FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

2016 ANNUAL REPORT

RIDING THE Winds OF CHANGE

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RIDING THE Winds OF CHANGE

When the winds of change blow, some build walls while others build windmills, as one Chinese proverb says.

With a solid track record built over half a century of ebb and flow, First Metro Investment Corporation has already mastered the seas of change.

2016 was the year our company demonstrated its fundamental ability to execute. In a year characterized by heavy macroeconomic and political headwinds locally and globally, First Metro delivered strong underlying growth, underscoring the strength of our franchise, the unusual flexibility provided by our broad and well-balanced business strategy, and our proven ability to navigate challenging waters.

As a concrete testament to our performance as a prime mover in the domestic capital markets, First Metro was named the Philippines' "Best Investment Bank" by international publication *Global Finance*.

Banking on our long and stellar history as the leading investment bank in the Philippines, we are setting our sights on making a name in a bigger arena: Asia. Our regional ambition has remained steadfast and unshakeable, even as the winds change their course.

We believe that every raging storm is followed by calmer sea, and whenever this happens, First Metro will always be in a position of strength to quickly ride on the winds of change.

FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

VISION

First Metro Investment Corporation
is the leading investment banking institution
and the prime mover in the development of
the Philippine capital markets.
It will be a respected name in the Asian region.

MISSION

Our core purpose is to provide investment banking
and related financial solutions to enable our clients
to achieve sustainable and optimal returns.
We will adhere to the highest standards
of integrity and efficiency.

IN PURSUIT OF OUR MISSION, WE COMMIT TO:

Our People

We recognize and value their dignity and talents.
We provide a professional work environment and career opportunities that reward hard work and performance with competitive compensation.
We encourage our associates to achieve professional growth and financial security.

Our Shareholders

We shall optimize shareholders value through sustainable earnings while ensuring sound financial condition. We practice good corporate governance.

Our Country

We shall be a socially responsible corporate citizen committed to the economic upliftment of the Philippines and its people.

Our Values

* Integrity and Prudence
* Passion for Excellence
* Loyalty
* Teamwork
* Innovation
* Respect for the Individual

MESSAGE FROM THE CHAIRMAN

PROPELLED BY STRONG TAILWINDS

Over half a century, First Metro has consistently pursued its mission as a prime mover in the Philippine capital markets, whether in times of prosperity or uncertainty.

And even as 2016 proved to be among the most challenging and eventful years in recent memory, we have maintained our relentless pursuit of sustainable growth, as well as our solid commitment to create value for our stakeholders.

This commitment was put to a test in 2016 when the phrase "change is coming" became more than just a political battle cry.

The market spooks

The year started with a bang that shook the markets: the Bank of Japan introduced a negative interest rate policy, triggering a sell-off in Japanese bonds. Global stocks also fell in the aftermath of the December 16, 2015 move of the US Federal Reserve to raise interest rates for the first time in almost a decade. Further dampening sentiment were fears of an economic slowdown in China and its weakening currency.

As the stock markets plunged, so did oil prices. The worldwide oversupply of oil resulted in significant price swings from approximately $100 per barrel in the third quarter of 2014 to below $30 in early 2016. Oil prices ultimately recovered from their early stumble.

As if these were not enough to spook the market for the rest of the year, another earthshaking political event took place in June. In a shocking referendum, the United Kingdom voted to leave the European Union, causing confusion about the future of European trade, the value of the British pound, and Britain's financial institutions.

2016 was also the year when many market orthodoxies were turned on their heads. A wave of anti-establishment and anti-globalization sentiment swept many political leaders to power, including here in the Philippines. As soon as he got elected, President Rodrigo Duterte made known his anti-US and pro-China leanings.

The populist trend continued with real estate mogul Donald Trump's surprise election in November. The event may have roiled markets in the minutes that followed, but had more far-reaching repercussions globally due to his pronouncements on taxes, inflation, and infrastructure spending. His controversial "America First" declaration is also seen to radically change the immigration policy of the US and discourage outsourcing jobs.

Nerves of steel

Political headwinds, both locally and internationally, buffeted equity and bond markets during the year, and sent investors on a dizzying roller-coaster ride. Portfolio flows were quick to leave the less-safe, high-yield havens and sought a new home as soon as it appeared less threatened by geopolitical risk.

No one institution can be insulated from such volatility. But neither can a prudent investment bank allow itself to be swept away by the tide.

As we have throughout our history, First Metro has sought to resist the temptation to respond to events in haste. Instead, we continue to affirm our faith in the country's good economic fundamentals and base our decisions on what we believed is best over the long-term.

Even as populist sentiments have emerged, the Philippines continues to reap the gains from globalization. Its outward-looking economy, after all, Even as 2016 proved to be among the most challenging and eventful years in recent memory, we have maintained our relentless pursuit of sustainable growth, as well as our solid commitment to create value for our stakeholders.

has given birth to the business process outsourcing (BPO) sector and has spawned healthy doses of remittances from overseas Filipino workers. As such, the country's GDP growth remained the fastest in the region at 6.8% in 2016, eclipsing even China and Vietnam.

Yet a more exciting story involves domestic capital formation. Unlike portfolio money, which is more opportunistic, direct investments, both from local and foreign companies, are the "hardest" kind. These involve people placing their bets on solid fundamentals and looking at longer horizons to build factories, create jobs, and create ripple effects on the economy. In the past, the country merely attracted $1-2 billion worth of foreign direct investments. This reached a record-high $7.9 billion in 2016, 40.7% above the $5.6 billion in 2015, and is expected to be even higher in 2017.

Another new feature of the country's economic growth is infrastructure. As a proportion of our GDP, infrastructure used to account for a pittance at 1.5%, ranking the country among the region's laggards. This year, the government expects to double its infrastructure spending, raising the investment to 7% of our GDP over the long-term.

Riding the bull

This economic momentum has consequently spurred demand for long-term capital. And this is where we see ourselves playing a leading role in the Philippines' unfolding inclusive growth story.

In 2016, we continued to solidify our position in the industry by successfully participating in 48% of the total publicly listed capital markets transactions, raising P191.59 billion for the state and our corporate partners. We have dominated the domestic bond market, engaging in 87% of total bond issues for the year.

Having the Philippines' strongest bank, Metrobank, as our parent company has also given First Metro a leg up in many major deals, including the biggest Public-Private Partnership (PPP) deal to date – the P24 billion Light Rail Transit 1 expansion project – and the P20 billion loan facility for Globe Telecom, Inc. in 2016. We will continue to harness Metrobank's huge and healthy balance sheet as an anchor to fund mega projects and serve our clients' needs.

We are also gaining traction in M&A and project finance, propelled by the strong momentum of local companies eyeing domestic or regional acquisitions and partnerships. We also expect to provide more business matching and advisory work to offshore companies that are increasingly recognizing the importance of having a local partner. It is here where our synergy with the Metrobank Group plays a leading edge. Metrobank has a long history of strong partnerships with foreign companies such as AXA and ANZ in insurance, Toyota in automotive, and ORIX in leasing.

We will continue to seize strong investor interest in the country by piggybacking on Metrobank's vast network in the region, particularly in China, Taiwan, and Japan, to provide advisory work to foreign firms for cross-border deals. This is aligned with our strategy to forge alliances and spot opportunities in the emerging and key markets in the region.

In 2016, we sustained our collaboration with Japanese banking giant Sumitomo Mitsui Banking Corp. (SMBC) to explore potential capital markets and debt-related transactions. This was made possible under a cooperation agreement we signed with the SMBC Group in 2015 that allows businesses and investors from either the Philippines or Japan to take part in the debt issuances of clients of First Metro and the SMBC Group.

Tackling the challenges

Philippine investment banks are still traditional and small players in the region. As the Philippines' investment banking leader, our mission at First Metro strives to push the envelope further and break into new frontiers. We continue to see vast potential in project finance, a business that we started seven years ago.

Being an industry leader for First Metro is not just all about counting deals, but also making the numbers matter. To remain relevant to the needs of our market, we need to be creative, innovative, and daring in introducing new investment instruments and finding funding solutions.

To transform our business, we will mobilize capital, especially in sectors where the need is direst. Among these is the agriculture sector that supports 40% of our population. If we are serious about performing our role as a driver of inclusive growth, it is incumbent upon us to craft funding mechanisms to help this sector.

We also hope to revive interest in helping local government units, especially as the shift towards state federalism and regional focus picks up steam. In previous years, we have funded projects in metro cities such as Cebu and Iloilo. We will cast our nets wider to find areas where we can best be of service to the nation.

Holding our own

At the pace change occurs everywhere around us, we marvel at the shape of things to come.

In the investment banking sector, what used to be our competitors are also becoming our partners in pursuing our regional ambition. Products and services once offered only by investment banks are now also being provided by a broad array of firms. Just as many one-time competitors have fallen by the wayside, new ones have emerged too. However, we believe we have a good tailwind that will propel our business moving forward.

We owe our formidable track record, and the progress we hope to make in those to come, to the tireless efforts of our Board of Directors and senior officers I'm proud to call my colleagues. It's a group whose character and commitment to clients and to one another is without peer.

With your untiring support and trust, I am confident that First Metro's pole position will not merely endure, but will prosper in the face of fresh challenges.

Francisco C. Sebastian
Chairman

REPORT OF THE PRESIDENT

SETTING OUR SAIL TO A NEW PATH

Like any other year, 2016 has been characterized by a search for safer havens. But the quest this time has been quite different.

Reeling from the effects of the US Federal Reserve's first rate hike on December 16, 2015, the world had a rude awakening in January 2016. Stocks in major markets plunged on the prospect that there could be four more rate hikes in 2016. This exacerbated fears of a global economic slump and falling oil prices, as well as a Chinese economic meltdown and weakening currency.

Ensuing events had prompted many stubborn bears to anticipate another post-Fed rate hike market sell-off. In the run-up to the May 2016 presidential elections in the Philippines, investors sat on the sidelines and companies placed capital raising in the back burner until getting assurance that the government's economic policies will be pursued. The scenario was similar in the United States prior to the November 8th election of the expansionist Donald Trump.

These political headwinds, however, were not enough to overshadow the country's strong macroeconomic fundamentals.

In its fastest sprint in the past three years, the Philippine economy grew by 6.8% in 2016, overtaking China (6.7%) and Vietnam (6.2%). Its strong showing has been attributed to higher domestic demand, particularly in terms of investment and consumption.

An estimated $7.9 billion worth of net foreign direct investments – 40.7% above the $5.64 billion recorded for 2015 – poured into the local economy in 2016. Equity and investment fund shares, mainly from investors in Japan, Hong Kong, Singapore, Taiwan, and the US, accounted for nearly 35% of the FDI flows at $2.8 billion.

Confidence in the domestic market spilled over to the stock market. Amid the highly volatile global market environment in 2016, the benchmark Philippine Stock Exchange index (PSEi) managed to close at 6,840.64, only 1.6% off from the end-2015 level.

Philippine companies continued to reap the gains from low interest rates and a benign inflation. On top of the windfall from election spending, this led to stronger corporate earnings results by end-2016.

Financial results

In 2016, First Metro posted consolidated net income of P645.06 million, 67.3% higher than the P385.54 million in the previous year. This translated a return on average equity of 3.76%, higher than the 2.10% in 2015, while return on assets stood at 1.02% from the year-ago 0.55%.

Our Investment Banking Group pulled in fee income of P583 million on the back of revenues from 18 major deals. However, fee income was 16% lower than the P696 million we generated in 2015.

Our Financial Markets Group contributed P60 million in income from distribution and brokering fees during the year. However, substantial losses from the sale of debt securities amid market volatility reversed the gains and translated into a net loss of P405 million for the year from a P335 million net loss in 2015.

Our Investment Advisory & Trust Group generated P15 million in advisory and trust fees, 54% down from P33 million, previously.

Our non-operating income stood at P157 million, 74% lower than the P608 million made in 2015. Our share of net earnings from First Metro subsidiaries and affiliates amounted to P368 million, a quarter down from a year ago.

The next two years will be an important one for First Metro, as they signal a turning point for all our efforts. We continue to have great confidence in the long-term success of our franchise: with a strategy that continues to be sound and a management that is focused.

Total assets stood at P55.45 billion as of end-2016, lower by 23% than a year ago. Capital funds amounted to P15.91 billion, 14% below 2015's P18.57 billion. Our capital adequacy ratio under Basel III remained at a healthy 77.89%, higher than the internationally prescribed 10%.

Charting a new path to growth

While 2016 did not prove to be a windfall year for First Metro, the numbers do not speak volumes about the hard work we had put in.

Since I assumed the position of president in January 2016, First Metro has embarked on serious efforts to strengthen its balance sheet and further enhance the organization. However, a double whammy – the Fed rate hike in mid-December 2016 and China's economic slowdown – turned our efforts into a hard-fought battle.

For the most part of our existence, we relied on our net interest income to subsidize our operating expenses. When Basel III requirements took effect in 2013, we sold part of our equity holdings in Global Business Power Corporation and our high-yielding fixed income holdings. As our long-term borrowing through our own bond issuance was just into its first term, the negative interest income resulting from the lower reinvestment rates prompted us to look elsewhere for revenues. In a rising interest rate environment, we could not rely on fixed income trading. Our investment banking business also did not offer an alternative, as companies adopted a wait-and-see mode during the first half of the year due to the election season.

As we focused on going beyond the balance sheet and addressing fundamental issues that affect the way we operate, we also started to chart a new path towards First Metro's sustainable growth. This is embodied in the acronym **FMIC:**

Focus on new and stable revenue streams;
Metrobank alignment;
Increase of emphasis on good corporate governance; and
Care for the individual and his soul.

In the five-year strategic plan that we rolled out in late 2016, we have identified areas where we see greater business opportunities. We have to increase our fee-based income from sales and distribution within five years. We aim to grow our investment banking business through new revenue streams. Our ambition is to have a P1 billion investment banking business from the current size of P600 million.

To sustain our business, we further strengthened our adherence to corporate governance standards and risk management. We rolled out online risk examination modules to all our business units to ensure company compliance with existing regulatory policies. After our business units have undertaken the online examination in 2016, we will also require our support units to embark on the program.

We have also started to pursue more vigorously our efforts to strengthen our financial soundness, in accordance with the Bangko Sentral ng Pilipinas' (BSP) CAMELS ratings. This assesses a bank's overall condition through an evaluation of the following components: Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to market risk. Only a few institutions manage to get a "4" – the highest rating that indicates a financial institution has the strongest and most effective compliance system that entails minimal supervisory concern on compliance. Our goal is to regain our CAMELS rating of "4" to reflect improvements in our compliance system.

A vital element in our focus on strengthening our business lies in our people. We recognize their value in making First Metro a unique entity. Our people are our most important resource. They define our corporate culture, and this is why, in 2016, we launched new initiatives in enriching, not only our body, but also our soul.

Moving forward

Our efforts to regain our financial strength do not hold us back from pursuing our aspiration to become a respected name in investment banking in Asia. Since 2009, First Metro has been setting its sights on intra-regional opportunities in its firm belief that the region will continue to be the world's engine of economic growth.

In 2016, we have made solid progress in our regionalization strategy. We organized and led business missions to Japan, Taiwan, and Vietnam.

In Japan, where there is great interest in directly investing in the Philippines, our efforts have led to the successful business matching of local corporate clients with Japanese corporate investors interested in pursuing partnerships and acquisitions. In Taiwan, we assisted several financial conglomerates that are eyeing tie-ups with local financial institutions. We also spotted opportunities from other Asian markets.

We continue to rely on our synergy with our parent bank, Metrobank, to bring us to new frontiers through its vast network and alliances in the region.

The next two years will be an important one for First Metro, as they signal a turning point for all our efforts. We continue to have great confidence in the long-term success of our franchise: with a strategy that continues to be sound and a management that is focused.

I look forward to working closely with our management team and our employees, supporting their efforts as we capitalize on fresh opportunities and ensure that we fulfill our leadership role in the industry.

We thank all of our shareholders for your continuing confidence in First Metro Investment Corporation. It is a privilege to serve you.

Rabboni Francis B. Arjonillo
President

OPERATIONAL HIGHLIGHTS

Navigating for the long haul

In a business environment as uncertain as in 2016, it was so easy to be consumed by market volatility and the short-termism of the financial markets. For First Metro, however, these challenging times are also times of opportunity.

While some have started scaling back their aspirations for their investment banking businesses, we at First Metro continued to strengthen our position for the long haul. We are determined to diversify our product and client mix and widen our regional footprint. We have made hard decisions in 2016 that aimed to strengthen our franchise, particularly in the areas of corporate governance and risk management. Amid heightened competition, we are differentiating ourselves based on value propositions that meet segmented client needs. These efforts are still a work in progress, but have started to take shape in 2016.

During the year, First Metro generated consolidated net income of P645.06 million, 67.3% higher than the P385.54 million posted the previous year. This was primarily due to the sale of our equity investments in Cebu Holdings, Inc., Global Business Power Corporation, and PSBank, which shored up our other operating income to P1.03 billion from a mere P21 million year-on-year.

Return on average equity (ROE) stood at 3.76%, higher than the 2.10% in 2015, while return on assets stood at 1.02% from the year-ago 0.55%.

In a bountiful year for capital market deals, our Investment Banking Group pulled in fee income of P583 million on the back of revenues from 18 major deals. These deals included: the P3.9 billion initial public offering (IPO) of Shakey's Pizza Ventures Inc.; GT Capital, Inc.'s acquisition of 15.5% equity stake in Metro Pacific Investments Corporation; Hedcor Sibulan, Inc.'s P4.1 billion multi-tranche project notes facility; Globe Telecom's P20 billion term loan facility; and the Bureau of the Treasury's P100.13 billion 10-year Retail Treasury Bonds. However, these investment banking deals yielded fee income that was 16% lower than the P696 million we generated in 2015.

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Total assets stood at P55.45 billion as of end-2016, lower by 23% than a year ago. Capital funds stood at P15.91 billion, 14% below 2015's P18.57 billion.

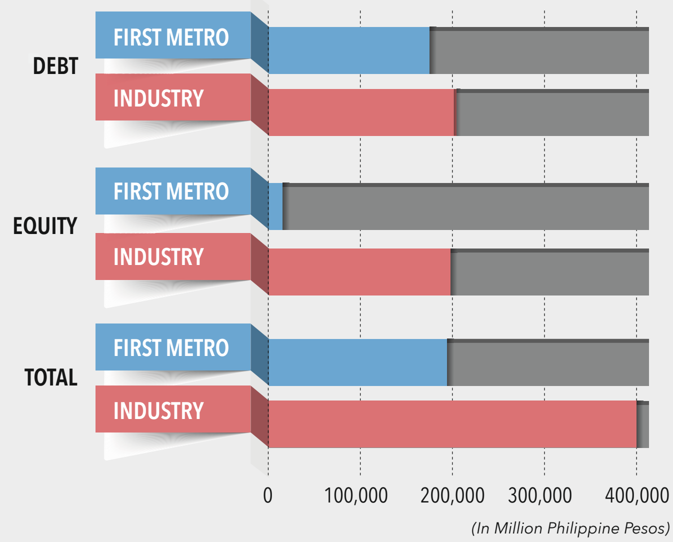
Our capital adequacy ratio under Basel III remained at a healthy 77.89% in 2016, higher than the internationally prescribed 10%.

FINANCIAL RESULTS

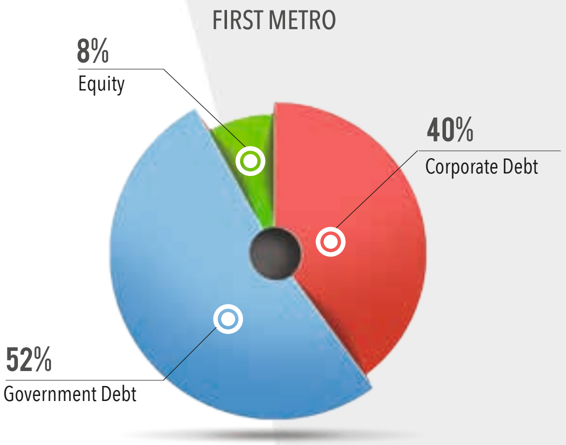
(In Thousand Philippine Pesos)	2016	2015	2014
Total Assets	55,454,938	71,573,238	69,882,792
Total Liabilities	39,549,854	53,004,176	51,577,169
Stockholders' Equity	15,905,084	18,569,062	18,305,623
CAR	77.89%	38.26%	30.44%
Gross Revenues	2,024,276	1,372,510	4,780,860
Net Income			
Consolidated	645,058	385,540	2,336,177
Parent	645,058	385,540*	2,336,177*
Return on Average Equity			
Consolidated	3.76%	2.10%	12.59%
Parent	3.76%	2.10%*	12.59%*

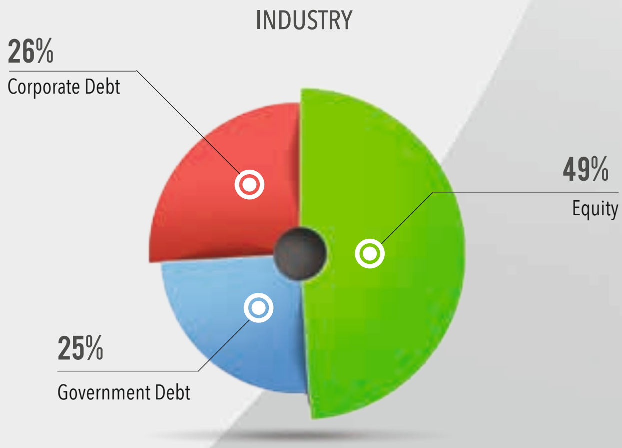
**As Restated*

2016 PHILIPPINE DEBT & EQUITY CAPITAL MARKETS



2016 DEBT & EQUITY DEALS BREAKDOWN





**Based on publicly available data*
***Debt Capital Market only includes bond market data*
****Equity Capital Market only includes data on IPO, FOO, SRO, and preferred shares*

MILESTONES & ACHIEVEMENTS

Setting the mark

In a year when investment banking businesses worldwide continued to be dragged down by the fallout of the 2008-2009 financial crisis, and regulatory changes made it harder to profit from traditional lines of business, First Metro yielded a bumper crop of significant deals and earned several recognition from prestigious global publications.

