stand-by letter of credit	<b>₱410,000,000</b>	₱410,000,000
Others	<b>750,000</b>	750,000
	<b>₱410,750,000</b>	₱410,750,000

### Contingencies

In the normal course of business, the Group is involved in various contingencies which, in the opinion of the management, will not have a material effect on the Group's consolidated financial statements.

### 30. Financial Performance

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

	2017	2016	2015
Return on average equity	7.9%	3.8%	2.1%
Return on average assets	2.6	1.2	0.6
Net interest margin over average earning assets	1.3	1.2	1.1

### 31. Earnings Per Share

EPS are computed as follows:

	Consolidated		
	2017	2016	2015
a. Net income attributable to equity holders of the Parent Company	₱1,174,945,273	₱775,382,000	₱608,213,136
b. Weighted average number of common shares	372,535,016	372,544,732	372,581,152
c. Basic/Diluted EPS (a/b)	₱3.2	₱2.1	₱1.6

As of December 31, 2017, 2016 and 2015, there are no potential shares that have a dilutive effect on the basic EPS of the Parent Company.

### 32. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

The effects to the Group and the Parent Company of these arrangements are disclosed in the succeeding tables.

#### Financial assets

December 31, 2017						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Securities purchased under resale agreements	₱500,000,000	₱–	₱500,000,000	₱–	₱500,000,000	₱–
Loans and receivable - net (Notes 4 and 8):						
Loans and discounts:						
Corporate lending	1,366,817,418	–	1,366,817,418	–	4,214,836,462	–
Total	₱1,866,817,418	₱–	₱1,866,817,418	₱–	₱4,714,836,462	₱–

December 31, 2016						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Securities purchased under resale agreements	₱2,218,848,817	₱–	₱2,218,848,817	₱–	₱2,218,848,817	₱–
Loans and receivable - net (Notes 4 and 8):						
Loans and discounts:						
Corporate lending	1,549,521,772	–	1,549,521,772	–	3,551,459,034	–
Total	₱3,768,370,589	₱–	₱3,740,278,936	₱–	₱5,770,307,851	₱–

### Financial liabilities

December 31, 2017						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Bills payable (Note 14):						
Borrowings from other banks	₱2,248,950,000	₱–	₱2,248,950,000	₱–	₱845,000,000	₱1,403,950,000
Bonds payable (Note 16)	2,909,949,893	–	2,909,949,893	–	3,514,719,915	–
Total	₱5,158,899,893	₱–	₱5,158,899,893	₱–	₱4,359,719,915	₱–

December 31, 2016						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Bills payable (Note 14):						
Borrowings from other banks	₱745,800,000	₱–	₱745,800,000	₱–	₱1,050,375,623	₱–
Bonds payable (Note 16)	11,498,497,579	–	11,498,497,579	–	12,538,516,547	–
Total	₱12,244,297,579	₱–	₱12,244,297,579	₱–	₱13,588,892,170	₱–

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

### 33. Notes to Statements of Cash Flows

The table below provides for the changes in liabilities arising from financing activities of the Group and Parent Company:

Consolidated						
	January 1, 2017	Cash flows	Foreign exchange movement	Changes in fair values	Others*	December 31, 2017
Bills payable and SSURA	₱15,043,282,889	₱10,660,583,645	₱—	₱—	₱10,826,015	₱25,714,692,549
Bonds payable (Note 16)	11,498,497,579	(8,599,408,744)	—	—	10,861,058	2,909,949,893
Dividends payable	3,064,192,676	(5,823,492,290)	—	—	2,849,965,777	90,666,163
Total liabilities from financing activities	₱29,605,973,144	(₱3,762,317,389)	₱—	₱—	₱2,871,652,850	₱28,715,308,605

\*Dividend declaration

Parent						
	January 1, 2017	Cash flows	Foreign exchange movement	Changes in fair values	Others*	December 31, 2017
Bills payable and SSURA	₱15,085,782,889	₱10,815,369,280	₱—	₱—	₱10,826,015	₱25,911,978,184
Bonds payable (Note 16)	11,981,719,616	(9,000,000,000)	—	—	10,861,058	2,992,580,674
Dividends payable	3,064,192,676	(5,823,492,290)	—	—	2,849,965,777	90,666,163
Total liabilities from financing activities	₱30,131,695,181	(₱4,008,123,010)	₱—	₱—	₱2,871,652,850	₱28,995,225,021

\*Dividend declaration

### 34. Approval for the Release of the Financial Statements

The accompanying financial statements were authorized for issue by the Parent Company's BOD on February 23, 2018.

### 35. Supplementary Information Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR 21-2002. RR 15-2010 provides that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes for the year:

#### GRT and DST

Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the Parent Company consist principally of GRT and DST.

#### Taxes and Licenses

This includes all other taxes, DST, local tax, fringe benefit tax including licenses and permit fees:

DST	₱102,965,842
GRT	90,652,677
Local taxes	3,777,813
Real estate tax	221,751
Fringe benefit tax	197,351
	₱197,815,434

### Withholding Taxes

Details of total remittances and balances as of December 31, 2017 are as follows:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	₱141,829,463	₱10,328,772
Withholding taxes on compensation and benefits	91,776,666	6,402,011
Expanded withholding taxes	14,454,900	2,195,970
Final withholding value added tax	1,246,852	58,001
	₱249,307,881	₱18,984,754

# Contact Information

## **Annual Stockholders' Meeting**

April 27, 2018 (Friday), 3:00 p.m.

Metrobank Penthouse, Metrobank Plaza

Sen. Gil Puyat Ave., Makati City

## **Shareholder Services**

For inquiries regarding dividend payments, change of address, and account status, please contact:

### **The Controller**

First Metro Investment Corporation

Ground Floor, Skyland Plaza Condominium

2302 Sen. Gil Puyat Ave. cor. Tindalo St.

1203 Makati City

Tel. No. (02) 858 7900

Fax. No. (02) 840 3706

## **Annual Report in SEC Form 17-A**

The financial report included in this report follows the information contained in the SEC Form 17-A as required by and submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge from:

### **The Controller**

First Metro Investment Corporation

Ground Floor, Skyland Plaza Condominium

2302 Sen. Gil Puyat Ave. cor. Tindalo St.

1203 Makati City

### **Corporate Communications Department**

First Metro Investment Corporation

45th Floor, GT Tower International

6813 Ayala Ave. cor. H.V. dela Costa St.

1227 Makati City

Tel. No. (02) 858 7900

Fax. No. (02) 840 3706

Email: [corpcom@firstmetro.com.ph](mailto:corpcom@firstmetro.com.ph)





45th Floor, GT Tower International  
6813 Ayala Ave. cor. H.V. Dela Costa St.  
1227 Makati City, Philippines

Ground Floor, Skyland Plaza Condominium  
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1203 Makati City, Philippines

Tel. No. (63 2) 858 7900  
Fax No. (63 2) 840 3706

[www.firstmetro.com.ph](http://www.firstmetro.com.ph)