

COVER SHEET

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S.E.C. Registration Number

F I R S T M E T R O I N V E S T M E N T C O R P O R A  
T I O N A N D S U B S I D I A R I E S

(Company's Full Name)

4 5 T H F L O O R G T T O W E R I N T E R N A T I O  
N A L A Y A L A A V E N U E C O R N E R H V D E  
C O S T A S T R E E T M A K A T I C I T Y

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

RABBONI FRANCIS B. ARJONILLO

Contact Person

8 5 8 - 7 9 0 0

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

SEC FORM 17-Q

Form Type

Not later than last week of  
April

Month Day

Month

Day

Annual Meeting

IHU - GSED

Secondary License type, if applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

1,377

Total No. of Stockholders

Total amount of Borrowings

Domestic

Foreign

To be Accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

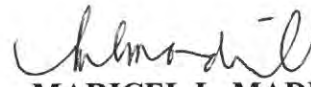
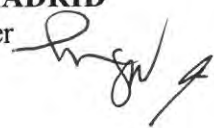
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**CERTIFICATION**

KNOW ALL MEN BY THESE PRESENTS:

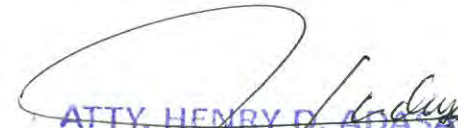
I, **MARICEL L. MADRID**, Filipino, of legal age, with office address at 45<sup>th</sup> Floor, G.T. Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City, being the Controller of **First Metro Investment Corporation**, a corporation duly organized and existing under the laws of the Philippines, do hereby certify that the hard copy of the **SEC Form 17-Q** and the attached CD labeled "**SEC Form 17-Q (March 31, 2019), First Metro Investment Corporation**" are one and the same.

Manila Philippines, 10 MAY 2019, 2019.

  
**MARICEL L. MADRID**  
FVP/Controller 

SUBSCRIBED AND SWORN to before me this 10 MAY 2019 day of 2019, affiant exhibiting to me her Passport No. EC3441643 issued on February 12, 2015 in DFA, Manila.

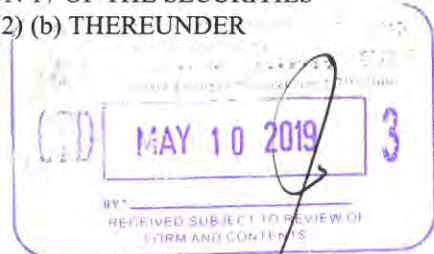
Doc. No. 236 ;  
Page No. 49 ;  
Book No. 12 ;  
Series of 2019.

  
**ATTY. HENRY D. ADASA**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2019  
COMMISSION 17-23  
PASADENIA ST., PASAY CITY  
IBP NO. 047427 - 01/03/19 PASIG  
PTR NO. 5826567 - 01/03/19 P.C.  
MCLE COMPLIANCE NO. VI-0002830 - 4/14/19  
Ⓢ ROLL NO. 29679

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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



1. For the quarterly period ended: **March 31, 2019**
2. Commission identification number: 023269
3. BIR Tax Identification No.: 000-500-232
4. Exact name of issuer as specified in its charter: **FIRST METRO INVESTMENT CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization: Metro Manila, Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of principal office: 45th Floor GT Tower Int'l., Ayala Avenue cor H.V. dela Costa St., Makati City  
Postal Code: 1200
8. Issuer's telephone number, including area code: (632) 858-7900
9. Former name, former address and former fiscal year, if changed since last report: Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
  - (a) Authorized capital stock: 800,000,000 shares / ₱8,000,000,000
  - (b) Number of shares outstanding as of March 31, 2019: /

Common shares	420,869,240
Less: Treasury shares	(48,387,264)
	<u>372,481,976</u>
  - (c) Amount of debt outstanding (unpaid subscriptions): None
11. Are any or all of the securities listed in the Philippine Stock Exchange?  
Yes [ ] No [ / ]
12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)  
Yes [ / ] No [ ]
  - (b) has been subject to such filing requirements for the past ninety (90) days.  
Yes [ / ] No [ ]

## PART I - FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

#### FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of	
	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>ASSETS</b>		
Cash and Other Cash Items	P2,987,879,019 ✓	P2,935,131,821 ✓
Due from Bangko Sentral ng Pilipinas	3,099,992,835 ✓	3,489,997,884 ✓
Investment Securities at:		
Fair Value Through Profit or Loss (FVTPL)	10,655,439,940 ✓	9,559,054,436 ✓
Fair Value Through Other Comprehensive Income (FVOCI)	6,400,751,328 ✓	664,510,794 ✓
Amortized Cost	17,146,998,378 ✓	17,033,927,705 ✓
Loans and Receivables	1,783,873,335 ✓	1,587,576,834 ✓
Property and Equipment	168,400,218 ✓	106,196,100 ✓
Investments in Subsidiaries and Associates	6,892,930,456 ✓	6,582,805,970 ✓
Investment Properties	190,450,149 ✓	205,902,887 ✓
Deferred Tax Assets	33,358,954 ✓	34,799,806 ✓
Other Assets	1,022,360,656 ✓	999,318,903 ✓
	<b>P50,382,435,268</b> ✓	<b>P43,199,223,140</b> ✓
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Bills Payable	P22,237,824,672 ✓	P16,222,302,558 ✓
Accounts Payable	2,126,029,595 ✓	1,858,785,376 ✓
Accrued Taxes, Interest and Other Expenses	210,239,012 ✓	153,186,149 ✓
Bonds Payable	2,918,200,975 ✓	2,916,957,750 ✓
Income Taxes Payable	11,243,154 ✓	14,342,538 ✓
Deferred Tax Liability	5,143,661 ✓	5,178,369 ✓
Puttable Instruments of Mutual Fund Subsidiaries	6,867,197,438 ✓	6,779,145,036 ✓
Other Liabilities	542,623,752 ✓	355,457,172 ✓
	<b>34,918,502,259</b> ✓	<b>28,305,354,948</b> ✓
<b>EQUITY</b>		
<b>EQUITY ATTRIBUTABLE TO EQUITY</b>		
<b>HOLDERS OF THE PARENT COMPANY</b>		
Common Stock	4,208,692,400 ✓	4,208,692,400 ✓
Capital Paid in Excess of Par Value	2,065,694,042 ✓	2,065,694,042 ✓
Retained Earnings	11,622,854,960 ✓	11,381,561,910 ✓
Treasury Stock	(2,661,374,043) ✓	(2,659,550,871) ✓
Net Unrealized Loss on FVOCI Investments	(29,968,354) ✓	(249,995,343) ✓
Cumulative Translation Adjustment	32,745,913 ✓	32,745,913 ✓
Remeasurements of Retirement Liability	47,915,820 ✓	47,309,895 ✓
Equity in Other Comprehensive Income (Loss) of Associates	82,594,666 ✓	(23,774,020) ✓
	<b>15,369,155,404</b> ✓	<b>14,802,683,926</b> ✓
Equity Attributable to Non-Controlling Interests	94,777,605 ✓	91,184,266 ✓
	<b>15,463,933,009</b> ✓	<b>14,893,868,192</b> ✓
	<b>P50,382,435,268</b> ✓	<b>P43,199,223,140</b> ✓