BEST IN CLASS

First Metro has played a vital role in the nation's push towards economic development, both as prime mover of capital and driver of inclusive growth. The awards and recognitions it reaped in 2016 are concrete proof of its performance as the leading investment bank in the country.

Best Investment Bank in the Philippines

For the second year in a row, First Metro was recognized as the Philippines' Best Investment Bank in 2016 by *Global Finance*, a monthly global business and finance magazine that has been ranking the world's best investment banks for 17 years.

Global Finance, in announcing the award, said its editors, with input from industry experts, scored and selected winners based on market share, number and size of deals, service and advice, structuring capabilities, distribution network, efforts to address market conditions, innovation, pricing, after-market performance of underwritings, and market reputation. First Metro also earned the same recognition from *Euromoney* in 2015.

Best Domestic Bond House Award

First Metro was named Best Domestic Bond House in the Philippines at the *FinanceAsia* 20th Anniversary Platinum Awards in Hong Kong. The awards recognized the best financial institutions and corporations that have consistently provided quality service and innovation for clients over the past 20 years.

First Metro has bagged the Best Bond House Award from *FinanceAsia* six times since 2005. It has also received other citations from the finance magazine, including Best Investment Bank in 2005, Best Equity House in 2012, and Top Ten Best Investor Relations and Top Ten Best Managed Companies in the Philippines in 2013.

Top bank awards in Asian currency bonds

Reinforcing the recognition from *FinanceAsia*, The Asset Benchmark Research (ABR) of Hong Kong, in its 2016 Top Bank Awards in Secondary Market in Asian Currency Bonds, named First Metro as the Top Bank Arranger – Investors' Choice for Primary Issues for corporate bonds. Metrobank, First Metro's parent company, won the same award for government bonds.

First Metro also received second place recognition in the Top Banks in Government Bonds and the Top Banks in Corporate Bonds categories. The 2016 Asian Local Currency Bond Benchmark Review surveyed institutional fixed income investors to rate the best banks across a series of buying criteria and identify their trading counterparties in the secondary market.

PDS Awards

First Metro reaped three awards at the 12th PDS Annual Awards Night. These were the Top Corporate Securities Market Maker and the Top Fixed Income Brokering Participant, as well as third in the Top 5 Fixed Income Dealing Participant.

Since 2006, the PDS Annual Awards has been recognizing members of its community and market stakeholders that exhibit outstanding performance, leadership, innovation, and continued pursuit in contributing to a robust domestic capital market.

MAKING INROADS IN INFRASTRUCTURE DEALS

2016 has been an exceptional year for infrastructure projects in the country, with public-private partnership deals leading the way. As a result, the project finance sector has seen the creation of truly innovative

ventures, and First Metro had the privilege of being the "go-to" investment bank for some of these major players in the energy, power, and transport sectors.

The Philippines' largest all-peso project finance deal

A P42.15 billion facility in which First Metro was joint mandated lead arranger, joint bookrunner, and joint issue coordinator clinched the Best Power Deal award at the Triple A Asia Infrastructure Awards 2016 of the Hong Kong-based finance publication *The Asset*.

The landmark deal – considered the Philippines' largest all-peso project finance transaction to date – was arranged for San Buenaventura Power Ltd. Co. (SBPL), a joint venture between Meralco PowerGen Corporation (MGen) and New Growth B.V. MGen is a wholly owned subsidiary of Meralco while New Growth B.V. is a wholly owned subsidiary of the EGCO Group, a regional utility with over 3,800 megawatts of operational power plants throughout Southeast Asia. The deal, one of the few financing facilities in the region that was closed using local currency, also bagged the Asia Pacific Power Deal of the Year from Thomson Reuters *Project Finance International* in 2015.

Most Innovative Deal

In addition to the SBPL deal, First Metro was also honored at the Triple A Asia Infrastructure Awards 2016 for arranging the Most Innovative Deal for the P31.97 billion project loan facility for Therma Visayas, Inc. (TVI). First Metro was the sole mandated lead arranger and sole bookrunner for the deal.

One of the biggest PPP deals

Light Rail Manila Corporation (LRMC) raked in awards from respected international finance and infrastructure magazines: Best Project Finance Deal of 2016 at the 10th Annual *Alpha Southeast Asia* Best Deal and Solution Awards, Infra Deal of the Year at the PFI Awards 2016, and Best Asia Pacific Rail at the *IJGlobal* Awards 2016. The 15-year P24 billion project loan facility was arranged by First Metro, RCBC Capital Corporation, and SB Capital Investment Corporation, with lenders Metropolitan Bank & Trust Company, Rizal Commercial Banking Corporation, and Security Bank Corporation also involved. As one of the country's largest private-public partnership projects, the loan facility will fund the P15.3 billion Cavite Extension project and the P8.7 billion rehabilitation of the existing LRT 1 system.

RIDING ON BULLISH CONSUMER DEMAND

Consumers continued to fuel the Philippines' phenomenal growth in 2016, and this was evident in the slew of capital market deals aimed to bankroll the expansion of local consumer-driven companies.

Bringing the Brit

Monde Nissin Corporation, one of the country's leading fast-moving consumer goods companies, continued to pursue its global ambition through wholly owned subsidiaries in Thailand and Australia and the acquisition of foreign companies.

In 2016, Monde Nissin's acquisition of British meat-substitute maker Quorn Foods, Inc. (Quorn), in which First Metro served as the arranger for the partial debt financing facility, was recognized by *The Banker* as the "Deal of the Year" in the loans category for Asia Pacific. The biggest Philippine domestic banks, led by Metropolitan Bank & Trust Company, First Metro's parent company, provided funding support for the transaction.

Delivering IPO success

Shakey's Pizza Asia Ventures Inc. (SPAVI), a leading full-service restaurant owned by the Po family, made its market debut in the Philippine Stock Exchange (PSE) on December 15, 2016. First Metro acted as one of the two joint lead managers and joint domestic underwriters for the pizza chain's initial public offering (IPO), which resulted in an oversubscription of 5x.

SPAVI raised P3.96 billion from the IPO, with common shares priced at P11.26 apiece, enabling the company to grow its market capitalization to P17.24 billion. IPO proceeds will be used to finance its local and overseas expansion and maintain its market lead. It recently agreed to bring the Shakey's brand in Kuwait through a franchising agreement that covers 10 stores scheduled for opening in seven years.

MAKING THE LARGE LARGER

The country's industry-leading conglomerates saw the growing investor confidence in the local capital market and seized the opportunity to fund their expansion binge in 2016.

SM's billion-peso bond deals

Following its two bond issuances in 2012 and 2014, SM Investments Corporation (SMIC) listed its P20 billion Series G Fixed Rate Bonds Due 2023, the initial tranche of its P50 billion shelf registration, on the Philippine Dealing and Exchange Corporation. SMIC will use the net proceeds from the offer to bankroll future investments and strategic acquisitions in its core business segments namely, property, retail, and financial services. First Metro was one of the joint lead underwriters and joint bookrunners, together with BDO Capital & Investment Corp., China Bank Capital Corp., and BPI Capital Corp.

More muscle for GT Capital

GT Capital Holdings, Inc. listed its maiden issuance of perpetual preferred shares on the PSE. First Metro served as the sole issue manager and joint lead underwriter, while BDO Capital & Investment Corp. and BPI Capital Corp. were the other joint lead underwriters.

The P12 billion issue had dividend rates of 4.6299% and 5.0949% per annum, for the seven-year Series A and ten-year Series B shares, respectively. The issue was nearly seven times oversubscribed, with orders from institutional investors and trading participants amounting to P55.1 billion. Proceeds will be used to refinance GT Capital's short-term loans and fund possible strategic acquisitions.

Single-biggest capital raising for water utility

First Metro, together with SB Capital Investment Corporation, jointly lead arranged a 15-year term loan facility to the tune of P7 billion for Manila Water Philippine Ventures (MWPV), a wholly owned subsidiary of Manila Water Company. Lenders were Metropolitan Bank & Trust Company and Security Bank Corporation.

The single-largest fundraising activity for a Manila Water subsidiary to date, the loan facility will finance MWPV's capital expenditure programs, as well as its efforts to provide water supply and proper sanitation to various parts of the country. The transaction will significantly support the company's commitment to provide millions of Filipinos access to clean water and proper sanitation.

BOOSTING OUR SUBSIDIARIES

First Metro's milestones and achievements in 2016 were not the company's own doing alone. Its subsidiaries also got their share of the limelight, demonstrating First Metro's deep bench and even deeper commitment towards capital market development.

FAMI: Best Performing Fund Awards

First Metro Asset Management, Inc. (FAMI), the fund management subsidiary of First Metro, again won top awards for the outstanding performance of the First Metro Save & Learn Mutual Funds at the Philippine Investment Funds Association (PIFA) Annual Awards Night. PIFA, the trade organization of mutual fund companies in the country, annually recognizes the funds with superior performance for its investors. The First Metro Save & Learn Equity Fund (SALEF) bagged first place for the 10-year category for equity funds. In 2015, SALEF posted a return of 17.27% per annum, and has grown by 392% for the past ten years.

FAMI also reaped recognitions for its First Metro Save and Learn Fixed Income Fund (SALFIF), ranking first in three bond funds categories: 3-year which posted a return of 5.95% per annum, 5-year at 8.36%, and 10-year at 7.80%.

First Metro Securities: Collaborating with top mutual fund providers

First Metro Securities Brokerage Corporation (FirstMetroSec), the stockbrokerage arm of the Metrobank Group, collaborated with six of the country's top asset managers, namely: First Metro Asset Management, Inc., ALFM-BPI Investment Management, Inc., ATR Asset Management, Philam Asset Management, Philequity Management, Inc., and Sun Life Asset Management.

The collaboration aimed to offer the best mutual funds through First Metro Securities' online trading platform, *www.firstmetrosec.com.ph*. The platform broadens the services offered by FirstMetroSec, from Philippine Stock Exchange listed stocks to peso-denominated mutual funds offered by various providers.

STRENGTHENING OUR ADVOCACY

First Metro continues to undertake activities that aim to raise the awareness of the investing and general public on issues affecting the development of the capital markets.

First Metro ETF: Three's a charm

The First Metro Philippine Equity Exchange-Traded Fund (FMETF), the country's first and only exchange-traded fund (ETF), celebrated its third-year anniversary through an opening bell ringing ceremony on December 5, 2016 at the PSE Ayala in Makati City. This also marked the start of the ETF Awareness Week, which aimed to increase the investing public's awareness and understanding of the ETF to better equip them to invest, and to increase market participation through information campaigns. The activities for the ETF Awareness Week, which includes free seminars and webinars, are co-sponsored by the PSE and the First Metro Group.

The FMETF is one of the top-performing equity funds in the market. Three years since its inception, the FMETF registered a 13.54% return (as of December 31, 2016).

Talking investments with FT

First Metro teamed up with the *Financial Times* to bring to the spotlight the Philippines' economic prospects and the policies of the Duterte administration in 2016.

Two Cabinet members and a renowned international strategist spoke before an audience of around 350 influential business personalities and leading domestic and international investors during the third annual Philippines Investment Summit on August 2, 2016 at the Fairmont Makati. *Financial Times* Asia news editor Victor Mallet and *Financial Times* chief correspondent for international finance Henny Sender moderated the event.

Setting the new government's ambitious programs in context, Ruchir Sharma, head of Emerging Markets and chief global strategist of Morgan Stanley Investment Management, and author of the book, *The Rise and Fall of Nations*, assessed the competitiveness of the Philippines alongside other countries. Secretaries Carlos Dominguez III of the Department of Finance and Mark Villar of the Department of Public Works & Highways (DPWH) shared the government's plans and policies and their role in ensuring sustainable economic growth.

The Philippines Investment Summit is part of First Metro's continuing mission to develop the domestic capital markets. Past speakers include luminaries such as world-renowned economist and strategic thinker Nouriel Roubini, and Harvard University professors Carmen Reinhart and James Robinson.

2016 INVESTMENT BANKING DEALS

Shakey's Pizza Asia Ventures Inc.

PHP3,962,394,000
Initial Public Offering

Joint Lead Manager
Joint Domestic Underwriter

December 2016

SM Investments Corporation

PHP20,000,000,000
7-year Fixed Rate Bonds

Joint Lead Underwriter
Joint Bookrunner

December 2016

Hedcor Sibulan, Inc.

PHP4,100,000,000
Multi-tranche Project Notes Facility

Issue Manager
Bookrunner

November 2016

GT Capital Holdings, Inc.

PHP12,000,000,000
Perpetual Preferred Shares

Issue Manager
Joint Lead Underwriter

October 2016

Republic of the Philippines (Bureau of the Treasury)

PHP100,125,710,000
10-year Retail Treasury Bonds

Joint Lead Issue Manager

September 2016

Globe Telecom, Inc.

PHP20,000,000,000
12- and 15-year Term Loan Facility

Arranger

September 2016

GT Capital Holdings, Inc.

PHP22,058,400,000
Sale of 56% Equity Stake
in Global Business Power Corporation

Sell-Side Financial Advisor

May 2016

GT Capital Holdings, Inc.

PHP29,890,000,000
Acquisition of 15.5% Equity Stake
in Metro Pacific Investments Corporation

Buy-Side Financial Advisor

May 2016

Ayala Land, Inc.

PHP7,000,000,000
9.5-year Fixed Rate Bonds

Joint Lead Underwriter
Joint Bookrunner

April 2016

Manila Water Philippine Ventures, Inc.

PHP7,000,000,000
15-year Term Loan Facility

Joint Lead Arranger

October 2016

Petron Corporation

PHP20,000,000,000
5- and 7-year Fixed Rate Bonds

Co-Lead Underwriter

October 2016

Megawide Construction Corp.

PHP2,235,000,000
Overnight Placement

Domestic Manager

October 2016

Beacon Powergen Holdings, Inc.

PHP12,000,000,000
10-year Term Loan Facility

Arranger

August 2016

Ayala Corporation

PHP10,000,000,000
7-year Fixed Rate Bonds

Joint Lead Underwriter

July 2016

SM Prime Holdings, Inc.

PHP10,000,000,000
10-year Fixed Rate Bonds

Joint Issue Manager
Joint Bookrunner
Joint Lead Underwriter

July 2016

San Miguel Corporation

PHP30,000,000,000
Preferred Shares

Co-Lead Manager

March 2016

Ayala Land, Inc.

PHP8,000,000,000
10-year Fixed Rate Bonds

Joint Lead Underwriter
Joint Bookrunner

March 2016

Light Rail Manila Corporation

PHP24,000,000,000
15-year Project Loan Facility

Mandated Lead Arranger

February 2016

LANDMARK DEALS

2016: Seeking the forests, chasing the cheese

A market awash with trillions of pesos in liquidity. A long pipeline of infrastructure projects worth more than P500 billion. Companies eyeing the region for expansion. This, in a nutshell, defined the opportunities for investment banking in the Philippines in 2016.

But do not be deceived. Investment banks are not necessarily sitting on a pile of cash.

"The market has become highly competitive," said Justino Juan R. Ocampo, First Metro executive vice president and Investment Banking Group head. "You see a number of domestic players right now competing on the basis of price, and this has led to margin compression."

While interest rates are bound to head north, cutthroat competition in the market is still keeping them low. "Fees are going down, and there's tremendous pressure for more risk taking among investment banks. This is not good for the sector," Mr. Ocampo added.

This may spell doom for some investment banks, but for First Metro, it is actually an exciting time for the capital markets. For more than 50 years now, the company had seen the markets move up and down, sometimes at dizzying speeds. And the reason it remains as the country's top investment bank is because it tracks where the cheese moves, so to speak.

"The old, traditional investment banking products are already generic and there's a lot of cutthroat pricing there. So you're bound to commit mistakes because there's too much risk taking. We need to become more imaginative and innovative by offering new products and new names in the market," Mr. Ocampo said. "The cheese has already moved. So we follow the cheese – lots of cheeses, in fact."

In 2016, First Metro continued to fill its deals basket with new cheeses, as well as large, important ones.

"This is the right time to develop new products, introduce new names to the market, and explore new markets," he said.

The naked cheese

One of the landmark deals in 2016 that solidified First Metro's reputation as a prime mover in the capital markets involved a special purpose vehicle (SPV) little known to deep-pocketed investors. So First Metro had to rely on its imagination and innovativeness to meet the objectives of both the issuer and the investors.

In a market where plain-vanilla issuances of top business conglomerates still dominate, having an SPV access the domestic capital market is like introducing a "new cheese" to connoisseurs. In the case of Hedcor Sibulan, Inc. (HSI), First Metro had to tap an unlikely set of investors – the nonbanks – that were relatively newbies in project finance.

A wholly owned subsidiary of Aboitiz Power Corp. (AP), the power generation arm of the Aboitiz Group, HSI operates three run-of-river hydroelectric power plants in Davao, with a total of 49.1 MW capacity. While owned by one of the biggest conglomerates in the Philippines with interests in power generation and distribution, cement manufacturing, banking, food, and real estate, AP had to seek fundraising structures that will expand its financing options via the capital markets, other than tapping relationship banks with single borrower's limit (SBL) considerations. The SBL caps the amount that banks can lend to a particular conglomerate to 25% of its capital.

To meet AP's capital requirements, First Metro had to create a new innovative instrument – a project notes structure – that targeted a niche of "non-traditional" lenders, namely insurance companies, investment houses, trust, and treasury departments of banks. Eligible corporate banking units were not made the primary target investors.

First Metro also identified HSI as the appropriate issuer, given its previous experience with the SPV when it arranged a highly successful P3.5 billion project loan facility in 2008. While it was confident of HSI's established financial performance and technical track record, it needed to convince this new breed of investors that: one, this new cheese is good; and two, that this untested asset class works. "It was also a 'naked' deal – there was no guarantee so note holders had to bear the risk. It was really a test case," Mr. Ocampo said.

As the issue manager and sole bookrunner in-charge of structuring, negotiations, pricing, documentation, and syndication of the facility, First Metro had to adopt a three-pronged strategy.

The first involved a lot of handholding. Its target investors were not used to evaluating the new asset class so First Metro had to assist each buyer to fully understand the new innovative instrument. "Our aspiration was to convince large fund managers to be able to appreciate project finance," said Arsenio Kenneth M. Ona, First Metro first vice president and Coverage & Origination Division head.

As the sales pitch may not be enough, First Metro also had to unleash its second strategy: it subjected HSI's project notes issuance to a ratings exercise. The issue obtained a PRS Aa plus from Philippine Rating Services Corporation (PhilRatings), the country's leading credit rating agency for commercial papers. This means the issue is of high quality and is subject to very low credit risk. This was enough to provide an extra level of comfort to investors looking at infrastructure for the first time.

The third strategy entailed long hours of painstaking work, but had to be done. "First Metro had to work closely with the legal counsels of both the issuer and the notes holders to ensure that the new asset class complies with relevant laws and regulations. It took nearly three years of countless boardroom discussions before the deal was finally sealed, but for the issuer and the investors, it was worth the wait," Mr. Ona said.

The result was a milestone: HSI's P4.1 billion multi-tranche project notes facility became the first project notes facility in the Philippines that introduced infrastructure financing to nonbank institutional investors.

First Metro hopes the HSI facility will pave the way for the entry of nonbank institutional investors to participate in the funding of vital infrastructure projects that the country direly needs. The success of the deal not only proves the growing maturity and financial sophistication of domestic institutional investors, but could also embolden other infrastructure SPVs to tap the capital markets and offer nonbank institutional investors a new investment outlet.

"The issue size may not be the biggest, but it is a significant first step nonetheless. With the sizes of transactions nowadays growing significantly, it's good for projects to have an alternative source of financing other than corporate banks. We at First Metro need to come up with these new products to deepen the capital markets," Mr. Ocampo said.

The big cheese

From a relatively small project notes facility that had the makings of a game changer, First Metro moved to a mega infrastructure deal that could impact people's lives and further rev up the country's economic growth engine.

In 2016, First Metro acted as one of the mandated lead arrangers of a P24 billion 15-year project loan facility that would partially fund the "mother" of all Public-Private Partnership (PPP) deals in the government's pipeline: the P24 billion Light Rail Transit 1 (LRT 1) expansion and rehabilitation project. Upon completion, the LRT 1 system will be extended

by an additional 11.7 kilometers from the current Baclaran Station in Metro Manila to Bacoor, Cavite.

The project is quite a hot-button issue in the metropolis. Commuters had to face the constant nightmarish struggle of joining long queues that spill out into the streets, riding in overcrowded LRT/MRT coaches, or worse, getting stranded whenever the coaches get stalled in the tracks. As such, public interest in the deal is high.