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES  
 INTERIM CONSOLIDATED STATEMENTS OF INCOME

	For the Quarter Ended March 31 (Unaudited)	
	2019	2018
<b>OPERATING INCOME</b>		
Income from Financial Markets	₱325,523,293	₱326,623,767
Investment Banking Fee	74,916,102	27,844,526
Income (Loss) from Investment in Stocks	3,909,681	(75,076,133)
Other Income	350,376,255	364,029,108
<b>GROSS OPERATING INCOME</b>	<b>754,725,331</b>	<b>643,421,268</b>
Interest Expense	290,343,377	189,691,586
<b>NET OPERATING INCOME BEFORE OPERATING EXPENSES</b>	<b>464,381,954</b>	<b>453,729,682</b>
<b>OPERATING EXPENSES</b>		
Employees' Compensation and Benefits	139,814,237	129,615,952
Depreciation and Amortization	22,483,339	14,172,140
Management and Other Professional Fees	21,276,799	24,148,719
Rent Expense	8,891,074	14,266,853
Representation and Traveling Expenses	4,024,821	4,869,760
Supervision Fees	3,013,384	3,430,223
Other Expenses	92,833,720	99,509,152
	<b>292,337,374</b>	<b>290,012,799</b>
<b>NET INCOME BEFORE TAXES AND LICENSES</b>	<b>172,044,580</b>	<b>163,716,883</b>
Taxes and Licenses	56,975,181	100,733,029
<b>NET INCOME BEFORE NON-OPERATING INCOME</b>	<b>115,069,399</b>	<b>62,983,854</b>
Non-Operating Income	217,726,959	247,628,873
<b>NET INCOME BEFORE PROVISION FOR INCOME TAX</b>	<b>332,796,358</b>	<b>310,612,727</b>
Provision for Income Tax	89,211,155	159,015,532
<b>NET INCOME</b>	<b>₱243,585,203</b>	<b>₱151,597,195</b>
Attributable to:		
Equity Holders of the Parent Company	₱241,293,050	₱162,022,362
Non-Controlling Interests	2,292,153	(10,425,167)
	<b>₱243,585,203</b>	<b>₱151,597,195</b>
<b>EARNINGS PER SHARE*</b>	<b>₱0.65</b>	<b>₱0.43</b>

\* Attributable to Equity holders of the Parent Company

**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	For the Period Ended March 31 (Unaudited)	
	2019	2018
NET INCOME FOR THE PERIOD	P243,585,203	P151,597,195
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified to profit or loss:		
Net Unrealized Loss on FVOCI Investments	220,026,989	314,423,713
Cumulative Translation Adjustment	-	10,475,200
Equity in other Comprehensive Income (Loss) of Associates	65,854,142	(79,024,024)
Total items that may be reclassified to profit or loss:	285,881,131	245,874,889
Items that will not be reclassified to profit or loss:		
Remeasurements of Retirement Liability	605,925	(743,573)
Equity in other Comprehensive Income (Loss) of Associates	40,514,544	157,953,486
Total items that will not be reclassified to profit or loss:	41,120,469	157,209,913
TOTAL OTHER COMPREHENSIVE INCOME, net of tax	327,001,600	403,084,802
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>P570,586,803</b>	<b>P554,681,997</b>
Attributable to:		
Equity Holders of the Parent Company	P568,294,650	P565,107,164
Non-Controlling Interests	2,292,153	(10,425,167)
	<b>P570,586,803</b>	<b>P554,681,997</b>

**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Common Stock	Capital Paid in Excess of Par		Retained Earnings	Treasury Stock	Net Unrealized Loss on FVOCI	Remeasurement of Retirement Liability	Cumulative Translation Adjustment	Equity in Other Comprehensive Income of Associates		Non-Controlling Interests	Total Equity
		Value	Value						Total	Total		
Balance at January 1, 2019	P4,208,692,400	P2,065,694,042	P11,381,561,910	(P2,659,550,871)	(P249,995,343)	P47,309,895	P32,745,913	(P23,774,021)	P14,802,683,925	P91,184,266	P14,893,868,191	
Total Comprehensive Income	-	-	241,293,050	-	220,076,989	605,925	-	106,368,687	568,294,651	3,593,339	571,887,990	
Acquisition of Treasury Shares	-	-	-	(1,823,172)	-	-	-	-	(1,823,172)	-	(1,823,172)	
Balance at March 31, 2019	P4,208,692,400	P2,065,694,042	P11,622,854,960	(P2,661,374,043)	(P29,968,354)	P47,915,820	P32,745,913	P82,594,666	P15,369,155,404	P94,777,605	P15,463,933,009	
Balance at January 1, 2018	P4,208,692,400	P2,065,694,042	P10,866,281,472	(P2,659,374,435)	(P339,746,149)	P54,005,802	P20,821,280	(P181,207,597)	P14,035,166,815	P100,633,541	P14,135,800,356	
Total Comprehensive Income	-	-	162,022,360	-	314,423,713	(743,573)	10,475,199	39,686,454	525,864,153	(2,081,752)	523,782,401	
Effect of Adoption of PFRS 9	-	-	(51,884,733)	-	-	-	-	-	(51,884,733)	-	(51,884,733)	
Acquisition of Treasury Shares	-	-	-	(176,436)	-	-	-	-	(176,436)	-	(176,436)	
Balance at March 31, 2018	P4,208,692,400	P2,065,694,042	P10,976,419,099	(P2,659,550,871)	(P25,322,436)	P53,262,229	P31,296,479	(P141,521,143)	P14,508,969,799	P98,551,789	P14,607,521,588	

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**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Period Ended March 31 (Unaudited)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before Income Tax	₱332,796,358	₱310,612,727
Adjustments for:		
Net Unrealized Loss (Gains) on FVTPL Investments	(329,066,728)	626,834,111
Interest Income	(307,416,972)	(307,850,371)
Interest Expense	290,343,377	189,691,586
Share in Net Income of Investees	(203,755,802)	(196,340,912)
Profit from Assets Sold	(50,687,351)	(356,002,452)
Dividend Income	(34,013,730)	(44,587,084)
Depreciation and Amortization	22,483,339	14,172,139
Recovery from Impairment and Credit Losses	(14,080,479)	(44,004,296)
Amortization of Premium of Amortized Cost	13,882,652	13,287,558
Unrealized Forex (Gain) Loss on Amortized Cost	1,401,002	(23,101,150)
Amortization of Bond Issue Cost/ Premium on Bonds Payable	1,243,225	1,212,000
Unrealized Forex (Gain) Loss on Bills Payable	(802,063)	45,252,976
Amortization of Premium of FVOCI Investments	307,392	932,298
Unrealized (Gain) Loss on FVOCI Investments	2,230	(6,407,732)
Trading Loss on FVOCI Investments	-	2,153,327
Changes in operating assets and liabilities:		
Increase in the amounts of:		
FVTPL Investments	(767,318,776)	(1,284,074,232)
Loans and Receivables	(180,281,377)	299,061,375
Other Assets	(13,745,043)	18,440,267
Increase (Decrease) in the amounts of:		
Accrued Taxes, Interest and Other Expenses	48,590,447	85,554,071
Other Liabilities	557,828,457	297,773,347
Net cash used in operations	(632,289,842)	(357,390,447)
Interest Income Received	307,338,790	362,246,060
Interest Expense Paid	(281,275,035)	(185,497,547)
Income Taxes Paid	(105,027,863)	(124,997,280)
Net cash used in operating activities	(711,253,950)	(305,639,214)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
FVOCI Investments	(5,516,507,490)	(763,519,758)
Amortized Cost	(128,353,593)	(149,250,000)
Property and Equipment	(79,446,397)	(13,359,377)
Intangible Assets	(214,625)	(4,867,587)
Proceeds from sale/redemption of:		
Investment Properties	65,789,448	460,000,000
Property and Equipment	150,963	81,093
Amortized Cost	-	1,749,867,434
FVOCI Investments	-	312,857,148
Investments in Subsidiaries and Associates	-	20,716,586
Dividends received	18,076,788	28,944,847
Net cash provided by (used in) investing activities	(5,640,504,906)	1,641,470,386
<i>(Forward)</i>		



For the Period March 31  
(Unaudited)

	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Settlements of Bills Payable	(P125,275,265,225)	(P171,498,770,543)
Proceeds from issuance of Bills Payable	131,291,589,402	166,397,376,490
Acquisition of Treasury Shares	(1,823,172)	(176,436)
Dividends paid	-	(76,586)
Net cash provided by (used in) financing activities	<b>6,014,501,005</b>	<b>(5,101,647,075)</b>
<b>NET DECREASE IN CASH &amp; CASH EQUIVALENTS</b>	<b>(337,257,851)</b>	<b>(3,765,815,903)</b>
<b>CASH &amp; CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
Cash and Other Cash Items	2,935,131,821	5,320,741,050
Due from Bangko Sentral ng Pilipinas	3,489,997,884	4,399,997,307
Interbank Loans Receivable	-	500,000,000
	<b>6,425,129,705</b>	<b>10,220,738,357</b>
<b>CASH &amp; CASH EQUIVALENTS AT END OF THE PERIOD</b>		
Cash and Other Cash Items	2,987,879,019	2,924,923,798
Due from Bangko Sentral ng Pilipinas	3,099,992,835	3,529,998,656
	<b>P6,087,871,854</b>	<b>P6,454,922,454</b>

**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**A. Accounting Policies**

Basis of Preparation

The accompanying unaudited consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited consolidated financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the First Metro Investment Corporation and Subsidiaries (the Group) annual consolidated audited financial statements as of and for the year ended December 31, 2018.

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.

Statement of Compliance

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

Presentation of Financial Statements

The statements of financial position of the Group are presented in order of liquidity.

Basis of Consolidation

The unaudited consolidated financial statements comprise the financial statements of the Parent Company and its wholly owned and majority owned subsidiaries, as follows:

<u>Subsidiary</u>	<u>Effective Percentage of Ownership</u>
Securities Brokerage:	
First Metro Securities Brokerage Corporation (FMSBC) and Subsidiary	100.00
Financial Market:	
PBC Capital Investment Corporation (PBC) and Subsidiary	100.00
Insurance Brokerage:	
First Metro Insurance Brokers Corporation (FMIBC)	100.00
Mutual Funds:	
First Metro Asia Focus Equity Fund, Inc. (FMAFEF)	100.00
First Metro Save and Learn Dollar Bond Fund, Inc. (FMSLDBF)	94.11
First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPEETF)	45.07
First Metro Save and Learn Equity Fund, Inc. (FMSALEF)	25.94
First Metro Save and Learn Fixed Income Fund, Inc. (FMSALFIF)	25.65
First Metro Save and Learn Balanced Fund, Inc. (FMSALBF)	21.72

Others:

Prima Ventures Development Corporation (PVDC)	100.00
FMIC Equities, Inc. (FEI)	100.00
SBC Properties, Inc. (SPI)	100.00
Resiliency (SPC), Inc.	100.00
First Metro Asset Management, Inc. (FAMI)	70.00

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 unaudited 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

#### 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

The accounting policies adopted in the preparation of the unaudited interim consolidated financial statements are consistent with those followed in the preparation of the audited annual consolidated financial statements as of and for the year ended December 31, 2018.

### **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 (₱), except for 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 Bankers Association of the Philippines (BAP) 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 Group presentation currency at BAP closing rate prevailing at the statement of financial position date, and their income and expenses are translated at BAP weighted average rate (BAPWAR). Exchange differences arising on translation are taken to statement of comprehensive income as 'Cumulative translation adjustment'. Upon disposal of FMSLDBF or when the Group 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 FVTPL, the initial measurement of financial instruments includes transaction costs.

##### *'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 FVTPL - Embedded derivatives*

Derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and securities gains (losses)'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Under PFRS 9, the Group accounts for derivatives embedded in financial liabilities and non-financial host contracts similar with PAS 39. For financial assets, embedded derivatives are accounted for together with the host contracts and are classified based on the business model and contractual cash flows of the instrument.

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

The Group has seed capital investments in several 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' in the statement of income.

Financial Instruments – Classification and Subsequent Measurement

The Group classifies its financial assets in the following categories: financial assets at FVTPL, investment securities at FVOCI and financial assets measured at amortized cost while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost. The classification of financial instruments depends on the contractual terms and the business model for managing the instruments. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As a second step of its classification process, the Group assess the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than de minimis exposure to risks or validity in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL.

*Financial assets or financial liabilities held for trading (FVTPL)*

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include government securities, corporate bonds and equity securities which are held for trading purposes and debt instruments which contractual cash flows is not SPPI.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in Trading and securities gains (losses) in the statements of income.

Interest earned on these investments is reported in statements of income under Interest income account while dividend income is reported as Dividends in the statements of income account when the right of payment has been established.

*FVOCI investments*

FVOCI investments include debt and equity instruments. After initial measurement, FVOCI investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of FVOCI investments are excluded, net of tax, from the reported earnings and are included in the statement of comprehensive income as 'Changes in net unrealized gain/(loss) on FVOCI investments'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of FVOCI debt securities, as well as the impact of restatement on foreign currency-denominated FVOCI debt securities, are reported in the statement of income. Interest earned on holding FVOCI investments are reported as 'Interest income' using the effective interest rate (EIR) method. When the FVOCI debt securities are disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as 'Trading and securities gain (loss)' in the statement of income. The ECL arising from impairment of such investments do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit or loss upon derecognition.

Equity instruments designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding these equity securities are recognized in the statement of income as 'Dividends' when the right of the payment has

been established. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in other of comprehensive income is reclassified to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

#### *Financial assets at amortized cost*

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount. These include 'Cash and other cash items', 'Due from BSP', 'IBLR and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in statement of income when these investments are derecognized or impaired, as well as through the amortization process. The expected credit losses 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 investments are recognized in the statement of income.

#### Financial liabilities carried at amortized cost

Issued financial instruments or their components, which are not designated at FVTPL, 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, Bonds payable, and similar financial liabilities not qualified as and not designated as FVTPL, 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 '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

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets:

(i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristics of the instrument's contractual cash flows need the amortized cost criteria.

A change in the objective of the Group's business model will be affected only at the beginning of the next reporting period following change in the business model.

#### 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 adoption of PFRS 9 has changed the Group's impairment method by replacing PAS 39's incurred loss approach with a forward-looking ECL approach. From January 1, 2018 the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

#### *Overview of the ECL principles*

The ECL allowance is based on the credit losses expected to arise on 12-month duration if there was no significant increase in the credit risk (SICR) of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Based on these processes, debt financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

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 a lifetime ECL 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 unlikeliness 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 cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on agreed settlement date, or request for moratorium.

#### *SICR*

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 have well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than 30 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. 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.

#### *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.

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 historical 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 historical 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 committed amounts, EAD includes an estimate of any further amount 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.

#### 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.

The Group’s accounting policy for write-offs and recoveries after write-offs of financial assets under PFRS 9 remains the same as it was under PAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery.

##### *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, IBLR and SPURA 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 and Associates

##### *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*

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.

*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 are accounted for using the equity method. (See discussion on the next section, 'Parent Company financial statements', on accounting using the equity method).

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

*Parent Company financial statements*

The Parent Company's investments in subsidiaries and associates are accounted for using the equity method. Under the equity method, the investment in subsidiaries or associates 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 or associate since the acquisition date. Goodwill relating to the subsidiary or associate 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 and associate. 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 or associate, 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 or associate are eliminated to the extent of the interest in the subsidiary or associate.

The aggregate of the Parent Company's share of profit or loss of subsidiaries and associates 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 or associates 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 or associates. At each statement of financial position date, the Parent Company determines whether there is objective evidence that the investment in subsidiaries or associates 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 or associates 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 Save and Learn Dollar Bond Fund, Inc. (FMSLDBF), a subsidiary, has US dollars as its functional currency. Adjustments resulting from the translation of the financial statements of FMSLDBF 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 method and useful life are reviewed periodically to ensure that the method and period of depreciation 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 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.'

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*

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. 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 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.

Capital paid in excess of par value

When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus.



#### 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

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements except for certain brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

#### *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 as the customer simultaneously receives and consumes the benefits provided by the Group. These fees includes management fees and advisory fees.
- 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.

#### *Gain on sale of assets*

Gain on sale of assets is recognized when the control 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.

The Group assessed that there is no difference in accounting for the above fees and commission income and gain on sale of assets under PFRS 15 and PAS 18.

## Revenue outside the scope of PFRS 15

### *Interest income*

- a. *Interest income recognized using the effective interest rate method* – Interest income is recognized in profit or loss for all instruments measured at amortized cost, AC investments and debt instruments classified as investment securities at FVOCI using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimate cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When financial asset becomes credit-impaired and is, therefore, regarded as ‘Stage 3’, the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit impaired, the Group reverts to calculating interest income on a gross basis.