Before the project was awarded, the government, through the Department of Transportation and Communications (DOTC) and the Light Rail Transit Authority (LRTA), suffered a failed bid in 2013 when three of the four pre-qualified bidders backed out due to concerns over the assumption of real property taxes and guaranteed fare hikes. The lone bidder, Metro Pacific Investments Corporation (MPIC) went ahead and made the offer even as its partner, Ayala Corporation, opted to drop out of the race as well. The DOTC revised the deal terms to enhance the project's commercial viability but without compromising public interest.

In the rebidding, the project was finally awarded to the Light Rail Manila Corporation (LRMC), a joint venture company of MPIC's Metro Pacific Light Rail Corporation, Ayala Corporation's AC Infrastructure Holdings Corporation, and the Philippine Investment Alliance for Infrastructure's Macquarie Infrastructure Holdings (Philippines) PTE Ltd.

First Metro took the lead in structuring, negotiating, and conducting due diligence and documentation. It provided significant support to the winning consortium for the concession, which included meeting the government's stringent bidding requirements, as well as submitting the most competitive terms for the long-term debt financing of the project.

For a gargantuan project that has a long gestation period, the bigger challenge was tackling the moving parts. One of these was negotiating the right of way with all the local government units and communities who will be affected by the 11.7-kilometer stretch of the Cavite Extension, passing through the cities of Parañaque, Las Piñas, and Bacoor.

Despite the project's magnitude and high-profile visibility, it took only less than two years to close the deal. In October 2014, LRMC signed a concession agreement with the DOTC and LRTA for a term of 32 years from the effective date of September 2015. The project loan facility was signed in February 2016.

First Metro's participation in the deal was critical as it was able to structure a loan facility that will be palatable, both to the bidding consortium and to the lender banks. Being a 15-year loan, lenders must fully understand how to mitigate the project risks and have drawdown flexibility.

Three of the country's biggest banks agreed to partially fund the project with total commitments of P30 billion, or 1.5X than the loan facility. Metrobank, First Metro's parent company, had the largest participation at P9 billion, equivalent to 37.50% of the total loan.

The deal is considered a landmark, not only for being the largest awarded PPP project to date, but also for its impact. The Cavite Extension is expected to accelerate infrastructure development in the country and open up access to the southern parts of Metro Manila and Cavite, improving the daily commute of more than 300,000 Filipinos every day.

"We were looking for 'virgin forests' – something that requires structuring and therefore would contribute to the country's development. In particular, demand for infrastructure is growing. There's huge liquidity in the market right now. Our only challenge is how to harness this excess liquidity to fund the growing infrastructure demands of the country," First Metro's Mr. Ocampo said.

The quick cheese

If arranging a P24 billion loan facility in two years posed a mega challenge for First Metro, more so for a deal that is nearly double the size and required just less than half a year to close. But the leading investment bank relied on its agility, experience, and expertise to tackle a transaction that involved two of the country's largest conglomerates.

GT Capital Holdings, Inc. (GT Capital), a publicly listed investment holding company in the country with business interests in banking, property development, automotive, and insurance company, needed to further increase its presence and investments in the utilities and infrastructure sector.

Meanwhile, Metro Pacific Investments Corporation (MPIC), the country's leading infrastructure company, wanted to gain more foothold in the highly competitive power generation sector to further boost the business of the country's largest electricity distributor, Manila Electric Company, where MPIC owns a majority stake.

Their goals converged and led to one of the largest mergers and acquisitions (M&A) deals in the country, with a total value of P51.95 billion. GT Capital sold its 56% equity stake in subsidiary Global Business Power Corporation (GBPC), the leading power generation company of the Ty Family in the Visayas, to MPIC. In a separate transaction, GT Capital acquired 15.5% equity stake in MPIC to the tune of P29.89 billion.

For the two deals, First Metro served dual roles. In the sale of GBPC, the investment bank acted as the exclusive sell-side financial advisor to GT Capital. As such, it was actively involved in the structuring, negotiations, and pricing of the transaction. In the MPIC acquisition, it served as the exclusive buy-side financial advisor to GT Capital.

The process was tedious and exhaustive, as First Metro had to assist GT Capital in every step of the M&A process – from the terms of strategic and valuation advice, as well as process management. The engagement also entailed the negotiations and execution of the definitive agreements. As financial advisor, First Metro also had to perform a lot of due diligence on MPIC's diversified interests, valuing its five component businesses: water, rail, power, hospitals, and toll roads. This ensured that a detailed in-depth study was performed during the valuation exercise to maximize GBPC's shareholder value as well as properly assess the value of MPIC.

A major challenge was completing the deal within the time frame of four to five months – a very tight timetable given the complexity and size of the transaction. Despite this, First Metro was able to efficiently manage the M&A process that satisfied GT Capital's acquisition and divestment objectives.

Potential cheeses

After scoring another milestone, First Metro's Mr. Ocampo said he expects M&A deals to unlock more business opportunities for the company, as well as for many Philippine firms aspiring for bigness and pursuing their regional ambitions.

"First Metro started in the M&A business in 2011, but the pace did not grow as fast. We are now scaling it up and see M&A deals as a good third leg in terms of product offerings. Hopefully, it will account for 20-30% of our business on a sustainable basis," Mr. Ocampo said.

"Among those seen propelling the deals bandwagon are the family-owned companies that have started preparing to tap the capital markets, acquire or partner regionally, list on the stock exchange, or professionalize to pursue their expansion, " Mr. Ocampo added.

One of these is Shakey's Pizza Asia Ventures Inc., owned by the Po family of the Century Pacific Group, Inc. (CPGI) in partnership with GIC Private Ltd., the sovereign wealth fund of Singapore.

In 2016, First Metro acted as one of the joint lead managers and joint domestic underwriters for the initial public offering (IPO) of Shakey's, which raised P3.96 billion for the popular owner and operator of the Shakey's pizza parlor chain. The IPO was priced at P11.26 per share, an estimated 2016 P/E of 20.3x, and was 5x oversubscribed.

The IPO was marketed here and abroad, with 70% allocated for the international tranche and 30% for the domestic tranche. First Metro's unparalleled experience and understanding of the Philippine equities market came in handy for the IPO's success. It helped professionally manage Shakey's activities leading up to the IPO, particularly in the finalization of the terms and conditions of the offer, drafting key sections in the offering circular, and securing regulatory approvals.

The Shakey's IPO was a significant deal for First Metro as it is aligned with its thrust to bring new names to the capital markets and explore new frontiers. "We want to deepen the capital markets by promoting these new entrants, even to investors outside the Philippines," Mr. Ocampo said.

This also bodes well for First Metro's regional strategy that started in 2012 when it started forging alliances with strategic partners to strengthen its foothold in Asia.

"We think there's a strong cross-border potential now, both inbound (from companies in Japan, Taiwan or Australia looking at partnering with Philippine firms) and outbound (where Philippine companies will be looking offshore for expansion)," he added.

And right now, the time is ripe.

When the cheese moves

Mr. Ocampo said there are plenty of incentives for regional players to look for alliances in the Philippines. The country continues to "enjoy good economic fundamentals and favorable demographics compared to its other peers in the region." Philippine firms have also started to scale up for the ASEAN economic integration, and seeking regional acquisitions and partners.

In scouring the market for potential deals, however, a good reading of the global and local markets, as well as perfectly timed execution, is the secret combination.

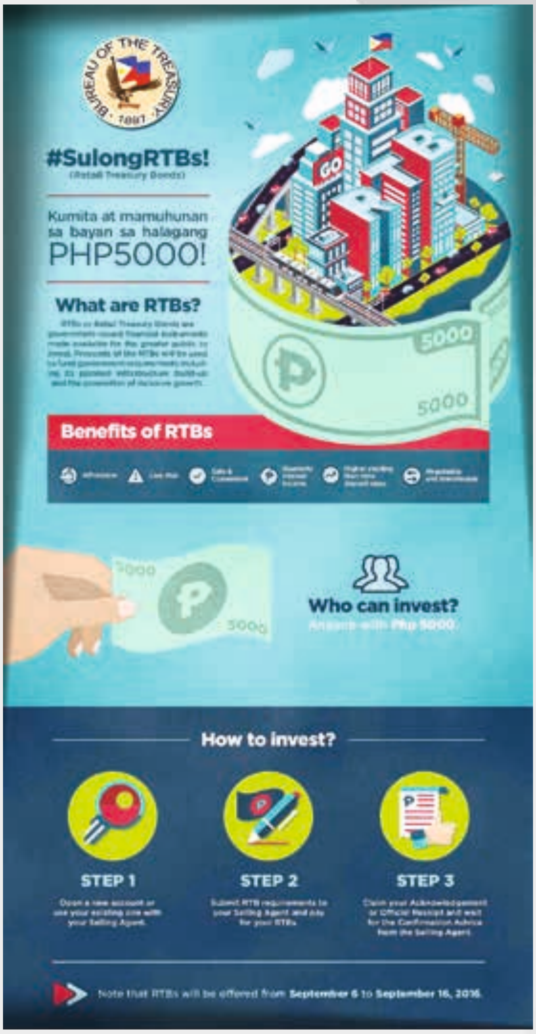
In 2016, First Metro demonstrated both when it successfully arranged a 12- and 15-year term loan facility for Globe Telecom, Inc. Parent bank Metropolitan Bank & Trust Company acted as the lender. Timing for the P20 billion loan facility was crucial: the country's telco giant needed to acquire a 50% equity interest in San Miguel Corp.-owned Vega Telecom, Inc. to gain its telco assets that included a prized 700-megahertz spectrum network. This will enable Globe to boost its network capacity and widen its geographic coverage to meet the growing data needs of its existing and new customers.

The loan facility partly funded the P52.8 billion acquisition deal and was closed in September 2016, just a few months before the result of the US presidential elections and the US Federal Reserve's move to raise interest rates sent the global markets into a tailspin.

It was also on the same month when First Metro acted as lead arranger and selling agent for the Bureau of the Treasury's P100.12 billion 10-year Retail Treasury Bonds (RTB). Despite the market jitters, the RTBs were met with P123.735 billion in tenders, more than four times the original offer.

The RTB tranche, First Metro's 18th for the Republic of the Philippines, will bankroll the Duterte administration's plans to ramp up public spending for infrastructure, social services, and human capital development.

"In any capital-raising exercise, you are subject to the movement of the capital markets so timing is very crucial, especially as there have been quite a bit of volatility," Mr. Ocampo said. "Investment banks must know how to pull the trigger when the time is ripe."



With volatility still expected to dominate the story in 2017, Mr. Ocampo said the challenge for First Metro is to have the knack for knowing whenever the cheese moves, as well as "finding new cheeses."

And it is here where the investment bank expects to distinguish itself from the competition.

CORPORATE SOCIAL RESPONSIBILITY

Beyond the bottom lines

For more than 50 years, First Metro has been moving capital to help positively impact the bottom line of the nation's enterprises. Beyond the business, however, we have also demonstrated how we are working with our employees and partners to continue opening the door to innovation and progress, and helping grow inclusive, prosperous communities.

We continue to perform our corporate social responsibility (CSR) in 2016 through First Metro Inspires Cares, which provides a more tangible demonstration of our CSR, our values and ethics, and embodies our commitment to integrating CSR into the various aspects of our business.

Investment literacy: Making the numbers matter

Part of our commitment as a prime mover in the Philippine capital markets is to build awareness and educate the public about the capital markets. We regularly conduct economic and capital markets forums that present the Philippine and global economic outlook, as well as investment opportunities in the debt and equity markets.

Economic & Capital Markets Briefings. With the theme "Guarded Optimism," we held two economic and capital markets briefings in Metro Manila and another two in Davao for clients and investors. We also conducted two of the same briefing for the media in January and July. The events gathered 1,186 attendees who gained insights into First Metro's outlook for the Philippines, in the light of prevailing uncertainties in the local financial markets and global economic weakness in 2016.

Investment Seminars. First Metro Securities Brokerage Corporation, our wholly owned subsidiary, continues to strive and raise awareness through market education. In 2016, it conducted two in-house seminars: the Basic Education on Stock Trading (B.E.S.T.), which tackles basic stock market information so attendees can start their own investment portfolio; and the Guided Investor, Fearless Trader (G.I.F.T.) for individuals already invested in the market and with in-depth understanding of market valuations and technical analysis.

More than 165 seminars were held in our Investors Center in Makati, Binondo, Cebu, Davao, and in other key cities like Baguio, Bacolod, and Iloilo, attended by over 7,000 participants. Regular company visits and numerous roadshows promoting investment literacy were also conducted during the year.

Literacy Campaigns. Another First Metro subsidiary embracing our CSR advocacy on investment literacy is First Metro Asset Management, Inc. (FAMI). It aims to transform Filipinos from being mere savers into intelligent investors by raising their knowledge and awareness of the capital markets.

FAMI continues to impart the importance of setting financial goals through its over 190 investment literacy sessions held in 2016 that drew more than 4,000 participants, including students, teachers, bank employees, and people of varying backgrounds.

FAMI is fortifying its distribution base by increasing the number of Certified Investment Solicitors (CIS) who act as front-liners in sharing investment and personal finance ideas. To help raise awareness on the role of mutual funds in unlocking financial goals, the CIS are trained on retirement and education planning, and estate planning.

Community outreach: Going beyond the numbers

We reach out to local communities as part of our commitment to make a difference beyond the areas where we operate.

Giving Light to the Vision Impaired. First Metro believes that with a clearer vision, these indigent school children can look forward to a brighter future. Through our community outreach called Bigay Liwanag, First Metro has been helping vision-impaired public elementary students by donating prescription glasses and conducting eye check-ups since 2008. A total of 103 students from F. Maria Guerrero Elementary School in Manila benefitted from this initiative held in March 2016.

Supporting Worthy Causes. First Metro shares its success by supporting various worthy causes and charity organizations.

In 2016, twenty-three First Metro and First Metro Securities employees joined more than 1,000 employee volunteers of the Metrobank Group, students, employees, alumni, and other guests in the 4th Founder's Run marking Manila Tytana Colleges (MTC) ruby anniversary celebrations. The Founder's Run was held to raise funds for the benefit of the school's Tytana Athletics Scholarship program.

First Metro also granted scholarships to five senior high school students of MTC. The educational assistance, which started in 2014 with five college students, fully subsidizes the tuition and miscellaneous fees of the scholars.

First Metro also continues to extend financial assistance to Elsie Gaches Village, the country's largest home for children with mental illness and disabilities. The donation will support those with cerebral palsy, epilepsy, visual and hearing impairment, mental retardation, autism, and other related illnesses.

CORPORATE GOVERNANCE

Strengthening governance amid change

Good corporate governance is having a responsible, value-based management framework focused on the long-term success of the company. At First Metro, we use this framework to maintain accountability in all our affairs, and employ transparent and open processes.

COMPLIANCE

Manual on Corporate Governance and Amendments

In 2002, we adopted our own Manual of Corporate Governance (Manual), which provides for the leading best practices on governance. This has been revised and updated several times over the years to adapt to new industry standards and more prudent guidelines, pursuant to amendments in the Securities Regulation Code and the various issuances of our regulators, the Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE), and the Bangko Sentral ng Pilipinas (BSP).

Several initiatives were undertaken to improve governance in the company. The Manual's definition of "other stakeholders" was expanded to include customers, employees, suppliers, financiers, government, and the community where we operate. We also reiterated our policy on the continuing education of our Board of Directors and officers by providing a regular annual budget for training and seminars.

The Corporate Governance Committee Charter was also revised to grant the Board of Directors oversight functions in the implementation of the Money Laundering and Terrorist Financing Prevention Program in line with our parent company's policies.

Board of Directors

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

The Board is committed to upholding the highest principles of good corporate governance. As an elected body, it is accountable to shareholders for maximizing shareholder value. It is also directly accountable to the investing public for safeguarding their investments and maintaining their trust.

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

Board Composition

The Board is composed of 11 directors (of whom three are independent) elected by our voting stockholders during the annual stockholders' meeting. Candidates are screened and nominated based on their qualifications, extensive experience, and expertise. As a good corporate citizen, First Metro ensures that we are compliant with all relevant regulations relative to the election of directors.

Role of Independent Directors

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

Pursuant to BSP Circular 793, we amended our Manual to expand the definition of "independent director" and to include relatives within the fourth degree of consanguinity or affinity.

In 2016, First Metro's independent directors were: Rufino Luis T. Manotok, Raphael Perpetuo M. Lotilla, and Abelardo V. Cortez. The terms of each are still within the limit prescribed by the SEC and the BSP. The three independent directors do not participate in the company's day-to-day affairs and do not engage in any business dealings or other relationship with the Metrobank Group. As such, they are capable of exercising independent judgment and acting in the best interest of the company, its shareholders and other stakeholders.

Board Meetings

The Board meets every month, with additional meetings convened as the need arises. During the reporting period, the Board met 13 times to deliberate on and consider a variety of significant matters.

In 2016, all directors complied with the requirement that they attend at least 50% of board meetings, as prescribed by the SEC and the BSP.

Directors	Board	Executive Committee	Corporate Governance Committee	Audit Committee	Risk Oversight Committee	Nominations Committee	Related Party Transactions Committee
Francisco C. Sebastian	13/0	9/0				1/0	
Arthur Ty	12/1	9/0				1/0	
Solomon S. Cua	12/1	2/7		6/0			
Rabboni Francis B. Arjonillo	13/0	9/0	9/0				
Martin Q. Dy Buncio	13/0		9/0		7/0		
Ismael G. Cruz	13/0						9/1
Bienvenido E. Laguesma	12/1		8/1				
Joshua E. Naing	13/0				7/0		
Abelardo V. Cortez	13/0			6/0			10/0
Rufino Luis T. Manotok	11/2		7/2		7/0		
Raphael Perpetuo M. Lotilla	9/4		8/1	5/1		1/0	9/1

Legend: Present/ Absent

Board Committees

Board-level committees were established to aid the Board in corporate governance and in the performance of its corporate functions and responsibilities. Each committee has its own charter detailing its purpose, membership requirements, meetings, and duties and responsibilities. The memberships of these committees are distributed to ensure that they are balanced and effective.

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

Executive Committee	
Chairman	**Francisco C. Sebastian**
Members	Arthur Ty
	Solomon S. Cua
	Rabboni Francis B. Arjonillo

The **Corporate Governance Committee** ensures the Board's effectiveness and due observance of corporate governance principles and guidelines by periodically apprising the Board and its committees. It decides whether or not a director has been adequately carrying out his duties and makes recommendations to the Board regarding the continuing education of directors, assignment to Board committees, and succession plan for the Board members and senior officers. The committee is composed of five directors: two of whom, including the chairman, are independent. It convenes once every two months or as often as necessary.

Corporate Governance Committee	
Chairman	**Rufino Luis T. Manotok**
Members	Rabboni Francis B. Arjonillo
	Martin Q. Dy Buncio
	Bienvenido E. Laguesma
	Raphael Perpetuo M. Lotilla

The **Audit Committee** is tasked to provide oversight over senior management's activities in managing the risks of the corporation, the effectiveness and reliability of the financial reporting process and its systems of internal controls, and the coordination and monitoring of compliance with existing laws, rules, and regulations. It is responsible for setting up the Internal Audit Division and the appointment of an external auditor. It reviews the reports of internal and external auditors and ensures that management addresses reported issues in an appropriate and timely manner. It is composed of three directors – two of whom, including the chairman, are independent – and meets every quarter. Pursuant to BSP Circular No. 749, the CEO, CFO, and treasurer are not part of the Audit Committee.

Audit Committee	
Chairman	**Abelardo V. Cortez**
Members	Solomon S. Cua
	Raphael Perpetuo M. Lotilla

The **Risk Oversight Committee (ROC)** assists the Board in overseeing the formulation and maintenance of written policies and procedures on the management of risk throughout the company. The risk management policy includes a comprehensive risk management approach, detailed structure of limits, risk guidelines, and parameters used to govern risk-taking, the clear delineation of lines of responsibility for managing risks, an adequate system for measuring and monitoring risks and effective internal controls, and a comprehensive risk reporting process. In 2016, the ROC convened seven times. It is composed of at least three directors, including one independent director and a chairperson who is a non-executive director.

Risk Oversight Committee	
Chairman	**Joshua E. Naing**
Members	Martin Q. Dy Buncio
	Rufino Luis T. Manotok

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

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

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

Compensations Committee	
Chairman	**Arthur Ty**
Members	Francisco C. Sebastian
	Abelardo V. Cortez

The **Related Party Transactions Committee** assists the Board in ensuring that transactions with related parties (including internal Group transactions) are conducted at arm's length. The committee also evaluates risks and provides appropriate restrictions, and safeguards corporate or business resources against misappropriation and misapplication.

Related Party Transactions Committee	
Chairman	**Raphael Perpetuo M. Lotilla**
Members	Ismael G. Cruz
	Abelardo V. Cortez
Non-voting Member	Head of Internal Audit Group

Remuneration Policy

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

Accountability and Audit

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

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

The Board has overall responsibility for our system of internal controls, which include financial controls, operational and compliance controls, and risk management.

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

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

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

Compliance System

It is the oversight responsibility of the Board to ensure that First Metro complies with applicable laws, rules, and regulations. To this end, a compliance system was adopted describing the specific roles of each unit, from the Board down to the last unit in the organization, including responsibilities in complying with applicable laws, rules, and regulations.

The same is embodied in an updated compliance system manual duly approved by the Board in June 2012 and continuously updated to conform with the latest trends and new/amended regulations. The Board approved the latest amendment to our compliance system manual in December 2016.

The chief compliance officer is mandated to oversee and monitor the implementation of the compliance system.

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

We submitted our Certification on Compliance with the Manual on Corporate Governance on January 11, 2017 covering the calendar year 2016.