- b. *Other interest income* – Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognized using the contractual interest rate and is included under ‘Interest income on financial assets at fair value through profit or loss’ in the statement of income.

### *Dividends*

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

### *Trading and securities gains (losses)*

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL and gains and losses from disposal of, debt securities at FVOCI and AC investments.

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 pro-rata approach starting January 1, 2018.

### *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 E. Segment Information.

#### 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, 2020

#### *Amendments to PFRS 3, Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

#### *Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

### Effective beginning on or after January 1, 2021

#### *PFRS 17, Insurance Contracts*

PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers*.

#### *PFRS 17, Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive

model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

#### *Deferred effectivity*

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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## **B. 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 financial assets*

The Group classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.



The Group performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

*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 45.1%, 25.9%, 21.7%, and 25.7% 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 March 31, 2019. The Group assessed that control over FMPEETFI, FMSALEF, FMSALBF and FMSLFIF (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

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

##### *a. Credit losses of financial assets*

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- The Group's internal grading model, which assigns PDs to individual grades.
- The Group's criteria for assessing if there has been a significant increase in credit risk and the corresponding allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- The Group's definition of default, which is consistent with regulatory requirements.
- The segmentation of financial assets when the ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.

##### *b. Impairment of non-financial assets (Investments in subsidiaries and associates)*

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.

c. *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).

d. *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.

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## C. 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, Metrobank, on the other hand, through 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. With implementation of IFRS 9 on Expected Credit Losses (ECL), the Probability of default (PD) models are used in parallel to the ICRRS. The PFRS 9 - ECL Technical Document provides guidance on the methodology and calculation of the impairment provision; models are assessed and recalibrated as needed.

### *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 monitor 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.

### *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.

### *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.

*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

It is the Group's policy to dispose foreclosed properties acquired in an orderly fashion.

*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.

For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and advances; (2) loans and receivables; and (3) trading and financial investment securities. To mitigate risk concentration, the Parent Company checks for breaches in regulatory and internal limits. Internal credit concentration 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.

*Credit quality per class of financial assets*

The credit quality of financial assets is assessed and managed using external and internal ratings.

*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 Group. The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

For liquidity risk, the Group 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 Group 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 Group'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 Group uses liquidity forecast models that estimate the Group's cash flow needs based on the Group'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 Group on a daily basis and further analyzed at predetermined scenarios/situations.

#### *Financial assets*

Analysis of equity and debt securities at FVTPL 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 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.

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.

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 Company slots its interest rate sensitive assets or liabilities according to maturity or repricing date, whichever comes first. The Company has no non-maturing deposits. Interest rate risk in the banking book is measured through the Interest Rate Gap and EaR, measured and reported monthly.

#### *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.

#### *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.

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## **D. 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 (FVTPL, FVOCI and Amortized Cost investments) and quoted equity investments are generally based on their quoted market prices. Beginning on January 1, 2018, unquoted equity securities, are fair valued using the adjusted asset approach and Guideline Company Method (GCM). The adjusted asset approach derives the value of the investment using the net asset of the investee adjusted to its fair value. GCM allows a value indicator of a company to be derived by applying relevant multipliers of similar, publicly traded "comparable" companies to the company's financial metrics.

*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 Bloomberg's risk free rate plus estimated credit spread. Where the instrument

reprices on a quarterly basis or has a relatively short maturity, the carrying amount approximates 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.

*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 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:

	As of March 31, 2019				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets measured at fair value:					
Investment Securities at					
FVTPL:					
Debt securities:					
Government	₱3,055,229,421	₱3,055,229,421	₱	₱	₱3,055,229,421
Private	572,226,163	572,226,163	-	-	572,226,163
Equity securities	7,027,984,356	7,027,984,356	-	-	7,027,984,356
FVOCI:					
Debt securities:					
Government	5,687,871,103	5,687,871,103	-	-	5,687,871,103
Private	34,601,665	34,601,665	-	-	34,601,665
Equity securities	678,278,561	562,911,158	16,580,000	98,787,403	678,278,561
	<b>₱17,056,191,269</b>	<b>₱16,940,823,866</b>	<b>₱16,580,000</b>	<b>₱98,787,403</b>	<b>₱17,056,191,269</b>
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	₱428,673,483	₱	₱	₱481,048,710	₱481,048,710
Others	16,337,836	-	16,337,836	-	16,337,836
Unquoted commercial papers	632,454,383	-	-	643,903,224	643,903,224
Amortized Cost:					
Government	15,174,820,283	14,348,182,525	-	-	14,348,182,525
Private	1,972,178,095	1,856,435,623	-	-	1,856,435,623
	<b>₱18,224,464,080</b>	<b>₱16,204,618,148</b>	<b>₱16,337,836</b>	<b>₱1,124,951,934</b>	<b>₱17,345,907,918</b>
Financial liabilities					
Bonds payable	₱2,918,200,975	₱	₱	₱2,948,382,023	₱2,948,382,023
Nonfinancial assets					
Investment properties	₱190,450,149	₱	₱	₱594,857,500	₱594,857,500

As of March 31, 2019, 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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## E. 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 March 31, 2019, the Group's operating segments are as follows:

- Financial Markets Group - manages the investment banking business of the company. First Metro stands at the forefront of the Philippine capital markets as the investment bank of choice for prominent corporations and government agencies. Its track record in debt and equity underwriting rests on its key strength in origination, structuring and execution. The investment bank perennially engages in the lion's share of transactions in the debt and equities markets.
- Investment Banking Group - 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.
- 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, life insurance 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 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. This segment information is presented monthly to the Parent Company's BOD which is the Chief Operating Decision Maker.

The following table present revenue and income information of the Group's operating segments measured in accordance with PFRS as of and for the period ended March 31, 2019:

	Financial Markets	Investment Banking	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations								
Net interest income (expense)	(#35,552,869)	#-	#33,862,292	#-	#26,067,345	#24,376,768	#-	#24,376,768
Non-interest income (loss)	81,263,926	74,916,102	184,965,804	-	100,657,604	441,803,436	(52,753,159)	389,050,277
Total Income (Loss)	45,711,057	74,916,102	218,828,096	-	126,724,949	466,180,204	(52,753,159)	413,427,045
Non-interest expense	(45,356,039)	(5,844,126)	(65,656,441)	-	(95,702,639)	(212,559,245)	52,753,159	(159,806,086)
Income before share in net income of investees	355,018	69,071,976	153,171,655	-	31,022,310	253,620,959	-	253,620,959
Share in net income of investees	-	-	-	-	-	197,879,771	5,876,031	203,755,802
Income tax provision	(52,780,864)	-	(25,043,684)	-	(10,545,469)	(88,370,017)	-	(88,370,017)
Non-controlling interest in net income of consolidated subsidiaries	-	-	-	-	(2,292,153)	(2,292,153)	-	(2,292,153)
Net income (loss) attributable to the Parent Company	(52,425,846)	69,071,976	128,127,971	197,879,771	18,184,688	360,838,560	13,608,695	366,714,591
Net Interest Income (Expense) - others								(7,303,173)
Net Interest Income								359,411,418
Operating and Non-Operating Income								58,148,761
Income - net of interest expense								417,560,179
Operating and Non-Operating Expense								(175,425,991)
Income Before Share in Net Earnings								242,134,188
Provision for Income Tax								(841,138)
Net income (loss) attributable to the Parent Company	(#52,425,846)	#69,071,976	#128,127,971	#197,879,771	#18,184,688	#360,838,560	#13,608,695	#241,293,050
Statement of Financial Position								
Total Assets	#28,990,780,400	#-	#10,031,790,817	#6,844,301,932	#8,967,528,038	#54,834,401,186	(#4,451,965,918)	#50,382,435,268
Total Liabilities	25,397,851,747	-	6,959,946,383	-	2,814,739,294	35,172,537,424	(254,035,165)	34,918,502,259
Other Segment Information								
Capital expenditures	-	-	-	-	4,047,314	4,047,314	-	4,047,314
Deferred tax assets	-	-	-	-	33,358,954	33,358,954	-	33,358,954
Depreciation and amortization	-	-	-	-	22,483,339	22,483,339	-	22,483,339
Recovery from impairment losses	-	-	-	-	(14,080,479)	(14,080,479)	-	(14,080,479)

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 or can be allocated to the segment on a reasonable basis. ✓

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. ✓

Interest income is reported net 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 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. ✓

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## F. 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 March 31, 2019: ✓

Total outstanding DOSRI loans	<b>₱10,687,351</b> ✓
Percent of DOSRI loans to total loans	<b>2.28%</b> ✓
Percent of unsecured DOSRI loans to total DOSRI	<b>48.02%</b> ✓
Percent of past due DOSRI loans to total DOSRI	<b>0.0%</b> ✓
Percent of non-performing DOSRI loans to total DOSRI	<b>0.0%</b> ✓

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.

The following are the balances of the Group's related party transactions as of March 31, 2019:

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Ultimate Parent Company</b>			
Cash and other cash items		<b>₱807,046,477</b>	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.0% to 1.4% while US dollar deposits carry interest from 0.3% to 1.1%
FVTPL		<b>64,818,875</b>	Investments in the Ultimate Parent Company's share of stock
Accrued interest receivable		<b>1,522,244</b>	From time deposits
Other assets		<b>129,491</b>	From rental deposits
Accrued interest and other expenses		<b>1,772,587</b>	Accrued interest payable from Interbank loans payable and various accrued expenses
Bills payable		<b>787,500,000</b>	Dollar interbank loans payable with annual coupon interest rate ranging from 3.42% to 3.43%
Interest income	<b>₱336,213</b>		From interbank loans, savings and time deposits
Dividend income	<b>810,660</b>		From dividend declared
Interest expense	<b>8,266,962</b>		Interest expense from interbank borrowings
Rent, light and water	<b>6,605</b>		Rental payments for office premises
Miscellaneous expense	<b>2,791,111</b>		Internal audit and other professional fees and miscellaneous expenses
<b>Other Related Parties</b>			
Cash and other cash items		<b>₱185,724,373</b>	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 5.5% per annum
Loans receivable		<b>149,954,383</b>	Unquoted debt securities with annual interest rate ranging from 7.01% to 7.07%
Accrued interest receivable		<b>1,258,355</b>	From deposit substitutes
Miscellaneous deposits		<b>1,658,278</b>	Security deposits
Accrued other expenses		<b>1,138,377</b>	Rental and various accrued expenses
Interest income	<b>₱5,554,599</b>		Interest income from investment in private bonds, short-term placements, savings and time deposits
Underwriting and other Professional Fees	<b>65,815,027</b>		From underwriting and other services rendered
Interest expense	<b>2,641,832</b>		Interest expense from interbank borrowings
Miscellaneous expenses	<b>2,296,375</b>		Rent, membership & dues

## G. Other Information

- Compliance with US Foreign Account Tax Compliance Act (FATCA) Regulations

Pursuant to SEC Memorandum Circular No. 8, Series of 2014, the following actions were undertaken to comply with the US Foreign Account Tax Compliance Act (FATCA) requirements, as follows:

1. Metrobank, being the Lead FFI of an Expanded Affiliate Group (EAG), has identified First Metro and its subsidiaries that are qualified as Foreign Financial Institutions (FFI);
2. Metrobank, being the Lead FFI, has created FATCA accounts for First Metro and the covered subsidiaries;
3. First Metro has created a FATCA Compliance Ad Hoc Committee last December 27, 2013 to oversee the FATCA implementation requirements for First Metro and its subsidiaries;
4. First Metro, through its Compliance Division, has registered last January 6, 2014 with the US IRS for FATCA purposes, including the covered subsidiaries. The IRS issued a Global Intermediary Identification Number (GIIN) for each of the following FFI:
  - a. First Metro Investment Corporation
  - b. First Metro Securities Brokerage Corporation
  - c. PBC Capital Investment Corporation
  - d. FMIC Equities, Inc.
  - e. Resiliency (SPC), Inc.
  - f. First Metro Asset Management Inc.
  - g. First Metro Save & Learn Dollar Bond Fund, Inc.
  - h. First Metro Asia Focus Equity Fund, Inc.
  - i. First Metro Philippine Equity Exchange Traded Fund Inc.
  - j. First Metro Save & Learn Equity Fund Inc.
  - k. First Metro Save & Learn Fixed Income Fund Inc.
  - l. First Metro Save & Learn Balanced Fund Inc.

First Metro through its Compliance Division, has updated its registration details last April 24, 2015 with the US IRS for FATCA purposes, including the covered subsidiaries.

5. First Metro and its subsidiaries have conducted initial runs for search of US Indicia in their databases;
6. First Metro has adopted the Metrobank template for Letters to Depositors and the Certification, Consent and Waiver Form for identified US Indicia accounts;
7. First Metro is finalizing the establishment of the policies and procedures to identify US Indicia and tag the same in the company's systems for the pre-existing accounts and on-boarding procedures for new accounts;
8. First Metro has rolled out training awareness on FATCA for all its employees, including the covered subsidiaries; and

9. First Metro, through its Compliance Division, has continuously coordinated with its parent bank Metrobank and the Association of Bank Compliance Officers or ABCOMP to raise issues and queries on FATCA implementation.
10. First Metro has registered in IDES last June 16, 2016. IDES is a system used by IRS that serves as a single point of delivery for both Financial Institutions and Host Country Tax Authorities to electronically exchange FATCA data with the U.S.
11. IDES was opened to concerned entities for testing last June 15-30, 2016; July 18-29, 2016; December 19, 2016 - January 30, 2017; June 19 - July 14, 2017; and December 18, 2017 - January 26, 2018. It aims to allow concerned units to test the correctness of their FATCA reporting package prior to actual submission of live reports. First Metro participated in this testing and was able to successfully upload the required reports.

- Seasonality or Cyclicity of Interim Operations

The Parent Company's operations is driven mainly by prevailing market and economic conditions, as well as, by the demands and or needs of the investors and borrowers and is not influenced by seasonal or cyclical pulls.

- No Unusual Items

There are no items affecting assets, liabilities, equity, net income or cash flows, which may be considered unusual by virtue of their nature, size or incidence.

- Use of Estimates in the Preparation of Financial Statements

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 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.

- Issuances, Repurchases and Repayments of Securities

There were no additional issuances of the Parent Company's debt and equity securities for the period.

- Dividends

There was no dividend declaration during the quarter ended March 31, 2019.



- Material Events

There were no material events that took place during the quarter ended March 31, 2019.

- Subsequent Events

There were no subsequent events that took place after the quarter ended March 31, 2019.

- 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 as of March 31, 2019:

Stand-by letter of credit	<b>₱410,000,000</b>
Items held as collateral/ for safekeeping	<b>4</b>
Other Contingent Accounts (Legal Claims)	<b>750,000</b>
<b>Total</b>	<b>₱410,750,004</b>

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. It does not recognize any provision for probable losses as of March 31, 2019.

- Earnings Per Share

Earnings per share is determined by dividing the net income for the period by the weighted average number of common shares issued and outstanding during the period, computed as follows:

	January to March	
	2019	2018
a. Net income*	<b>₱241,293,050</b>	₱162,022,362
b. Weighted average number of common shares	<b>372,485,156</b>	372,531,387
c. Earnings per share (a/b)	<b>₱0.65</b>	₱0.43

\* Attributable to Equity holders of the Parent Company

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION  
(March 31, 2019 vs. December 31, 2018) AND RESULTS OF OPERATIONS (January 1 – March  
31, 2019 vs. January 1 - March 31, 2018)**

**FINANCIAL POSITION**

As of March 31, 2019, the consolidated total assets of the Group stood at ₱50.4 billion, higher by 16.6% or ₱7.2 billion from ₱43.2 billion as of December 31, 2018.