Disclosure and Transparency

The Board is transparent and fair in the conduct of the annual stockholders' meeting. Stockholders are encouraged to personally attend the meeting. The Board also promotes the rights of stockholders and protects the interests of minority stockholders. The SEC 20-IS, which contains corporate disclosures and latest audited financial statements, is disseminated to all stockholders ahead of the annual meeting to give them sufficient time to review.

We make timely disclosures to the BSP and the SEC all material information, such as earnings results, the acquisition or disposal of assets, Board changes, related party transactions or changes in ownership, corporate strategy, and other information that may have a direct or indirect impact on the decision-making of our stockholders. Periodic reports are also submitted to the BSP and the SEC.

Chinese Walls, Confidentiality and Confidential Information

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

RISK MANAGEMENT

An Enterprise-wide Responsibility

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

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

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

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

The ERM framework is guided by the following functional structure:

Board of Directors

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

Risk Oversight Committee

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

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

- recommends for Board approval policies and guidelines on risk measurement, management, and reporting;
- reviews and recommends a system of risk limits for approval by the Board;
- monitors the timely and accurate reporting of risks by risk-taking units and/or the risk control and compliance units;
- analyzes and confirms that the risk infrastructure satisfies corporate policies and is consistent with current technology and techniques;
- ensures that business units provide for ongoing review and validation of the adequacy and soundness of policies and practices;
- creates and promotes a risk culture that requires and encourages the highest standards of ethical behavior among all personnel;
- promotes the professional development and training of staff engaged in both risk management and control activities and risk-taking activities; and
- promotes the continuous development of risk programs and infrastructure.

Risk Management Division and Control Units

These are composed of the Finance, Controllership & Operations Group, Internal Audit, Compliance Divison, and the Risk Management Division (RMD). RMD, together with the control units, is tasked to:

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

Managing Various Types of Risk

The risk issues that affect First Metro are the following:

Risk Type	Description	Action taken by First Metro
Liquidity Risk	This is the potential risk of being unable to make a timely payment on any of First Metro's financial obligations to customers or counterparties. Liquidity can be affected by the inability to access long- or short-term deposit substitutes and repurchase markets, or draw from credit facilities, whether due to factors specific to First Metro or to general market conditions. The timing of difficult-to-predict events and contingencies can also make cash requirements and liquidity tight.	First Metro has a monitoring system in place to support liquidity risk management policies. The system includes maximum cumulative outflow (MCO) analysis, identification of large funds providers, and development of core investors. To strengthen the company's monitoring system, First Metro creates additional stressful scenarios in our analysis to comply with the requirements of the BSP.
Market Risk	This is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institution's overall portfolio, both on- or off-balance sheet. Market risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, and equity.	First Metro has an existing framework to measure its market risk. The risk management team performs daily market-risk analyses to ensure compliance with policies and procedures. Guiding daily monitoring activities are Board-approved limit structures that are based on annual targets.
Credit Risk	This refers to the risk to earnings or capital arising from an obligor's, customer's, or counterparty's failure to perform or to meet the terms of any contract with First Metro, subjecting the company to a financial loss. It also includes sovereign risk for some foreign-owned counterparties, where applicable. Credit risk arises from lending activities, committed underwritings and investments in bonds and equities.	To assess the creditworthiness of counterparties, First Metro evaluates the company or individual's background, management or ownership, industry and competitors, financials, the mechanics of the deal, and any credit enhancements. Counterparties are rated based on a Basel II compliant, 10-point internal credit rating patterned after the Metrobank model. The Risk Management Division also regularly undertakes and reports credit monitoring of risk areas to the ROC covering the exposures of the First Metro parent and its subsidiaries.

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

INTERNAL AUDIT

The 2016 risk-based audit plan, approved by the Audit Committee before the start of the year, was developed through a detailed and comprehensive evaluation of First Metro's strategy, attendant risks, and significant regulatory requirements, as well as other factors which may affect its delivery. We revisited the plan quarterly but made no changes to date.

The audit plan covers all critical business areas, control activities, regulatory requirements, and emerging risks, which enables the head of Internal Audit to render an overall assessment on the adequacy and effectiveness of the company's governance, risk management, and internal control processes. The completion of the audit plan complemented the oversight function of the Board of Directors and senior management, supported management initiatives, and encouraged system and process improvements.

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

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

To adapt with and meet the increasing demands for assurance and consulting services, audit skills and knowledge are continuously developed and elevated through formal training and validation, especially on technical and specialized topics (i.e., financial markets, trust, anti–money laundering, risk management, information technology, etc.), which have become more relevant in recent years.

A collaborative relationship is well-established and effectively observed with other control and monitoring functions of the company, such as the Finance, Controllership & Operations Group, the Compliance Division, and the Risk Management Division, to achieve greater depth and coverage in assessing risks and to ensure that internal audit functions are effectively designed and performed. In 2017, this will extend to other monitoring and support functions to optimize and expand the use of available systems and work products.

Internal audit functions continue to be strategically positioned. The group directly reports to the Board of Directors and is provided with adequate resources to ensure objectivity, fairness, and independence (access to all records, properties, and personnel). The audit activities continue to uphold the highest level of integrity and promote unwavering diligence across the organization to concretely affirm our commitment to our stakeholders in ensuring the reliability and integrity of financial and operational information, the safeguarding of assets, and compliance with laws, rules, regulations, and internal policies of the Metrobank Group.

AUDIT COMMITTEE REPORT

The Audit Committee (the Committee) assists the Board of Directors (the Board) in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest through effective oversight of internal and external audit functions, internal control and risk management, financial reporting, compliance with laws, rules and regulations, and code of conduct.

The Committee is composed of three (3) non-executive directors, with two (2) independent directors including the chairman. For 2016, the Committee held six (6) regular meetings, and met privately with the internal and external auditors to carry out its mandate. Furthermore, the Committee is provided with adequate training, resources and cooperation by Management to ensure that it adapts with the continuous development in business environment and changing regulatory requirements. In 2016, the Committee's principal activities were as follows:

Based on the results of assurance activities conducted by the Company's Internal Audit, the external auditor's unqualified opinion on the financial statements, and the Chief Audit Executive's overall assessment/ judgment on the adequacy and effectiveness of the Company's risk management, governance and internal control processes, the Audit Committee concludes that business objectives are met while ensuring adherence to set standards and principles.

Governance

- Coordinated with other Board Committees in ensuring that governance processes are in place and operating effectively
- Discussed significant business developments and emerging risks (i.e. , regulatory requirements) with Senior Management to ensure that capabilities are in place to achieve objectives
- Conducted self-assessment of its performance

Financial Reporting

- Reviewed interim and annual financial reports and disclosures which incorporated the accounting policies, valuation techniques (i.e., financial instruments), significant judgments and estimates/ assumptions used (i.e., allowance/ liability provisioning), and impact of significant transactions, new accounting standards and regulations
- Evaluated the external auditor's objectivity, independence and qualifications, scope/ plan, and performance

Control Framework

- Reviewed the internal audit plan for the year, interim audit reports and management's response, and shared insights and recommendations to improve internal controls
- Carried out an evaluation of the performance of the internal audit function and was satisfied with the effectiveness of the function

Abelardo V. Cortez	Solomon S. Cua	Raphael Perpetuo M. Lotilla
Chairman	Member	Member

BOARD OF DIRECTORS

ISMAEL G. CRUZ
Director

BIENVENIDO E. LAGUESMA
Director

ARTHUR TY
Vice Chairman

MARTIN Q. DY BUNCIO	RABBONI FRANCIS B. ARJONILLO	JOSHUA E. NAING	FRANCISCO C. SEBASTIAN
Director	President & Director	Director	Chairman

ABELARDO V. CORTEZ
Independent Director

SOLOMON S. CUA
Vice Chairman

RUFINO LUIS T. MANOTOK
Independent Director

RAPHAEL PERPETUO M. LOTILLA
Independent Director

FRANCISCO C. SEBASTIAN

Chairman

Mr. Sebastian is concurrently the vice chairman of Metropolitan Bank & Trust Company and GT Capital Holdings, Inc.

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

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

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

ARTHUR TY

Vice Chairman

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

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

SOLOMON S. CUA

Vice Chairman

Mr. Cua has over 20 years of experience in general management, banking, and finance.

Prior to First Metro, he served as undersecretary of the Department of Finance from 1998 to 2000. In the past ten years, he served as director of Lepanto Consolidated Mining Corporation and Omico Corporation; vice chairman/senior executive vice president of Manila Jockey Club, Inc.; director of Global Treasure Holdings, Inc. and Global Business Power Corporation; president/director of Philippine Racing Club, Inc.; trustee of GT Metro Foundation, Inc.; and director of GT Capital Holdings, Inc. and Greenhills West Association.

He is currently the vice chairman/director of the Philippine Racing Club, Inc.; chairman of Philippine AXA Life, Inc.; director of Profriends Developer, Inc.; director/treasurer of Palm Integrated Commodities, Inc.; director of Philippine Newtown Global Solutions, Inc.; president/director of SC & SSC Holdings, Inc.; and chairman of Charter Ping An Insurance Corporation.

He graduated from the University of Melbourne and the University of Queensland where he earned the degrees BA in Economics & Mathematical Sciences and Bachelor of Laws, respectively. He obtained his Master of Laws from the London School of Economics and Political Sciences.

RABBONI FRANCIS B. ARJONILLO

President & Director

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

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

Mr. Arjonillo was also a former president and director of the Money Market Association of the Philippines and vice president of the ACI Financial Markets Association, where he also acted as organizing committee chairman of its 18th Asia Pacific Foreign Exchange Congress.

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

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

ISMAEL G. CRUZ

Director

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

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

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

MARTIN Q. DY BUNCIO

Director

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

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

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

BIENVENIDO E. LAGUESMA

Director

Atty. Laguesma has been a director since April 2005. He has over 35 years of professional experience in law, public service, and governance.

He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association. He joined the Department of Labor and Employment in 1976 where he held various positions and served as Secretary from 1998 to 2001. He was Presidential Assistant at the Office of the President of the Republic of the Philippines from 1996 to 1998. Atty. Laguesma is currently the Chairman of Charter Ping An Insurance Corporation, a member of the Board of Regents of the Pamantasan ng Lungsod ng Maynila since June 23, 2015, and a director of DARE Philippines, Inc. since September 7, 2015. He is also a senior partner at Laguesma Magsalin Consulta & Gastardo Law Offices. He is likewise a member of the Social Security Commission.

He took AB Political Science at the Lyceum of the Philippines and earned a Bachelor of Laws degree from the Ateneo College of Law. He undertook the Career Executive Service Development Program in 1984 at the Development Academy of the Philippines and completed Public Sector Administration Course at the Royal Institute of Public Administration in London in 1985. He attended a governance course of the Institute of Corporate Directors in 2011 and 2014, and a similar course in 2005.

JOSHUA E. NAING

Director

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

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

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

ABELARDO V. CORTEZ

Independent Director

Atty. Cortez has over 25 years of experience in the local and international banking industry, with concentration on treasury, trust, and private banking side of the banking business.

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

He was former president of the Financial Executives Institute of the Philippines (FINEX) and co-chairman of the country's Capital Market Development Council. He was also elected secretary-general of the International Association of Financial Executives Institutes. Currently, he sits as an independent director for PBC Capital Investment Corporation and First Metro Philippine Equity Exchange-Traded Fund, Inc. He is also a director/trustee of FINEX Foundation and writes a monthly business column for *BusinessWorld*. Atty. Cortez finished his Bachelor of Laws degree from San Beda College of Law and was the recipient of the school's highest award, the Abbot Award. He completed his bachelor's degree at San Beda College, graduating Cum Laude. In 2008, he was chosen the Most Distinguished Bedan in the field of banking and finance by San Beda College Alumni Association.

RUFINO LUIS T. MANOTOK

Independent Director

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

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

RAPHAEL PERPETUO M. LOTILLA

Independent Director

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

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

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

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

BOARD ADVISERS

MAYO JOSE B. ONGSINGCO | LORNA TY | ANTONIO S. ABACAN, JR. | FLORENCIO T. MALLARE

NIMFA B. PASTRANA
Assistant Corporate Secretary

ALESANDRA TY
Corporate Secretary

SUBSIDIARIES & AFFILIATES

FIRST METRO SECURITIES BROKERAGE CORPORATION

First Metro Securities Brokerage Corporation has long been a trusted provider of equity brokering services and solutions to retail and institutional investors. Its focus is to bring the benefits of investing to more Filipinos through financial education and convenient access to financial markets. It is known for its fast and reliable online and mobile trading platforms, which feature daily research reports and advanced charting tools.

In 2016, First Metro Securities went beyond conventional equity brokering services when it unveiled its latest online investment facility, FundsMart. This allows online investing in any peso mutual fund of the six leading fund houses in the country. For the first time, customers of First Metro Securities can trade stocks and mutual funds, all in one place. In addition, customers gain exclusive access to unique and sophisticated tools for analyzing, screening, and comparing mutual funds so that they can easily choose the funds that best fit their needs. The intuitiveness and elegance of these tools are a first in the Philippines.

First Metro Securities also released an updated version of its mobile app for iOS and Android smartphones. The all-new app features an attractive new look and smoother navigation, designed for speed and performance. Clients with margin accounts can also now use their smartphone to trade on credit.

In addition, the company has stepped up its efforts in promoting financial and investment literacy throughout the country to improve market awareness and expand customer reach. It introduced two new stock market seminars: Basic Education for Stock Trading (B.E.S.T.) for beginners, and Guided Investor, Fearless Trader (G.I.F.T.) for intermediate investors. First Metro Securities has conducted over 160 seminars, attended by over 7,500 people, in 2016.

The success of these various efforts has bolstered First Metro Securities' business performance and financial results in 2016. With over P247 million in total revenues and a net income of P56 million, the company grew its top line by 33% and its bottom line by 231% year-on-year. It also succeeded in gaining market share and moved up three notches in rank to number 11 out of 131 active trading participants in the Philippine Stock Exchange. This outstanding performance can be attributed to significant progress in strengthening the company's client base, expanding revenue opportunities, and implementing initiatives to establish new businesses.

Financial Highlights

FOR THE YEAR	2016	2015
Gross Revenues	247,891,802	186,815,032
Total Expenses	191,524,148	169,799,317
Net Income	56,367,654	17,015,715
AT YEAR END		
Total Assets	1,596,249,963	1,524,564,324
Total Liabilities	1,196,460,022	1,172,811,369
Stockholders' Equity	399,789,941	351,752,955

FIRST METRO ASSET MANAGEMENT, INC.

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

FAMI mutual funds saw a very challenging year in 2016. The Philippine mutual fund industry's growth slowed to 2.34% in 2016 from 4.09% in 2015, with assets under management (AUM) reaching P242 billion. First Metro Asset Management, Inc. (FAMI) ended the year with P11.1 billion in AUM, with a client base exceeding 36,000 accounts.

Expectations of rising US interest rates, heightened local and global geopolitical uncertainty, and relatively high stock market valuations contributed to FAMI's bearish positioning in the equities market. As a result, First Metro Save and Learn Equity Fund ended the year down by 7.07% but managed to keep its 10-year average growth strong at 10.55% while the Save and Learn Fixed Income Fund was down 0.27%. The Save and Learn Balanced Fund declined by 10.36%. The Save and Learn Dollar Bond Fund was up by 1.65%. The First Metro Philippine Equity Exchange-Traded Fund fell by only 0.64% while minimizing tracking error at 0.03% against the Philippine Stock Exchange index's 1.52% decline.

Financial Highlights

FOR THE YEAR	2016	2015
Gross Revenues	225,611,672	248,207,656
Total Expenses	151,873,975	169,942,857
Net Income	51,785,351	54,736,340
AS OF YEAR END		
Total Assets	325,557,103	298,566,170
Total Liabilities	18,641,323	20,397,900
Shareholders' Equity	306,915,780	278,168,270

FIRST METRO PHILIPPINE EQUITY EXCHANGE-TRADED FUND

The First Metro Philippine Equity Exchange-Traded Fund (FMETF) maintains its leadership position during its first three years in the local market. As of end-2016, the FMETF had already delivered a total return of 13.54%, outperforming not only its benchmark, but also its equity mutual fund counterparts. In comparison, the Philippine Stock Exchange index (PSEi) showed a total return of 10.70% for the same three-year period.

Since it debuted on the PSE on December 2, 2013, the FMETF has been successful in offering Filipino investors an efficient and easy way to invest in the Philippine economy. In mirroring the PSEi, the FMETF delivers an investment option for Filipinos wanting a piece of the country's growing economic pie.

As the FMETF tracks closely the PSEi, First Metro celebrated, not just its performance, but also that of the Philippine stock market. On December 5, 2016, First Metro chairman Francisco Sebastian led the opening bell ringing ceremony during the third anniversary of the FMETF's public listing at the PSE Ayala in Makati City.

The celebration also marked the ETF Awareness Week co-sponsored by the PSE and the First Metro Group. Both institutions continued their market education drive to increase the investing public's awareness and understanding of exchange-traded funds, better equip them to invest, and increase market participation through information campaigns.

AXA PHILIPPINES

AXA Philippines is a partnership between the AXA Group and the Metrobank Group, one of the country's largest financial conglomerates.

As one of the top insurance companies in the Philippines, AXA continued to make headways in 2016. In April 2016, it completed the acquisition of Charter Ping An, allowing clients access to a full spectrum of life and non-life insurance products that both companies offer.

AXA also expanded its footprint in the country with the opening of its Pampanga; Urdaneta, Pangasinan; and Tagbilaran, Bohol branch. This brought its branch network to 35. In addition, it also has 172 AXA Advisory Corners in Metrobank branches nationwide, and 17 in PSBank.

The company continued to pursue its digital transformation strategy in 2016 with the launch of MyAXA, a mobile app that brings relevant policy information such as payment schedules, digital copies of official receipts, and account value of the chosen plan, to its customers anytime, anywhere. Through the app, clients can also view the contact details of their respective AXA Financial Partner conveniently.

Aligned with its goal of being a customer-centric insurer, AXA also unveiled the Health Risk Score (HRS) tool, a simple quiz housed in the AXA Corporate website that estimates one's probability of developing a critical illness based on heredity and lifestyle. It is a project that aims to educate the public regarding harmful lifestyle habits. It also launched the Global Health Access, a worldwide comprehensive health coverage plan designed to meet the health needs of individuals and can be used in any country they choose to be in. The annual high-tier coverage reaches up to P150 million and guarantees access to top-rated hospitals, medical practitioners, emergency responders, and round-the-clock medical advice across the globe.

In October 2016, AXA launched the AXA Certified Estate Planning Program, the country's first comprehensive estate planning program that aims to provide AXA Financial Advisors with mastery of estate planning through a mix of conceptual discussion and actual estate plan preparation. The two-day certification program has four sessions held at the Ateneo Graduate School of Business in Rockwell, Makati City.

Financial Highlights

FOR THE YEAR	**2016** (Unaudited)	**2015** (Audited)
Gross Premiums	21,624,920,993	22,923,255,221
Total Expenses	19,958,950,832	21,539,616,191
Net Income	1,665,970,161	1,383,639,030
AT YEAR END		
Total Assets	90,316,712,653	80,046,941,234
Total Liabilities	83,853,178,871	74,934,577,982
Stockholders' Equity	6,463,533,782	5,112,363,252

ORIX METRO LEASING AND FINANCE CORPORATION

ORIX METRO Leasing and Finance Corporation, a joint venture between Metrobank and ORIX Corporation of Japan, delivered an astounding overall performance in 2016.

During fiscal year October 2015 to September 2016, the company yielded P27.51 billion in group earning assets, 23.80% higher than the 2015 total. Gross revenues grew by 13.86% to P4.47 billion from P3.92 billion a year ago. In the last 11 years, its average return on equity remained above 20%.

Fiscal year 2016 was a company milestone. ORIX METRO breached the P1 billion mark in terms of net income after tax which grew to P1.03 billion or 19.51% from P865 million in 2015.

ORIX METRO offers financial leasing and mortgage loans for all kinds of vehicles such as cars, trucks, and buses; heavy equipment for construction, including pay loaders, excavators, bulldozers, and cranes; industrial machinery such as printing and packaging equipment; office equipment such as computers, servers, copiers, and fax machines; medical equipment, including CT scans, MRIs, optical and dental equipment; and other types of personal property.

Its wholly owned subsidiaries, ORIX Auto Leasing Philippines Corporation and ORIX Rental Corporation, are engaged in short-term car rental and long-term leases of vehicles with maintenance and fleet management.

ORIX METRO plans to create more opportunities by opening more branch offices in the countryside and aggressively market its full-service operating lease, targeting multinationals and big local corporations. In fiscal year 2016, ORIX METRO opened the highest number of new branches at 16, bringing its formidable network to 88 branches nationwide.

Financial Highlights

FOR THE YEAR	2016 (September)	2015 (September)
Gross Revenues	4,467,547,176	3,923,539,797
Total Expenses	2,979,227,946	2,673,728,258
Income before tax	1,488,319,230	1,249,811,539
AT YEAR END		
Total Assets	33,796,158,384	27,427,025,075
Total Liabilities	28,264,599,032	22,928,104,650
Stockholders' Equity	5,531,559,352	4,498,920,425

ABOUT FIRST METRO

MOVING FROM STRENGTH TO STRENGTH

First Metro Investment Corporation is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. We have over 50 years of experience in developing the country's capital markets.

With assets of P55.45 billion and stockholders' equity of P15.90 billion as of end-2016, First Metro continues to be the biggest investment bank in the Philippines.