The changes in consolidated total assets were primarily due to the movements in the following accounts:

- *Cash and Other Cash Items* ended at ₱3.0 billion, increased by ₱52.7 million mainly due to higher outstanding balances of demand and savings netted by lower time deposits and short term placements as of reporting date.
- *Due from Bangko Sentral ng Pilipinas* represents the balance of the deposit accounts maintained with BSP to meet the reserve requirements on deposit substitute liabilities and bonds payable and serves as a clearing account for interbank transactions and special deposit account. This account decreased by 11.2% or ₱390.0 million from ₱3.5 billion to ₱3.1 billion, mainly due to lower bills payables subject to reserve as of reporting date.
- *Financial Assets at Fair Value Through Profit or Loss (FVTPL)* increased by ₱1.1 billion from ₱9.6 billion to ₱10.7 billion as of this period. The increase pertains to the net purchase of debt and equity securities portfolio as of the reporting period. As of March 31, 2019, this account mainly consists of government securities and private debt and equity securities amounting to ₱3.1 billion, ₱0.6 billion and ₱7.0 billion, respectively.
- *Fair Value Through Other Comprehensive Income (FVOCI)* represents investments in government securities and private debt and equity securities. The increase of ₱5.7 billion from ₱0.7 billion to ₱6.4 billion was mainly due to the ₱5.7 billion net purchases of government securities by the Parent Company during the period.
- *Amortized Cost* consists of investments in government securities and private debt securities. The increase of ₱113.1 million from ₱17.0 billion to ₱17.1 billion was mainly due to ₱128.4 million purchases during the period.
- *Loans and Receivables* increased by 12.4% or ₱196.3 million from ₱1.6 billion to ₱1.8 billion this period. Loans and Discount was reduced by 6.1% or ₱30.8 million due to the impact of ₱383.4 million loan repayments netted by ₱352.7 million loan grants. On the other hand, Other Receivables account grew by 47.3% or ₱227.1 million mainly due to the higher receivables from customers and clearing house recorded by the Parent Company's subsidiaries.

Unquoted Debt Securities Classified as Loans (UDSCL) which consists of various debt instruments issued by private corporations remained the same from its outstanding balance of ₱632.5 million last December 31, 2018.

- *Investments in Subsidiaries, Associates and Joint Venture* represent the costs of investments in shares of stocks in allied/non-allied undertakings. The ₱310.1 million increase from ₱6.6 billion to ₱6.9 billion this period was mainly due to the ₱203.8 million total shares in net earnings and ₱106.3 million shares in other comprehensive income of associates.
- *Investment Properties* consists of land, building and condominium units held for sale or lease. The decrease of 7.5% or ₱15.5 million from ₱205.9 million to ₱190.5 million was mainly due to the ₱15.1 million sales of real property and ₱0.4 million depreciation expense recognized during the period.
- *Property and Equipment* pertains to condominium units and improvements, furniture and equipment owned by the Group. The increase of 58.6% or ₱62.2 million from ₱106.2 million to ₱168.4 million this period was mainly due to the booking of ₱75.6 million right-of-use asset in accordance with the adoption of PFRS 16, *Leases*, ₱3.7 million net acquisitions of various furniture and fixtures and ₱17.1 million depreciation expense recorded during the period.
- *Deferred Tax Assets* ended at ₱33.4 million, ₱1.4 million lower than the ₱34.8 million as of December 31, 2018 mainly due to decrease in recognized deductible temporary differences of the Group.
- *Other Assets* includes prepayments, intangible assets, refundable deposits, other investments, retirement asset, deferred charges, unissued office supplies, input taxes and others. This account increased by ₱23.0 million from ₱999.3 million to ₱1,022.4 million mainly to higher prepaid creditable withholding taxes and expenses during the period.
- *Bills Payable* comprises of deposit substitutes and other borrowings obtained from local banks, private firms and individuals by the Parent Company. The increase of 37.1% or ₱6.0 billion from ₱16.2 billion to ₱22.2 billion this year was mainly due to the net impact of the ₱131.3 billion proceeds from issuances and ₱125.3 billion settlements made during the period.
- *Accounts Payable* increased by 14.4% or ₱267.2 million from ₱1.9 billion to ₱2.1 billion as of reporting date mainly due to increase in trade payables of Parent Company's subsidiary.
- *Accrued Taxes, Interest and Other Expenses* consists of expenses incurred on taxes, licenses, interests on borrowings, retirement liability and other expenses of the Group which have remained unpaid as of reporting date. The growth of 37.2% or ₱57.1 million from ₱153.2 million to ₱210.2 million was mainly due to higher accrued other expenses payable, accrued taxes and licenses payable, retirement liability and accrued interest payable as of reporting date.
- *Bonds Payable* consists of the fixed rate corporate bonds issued by the Parent Company amounting to ₱2.9 billion as of March 31, 2019 and December 31, 2018.
- *Income Taxes Payable* went down by 21.6% or ₱3.2 million from ₱14.3 million to ₱11.2 million as of March 31, 2019, mainly due to lower taxable income of the Group for the period.
- *Deferred Tax Liability (DTL)* decreased by ₱0.1 million from ₱5.2 million to ₱5.1 million as of the reporting period mainly due lower taxable differences of the Group during the period.

- *Puttable Instruments of Mutual Fund Subsidiaries Classified as Liability*  
This account pertains to the ownership interest of other shareholders outside the Group in the puttable instruments issued by mutual fund subsidiaries. This account went up by ₱88.1 million from ₱6.8 billion to ₱6.9 billion this year mainly due to increase in value of these puttable instruments.
- *Other Liabilities* consists of payable for securities purchased, withholding taxes, dividends, subscription and premium payables, non-equity non-controlling interest and other miscellaneous liabilities. The increase of 52.7% or ₱187.2 million from ₱355.5 million to ₱542.6 million was mainly due to ₱121.0 million outstanding payable for securities purchased and ₱66.8 million lease liability in accordance with adoption of PFRS 16 during the period.
- *Retained Earnings* increased by ₱241.3 million from ₱11.4 billion to ₱11.6 billion mainly due to the Group's results of operations recognized during the period.
- *Net Unrealized Loss on FVOCI Investments* decreased by 88.0% or ₱220.0 million from ₱250.0 million to ₱30.0 million this period mainly due to unrealized market gains of Parent Company's investment in government securities purchased during the period.
- *Cumulative Translation Adjustments* pertain to foreign currency adjustment of Parent Company's foreign currency denominated equity investments with FMSLDBF amounting to ₱32.7 million as of March 31, 2019 and December 31, 2018.
- *Remeasurements of Retirement Liability* totaled ₱47.9 million, ₱0.6 million higher than last year balance of ₱47.3 million and this pertains to the effect of the remeasurements of the post-employment defined benefit plans recognized in other comprehensive income.
- *Equity in Other Comprehensive Income (Loss) of Associates* pertains to Equity Share on Decline in Value of Investments Securities, Unrealized Gains (Losses) Arising from Remeasurement of Retirement and Life Insurance Reserves of Parent Company's Associates. This account increased by ₱106.4 million from ₱23.8 million loss to ₱82.6 million gains this period mainly due to higher Parent Company's proportionate share in the positive changes in the fair value of FVOCI investments and remeasurement of life insurance reserves of Associates.
- *Equity Attributable to Non-controlling Interests* increased by ₱3.6 million from ₱91.2 million to ₱94.8 million this period which was attributable to the increase in capital funds of majority-owned subsidiary of the Parent Company.
- *Capital Funds* reached ₱15.4 billion as of March 31, 2019, which translates to 59.4% capital adequacy ratio (CAR). This is way in excess of the 10.0% CAR required by BSP on non-bank financial intermediaries with quasi-banking function.

## RESULTS OF OPERATIONS

For the period ended March 31, 2019, First Metro realized a consolidated net income attributable to equity holders of the Parent Company of ₱241.3 million, 48.9% or ₱79.3 million higher than same period last year's result of ₱162.0 million.

Detailed discussions on the changes in the consolidated statement of income accounts are as follows:

- *Income from Financial Markets* mainly consists of interest income earned from fixed income portfolio, realized trading gains (losses) from investments in debt securities and other fee-based income. The Group contributed ₱325.5 million gross income, ₱1.1 million lower than last year's income of ₱326.6 million.
- *Investment Banking Fees* generated ₱74.9 million which is 169.1% or ₱47.1 million higher than last year's fee income of ₱27.8 million mainly due to fees earned from this year's major deals such as Stock Rights Offering of a savings bank, Retail Treasury Bonds Issuance and Syndicated Term Loan Facilities.
- *Income (Loss) from Investment in Stocks* totaled ₱3.9 million gains, 105.2% or ₱79.0 million up compared to same period last year of ₱75.1 million losses mainly due to higher realized trading gain incurred from the sale investments in stocks this period as compared to same period last year.
- *Other Income* totaled ₱350.4 million, ₱13.6 million lower than same period last year's result of ₱364.0 million. This account represents income earned on sale of assets, lease of real property and equipment, other fees and commissions earned and various income generated by the Parent Company's subsidiaries.
- *Non-Operating Income* mostly represents share in net earnings of Parent Company's associates, recovery from impairment losses and unrealized foreign exchange gain. This account totaled ₱217.7 million, which is 12.1% or ₱29.9 million lower than same period last year's result of ₱247.6 million. The decrease came mainly from lower recovery from impairment losses recognized this period.
- *Interest Expense* refers to interest on outstanding bills payable to banks, individuals and private firms either paid or accrued. The 53.1% or ₱100.7 million increase from ₱189.7 million to ₱290.3 million was mainly due to higher outstanding bills payable this period as compared to the same period last year.
- *Employee's Compensation and Fringe Benefits* consist of the gross remuneration and other benefits granted to employees for services rendered. This account increased by ₱10.2 million or 7.1% from last year's expense of ₱129.6 million to ₱139.8 million this period mainly due higher salary and wages and bonuses incurred this period.

- *Depreciation and Amortization* represents the monthly/periodic depreciation of the Group's condominium units, furniture, fixtures and equipment and right-of-use assets, as well as, the monthly amortization of deferred charges, leasehold rights and improvements. The increase of 58.6% or ₱8.3 million from ₱14.2 million to ₱22.5 million this period was mainly due to depreciation expense incurred for right-of use assets booked in accordance with the adoption of PFRS 16 during the period.
- *Management and Other Professional Fees* pertain to expenses incurred for services rendered by individuals/firms on a retainer or contractual basis which totaled ₱21.3 million, 11.9% or ₱2.9 million lower than last year's expense of ₱24.2 million mainly due to decrease in consultancy fees incurred by the Parent Company during the period.
- *Rent Expense* pertains to expenses incurred for office spaces and/or equipment leased by the Group. This account totaled to ₱8.9 million this year, 37.7% or ₱5.4 million lower compared to same period last year's expenses of ₱14.3 million. The decline was mainly due to capitalization of lease or rental payments in accordance with the adoption of PFRS 16.
- *Representation and Traveling Expenses* totaled ₱4.0 million, 17.4 % or ₱0.9 million lower than last year's expense of ₱4.9 million mainly due to lower expenses incurred for public relations activities which were directly related to the business development and promotion of the various investment products to potential clients of the Group.
- *Supervision Fees* totaled ₱3.0 million and this represents the Parent Company's accrual of share in the cost of maintaining the appropriate supervising and examining department in BSP. The decline of 12.2% or ₱0.4 million for ₱3.4 million was mainly due to lower average monthly assets of the Parent Company which as the basis in computing for the supervision fees.
- *Other Expenses* includes expenses incurred on assets acquired, brokers' commission, transfer and exchange fees, online trading fees, referral and service fees, contractual services, membership fees and dues, advertising and publicity, insurance and other expenses. This account decreased by 6.7% or ₱6.7 million from ₱99.5 million to ₱92.8 million mainly due to lower advertising expense and broker's commission incurred during the period.
- *Taxes and Licenses* is 43.4% or ₱43.8 million lower than same period last year mainly due to lower GRT incurred this period.
- *Provision for Income Tax* includes regular and deferred corporate income taxes and final taxes on tax-paid investment securities. The decrease of 43.9% or ₱69.8 million from ₱159.0 million to ₱89.2 million was mainly due to the lower provisions for RCIT and deferred tax during the period.

## DISCUSSION OF KEY PERFORMANCE INDICATORS

In evaluating its performance, the Parent Company regularly analyzes the results of current operations and compares these against budget and results of prior periods. This business review is being discussed monthly in the Senior Management Committee. The review discloses the causes of any deviation and assists the Parent Company in controlling costs, evaluating performance and planning future goals.

The Parent Company has an adequate and effective budgeting, forecasting and management of information process. Performance review is being conducted to determine if we are meeting the set targets or goals.

Monthly results of operations and financial condition are also reported regularly to the parent bank, to the Board of Directors and to BSP.

The following basic ratios measure the comparative financial performance of the Group for the period ended Marc 31, 2019 and 2018 as well as, for the year-ended December 31, 2018:

Performance Indicator	As of		
	March 31, 2019 (Unaudited)	March 31, 2018 (Unaudited)	December 31, 2018 (Audited)
a. Return on Average Assets	1.79%	0.63%	1.07%
b. Return on Average Equity	5.41%	2.26%	3.46%
c. Cost-to-Income Ratio	75.25%	83.89%	119.57%
d. Capital Adequacy Ratio	59.40%	22.61%	60.79%
e. Non-performing loans ratio	-	-	-

Detailed discussions on some of the key performance indicators of the Company are as follows:

- Return on Assets*  
Return on Assets (ROA) or the ratio of annualized net income to average total assets, measures the return on money provided by both stockholders and creditors, as well as how efficiently all assets are managed. ROA increased to 1.79% from 0.63% of same period last year, due to the effect of higher annualized net income and lower average total assets.
- Return on Equity*  
Return on Equity (ROE) or the ratio of annualized net income to average capital funds, measures the return on capital provided by the stockholders. ROE rose to 5.41% from 2.26% of same period last year, due to the effect of higher annualized net income and average equity.
- Cost-to-Income Ratio*  
This represents the ratio of total operating expenses (excluding provisions for credit and impairment losses and income tax) to total operating income (excluding share in net income of associates and recovery from impairment and credit losses). It declined to 75.25% from 83.89% resulting from the decrease in the operating expenses and higher operating income.

- *Capital Adequacy Ratio*

This represents the ratio of net qualifying capital over the risk-weighted assets. It went up from 22.61% to 59.40% mainly due to higher net qualifying capital and lower risk-weighted assets.

## **COMMITMENTS, MATERIAL EVENTS AND UNCERTAINTIES**

1. To date, the Group has no plans of entering into any material commitments for capital expenditures in the future.
2. To the knowledge and information of the Group, there are no events or uncertainties that will have a material impact on the Group's liquidity.
3. There are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.
4. Also, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.
5. Likewise, there are no known trends, events or uncertainties that have had or that are reasonably expected to cause a material favorable or unfavorable impact on income from continuing operations.
6. Similarly, there were no significant elements of income or loss that did not arise from the Group's continuing operations.
7. Lastly, there were no seasonal aspects that had any material effect on the financial condition or results of operations of the Group.