Together with our subsidiaries, First Metro offers a wide range of services – from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. Our strengths lie in origination, structuring, and execution.

Amid the market uncertainty in 2016, we managed to solidify our leadership by successfully participating in 48% of the total publicly listed capital market transactions, raising P191.59 billion for the public and private sectors. We also dominated the domestic bond market, with 87% of total bond issues for the year, proof of our leadership, innovation, and service excellence.

A concrete testament to our industry dominance are the string of awards and recognitions we received in 2016.

For the second year in a row, First Metro was recognized as the Philippines' Best Investment Bank in 2016 by *Global Finance*, a monthly global business and finance magazine that has been ranking the world's best investment banks for 17 years. It was also named the Best Domestic Bond House in the Philippines and the Best Bond House at the *FinanceAsia* 20th Anniversary Platinum Awards in Hong Kong. The Asset Benchmark Research (ABR) of Hong Kong, in its 2016 Top Bank Awards in Secondary Market in Asian Currency Bonds, also named First Metro the Top Bank Arranger-Investors' Choice for Primary Issues for corporate bonds, as well as second place recognition in the Top Banks in Government Bonds and the Top Banks in Corporate Bonds categories.

BACKED BY METROBANK GROUP'S RESOURCES

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

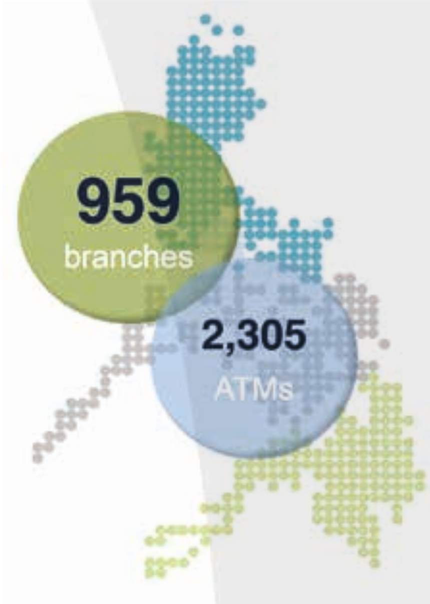
Established in 1962 to serve the Filipino-Chinese community, Metrobank's solid track record spans more than 50 years. It has grown to become the premier universal bank in the Philippines, offering a full range of banking and other financial products and services, including corporate, commercial, and consumer banking, as well as credit cards, remittances, leasing, investment banking, and trust banking. Metrobank's consolidated network spans over 2,305 ATMs nationwide; over 959 domestic branches; and 32 foreign branches, subsidiaries, and representative offices.

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

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

More than half a century after it was founded, Metrobank remains resolute in fulfilling its vision to be the best bank for all stakeholders.

Domestic Branch Network



Overseas Network Coverage

STRONG SUITE OF PRODUCTS AND SERVICES

Initially known as a bond house, First Metro has expanded its suite of products and services to be attuned to the rapidly evolving needs of our growing clientele.

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

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

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

We brought the most successful debt capital raising exercises to the market, including the Philippines' largest all-peso project finance deal, the 15-year P42.15 billion project loan facility for San Buenaventura Power Ltd. Co. (SBPL), a joint venture between Meralco Group and the Electricity Generating Public Company of Thailand. In 2016, we arranged the 15-year P24 billion project loan facility for Light Rail Manila Corporation, a consortium comprised of Metro Pacific Investments Corporation, Ayala Corporation, and Macquarie Infrastructure Holdings.

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

In **capital and corporate restructuring**, we provide strategic advice to our clients via capital structuring recommendations that will serve to maximize financing options for their growth aspirations. This activity is deemed to be an important one given the country's growth trajectory as even the mid-tier corporations aspire to take advantage of the capital markets to seize business opportunities.

Our **mergers and acquisitions** advisory services include advice on all aspects of acquisitions, disposals, private equity transactions, and finance raising, including deal execution, deal origination, and the preparation of business plans and financial projections; as well as structuring, negotiating, and executing M&A, joint venture, and strategic divestiture transactions.

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

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

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

In 2016, we demonstrated our financial advisory expertise by successfully advising GT Capital Holdings, Inc. in the P22.06 billion sale of its 56% equity stake in Global Business Power Corporation; and its concurrent P29.89 billion acquisition of 15.5% equity stake in Metro Pacific Investments Corporation. This highly complex, two-stage transaction was the Philippines' largest M&A transaction for the year.

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

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

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

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

We are able to strengthen relationships with our business partners, both institutional and individual, through the excellent delivery of financial solutions that address their specific funding requirements.

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

OTHER AREAS OF OUR BUSINESS

Equities Brokering

First Metro Securities Brokerage Corporation (FirstMetroSec) is our equity trading house licensed to trade in the PSE. Established in 1994, it has continued to provide its clients accessibility, convenience, and innovation for over 20 years. Together with its state-of-the-art online platform and the recently launched mutual funds portal, FundsMart, FirstMetroSec continues to break barriers by providing more than just equity brokering.

FirstMetroSec Online gives investors all the tools and information they need to make smarter investment decisions:

- ☑ Streaming Stock Ticker
- ☑ Market Snapshots and Statistics
- ☑ Customizable Watch List
- ☑ Stock Charts
- ☑ Automatic Chart Pattern Recognition
- ☑ Research Reports and Expert Views and Opinions
- ☑ Intuitive Mobile App downloadable for free

Fund Management

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

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

Exchange-Traded Fund

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

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

RESPECTED NAME IN THE REGION

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

We continue to lay the groundwork for active engagement with our neighbors and forge relationships that allow us to gain a foothold into new markets and unlock fresh growth opportunities.

Vietnam Investment Conference

In 2012, we took active part in business missions to Vietnam, Indonesia, and Myanmar to explore dealmaking opportunities. We hosted an investment conference in Ho Chi Minh City, the first by a Philippine investment bank. The event was well attended by Vietnamese business groups and government agencies as well as notable Philippine companies from varied industries such as water, power distribution, toll roads, hospitals, food, beverage, and pharmaceuticals.

DBS Vickers

Our research collaboration with DBS Vickers Securities (Singapore) Pte. Ltd. through First Metro Securities Brokerage Corporation aims to offer best-in-class equity research to local and foreign investors and provide clients with investment ideas in the Philippines.

In line with this partnership, First Metro Securities annually participates in the DBS Vickers' Pulse of Asia Conference held in key cities worldwide. First Metro Securities invites listed companies to join in and discuss their company performance and outlook to selected investors and clients.

Tokai Tokyo

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

The Memorandum of Understanding between First Metro and TTFH addresses collaborative and mutual endeavors that include information sharing on the economic environment and the corporate sector, as well as the promotion of certain investment banking businesses.

Since 2013, TTFH's subsidiary Tokai Tokyo Securities Co. Ltd. (TTSC) has been trading through First Metro Securities, constantly coordinating with its research team for equity investments.

SMBC Group

First Metro and Japanese financial giant Sumitomo Mitsui Banking Corporation (SMBC), along with its subsidiaries SMBC Nikko Securities, Inc. and SMBC Nikko Securities (Hong Kong) Ltd., entered into an agreement that serves as the cornerstone of cooperation between First Metro and the SMBC Group. The groups will explore opportunities in areas of debt capital markets, debt-related transactions, and financial advisory.

FRANCHISE VALUE

- Best Investment Bank in the Philippines
  2016

- Best Investment Bank in the Philippines
  2015

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

PDS Group
Philippine Dealing System Holdings Corp. & Subsidiaries

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

- Best Domestic Bond House in the Philippines
  2016

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

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

- Asia Pacific Rail: Light Rail Transit (LRT 1) PPP
  2016

- Best Project Finance Deal of the Year in Southeast Asia: Light Rail Manila Corporation P24 billion Project Loan Facility
  2016
- Best Project Finance Deal of the Year in Southeast Asia: Pagbilao Energy Corp.'s P33.3 billion (US$750 million) Lending Facility
  2014
- Best Small Cap Equity Deal of the Year in Southeast Asia: Xurpas'PHP1.36 billion (US$30 million) Initial Public Offering
  2014

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

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

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

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

- **Philippines Capital Markets Deal of the Year: P21.567 billion GT Capital IPO**
  2012
- **Domestic Bond Deal of the Year: San Miguel Brewery P38.8 billion Bond**
  2009
- **Philippines Capital Markets Deal of the Year: San Miguel Brewery P38.8 billion Bond**
  2009
- **Philippines Capital Markets Deal of the Year: Metrobank P8.5 billion Lower Tier 2 Notes**
  2007
- **Philippines Capital Markets Deal of the Year: Ayala Corporation P5.8 billion Perpetual Hybrid**
  2006

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

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

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

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

SENIOR MANAGEMENT & PRINCIPAL OFFICERS

SENIOR MANAGEMENT

Justino Juan R. Ocampo - EVP/Group Head, Investment Banking; **Dennis G. Suico** - EVP/Group Head, Corporate Services; **Rabboni Francis B. Arjonillo** - President; **Christopher Ma. Carmelo Y. Salazar** - SVP/Group Head, Financial Markets

INVESTMENT BANKING

Abigail B. Magpayo - VP/Division Head, Equity Capital Markets and Corporate Finance & Advisory; **Francisco Javier P. Bonoan** - FVP/Division Head, Coverage & Origination; **Maria Teresa V. de Vera** - VP/Division Head, Debt Capital Markets; **Justino Juan R. Ocampo** - EVP/Group Head; **Melissa T. Dimayuga** - VP/Division Head, Coverage & Origination; **Arsenio Kenneth M. Ona** - FVP/Division Head, Coverage & Origination

FAMI & FIRST METRO SECURITIES

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

FINANCIAL MARKETS

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

RESEARCH & GROUP MIS

Cristina S. Ulang - AVP/Department Head, Research; **Victor L. Vital** - VP/Group MIS

FINANCE, CONTROLLERSHIP & OPERATIONS

Mauro B. Placente - AVP/Deputy Controller and Division Head, Financial Accounting; **Rodger Joaquin P. Clemente** - SM/Division Head, Operations; **Ma. Eleanor T. Raz** - AVP/Division Head, Credit; **Maria Avalen A. Dianco** - SM/Division Head, Financial Reporting; **Eric M. Salazar** - VP/Division Head, Technology Management

CORPORATE SERVICES

Top: **Dennis G. Suico** - EVP/Group Head; **Arnel Alexis A. Azores** - SM/Department Head, Information Security; **Maria Antonia N. Bacabac** - FVP/Assistant to the Group Head, Corporate Services; **Nimfa B. Pastrana** - FVP/Division Head, Legal
Bottom: **Leah Mabel M. Faustino** - VP/Division Head, Human Resources; **Brenda S. Taruc** - FVP/Chief Risk Officer and Division Head, Risk Management; **Nelson L. Caballar** - SM/Division Head, Administration; **Sergio M. Ceniza** - VP/Division Head, Compliance; **Anna Marie S. Tuprio** - SM/Department Head, Communications & Engagement

SUMMARY GROUP FINANCIAL STATEMENTS

(In Million Pesos, Except Per Share Amounts)

At Year End	2016	2015
Total Assets	55,455	71,573
Cash and Other Cash Equivalents	10,336	9,929
Interbank loans receivable and securities purchased under resale agreements	2,219	3,200
Financial Assets at Fair Value Through Profit or Loss	9,394	10,695
Available-for-Sale Investments	6,578	19,695
Held-to-Maturity Investments	17,839	17,561
Loans and receivables	2,861	4,336
Total Liabilities	**39,550**	**53,004**
Bills Payable	15,043	29,782
Bonds Payable	11,498	11,516
Other Liabilities	11,225	10,063
Total Equity	**15,905**	**18,569**
Attributable to:		
Equity Holders of the Parent Company	15,813	18,486
Non-controlling Interest	92	83
Book value per share	**42.45**	**49.62**

For the Year	2016	2015	2014
Net Interest Income	**598**	**641**	**950**
Interest Income	1,607	2,045	2,244
Interest Expense	1,009	1,404	1,294
Non Interest Income	**1,426**	**732**	**3,831**
Service Charges, Fees and Commissions	884	899	543
Dividend Income	134	471	254
Trading and Securities Gain (Loss)	(57)	(649)	2,674
Gain (Loss) on Sale of Asset	8	(23)	299
Miscellaneous	456	34	60
Total Operating Income	**2,024**	**1,373**	**4,781**
Total Expenses	**1,776**	**1,501**	**2,960**
Operating Expenses	1,160	1,078	2,315
Provision for Income Tax	616	423	645
Share in Net Income of Associates	413	530	540
Net Income	**661**	**401**	**2,361**
Attributable to			
Equity Holders of the Parent Company	645	386	2,336
Non-controlling Interest	15	16	24
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	1.7	1.0	6.3

Key Ratios	2016	2015	2014
Net Interest Margin	1.40%	1.35%	1.91%
Return on Average Equity	3.76%	2.10%	12.59%
Return on Average Assets	1.02%	0.55%	3.06%
Non-performing Loans Ratio	-	-	-
Cost-to-Income Ratio	75.45%	114.03%	34.48%
Capital Adequacy Ratio	77.89%	38.26%	30.44%
Tier 1 Capital	77.33%	37.83%	30.11%
Common Equity Tier 1	77.33%	37.83%	30.11%

RESULTS OF OPERATIONS

First Metro reported ₱645 million consolidated net income attributable to equity holders of the Parent Company.

Total gross operating income reached ₱2.02 billion, consisting of investment banking and other fees, net interest income, dividends from our investee companies, net trading losses, share in the net earnings of investee companies and other operating income.

Investment banking and other related fees were lower by ₱15 million despite of numerous landmark deals. Net interest income derived from lending, investment and borrowing activities contributed ₱598 million, lower than that of previous year due to the decline in volume of loan & investments resulting from maturities and sale during the year. Dividends earned from our investment in tradable and non-tradable stocks and share in the net earnings of associate companies likewise contributed ₱134 million and ₱413 million, respectively. Net losses of ₱57 million from trading activities reported this year is much better than last year's ₱649 million losses.

Total expenses consisting mainly of compensation and benefits, taxes and licenses, occupancy and equipment-related costs and other miscellaneous expenses registered a 18.4% increase to 1.78 billion level. Compensation and benefits decreased by 9.4% or ₱53 million but this was negated by the increase in the taxes and licenses by 13.9% or ₱47 million. Expenses attributable to the share of minority interest, net of recovery from probable losses caused the increase in expenses by 24.7% or ₱120 million.

Provision for income taxes totaled 616 million, 45.6% or ₱193 million higher than last year.

First Metro recorded 3.76% return on average equity and 1.02% return on average assets.

FINANCIAL POSITION

The Group closed the year with a total resources of ₱55.46 billion, lower by 22.5% or ₱16.1 billion from ₱71.6 billion level last year.

Deposits maintained with local banks and Bangko Sentral ng Pilipinas, as reserves for deposit reached ₱10.3 billion, higher by 4.1% or ₱407 million.

Liquid assets consisting of financial assets at fair value through profit or loss and available-for-sale investments went down by 47.4% or ₱14.4 billion.

Loans and Receivables comprising of unquoted private debt securities, loans and discount and other receivables decreased by ₱1.5 billion mainly due to prepayment and/or maturity.

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

Investment Properties consists of land and condominium units held for sale or for lease. The decrease of ₱14 million was mainly due to the net disposal of properties.

Meanwhile, consolidated total liabilities decreased to ₱39.6 billion from ₱53.0 billion in previous year. Bills payable consisting of deposit substitute borrowings and other borrowings obtained from local banks, private firms and individuals decreased by 49.5% or ₱14.7 billion from ₱29.8 billion to ₱15.0 billion. Bonds payable remain at the same level.

Equity attributable to equity holders of the Parent Company ended at ₱15.8 billion, 14.5% or ₱2.7 billion lower from last year's ₱18.5 billion due to the net effect of ₱3.0 billion cash dividend declaration and reported net income for the year, which translates to 77.9% capital adequacy ratio (CAR). This is far beyond the 10.0% CAR required by BSP on non-bank financial intermediaries with quasi-banking function.

The capital-to-risk assets of the Group and the Parent Company as reported to the BSP as of December 31, 2016 and 2015, respectively, follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
CET 1 capital	**₱18,432,365,546**	₱20,971,116,119	**₱18,432,366,800**	₱20,971,123,830
Less: Required deductions	**11,598,386,653**	16,945,546,912	**12,072,411,811**	17,243,065,609
Net Tier 1 capital	**6,833,978,893**	4,025,569,207	**6,359,954,989**	3,728,058,221
Tier 2 capital	**49,973,039**	46,586,236	**43,273,880**	46,586,236
Total qualifying capital	**₱6,883,951,932**	₱4,072,155,443	**₱6,403,228,869**	₱3,774,644,457
Risk weighted assets	**₱8,837,581,580**	₱10,642,610,895	**₱7,763,764,372**	₱9,522,264,923
CET 1 ratio*	**77.3%**	37.8%	**81.9%**	39.2%
*Capital conservation buffer	**71.3%**	31.8%	**75.9%**	33.2%
Tier 1 capital ratio	**77.3%**	37.8%	**81.9%**	39.2%
Total capital ratio	**77.9%**	38.3%	**82.4%**	39.6%

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

The breakdown of the CET 1 capital for 2016 and 2015 is presented as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Paid-up common stock	**₱4,208,692,400**	₱4,208,692,400	**₱4,208,692,400**	₱4,208,692,400
Additional paid-in capital	**1,848,345,743**	1,848,345,743	**1,848,345,743**	1,848,345,743
Retained earnings	**11,192,012,775**	13,873,242,629	**11,192,012,775**	13,873,242,629
Undivided profits	**826,950,401**	312,772,657	**826,950,401**	312,772,657
Net unrealized gain on AFS	**285,833,678**	652,693,099	**239,236,333**	591,531,622
Cumulative foreign currency translation	**–**	(32,658,679)	**–**	(32,658,679)
Other comprehensive income	**70,530,549**	108,028,270	**117,129,148**	169,197,458
Total CET 1 capital	**₱18,432,365,546**	₱20,971,116,119	**₱18,432,366,800**	₱20,971,123,830

As of December 31, 2016 and 2015, the Group has outstanding and issued common shares of 372.54 million and 372.58 million, respectively, out of the 800.00 million authorized shares at P10.00 par value.

Tier 2 capital represents the BSP required general loan loss provisioning of the Group as December 31, 2016 and 2015.