**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**

Performance Indicator	As of March 31 ✓	
	2019 ✓ (Unaudited)	2018 ✓ (Unaudited)
a. Current/Liquidity Ratio	55.07% ✓	71.24% ✓
b. Solvency Ratio	69.31% ✓	70.46% ✓
c. Debt to Equity Ratio	227.20% ✓	240.10% ✓
d. Asset to Equity Ratio	327.82% ✓	340.77% ✓
e. Interest Rate Coverage Ratio	157.34% ✓	201.14% ✓
f. Net Profit Margin Ratio	51.96% ✓	35.47% ✓
g. Common Equity Tier 1 Ratio	58.77% ✓	22.19% ✓
h. Capital Adequacy Ratio	59.40% ✓	22.61% ✓

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**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**FORM AND CONTENT OF SCHEDULES**

**A. Financial Assets**

Name of issuing entity	Number of Shares/Principal amount of bonds/notes	Amount shown in the statement of financial position	Valued based in market quotation at end of reporting period	Income received and accrued
<b>Loans and Receivables:</b>				
<b>Loans and Discount:</b>				
Panay Energy Dev't. Corp	P456,760,886	P456,760,886		
Other loans	11,484,152	11,484,152		
Other borrowers of subsidiaries	4,853,684	4,853,684		
	473,098,722	473,098,722	P497,386,546	
<b>Unquoted Debt Securities Classified as Loans:</b>				
Manila Water Company, Inc.	482,500,000	482,500,000		
Orix Metro Leasing Corp.	99,982,585	99,982,585		
Philippine Savings Bank	49,971,798	49,971,798		
	632,454,383	632,454,383	643,903,224	
<b>Other Receivables</b>	707,315,195	707,315,195	706,407,633	
	1,812,868,300	1,812,868,300	1,847,697,403	
<b>Allowance for Credit Losses</b>	(28,994,965)	(28,994,965)		
	1,783,873,335	1,783,873,335	1,847,697,403	P22,602,729
<b>Fair Value Through Profit or Loss (FVTPL):</b>				
Government Securities	2,997,857,051	3,055,229,421		
Equity Securities	234,110,875	7,027,984,356		
Private Debt Securities	586,000,000	572,226,163		
	3,817,967,926	10,655,439,940	10,655,439,940	303,421,879
<b>Fair Value Through Other Comprehensive Income (FVOCI):</b>				
<b>Government Securities</b>				
Private Debt Securities	5,448,780,000	5,687,871,103		
Ayala Land, Inc.	4,500,000	4,212,844		
SM Investment Corp.	30,000,000	30,388,821		
<b>Equity Securities</b>				
Alabang Country Club	2	14,000,000		
Bonifacio Land Corp.	240,803	96,366,104		
Cathay Insurance Co., Inc.	20,526	1		
Global Business Holdings, Inc.	238	167,582		
Honda Philippines, Inc.	226,654	1,230,915		
Makati Sports Club	1	500,000		
Phil Depository & Trust Corp.	10,228	1,022,800		
The Philippine Stock Exchange, Inc.	2,169,696	429,599,808		
Splendido Taal Golf	4	600,000		
Tagaytay Highlands	2	1,400,000		
Tower Club, Inc.	1	80,000		
Other issuers from subsidiaries	655,825	133,311,350		
	5,486,603,980	6,400,751,328	6,400,751,328	18,532,254

Amortized Cost:			
Government securities	₱13,850,386,827	₱15,174,820,283	
Private Debt Securities			
Aboitiz Equity Ventures	25,000,000	25,076,974	
Aboitiz Power Corp.	166,250,000	166,249,509	
Ayala Corp.	49,500,000	50,795,259	
Ayala Land Inc.	500,079,000	500,295,241	
Filinvest Land Inc.	499,050,000	499,057,848	
GT Capital Holdings, Inc.	15,520,000	15,315,389	
JG Summit Holdings Inc.	5,000,000	5,009,806	
Manila Electric Co.	97,000,000	95,921,724	
Petron Corporation	140,000,000	139,878,844	
Phoenix Petroleum Philippines Corp.	53,000,000	50,710,933	
Rockwell Land Corporation	100,000,000	99,988,951	
SM Investments Corporation	11,600,000	11,668,149	
SM Prime Holdings, Inc.	312,200,000	312,209,468	
	₱15,824,585,827	₱17,146,998,378	₱16,204,618,148    ₱194,174,801

Financial assets at FVTPL and FVOCI are measured in the statement of financial position at fair value.

Loans and receivables are measured in the statement of financial position at amortized cost using the effective interest rate and 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 effective interest rate (EIR).

Amortized Cost is measured in the statement of financial position at amortized cost using the effective interest rate and 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 EIR.

**B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties) in the ordinary course of business**

Name of and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Noncurrent	Balance at end of period
Officers and staff	₱15,743,079	₱2,642,960	(₱2,048,203)	(₱—)	₱1,101,528	₱15,236,308	₱16,337,836

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**C. Amounts of Receivable/Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements**

Name of debtor	Relationship	Balance at beginning of period	Additions	Amounts Collected	Amounts written-off	Current	Noncurrent	Balance at end of period
FAMI	Subsidiary	₱7,115,324	₱3,753,473	(₱8,808,233)	₱-	₱2,060,564	₱-	₱2,060,564
FEI	Subsidiary	-	1,063	(1,063)	-	-	-	-
FMIBC	Subsidiary	-	708	(708)	-	-	-	-
FMSBC	Subsidiary	108,031,715	1,313,791,690	(1,350,426,379)	-	71,397,026	-	71,397,026
PBC	Subsidiary	-	63,750	(63,750)	-	-	-	-
PVDC	Subsidiary	-	1,063	(1,063)	-	-	-	-
RSI	Subsidiary	-	1,063	(1,063)	-	-	-	-
SBC	Subsidiary	-	12,750	(12,750)	-	-	-	-
SALF	Subsidiary	73,320,565	21,058,904	(87,261,352)	-	7,118,117	-	7,118,117
SALBF	Subsidiary	31,049,322	8,199,048	(33,533,311)	-	5,715,059	-	5,715,059
SALFIF	Subsidiary	2,524,579	6,933,662	(6,875,019)	-	2,583,222	-	2,583,222
FMAFEF	Subsidiary	-	13,007	(11,428)	-	1,579	-	1,579
SALDBF	Subsidiary	367,281	1,123,745	(1,105,010)	-	386,016	-	386,016
FMETF	Subsidiary	583,441	2,114,813	(2,032,340)	-	665,914	-	665,914
		₱222,992,227	₱1,357,068,739	(₱1,490,133,469)	₱-	₱89,927,497	₱-	₱89,927,497

**D. Intangible Assets - Other Assets**

Movements in intangible assets follow:

	March 31, 2019
Balance at beginning of year	₱45,979,348
Additions at cost (cash expenditure)	214,625
Charged to cost and expenses	(5,041,382)
Balance at end of the period	₱41,152,591

This account consists of First Metro and FAMI's capitalized computer software with net book value of ₱34.5 million and ₱6.7 million, respectively.

**E. Long Term Debt**

The table below shows the long-term debt of the Group as of March 31, 2019:

Title of issue and type of obligation	Amount authorized by indenture	Current portion of long-term debt	Noncurrent portion of long-term debt
Bonds Payable	₱3,000,000,000	₱2,918,200,975	₱-

On August 10, 2012, the Parent Company issued fixed rate corporate bonds totaling ₱7.0 billion with fixed interest rate of 5.5% and 5.75% per annum computed based on 30/360 days, payable every quarter. ₱4.0 billion of the total issued amount had matured on November 10, 2017 while the remaining ₱3.0 billion will mature on and August 10, 2019.

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**F. Indebtedness to Related Parties (Long Term Loans from Related Companies)**

As of March 31, 2019, First Metro had no long-term debt to related parties.

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**G. Guarantees of Securities of Other Issuers**

Name of issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
Rockwell Land Corporation	Memorandum of Agreement	₱410,000,000	₱410,000,000	Guarantee of principal

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**H. Capital Stock**

	Common Stock
Authorized number of shares	800,000,000
Number of shares issued and outstanding as shown under the related statement of financial position caption	372,481,976*
Number of shares reserve for options, warrants, conversion and other rights	-
Number of shares held by affiliates	369,736,960
Number of shares held by directors, officers and employees	1,810

\* Net of 48,387,264 Treasury Shares as of March 31, 2019



**FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES**  
**AGING OF ACCOUNTS RECEIVABLE**

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No. of Days Outstanding	As of March 31, 2019 ✓
01-90	₱490,618,069 ✓
91-180	77,203 ✓
181-360	495,708 ✓
Over 360	6,151,873 ✓
Total	₱497,342,853 ✓

*J R*

SIGNATURES

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

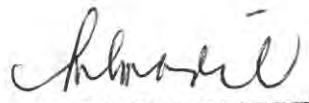
FIRST METRO INVESTMENT CORPORATION

Issuer


By:



RABBONI FRANCIS B. ARJONILLO  
President



MARICEL L. MADRID  
FVP/Controller



May 10, 2019  
Date