The breakdown of the regulatory adjustments for 2016 and 2015 is presented as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Treasury shares	**₱2,661,275,975**	₱2,658,034,595	**₱2,661,275,975**	₱2,658,034,595
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	**157,579,979**	227,251,484	**157,579,979**	227,251,484
Other intangible assets	**58,430,611**	94,099,677	**58,430,611**	94,099,677
Deferred tax assets (DTA)	**31,064,139**	–	**31,064,139**	–
Defined benefit pension fund assets (DBPFA)	**6,130,016**	–	**6,130,016**	–
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any	**2,784,155,697**	3,220,202,596	**2,959,753,327**	3,326,911,919
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any	**3,677,547**	3,779,842	**405,877,276**	351,723,676
Significant minority investments (10%-50% of voting stock) in banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any	**1,360,776,396**	1,223,799,124	**1,360,776,396**	1,223,799,124
Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any	**1,709,701,291**	1,481,318,633	**1,709,701,291**	1,481,318,633
Minority investments (below 10% of voting stock) in subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any	**172,751,352**	982,345,201	**94,975,866**	855,023,575
Other equity investments in non-financial allied undertakings and non-allied undertakings	**2,652,843,650**	7,054,715,760	**2,626,846,935**	7,024,902,926
Total regulatory deductions	**₱11,598,386,653**	₱16,945,546,912	**₱12,072,411,811**	₱17,243,065,609

The reconciliation of the regulatory adjustments back to the statement of financial position as of December 31, 2016 and 2015 is as follows:

	Consolidated								
						Equity Securities			
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	DTA	DBPFA	FVPL	AFS	Equity Investments	Total
Balance per CAR Report at December 31, 2016	**₱2,661,275,975**	**₱157,579,979**	**₱58,430,611**	**₱31,064,139**	**₱6,130,016**	**₱25,463,351**	**₱3,107,645,230**	**₱5,550,797,352**	**₱11,598,386,653**
Investments in MF/additional investments of subsidiaries	**–**	**–**	**–**	**–**	**–**	**6,910,671,697**	**(2,727,619,686)**	**–**	**4,183,052,011**
Share in net earnings of subsidiaries and affiliates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(390,769,532)**	**(390,769,532)**
Others	**(2,766,264)**	**–**	**10,611,013**	**7,652,098**	**40,035,982**	**–**	**–**	**–**	**55,532,829**
Balance per Statement of Financial Position at December 31, 2016	**₱2,658,509,711**	**₱157,579,979**	**₱69,041,624**	**₱38,716,237**	**₱46,165,998**	**₱6,936,135,048**	**₱380,025,544**	**₱5,160,027,820**	**₱15,446,201,961**

				Consolidated			
				Equity Securities			
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	FVPL	AFS	Equity Investments	Total
Balance per CAR Report at December 31, 2015	₱2,658,034,595	₱227,251,484	₱94,099,677	₱495,918,264	₱8,188,905,511	₱5,281,337,381	₱16,945,546,912
Investments in MF/additional investments of subsidiaries	–	–	–	8,895,367,748	(2,901,346,686)	–	5,994,021,062
Share in net earnings of subsidiaries and affiliates	–	–	–	–	–	(254,767,315)	(254,767,315)
Others	(2,766,264)	–	15,708,802	–	–	–	12,942,538
Balance per Statement of Financial Position at December 31, 2015	₱2,655,268,331	₱227,251,484	₱109,808,479	₱9,391,286,012	₱5,287,558,825	₱5,026,570,066	₱22,697,743,197

	Parent								
						Equity Securities			
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	DTA	DBPFA	FVPL	AFS	Equity Investments	Total
Balance per CAR Report at December 31, 2016	**₱2,661,275,975**	**₱157,579,979**	**₱58,430,611**	**₱31,064,139**	**₱6,130,016**	**₱–**	**₱2,865,761,029**	**₱6,292,170,062**	**₱12,072,411,811**
Investments in MF/additional investments of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**(2,558,316,332)**	**–**	**(2,558,316,332)**
Share in net earnings of subsidiaries and affiliates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(851,556,274)**	**(851,556,274)**
Others	**–**	**–**	**–**	**7,063,904**	**33,677,697**	**–**	**–**	**–**	**40,741,601**
Balance per Statement of Financial Position at December 31, 2016	**₱2,661,275,975**	**₱157,579,979**	**₱58,430,611**	**₱38,128,043**	**₱39,807,713**	**₱–**	**₱307,444,697**	**₱5,440,613,788**	**₱8,703,280,806**

	Parent						
				Equity Securities			
	Treasury Shares	Unsecured Loans to Affiliates	Other intangible assets	FVPL	AFS	Equity Investments	Total
Balance per CAR Report at December 31, 2015	₱2,658,034,595	₱227,251,484	₱94,099,677	₱410,938,656	₱7,873,866,332	₱5,978,874,865	₱17,243,065,609
Investments in MF/additional investments of subsidiaries	–	–	–	(245,330,250)	(2,673,543,526)	–	(2,918,873,776)
Share in net earnings of subsidiaries and affiliates	–	–	–	–	–	(137,291,067)	(137,291,067)
Balance per Statement of Financial Position at December 31, 2015	₱2,658,034,595	₱227,251,484	₱94,099,677	₱165,608,406	₱5,200,322,806	₱5,841,583,798	₱14,186,900,766

The breakdown of the risk-weighted assets for 2016 and 2015 is presented as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Total credit risk-weighted assets	**₱4,995,544,160**	₱6,548,010,994	**₱4,318,929,106**	₱5,836,439,871
Total market risk-weighted assets	**425,659,831**	220,824,530	**425,949,871**	220,379,201
Total operational risk-weighted assets	**3,416,377,589**	3,873,775,371	**3,018,885,395**	3,465,445,851
Total risk-weighted assets	**₱8,837,581,580**	₱10,642,610,895	**₱7,763,764,372**	₱9,522,264,923

The specific capital requirements of each risk weighted assets for 2016 and 2015 is presented as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Total credit risk-weighted assets	**₱499,554,416**	₱654,801,099	**₱431,892,911**	₱583,643,987
Total market risk-weighted assets	**42,565,983**	22,082,453	**42,594,987**	22,037,920
Total operational risk-weighted assets	**341,637,759**	387,377,537	**301,888,539**	346,544,585
Total capital requirements	**₱883,758,158**	₱1,064,261,089	**₱776,376,437**	₱952,226,492

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Total risk-weighted on-balance sheet assets (Schedule A)	**₱4,586,928,910**	₱6,137,295,994	**₱3,917,013,015**	₱5,425,724,871
Total risk-weighted off-balance sheet assets (Schedule B)	**410,375,000**	410,715,000	**410,375,000**	410,715,000
Excess general loan loss provision	**(1,759,749)**	–	**(8,458,908)**	–
Total credit risk-weighted assets	**₱4,995,544,161**	₱6,548,010,994	**₱4,318,929,107**	₱5,836,439,871

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Interest rate exposures	**₱374,623,481**	₱172,831,539	**₱374,623,481**	₱172,831,539
Equity exposures	**–**	–	**–**	–
Foreign exposures	**51,036,350**	47,992,991	**51,326,390**	47,547,662
Total market risk-weighted assets	**₱425,659,831**	₱220,824,530	**₱425,949,871**	₱220,379,201

	Schedule A			
	Consolidated			
	2016		2015	
	Total credit risk exposure after risk mitigation	**Total credit risk weighted assets**	Total credit risk exposure after risk mitigation	Total credit risk weighted assets
Cash and other cash items	**₱1,648,621,295**	**₱632,157,161**	₱1,568,254,530	₱890,881,107
Due from BSP	**7,231,151,183**	**–**	6,600,000,000	–
AFS investments	**5,605,158,870**	**209,327,053**	14,138,958,003	108,328,536
HTM investments	**17,449,648,741**	**575,423,508**	17,501,676,914	537,867,580
Unquoted commercial papers	**487,500,000**	**487,500,000**	940,000,000	940,000,000
Loans and receivables	**1,567,030,689**	**1,562,269,083**	4,951,793,082	2,382,644,762
Loans and receivables arising from repurchase agreements, certificates of assignment / participation with recourse and securities lending and borrowing transactions	**2,219,292,587**	**–**	**–**	–
Sales contract receivable	**8,479,598**	**8,479,598**	10,744,309	10,744,309
Investment properties	**174,633,848**	**261,950,772**	184,712,263	277,068,394
Total exposures excluding other assets	**36,391,516,811**	**3,737,107,175**	**45,896,139,101**	5,147,534,688
Other assets	**849,821,735**	**849,821,735**	989,761,306	989,761,306
Total exposures including other assets	**37,241,338,546**	**4,586,928,910**	**46,885,900,407**	6,137,295,994
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants		**4,586,928,910**		6,137,295,994
Total risk-weighted on-balance sheet assets covered by credit risk mitigants		**–**		–
Total credit risk-weighted on-balance sheet assets		**₱4,586,928,910**		₱6,137,295,994

	Schedule A			
	Parent Company			
	2016		2015	
	Total credit risk exposure after risk mitigation	**Total credit risk weighted assets**	Total credit risk exposure after risk mitigation	Total credit risk weighted assets
Cash and other cash items	**₱397,647,510**	**₱321,451,926**	₱385,495,341	₱285,874,558
Due from BSP	**7,231,151,183**	**–**	6,600,000,000	–
AFS investments	**5,486,894,186**	**189,232,162**	14,019,058,050	87,949,584
HTM investments	**17,449,648,741**	**575,423,508**	17,501,676,914	537,867,580
Unquoted commercial papers	**487,500,000**	**487,500,000**	940,000,000	940,000,000
Loans and receivables	**1,565,510,265**	**1,560,748,660**	4,951,793,082	2,382,644,762
Loans and receivables arising from repurchase agreements, certificates of assignment / participation with recourse and securities lending and borrowing transactions	**2,219,292,587**	**–**	–	–
Sales contract receivable	**8,479,598**	**8,479,598**	10,744,309	10,744,309
Investment properties	**174,633,848**	**261,950,772**	184,712,263	277,068,394
Total exposures excluding other assets	**35,020,757,918**	**3,404,786,626**	44,593,479,959	4,522,149,187
Other assets	**512,226,389**	**512,226,389**	903,575,684	903,575,684
Total exposures including other assets	**35,532,984,307**	**3,917,013,015**	45,497,055,643	5,425,724,871
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants		**3,917,013,015**		5,425,724,871
Total risk-weighted on-balance sheet assets covered by credit risk mitigants		–		–
Total risk-weighted on-balance sheet assets		**₱3,917,013,015**		₱5,425,724,871

	Schedule B			
	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Direct credit substitutes (financial stand-by letters of credit)	**₱410,000,000**	₱410,000,000	**₱410,000,000**	₱410,000,000
Transaction-related contingencies (legal claims)	**375,000**	715,000	**375,000**	715,000
Total risk-weighted off-balance sheet assets	**₱410,375,000**	₱410,715,000	**₱410,375,000**	₱410,715,000

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of First Metro Investment Corporation (the Company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

FRANCISCO C. SEBASTIAN
Chairman

RABBONI FRANCIS B. ARJONILLO
President

MAURO B. PLACENTE
AVP/Deputy Controller

Signed this 27th day of February 2017

SUBSCRIBED AND SWORN to before me this 10th day of March 2017 affiants exhibiting to me their identification, as follows:

Name	Identification	Place of Issue	Date of Expiry
Francisco C. Sebastian	Passport No. EB9047722	DFA Manila	09/02/2018
Rabboni Francis B. Arjonillo	Passport No. EC1136176	DFA Manila	05/18/2019
Mauro B. Placente	Passport No. EC8354247	DFA Manila	07/18/2021

Notary Public

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Series of 2017

Notary Public
PERFECTO C. NOLASCO
Commission No. 2016-016
Notary Public for Manila
Until December 31, 2017
Rm. 327 Downtown Center Building
516 Quintin Paredes Street, Binondo, Manila

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
First Metro Investment Corporation

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of First Metro Investment Corporation and its subsidiaries (the Group) and the parent company financial statements of First Metro Investment Corporation (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2016 and 2015, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

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

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

Assessment of recoverability of investment in an Associate

The Group assesses the impairment of its investments in associates whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. In 2016, there has been a significant and prolonged decline in the fair value of investment in an associate. The Group performed an impairment testing using the value-in-use (VIU) of the investment. We considered the impairment testing of the Group's investment in this associate a key audit matter as significant judgment and estimates are involved in the determination of the investment's VIU. The disclosures relating to the investment in this associate are included in Notes 3 and 10 to the financial statements.

Audit response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-62-2015
February 27, 2015, valid until February 26, 2018
PTR No. 5908661, January 3, 2017, Makati City

February 27, 2017

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company		
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015 (As restated - Note 2)	January 1, 2015 (As restated - Note 2)
ASSETS					
Cash and other cash items (Note 27)	**₱3,104,612,987**	₱3,329,162,749	**₱397,697,510**	₱385,452,536	₱1,158,558,570
Due from Bangko Sentral ng Pilipinas (Note 14)	**7,231,151,183**	6,600,000,000	**7,231,151,183**	6,600,000,000	6,940,000,000
Interbank loans receivable and securities purchased under resale agreements	**2,218,848,817**	3,200,000,000	**2,218,848,817**	3,200,000,000	
Financial assets at fair value through profit or loss (Notes 7, 27 and 28)	**9,394,007,104**	10,695,236,220	**1,682,890,095**	635,471,667	4,866,635,600
Available-for-sale investments (Notes 7, 16 and 27)	**6,578,220,391**	19,694,541,526	**5,772,413,729**	19,048,807,641	17,046,299,721
Held-to-maturity investments (Notes 7 and 14)	**17,838,843,510**	17,560,603,719	**17,261,860,578**	17,315,633,239	16,109,151,497
Loans and receivables (Notes 8, 13 and 27)	**2,860,803,223**	4,336,465,808	**2,315,038,538**	3,838,834,264	5,072,770,494
Property and equipment (Note 9)	**81,725,720**	97,223,978	**51,284,531**	64,538,862	83,786,360
Investments in subsidiaries, associates and joint venture (Notes 10 and 27)	**5,160,027,820**	5,026,570,067	**8,860,112,130**	9,004,783,067	6,319,893,291
Investment properties (Note 11)	**330,514,369**	345,004,757	**330,514,369**	343,968,226	447,692,833
Deferred tax assets (Note 26)	**38,716,237**	2,621,194	**38,128,043**		
Other assets (Notes 12 and 27)	**617,466,337**	685,807,872	**506,747,582**	591,304,343	493,110,244
	₱55,454,937,698	₱71,573,237,890	**₱46,666,687,105**	₱61,028,793,845	₱58,537,898,610
LIABILITIES AND EQUITY					
LIABILITIES					
Bills payable (Notes 14 and 27)	**₱15,043,282,889**	₱29,781,522,908	**₱15,085,782,889**	₱29,881,667,575	₱27,649,801,782
Accounts payable (Note 27)	**1,562,183,048**	1,206,421,848	**374,850,667**	178,406,885	43,575,455
Accrued taxes, interest and other expenses (Notes 15 and 27)	**180,991,034**	261,570,318	**131,780,270**	241,599,911	326,252,790
Bonds payable (Note 16)	**11,498,497,579**	11,516,298,180	**11,981,719,616**	11,971,195,297	11,962,132,590
Income taxes payable	**30,967,046**	1,620,183	**20,685,481**	–	4,668,979
Deferred tax liabilities (Note 26)	**8,754,368**	173,740,706	–	163,085,770	180,939,811
Other liabilities (Notes 17 and 27)	**11,225,177,289**	10,063,001,620	**3,258,453,023**	106,454,566	140,002,420
	39,549,853,253	53,004,175,763	**30,853,271,946**	42,542,410,004	40,307,373,827
EQUITY					
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
Common stock (Note 19)	**4,208,692,400**	4,208,692,400	**4,208,692,400**	4,208,692,400	4,208,692,400
Capital paid in excess of par value	**2,065,694,042**	2,065,694,042	**2,065,694,042**	2,065,694,042	2,065,694,042
Retained earnings (Note 19)	**12,378,673,039**	14,736,325,880	**12,378,673,039**	14,736,325,880	14,350,786,117
Treasury stock (Note 19)	**(2,658,509,711)**	(2,655,268,331)	**(2,658,509,711)**	(2,655,268,331)	(2,653,434,041)
Net unrealized gain (loss) on available-for-sale investments (Notes 7 and 27)	**(253,487,934)**	(18,529,720)	**(253,487,934)**	(18,529,720)	131,874,512
Cumulative translation adjustment	**22,254,825**	9,826,358	**22,254,825**	9,826,358	(1,588,552)
Remeasurements of retirement liability (Note 22)	**11,425,453**	10,096,094	**11,425,453**	10,096,094	(82,844,824)
Equity in other comprehensive income of associates (Note 10)	**38,673,045**	129,547,118	**38,673,045**	129,547,118	211,345,129
	15,813,415,159	18,486,383,841	**15,813,415,159**	18,486,383,841	18,230,524,783
Equity attributable to non-controlling interests	**91,669,286**	82,678,286	**–**	–	–
	15,905,084,445	18,569,062,127	**15,813,415,159**	18,486,383,841	18,230,524,783
	₱55,454,937,698	₱71,573,237,890	**₱46,666,687,105**	₱61,028,793,845	₱58,537,898,610

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As restated - Note 2)	2014 (As restated - Note 2)
INTEREST INCOME (Notes 7, 8, 20 and 27)	**₱1,607,084,277**	₱2,044,652,843	₱2,243,763,153	**₱1,447,452,719**	₱1,905,163,604	₱2,075,703,645
INTEREST EXPENSE (Notes 14, 16, 21 and 27)	**1,009,203,285**	1,403,618,809	1,293,954,791	**1,034,493,995**	1,430,138,991	1,314,570,249
NET INTEREST INCOME	**597,880,992**	641,034,034	949,808,362	**412,958,724**	475,024,613	761,133,396
OTHER OPERATING INCOME (LOSSES)						
Service charges, fees and commissions (Note 27)	**883,855,142**	899,380,439	543,446,323	**679,959,748**	745,129,545	365,909,517
Dividends (Notes 7, 10 and 27)	**134,256,019**	470,706,424	254,261,283	**26,590,697**	300,210,489	64,397,621
Trading and securities gain (loss) (Notes 7 and 27)	**(56,610,210)**	(649,052,472)	2,674,437,412	**402,314,075**	(290,629,791)	1,029,515,868
Gain (loss) on sale of assets (Notes 9, 10 and 11)	**8,313,825**	(22,999,699)	298,692,418	**8,313,825**	(22,999,699)	298,692,418
Miscellaneous (Notes 23 and 24)	**456,580,329**	33,441,503	60,214,476	**464,591,992**	50,242,986	48,368,433
TOTAL OPERATING INCOME	**2,024,276,097**	1,372,510,229	4,780,860,274	**1,994,729,061**	1,256,978,143	2,568,017,253
OTHER EXPENSES						
Compensation and fringe benefits (Notes 22 and 27)	**515,051,557**	568,489,434	450,637,241	**397,522,384**	455,616,091	364,723,324
Taxes and licenses	**387,813,782**	340,474,234	514,745,503	**379,145,761**	285,064,695	420,187,725
Rent, light and water (Note 24)	**78,546,854**	69,767,663	60,716,699	**58,228,594**	51,288,207	47,277,460
Provision for (recovery from) impairment and other probable losses (Notes 13 and 29)	**64,649,490**	(150,167,367)	(403,047,261)	**65,856,213**	(148,644,583)	(403,443,451)
Broker's commission	**45,666,503**	48,905,552	104,820,801	**23,571,434**	27,832,882	35,143,838
Depreciation and amortization of property and equipment (Note 9)	**41,076,241**	46,333,504	36,452,225	**29,816,736**	35,294,515	29,547,506
Entertainment, amusement and recreation (Note 26)	**19,004,794**	25,920,103	18,054,061	**13,852,672**	18,178,133	12,391,400
Depreciation of investment properties (Note 11)	**4,094,667**	4,094,667	4,253,954	**3,906,207**	3,906,207	4,065,494
Income (loss) attributable to puttable instruments (Note 17)	**(431,180,862)**	(336,488,280)	1,069,766,461	**–**	–	–
Foreign exchange (gains) or losses (Note 7)	**(9,349,906)**	(10,347,822)	(98,986)	**(474,750)**	(2,951,093)	414,160
Miscellaneous (Notes 11 and 25)	**445,061,932**	471,391,034	458,863,708	**258,456,490**	278,175,355	261,187,011
	1,160,435,052	1,078,372,722	2,315,164,406	**1,229,881,741**	1,003,760,409	771,494,467
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND INCOME TAX	**863,841,045**	294,137,507	2,465,695,868	**764,847,320**	253,217,734	1,796,522,786
SHARE IN NET INCOME OF SUBSIDIARIES (Note 10)	**–**	–	–	**(36,559,106)**	(30,706,408)	659,241,080
SHARE IN NET INCOME OF ASSOCIATES (Note 10)	**412,531,810**	529,525,434	539,795,871	**408,712,292**	529,736,153	435,300,518
INCOME BEFORE INCOME TAX	**1,276,372,855**	823,662,941	3,005,491,739	**1,137,000,506**	752,247,479	2,891,064,384
PROVISION FOR INCOME TAX (Note 26)	**615,870,282**	422,473,301	644,914,472	**491,942,807**	366,707,716	554,887,196
NET INCOME	**₱660,502,573**	₱401,189,640	₱2,360,577,267	**₱645,057,699**	₱385,539,763	₱2,336,177,188

Attributable to:			
Equity holders of the Parent Company (Note 31)	**₱645,057,699**	₱385,539,763	₱2,336,177,188
Non-controlling interests	**15,444,874**	15,649,877	24,400,079
	₱660,502,573	₱401,189,640	₱2,360,577,267
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	**₱1.7**	₱1.0	₱6.3

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As restated - Note 2)	2014 (As restated - Note 2)
NET INCOME FOR THE YEAR	**₱660,502,573**	₱401,189,640	₱2,360,577,267	**₱645,057,699**	₱385,539,763	₱2,336,177,188
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net loss on available-for-sale investments (Note 7)	**(247,476,361)**	(158,146,659)	(1,491,266,631)	**(228,838,670)**	(146,105,383)	(1,479,896,367)
Income tax effect (Notes 7 and 26)	**5,150,335**	5,477,293	10,942,332	**(1,012,102)**	(746,481)	1,747,331
	(242,326,026)	(152,669,366)	(1,480,324,299)	**(229,850,772)**	(146,851,864)	(1,478,149,036)
Cumulative translation adjustment	**12,428,467**	11,414,910	(1,588,552)	**–**	–	–
Share in other comprehensive income of subsidiaries (Note 10)	**–**	–	–	**7,321,025**	7,862,542	10,391,089
Share in other comprehensive income of associates (Note 10)	**(77,874,960)**	(73,187,377)	(6,098,693)	**(77,874,960)**	(73,187,377)	(6,098,693)
Other comprehensive income (loss) attributable to puttable instruments	**5,416,188**	(2,090,768)	13,610,547	**–**	–	–
	(302,356,331)	(216,532,601)	(1,474,400,997)	**(300,404,707)**	(212,176,699)	(1,473,856,640)
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurements of retirement liability (Note 22)	**3,867,332**	104,652,933	(20,866,407)	**338,395**	85,723,984	(10,389,095)
Income tax effect (Notes 22 and 26)	**(2,537,973)**	(10,175,987)	5,047,484	**(101,518)**	(4,497,313)	–
	1,329,359	94,476,946	(15,818,923)	**236,877**	81,226,671	(10,389,095)
Share in other comprehensive income of subsidiaries (Note 10)	**–**	–	–	**1,092,482**	11,714,247	(5,429,828)
Share in other comprehensive income of associates (Note 10)	**(12,999,113)**	(8,610,634)	(4,238,457)	**(12,999,113)**	(8,610,634)	(4,238,457)
	(11,669,754)	85,866,312	(20,057,380)	**(11,669,754)**	84,330,284	(20,057,380)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱346,476,488**	₱270,523,351	₱866,118,890	**₱332,983,238**	₱257,693,348	₱842,263,168
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱332,983,238**	₱257,693,348	₱842,263,168			
Non-controlling interests	**13,493,250**	12,830,003	23,855,722			
	₱346,476,488	₱270,523,351	₱866,118,890			

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

	Consolidated										
			Equity Attributable to Equity Holders of the Parent Company								
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Notes 7 and 27)	Remeasurements of Retirement Liability (Note 22)	Cumulative Translation Adjustment	Equity in Other Comprehensive Income of Associates (Note 10)	Total	Non-Controlling Interest	Total Equity
Balance at January 1, 2016	**₱4,208,692,400**	**₱2,065,694,042**	**₱14,736,325,880**	**(₱2,655,268,331)**	**(₱18,529,720)**	**₱10,096,094**	**₱9,826,358**	**₱129,547,118**	**₱18,486,383,841**	**₱82,678,286**	**₱18,569,062,127**
Total comprehensive income	**–**	**–**	**645,057,699**	**–**	**(234,958,214)**	**1,329,359**	**12,428,467**	**(90,874,073)**	**332,983,238**	**13,493,250**	**346,476,488**
Dividends declared (Note 19)	**–**	**–**	**(3,002,710,540)**	**–**	**–**	**–**	**–**	**–**	**(3,002,710,540)**	**(4,502,250)**	**(3,007,212,790)**
Acquisition of treasury shares (Note 19)	**–**	**–**	**–**	**(3,241,380)**	**–**	**–**	**–**	**–**	**(3,241,380)**	**–**	**(3,241,380)**
Balance at December 31, 2016	**₱4,208,692,400**	**₱2,065,694,042**	**₱12,378,673,039**	**(₱2,658,509,711)**	**(₱253,487,934)**	**₱11,425,453**	**₱22,254,825**	**₱38,673,045**	**₱15,813,415,159**	**₱91,669,286**	**₱15,905,084,445**
Balance at January 1, 2015	₱4,208,692,400	₱2,065,694,042	₱14,350,786,117	(₱2,653,434,041)	₱131,874,512	(₱82,844,824)	(₱1,588,552)	₱211,345,129	₱18,230,524,783	₱75,098,283	₱18,305,623,066
Total comprehensive income	–	–	385,539,763	–	(150,404,232)	92,940,918	11,414,910	(81,798,011)	257,693,348	12,830,003	270,523,351
Dividends declared (Note 19)	–	–	–	–	–	–	–	–	–	(5,250,000)	(5,250,000)
Acquisition of treasury shares (Note 19)	–	–	–	(1,834,290)	–	–	–	–	(1,834,290)	–	(1,834,290)
Balance at December 31, 2015	₱4,208,692,400	₱2,065,694,042	₱14,736,325,880	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	₱129,547,118	₱18,486,383,841	₱82,678,286	₱18,569,062,127
Balance at January 1, 2014	₱4,208,692,400	₱2,065,694,042	₱13,516,253,110	(₱2,652,129,301)	₱1,598,043,907	(₱67,025,901)	₱–	₱221,682,279	₱18,891,210,536	₱58,742,561	₱18,949,953,097
Total comprehensive income	–	–	2,336,177,188	–	(1,466,169,395)	(15,818,923)	(1,588,552)	(10,337,150)	842,263,168	23,855,722	866,118,890
Dividends declared (Note 19)	–	–	(1,501,644,181)	–	–	–	–	–	(1,501,644,181)	(7,500,000)	(1,509,144,181)
Acquisition of treasury shares (Note 19)	–	–	–	(1,304,740)	–	–	–	–	(1,304,740)	–	(1,304,740)
Balance at December 31, 2014	₱4,208,692,400	₱2,065,694,042	₱14,350,786,117	(₱2,653,434,041)	₱131,874,512	(₱82,844,824)	(₱1,588,552)	₱211,345,129	₱18,230,524,783	₱75,098,283	₱18,305,623,066

	Parent Company								
	Common Stock (Note 19)	Capital Paid in Excess of Par Value	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Notes 7 and 27)	Remeasurements of Retirement Liability (Note 22)	Cumulative Translation Adjustment (Note 10)	Equity in Other Comprehensive Income of Associates (Note 10)	Total Equity
Balance at January 1, 2016, as restated	**₱4,208,692,400**	**₱2,065,694,042**	**₱14,736,325,880**	**(₱2,655,268,331)**	**(₱18,529,720)**	**₱10,096,094**	**₱9,826,358**	**₱129,547,118**	**₱18,486,383,841**
Total comprehensive income	–	–	**645,057,699**	–	**(234,958,214)**	**1,329,359**	**12,428,467**	**(90,874,073)**	**332,983,238**
Dividends declared (Note 19)	–	–	**(3,002,710,540)**	–	–	–	–	–	**(3,002,710,540)**
Acquisition of treasury shares (Note 19)	–	–	–	**(3,241,380)**	–	–	–	–	**(3,241,380)**
Balance at December 31, 2016	**₱4,208,692,400**	**₱2,065,694,042**	**₱12,378,673,039**	**(₱2,658,509,711)**	**(₱253,487,934)**	**₱11,425,453**	**₱22,254,825**	**₱38,673,045**	**₱15,813,415,159**
Balance at January 1, 2015, as previously presented	₱4,208,692,400	₱2,065,694,042	₱11,597,591,994	(₱2,656,200,305)	₱73,851,645	(₱70,732,941)	₱–	₱–	₱15,218,896,835
Effect of change in accounting for investments in subsidiaries, associates and joint venture from cost to equity method	–	–	2,753,194,123	2,766,264	58,022,867	(12,111,883)	(1,588,552)	211,345,129	3,011,627,948
Balance at January 1, 2015, as restated	4,208,692,400	2,065,694,042	14,350,786,117	(2,653,434,041)	131,874,512	(82,844,824)	(1,588,552)	211,345,129	18,230,524,783
Total comprehensive income, as restated	–	–	385,539,763	–	(150,404,232)	92,940,918	11,414,910	(81,798,011)	257,693,348
Acquisition of treasury shares (Note 19)	–	–	–	(1,834,290)	–	–	–	–	(1,834,290)
Balance at December 31, 2015	₱4,208,692,400	₱2,065,694,042	₱14,736,325,880	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	₱129,547,118	₱18,486,383,841
Balance at January 1, 2014, as previously presented	₱4,208,692,400	₱2,065,694,042	₱11,018,995,512	(₱2,654,895,565)	₱1,552,000,681	(₱60,343,846)	₱–	₱–	₱16,130,143,224
Effect of change in accounting for investments in subsidiaries, associates and joint venture from cost to equity method	–	–	2,497,257,598	2,766,264	46,043,226	(6,682,055)	–	221,682,279	2,761,067,312
Balance at January 1, 2014, as restated	₱4,208,692,400	₱2,065,694,042	₱13,516,253,110	(₱2,652,129,301)	₱1,598,043,907	(₱67,025,901)	₱–	₱221,682,279	₱18,891,210,536
Total comprehensive income, as restated	–	–	2,336,177,188	–	(1,466,169,395)	(15,818,923)	(1,588,552)	(10,337,150)	842,263,168
Dividends declared (Note 19)	–	–	(1,501,644,181)	–	–	–	–	–	(1,501,644,181)
Acquisition of treasury shares (Note 19)	–	–	–	(1,304,740)	–	–	–	–	(1,304,740)
Balance at December 31, 2014	₱4,208,692,400	₱2,065,694,042	₱14,350,786,117	(₱2,653,434,041)	₱131,874,512	(₱82,844,824)	(₱1,588,552)	₱211,345,129	₱18,230,524,783

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (as restated)	2014 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱1,276,372,855**	₱823,662,941	₱3,005,491,739	**₱1,137,000,506**	₱752,247,479	₱2,891,064,384
Adjustments for:						
Gain on sale of available-for-sale investments (Note 7)	**(464,259,642)**	(92,473,207)	(996,299,945)	**(462,818,464)**	(53,637,690)	(983,917,934)
Share in net income of subsidiaries (Note 10)				**36,559,106**	30,706,408	(659,241,080)
Share in net income of associates (Note 10)	**(412,531,810)**	(529,525,434)	(539,795,871)	**(408,712,292)**	(529,736,153)	(435,300,518)
Unrealized (gain) loss on held for trading securities (Note 7)	**380,117,967**	795,259,969	(530,917,470)	**40,346,361**	31,541,801	63,023,766
Dividend income (Notes 7 and 10)	**(134,256,019)**	(470,706,424)	(254,261,283)	**(26,590,697)**	(300,210,489)	(64,397,621)
Depreciation and amortization (Notes 9, 11 and 12)	**98,201,173**	102,999,576	72,311,061	**81,123,218**	86,648,187	61,801,715
Gain on return of investments (Notes 10 and 23)	**(71,151,471)**			**(71,151,471)**		
Provision for (recovery from) impairment and other probable losses (Note 13)	**64,649,490**	(150,167,367)	(403,047,261)	**65,856,213**	(148,644,583)	(403,443,451)
Unrealized foreign exchange loss	**25,462,289**	85,249,627	1,235,732	**30,531,075**	90,517,941	1,235,732
Gain from sale/redemption of unquoted commercial papers (Note 23)			(14,920,396)		–	(14,732,429)
(Gain) Loss on sale of:						
Investments in subsidiaries and associates (Note 10)	**(8,267,789)**	(4,003,856)	(293,662,714)	**(8,267,789)**	(4,003,856)	(293,662,715)
Property and equipment (Note 9)	**(64,211)**	(1,744,371)		**(64,211)**	(1,744,371)	
Investment properties (Note 11)	**18,175**	28,747,926	(5,029,704)	**18,175**	28,747,926	(5,029,704)
Amortization of:						
Net premium on held-to-maturity investments	**219,652,814**	211,719,776	148,314,453	**220,359,126**	212,046,698	148,314,453
Net premium on available-for-sale investments	**25,803,092**	80,319,979	171,472,005	**24,482,290**	82,278,879	162,407,450
Debt issuance cost	**21,156,310**	20,373,009	19,421,847	**41,529,319**	20,373,009	19,421,847
Net premium on bonds payable	**(10,631,992)**	(11,310,302)	(10,835,336)	**(31,005,001)**	(11,310,302)	(10,835,336)
Net discount on unquoted debt securities classified as loans	**(1,790,599)**	(2,372,389)	(2,225,441)	**(1,790,599)**	(2,372,389)	(2,231,094)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at fair value through profit or loss	**921,111,149**	3,235,882,947	4,842,874,603	**(1,087,764,789)**	4,199,622,132	3,127,411,550
Loans and receivables	**404,893,628**	1,714,325,915	280,923,396	**348,688,549**	1,203,749,569	850,596,561
Other assets	**25,400,166**	(72,720,068)	(40,857,779)	**48,262,614**	(82,614,935)	5,822,461
Increase (decrease) in the amounts of:						
Accounts payable	**355,761,200**	(355,821,072)	978,156,216	**196,443,782**	134,831,429	24,209,874
Accrued taxes, interest and other expenses	**(87,661,438)**	(6,411,591)	(125,783,131)	**(109,819,641)**	(59,046)	(111,474,549)
Other liabilities	**(1,717,073,048)**	(336,929,452)	(2,000,638,322)	**257,239,298**	(116,893,332)	20,428,626
Net cash generated from operations	**910,912,289**	5,064,356,132	4,301,926,399	**320,454,678**	5,622,084,312	4,391,471,988
Income taxes paid	**(991,298,543)**	(514,543,708)	(592,072,430)	**(874,798,571)**	(412,328,570)	(544,614,999)
Net cash provided by (used in) operating activities	**(80,386,254)**	4,549,812,424	3,709,853,969	**(554,343,893)**	5,209,755,742	3,846,856,989

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (as restated)	2014 (as restated)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(₱5,039,746,052)**	(₱17,893,605,049)	(₱27,774,487,983)	**(₱4,876,852,025)**	(₱18,440,214,603)	(₱27,150,376,404)
Held-to-maturity investments	**(498,330,030)**	(1,423,950,487)	(16,687,959,337)	**(150,000,000)**	(1,423,950,487)	(16,249,234,142)
Property and equipment (Note 9)	**(26,170,231)**	(23,134,521)	(84,413,976)	**(18,639,931)**	(18,604,603)	(46,586,370)
Software licenses (Note 12)	**(12,263,410)**	(42,702,122)	(86,224,957)	**(11,731,209)**	(37,281,627)	(77,215,865)
Capital infusion to subsidiaries (Note 10)					(241,489,699)	
Proceeds from sale/redemption/ maturities of:						
Available-for-sale investments	**18,379,175,095**	14,001,723,826	48,840,999,014	**18,373,041,421**	14,000,860,476	48,133,367,729
Unquoted commercial papers	**928,286,123**	915,900,000	1,605,070,396	**877,036,123**	514,650,000	1,605,993,539
Investment in subsidiaries and associates (Note 10)	**287,426,683**		711,998,260	**531,352,795**		1,162,867,657
Held-to maturity investments	**22,066,076**	18,789,050			18,789,050	
Investment properties (Note 11)	**11,499,625**	75,164,623	24,125,335	**11,499,625**	75,164,623	20,350,251
Property and equipment (Note 9)	**1,880,962**	5,314,087	2,430,326	**2,141,737**	4,301,955	2,748,095
Dividends received from investment securities	**281,534,254**	326,183,339	436,447,512	**327,077,429**	285,930,711	246,237,308
Dividends received from subsidiaries and associates (Notes 10 and 32)			293,911,594	**10,505,250**		512,311,594
Net cash provided by (used in) investing activities	**14,335,359,095**	(4,040,317,254)	7,281,896,184	**15,075,431,215**	(5,261,844,204)	8,160,463,392
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of bills payable	**145,537,687,948**	584,242,824,772	295,544,087,177	**145,580,187,948**	584,342,969,435	295,544,087,177
Payments of bills payable	**(160,333,343,487)**	(582,202,152,716)	(307,613,783,735)	**(160,433,488,152)**	(582,202,152,717)	(307,613,783,734)
Proceeds from the sale of Parent Company bonds held by subsidiaries (Note 16)	**(28,324,920)**	63,019,907				
Redemption of bonds payable			(206,466,874)			
Dividends paid (Notes 19 and 32)	**(2,300,764)**			**(2,300,764)**		(1,501,644,181)
Acquisition of treasury shares (Notes 19 and 32)	**(3,241,380)**	(1,834,290)	(1,304,740)	**(3,241,380)**	(1,834,290)	(1,304,740)
Net cash provided by (used in) financing activities	**(14,829,522,603)**	2,101,857,673	(12,277,468,172)	**(14,858,842,348)**	2,138,982,428	(13,572,645,478)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(574,549,762)**	2,611,352,843	(1,285,718,019)	**(337,755,026)**	2,086,893,966	(1,565,325,097)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**3,329,162,749**	3,577,809,906	2,802,419,069	**385,452,536**	1,158,558,570	662,774,811
Due from Bangko Sentral ng Pilipinas	**6,600,000,000**	6,940,000,000	9,001,108,856	**6,600,000,000**	6,940,000,000	9,001,108,856
Interbank loans receivable	**3,200,000,000**			**3,200,000,000**		
	13,129,162,749	10,517,809,906	11,803,527,925	**10,185,452,536**	8,098,558,570	9,663,883,667
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**3,104,612,987**	3,329,162,749	3,577,809,906	**397,697,510**	385,452,536	1,158,558,570
Due from Bangko Sentral ng Pilipinas	**7,231,151,183**	6,600,000,000	6,940,000,000	**7,231,151,183**	6,600,000,000	6,940,000,000
Interbank loans receivable	**2,218,848,817**	3,200,000,000		**2,218,848,817**	3,200,000,000	–
	₱12,554,612,987	₱13,129,162,749	₱10,517,809,906	**₱9,847,697,510**	₱10,185,452,536	₱8,098,558,570

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015	2014
Interest paid	**₱1,042,860,573**	₱1,434,305,457	₱1,268,919,458	**₱1,068,087,741**	₱1,460,980,340	₱1,288,248,265
Interest received	**1,734,162,412**	2,251,715,448	2,702,213,228	**1,576,428,761**	2,112,922,619	2,516,161,683

See accompanying Notes to Financial Statements

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

2. Accounting Policies

Basis of Preparation

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

The financial statements provide comparative information in respect of the previous period. In addition, First Metro Investment Corporation and Subsidiaries (the Group) presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a restrospective restatement or a reclassification of items in the financial statements. An additional statement of financial position of the Parent Company as at January 1, 2015 is presented in these financial statements due to retrospective application of the change in the method of accounting for its subsidiaries, associates and joint venture from cost method to equity method.

Statement of Compliance

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

Presentation of Financial Statements

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

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

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

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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

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

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

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

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

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

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

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

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

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated with the puttable instruments held by investors other than the Group recorded under 'Other liabilities' account in the statement of financial position.

Changes in Accounting Policies and Disclosures
The Group and the Parent Company applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2016. Adoption of these pronouncements did not have a significant impact on the Group's and Parent Company's financial position and performance unless otherwise indicated.

Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

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

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Amendments to PAS 1, *Presentation of Financial Statements*, *Disclosure Initiative*
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*, *Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

These amendments are applied prospectively and do not have any impact to the Group, given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

The amendments are applied retrospectively and do not have any impact on the Group as the Group does not have any bearer plants.

Amendments to PAS 27, *Separate Financial Statements*, *Equity Method in Separate Financial Statements*
The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

In 2016, the Parent Company elected to apply the equity method in accounting for its investments in subsidiaries, associates and joint venture in its separate financial statements. The change in the method of accounting for its subsidiaries, associates and joint venture was effected beginning January 1, 2014, the beginning of the earliest period presented.

The effects of the adoption are presented below:

Statements of Income

	As previously reported	Effect of retrospective application	As restated
For the year ended December 31, 2015:			
Dividends	₱585,447,689	(₱285,237,200)	₱300,210,489
Share in net income of subsidiaries		(30,706,408)	(30,706,408)
Share in net income of associates		529,736,153	529,736,153
For the year ended December 31, 2014:			
Dividends	₱576,709,215	(₱512,311,594)	₱64,397,621
Gain (loss) on sale of assets	711,953,123	(413,260,705)	298,692,418
Miscellaneous income	(38,598,793)	86,967,226	48,368,433
Share in net income of subsidiaries		659,241,080	659,241,080
Share in net income of associates		435,300,518	435,300,518

Statements of Comprehensive Income

	As previously reported	Effect of retrospective application	As restated
For the year ended December 31, 2015:			
Net income	₱171,747,218	₱213,792,545	₱385,539,763
Share in other comprehensive income of subsidiaries (Note 10)		19,576,789	19,576,789
Share in other comprehensive income of associates (Note 10)		(81,798,011)	(81,798,011)
For the year ended December 31, 2014:			
Net income	₱2,080,240,663	₱255,936,525	₱2,336,177,188
Share in other comprehensive income of subsidiaries (Note 10)		4,961,261	4,961,261
Share in other comprehensive income of associates (Note 10)		(10,337,150)	(10,337,150)

Statements of Financial Position

	As previously reported	Effect of retrospective application	As restated
December 31, 2015			
Asset			
Investments in subsidiaries, associates and joint venture	₱5,841,583,798	₱3,163,199,269	₱9,004,783,067
Stockholder's Equity			
Retained earnings	11,769,339,212	2,966,986,668	14,736,325,880
Treasury stock	(2,658,034,595)	2,766,264	(2,655,268,331)
Net unrealized gain (loss) on available-for-sale investments	(73,000,219)	54,470,499	(18,529,720)
Remeasurements of retirement liability	10,493,730	(397,636)	10,096,094
Cumulative translation adjustment		9,826,358	9,826,358
Equity in other comprehensive income of associates	–	129,547,118	129,547,118
January 1, 2015			
Asset			
Investments in subsidiaries, associates and joint venture	₱3,308,265,343	₱3,011,627,948	₱6,319,893,291
Stockholder's Equity			
Retained earnings	11,597,591,994	2,753,194,123	14,350,786,117
Treasury stock	(2,656,200,305)	2,766,264	(2,653,434,041)
Net unrealized gain (loss) on available-for-sale investments	73,851,645	58,022,867	131,874,512
Remeasurements of retirement liability	(70,732,941)	(12,111,883)	(82,844,824)
Cumulative translation adjustment		(1,588,552)	(1,588,552)
Equity in other comprehensive income of associates		211,345,129	211,345,129

Annual Improvements to PFRSs (2012 - 2014 cycle)
Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

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

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

Amendment to PAS 19, *Employee Benefits*, *Discount Rate: Regional Market Issue*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

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

Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments and loans and receivables. Financial liabilities are classified as either financial liabilities at FVPL or financial liabilities carried at amortized cost. The classification depends on the purpose for which the

investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

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

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

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

The Parent Company have certain derivatives that are embedded in bonds payable. 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 are taken directly to the statement of income and are included in 'Trading and securities gain'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

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

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

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

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

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

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

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

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

<u>Repurchase and Reverse Repurchase Agreements</u>
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.

<u>Reclassification of Financial Assets</u>
A financial asset is reclassified out of the financial assets at FVPL category when the following conditions are met:

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

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

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

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt, if it provides for a contractual obligation to:

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liabilities

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

Offsetting Financial Instruments

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

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 liabilites 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.

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

<u>Investments in Subsidiaries, Associates and Joint Venture</u>
Investment in subsidiaries
Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

The statement of income reflects the Parent Company's share of the results of operations of the subsidiary, associate or joint venture. Any change in OCI of those investees is presented as part of the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary, associate or joint venture, the Parent Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Parent Company and the subsidiary, associate or joint venture are eliminated to the extent of the interest in the subsidiary, associate or joint venture.

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

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

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

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

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

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

Furniture, fixtures and equipment	5 years
Leasehold improvements	5 years or the terms of the related lease agreements, whichever is shorter

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. An intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

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

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

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

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

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

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

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

subsequent increases in its recoverable amount in future periods. The Group performs its impairment test of goodwill annually.

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

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

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

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

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

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

Fee income can be divided into the following two categories:

a) Fee income earned from services that are provided over a certain period of time
   Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, portfolio and other management fees, and advisory fees. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

b) Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

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

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

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

Realized gains and losses on disposals of financial instruments classified as at fair value through profit or loss are calculated using the WAC method in 2016 and FIFO method in 2015 and 2014. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

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.

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

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

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

a) There is a change in contractual terms, other than 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.

<u>Retirement Benefits</u>
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.

eferred 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.

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

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

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

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

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

New accounting standards and interpretations that have been issued but are not yet effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 financial statements of the Group.

Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

Effective beginning on or after January 1, 2018

Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of adopting PFRS 15.

PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which
(a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.
Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

Amendments to PFRS 10 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, *Business Combinations*. 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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

3. Significant Accounting Judgments and Estimates

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

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

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

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

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

b. *Consolidation of entities in which the Group holds less than majority of voting rights*
In determining whether the Group has control over an investee requires significant judgment.

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 24.7%, 20.8%, and 19.5% in First Metro Save and Learn Equity Fund (FMSALEF), First Metro Save and Learn Balanced Fund (FMSALBF) and First Metro Save and Learn Fixed Income Fund (FMSLFIF), respectively, as of December 31, 2016 and 22.2%, 19.8%, and 17.2%, respectively, as of December 31, 2015. The Group assessed that control over FMSLFIF, FMSALEF and FMSALBF (the Funds) exists because the Parent Company is acting as principal of the Funds, through the fund manager of the Funds, FAMI, which is a 70.0% owned subsidiary of the Parent Company, and given the Parent Company's economic interests (comprising direct interests and future management and advisory fees) over these Funds. The following factors were considered in the assessment: (a) the Parent Company has wide decision making rights over the relevant activities of the Funds and (b) the removal rights are not substantive since there are multiple parties (widely dispersed shareholders) who hold the removal rights; further, members of the BOD of the Funds are normally nominated/appointed by the Parent Company.

c. *Existence of significant influence over an associate with less than 20.0% ownership*
In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.

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

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

Estimates

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

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

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

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

As of December 31, 2016, there has been a significant and prolonged decline in the fair value of an associate. The Group performed impairment testing using the associate's VIU. The recoverable amount of the investment in the associate has been determined based on a VIU calculation using cash flow projections from financial budgets approved by the associate's BOD. Key assumptions in VIU calculation are most sensitive to the following assumptions: a) production volume; b) price; c) exchange rates; d) capital expenditures; and e) forecasted long-term growth rates. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

b. *Recognition of deferred taxes*

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

As of December 31, 2016 and 2015, certain subsidiaries of the Group did not recognize deferred tax assets on NOLCO and carryforward benefits of MCIT. The Group believes that it is not probable that these temporary differences will be realized before the three-year expiration. The income of these subsidiaries mainly pertain to trading gains and interest income which are not subject to regular corporate income tax.

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

c. *Present value of retirement obligation*

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

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

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

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

As of December 31, 2016 and 2015, the balance of the Group's present value of defined benefit obligations and other employee benefits and the assumptions used in the actuarial valuation are shown in Note 22.

4. Financial Risk Management

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

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

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

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

The SMC is responsible for identifying, synchronizing and addressing various operational problems and concerns of the Parent Company and certain subsidiaries. The SMC is also tasked with providing the general guidelines and advice on all transactional dealings which consider facet of risks, i.e., market, credit, operational risks, etc. The SMC's other functions are similar to that of Asset and Liability Committee (ALCO) of most banks. Its members comprise of the most senior officers of the Parent Company which have significant risk responsibilities over the asset and liability management.

The Crecom, another senior management committee comprised of senior officers of the Parent Company, is tasked with reviewing all credit proposals and approving loan applications and credit facilities up to set limits/criteria; when exceeded, the decision is elevated to the EXCOM. It also provides support on monitoring and reviewing active credit and investments positions as well as documentations.

The Incom is tasked with reviewing all investment proposals, approving investment outlets and guiding the fund managers in the discharge of their respective investing responsibilities.

The Dealcom is tasked with the reviewing/screening of new deal proposals preparatory to sending mandate letter, clearing the business units' new deals subject to the final approval of credit authority, and monitoring all deals in process of the business units.

The Compliance Division (CD) also collaborates with the ROC. The main task of the CD is to monitor and assess compliance of various units of the Parent Company and certain subsidiaries to its rules and regulations as well as their compliance with the rules and regulations prescribed by the government regulatory bodies. The CD is also tasked to properly disseminate these rules and regulations to the various units of the Parent Company as well as its subsidiaries when applicable.

The Polcom is tasked with reviewing the policy proposals from all FMIC units which are subsequently confirmed and approved by appropriate body.

The Chief Risk Officer (CRO) manages and oversees the day-to-day activities of the Risk Management Division (RMD). The CRO likewise evaluates all risk policy proposals and reports to be presented to the ROC. The CRO, through the RMD, also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regard to the submission of requisite reports on their risk compliance and control activities.

RMD is tasked with identifying, analyzing, measuring, controlling and evaluating risk exposures arising from fluctuations in the prices or market values of instruments, products and transactions of the Parent Company and certain subsidiaries. It is responsible for recommending trading risk and liquidity management policies, setting uniform standards of risk assessment and measurement, providing senior management with periodic evaluation and simulation and analyzing limit compliance exceptions. The RMD furnishes daily reports to Senior Management and RTUs and provide monthly reports to ROC.

The 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.

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.

Operational Risk

The Parent Company's operational risk management framework outlines its effective management of operational risks via a staged approach which involves risk identification, analysis and assessment, treatment, monitoring and reporting. The document also provides pertinent operational risk management tools that need to be in place.

In line with the framework, various methodologies and tools were established to facilitate management of operational risk. These include operational risk incident data management, risk event database maintenance, risk assessment, key risk indicator monitoring and contingent legal liability reporting. The Parent Company, likewise, has in place a responsive risk management policy for effective oversight, due diligence and management of risks arising from outsourcing, prior to entering into, as well as, during the lifespan of an outsourcing agreement/arrangement. This is recognizing that while outsourcing can be cost effective and brings other competitive advantages, it also poses an Outsourcing Risk. Outsourcing Risk is the risk that third party service providers may not act within the intended limits of their authority and/or not perform in a manner consistent with outsourcing party's strategies, objectives and desired results, as well as, legal and regulatory requirements.

Moreover, the Parent Company has in place a structured Information Systems Strategic Plan (ISSP). The plan is reviewed and updated on regular basis to keep it in sync with Parent Company's strategic business direction.

The Ultimate Parent Company, on the other hand, thru its Internal Audit Group (IAG), reviews operational risk management processes and provide an independent assurance as to its adequacy and effectiveness.

Credit Risk
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits. Counterparty credit lines are established by the Parent Company annually to guide its transactions. Business transactions are restricted to these accredited counterparties, and any violations are reported to the designated control units.

The management of credit risk is outlined in the Credit Policy Manual where credit authority and approval bodies are formalized within the institution. This is further supported by various operating manuals from relevant units subject to periodic review, any changes are elevated to appropriate approving body. The Parent Company operates under sound, well-defined credit-granting criteria which include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, risks and risk mitigants and its source of repayment. Independent validation of credit reviews is done annually. Credit ratings of counterparties are likewise periodically tracks and reported to board committee level. The Parent Company gathers sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counterparty through the use of Internal Credit Risk Rating System (ICRRS) as well as rating information from independent credit rating providers.

Concentrations of Credit Risk
Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location. The Parent Company is guided by the regulatory ceilings on the management of concentration risk. In addition, internal limits were set at not more than 20.0% and 25.0% of the selected financial assets for counterparties and industry exposures, respectively.

Monitoring reports are done monthly wherein the same are elevated to the ROC on its monthly meeting for information and appropriate actions.

Each business unit is responsible for the performance and quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. IAG undertakes the periodic review of business units and credit processes.

Management of Credit Risk
The Parent Company faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enters into market-traded securities either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures).

The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in areas like documentation and collateral requirements as well as credit assessments and risk grading processes. The monitoring and reporting procedures are likewise documented. The guidelines provided by the regulators are also incorporated to internal policies to ensure adherence to regulatory requirements.
- Providing seminars or programs that enhance skills and risk awareness among its personnel.
- Establishing authorization limits for the approval and renewal of credit facilities.
- Independent review by Credit Division prior to loan approval.
- Screening of prospective borrowers/deals by the Dealcom prior to endorsement to other Committees like Crecom/EXCOM.
- Limiting concentrations of exposures by periodic monitoring of counterparties including what industry they belong to.
- Continuously monitoring the credit quality of various portfolios including certain subsidiaries.
- Maintaining an ICRRS, approved by the BOD, in order to categorize exposures according to the risk profile. The rating system is a combination of quantitative and qualitative factors. This is also used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

The ICRRS contains the following:

a. Borrower Risk Rating (BRR) - The BRR is an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations in a foreseen manner.

The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually by the Credit Division.	40.0%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.0%
Management Quality	Refers to the management's ability to run the company successfully.	30.0%

b. Facility Risk Factor (FRF) - This is determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.

c. Adjusted Borrower Risk Rating (ABRR) - The combination of BRR and FRF results in ABRR.

d. Composite Risk Rating (CRR) for borrowers with multiple facilities - The weighted average ABRR shall be computed and used in determining the CRR.

The following table shows the description of ICRRS grade:

Credit Quality	**ICRRS Grade**	**Description**
High Grade	1	Excellent
	2	Strong

Credit Quality	ICRRS Grade	Description
Standard Grade	3	Good
	4	Satisfactory
	5	Acceptable
Substandard Grade	6	Watchlist
	7	Especially mentioned
Impaired	8	Substandard
	9	Doubtful
	10	Loss

1 - Excellent
An “excellent” rating is given to a borrower with no history of delinquencies or defaults, highly liquid and sustaining strong operating trends, unlikely to be affected by external factors and has a competent management that uses current business models.

2 - Strong
A “strong” rating is given to borrowers with the same characteristics as those rated as “excellent” rating, but is only adequately liquid.

3 - Good
A “good” rating is given to a borrower with no history of default in the last 12 months. The entity’s borrowing base can support its line of credit, and it is meeting performance expectations. It is unlikely to be affected by external factors and has a competent management that uses current business models.

4 - Satisfactory
A “satisfactory” rating is given to a borrower that pays as agreed, but is not necessarily non-delinquent. The entity has adequate to marginal liquidity and generally meets performance expectations. While there are external factors that may affect the entity, these will likely be overcome. A lack of key management experience may be a current problem for the entity, and such could be brought about by a recent departure of a key employee.

5 - Acceptable
An “acceptable” rating is given to a borrower that is current in its payments while not necessarily paying as agreed. The entity has marginal liquidity and has a declining trend in operations or an imbalanced position in the statement of financial position, though not to the point that repayment is jeopardized. There are identified external disruptions though the impact on the entity is uncertain. There may also be some turnover causing key management positions to stay vacant.

6 - Watchlist
This rating is given to a borrower that may either be current in its payments or 30 to 60 days past due. The entity has marginal liquidity and may not be meeting performance expectations, even having defaulted on some of its loans. There are identified disruptions that negatively affect the entity’s performance, though there are near-term solutions. Management may also have changed its business model with negative implications for the entity.

7 - Especially Mentioned
The borrower in this rating shows evidence of weakness in its financial condition, having expected financial difficulties. There is a real risk that the entity's ability to pay the interest and principal on time could be jeopardized. Without government intervention, external factors will negatively impact the entity. The entity's ability or willingness to service debt is in doubt, likely causing a need to reschedule payments.

8 - Substandard
For a "substandard" borrower, the debt burden has become too heavy, only to be made worse by weak or negative cash flows and interest coverage. This makes the collection of principal or interest payments questionable, causing an assessment of default of up to 50.0%. Unless given closer supervision, the institution will likely suffer a future loss. External factors may be causing an adverse trend, or there may be a significant weakness in the entity's collateral. Management has an unfavorable record and lacks managerial capability.

9 - Doubtful
This rating is given to a nonperforming borrower where a payment default has occurred, due to the borrower's inability or unwillingness to service debt over an extended period of time. Loss is unavoidable and significant, although the extent of probable loss on the loan cannot be exactly quantified at the current time. However, there may be external factors that may strengthen the entity's assets, e.g. merger, acquisition, and capital injection. Management has an unfavorable record and lacks managerial capability.

10 - Loss
This rating is given to a borrower when debt service or the prospect for re-establishment of credit worthiness has become remote. This may be due to the fact that the borrower and/or his co-makers have become insolvent, thus, the lender may already be preparing foreclosure procedures. A full provision is made on that part of the principal which is not fully and adequately covered. While the loan covers basically worthless assets, writing off these loans is neither practical nor desirable for the lender.

- Risk Rating References - Investment Securities
  In ensuring a quality investment portfolio, the Parent Company uses the ICRRS as well as credit risk ratings from eligible external credit rating agencies like Philratings, CRISP, Moody's, Standard & Poor's and other reputable rating agencies.

  In undertaking its investment transactions, the Parent Company is also guided by the BOD-approved manual of procedures and the applicable rules and regulations issued by the concerned regulatory bodies of the government. The Parent Company's Compliance Unit, in collaboration with Legal Unit, is tasked with monitoring adherence to these risk areas.

- Cash and other cash items
  Cash and other cash items of the Group were rated based on credit risk ratings from published data providers like Moody's, Standard & Poor's and other reputable rating agencies.

- Collateral
  The Parent Company's Credit Policy Manual incorporated the list of acceptable collaterals and corresponding valuation parameters. For real estate mortgages, it provides for a separate collateral appraisal by an independent appraisal firm as required by regulators and a re-appraisal for at least every two years as circumstances warrant.

  Monitoring of compliance by the RMD of the approved exposure limits, likewise, with concentration limit.

Maximum exposure to credit risk after collateral held or other credit enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated			
	2016			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable and securities purchased under resale agreements	**₱2,218,848,817**	**₱2,218,848,817**	**₱**	**₱2,218,848,817**
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	**1,521,430,119**	**3,551,459,034**		**1,521,430,119**
	3,740,278,936	**5,770,307,851**		**3,740,278,936**
Others				
Fully secured	**10,261,208**	**19,568,604**		**10,261,208**
Unsecured	**10,842,548**		**10,842,548**	
	21,103,756	**19,568,604**	**10,842,548**	**10,261,208**
Commercial papers				
Unsecured	**810,000,000**		**810,000,000**	
Sales contract receivable				
Fully secured	**8,479,598**	**8,598,400**		**8,479,598**
	₱3,769,862,290	**₱5,798,474,855**	**₱10,842,548**	**₱3,759,019,742**

	Consolidated			
	2015			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable	₱3,200,000,000	₱3,979,582,231	₱–	₱3,200,000,000
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	1,698,472,294	4,086,476,306	–	1,698,472,294
	1,698,472,294	4,086,476,306	–	1,698,472,294
Others				
Fully secured	18,088,163	30,066,837	–	18,088,163
Unsecured	7,739,597	–	7,739,597	–
	25,827,760	30,066,837	7,739,597	18,088,163
Commercial papers				
Fully secured	350,000,000	1,014,998,283	–	350,000,000
Unsecured	1,386,495,525	–	1,386,495,525	–
	1,736,495,525	1,014,998,283	1,386,495,525	350,000,000
Sales contract receivable				
Partially secured	10,744,309	10,101,400	642,909	10,101,400
	₱6,671,539,888	₱9,121,225,057	₱1,394,878,031	₱5,276,661,857

	Parent Company 2016			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable	**₱2,218,848,817**	**₱2,218,848,817**	**₱**	**₱2,218,848,817**
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	**1,521,430,119**	**3,551,459,034**		**1,521,430,119**
	3,740,278,936	**5,770,307,851**		**3,740,278,936**
Others				
Fully secured	**10,261,208**	**19,568,604**		**10,261,208**
Unsecured	**5,727,285**		**5,727,285**	
	15,988,493	**19,568,604**	**5,727,285**	**10,261,208**
Unquoted commercial papers				
Unsecured	**487,500,000**		**487,500,000**	
Sales contract receivable				
Fully secured	**8,479,598**	**8,598,400**		**8,479,598**
	₱3,764,747,027	**₱5,798,474,855**	**₱5,727,285**	**₱3,759,019,742**

	Parent Company 2015			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Interbank loans receivable	₱3,200,000,000	₱3,979,582,231	₱–	₱3,200,000,000
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	1,698,472,294	4,086,476,306	–	1,698,472,294
	1,698,472,294	4,086,476,306	–	1,698,472,294
Others				
Fully secured	18,088,163	30,066,837	–	18,088,163
Unsecured	5,678,308	–	5,678,308	–
	23,766,471	30,066,837	5,678,308	18,088,163
Unquoted commercial papers				
Fully secured	350,000,000	1,014,998,283	–	350,000,000
Unsecured	1,012,745,525	–	1,012,745,525	–
	1,362,745,525	1,014,998,283	1,012,745,525	350,000,000
Sales contract receivable				
Partially secured	10,744,309	10,101,400	642,909	10,101,400
	₱6,295,728,599	₱9,121,225,057	₱1,019,066,742	₱5,276,661,857

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. The Parent Company is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral, usually, is not held against investment securities and no such collateral was held as of December 31, 2016 and 2015.

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

Concentration of risks of financial assets with credit risk exposure

An analysis of concentrations of credit risk by industry at the statement of financial position date is shown below:

	Consolidated			
	2016			
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Total**
Financial intermediaries	**₱1,201,795,030**	**₱5,323,346,803**	**₱4,077,588,200**	**₱10,602,730,033**
Real estate, renting and business activities	**476,380,860**	**–**	**3,329,475,912**	**3,805,856,772**
Electricity, gas and water	**629,240,012**	**–**	**1,424,579,981**	**2,053,819,993**
Philippine government	**208,886,093**	**7,231,151,183**	**22,885,343,408**	**30,325,380,684**
Construction	**128,303,888**	**–**	**112,785,243**	**241,089,131**
Wholesale and retail trade	**–**	**–**	**663,984,750**	**663,984,750**
Manufacturing	**–**	**–**	**898,758,708**	**898,758,708**
Mining and quarrying	**–**	**–**	**10,173,800**	**10,173,800**
Water supply, sewage, waste management and remediation activities	**496,170,806**	**–**	**–**	**496,170,806**
Information and communication	**88,969**	**–**	**152,688,192**	**152,777,161**
Transportation and storage	**–**	**–**	**181,403,193**	**181,403,193**
Accommodation and food service activities	**691,901**	**–**	**66,963,350**	**67,655,251**
Others (various industries)	**232,265,717**	**–**	**139,084,331**	**371,350,048**
	3,373,823,276	**12,554,497,986**	**33,942,829,068**	**49,871,150,330**
Less allowance for credit losses	**103,020,053**	**–**	**131,773,985**	**234,794,038**
	₱3,270,803,223	**₱12,554,497,986**	**₱33,811,055,083**	**₱49,636,356,292**

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*

** *Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱115,001.*

*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.*

	Consolidated			
	2015			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱1,370,635,425	₱6,529,047,748	₱4,841,587,469	₱12,741,270,642
Real estate, renting and business activities	1,001,102,306	–	4,200,193,570	5,201,295,876
Electricity, gas and water	822,252,269	–	4,546,048,590	5,368,300,859
Philippine government	766,326,827	6,600,000,000	30,538,582,664	37,904,909,491
Construction	124,910,604	–	54,544,015	179,454,619
Wholesale and retail trade	–	–	800,631,860	800,631,860
Manufacturing	1,223,069	–	1,581,072,738	1,582,295,807
Mining and quarrying	–	–	371,736,395	371,736,395
Others (various industries)	764,833,442	–	1,310,569,226	2,075,402,668
	4,851,283,942	13,129,047,748	48,244,966,527	66,225,298,217
Less allowance for credit losses	104,818,134	–	319,175,178	423,993,312
	₱4,746,465,808	₱13,129,047,748	₱47,925,791,349	₱65,801,304,905

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*

** *Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱115,001.*

*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱24,590,116), AFS and HTM investments.*

	Parent Company			
	2016			
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Total**
Financial intermediaries	**₱969,093,617**	**₱2,616,496,327**	**₱296,283,117**	**₱3,881,873,061**
Electricity, gas and water	**628,198,527**	**–**	**314,182,931**	**942,381,458**
Real estate, renting and business activities	**472,680,970**	**–**	**1,607,498,394**	**2,080,179,364**
Philippine government	**204,055,102**	**7,231,151,183**	**22,296,041,906**	**29,731,248,191**
Water supply, sewage, waste management and remediation activities	**496,170,806**	**–**	**–**	**496,170,806**
Wholesale and retail trade	**–**	**–**	**21,965,970**	**21,965,970**
Information and communication	**82,515**	**–**	**8,598,186**	**8,680,701**
Transportation and storage	**–**	**–**	**–**	**–**
Manufacturing	**–**	**–**	**34,314,920**	**34,314,920**
Construction	**5,206,667**	**–**	**11,266,614**	**16,473,281**
Accommodation and food service activities	**691,901**	**–**	**13,972,500**	**14,664,401**
Mining and quarrying	**–**	**–**	**–**	**–**
Others (various industries)	**21,140,875**	**–**	**114,357,346**	**135,498,221**
	2,797,320,980	**9,847,647,510**	**24,718,481,884**	**37,363,450,374**
Less allowance for credit losses	**72,282,442**	**–**	**1,333,404**	**73,615,846**
	₱2,725,038,538	**₱9,847,647,510**	**₱24,717,148,480**	**₱37,289,834,528**

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*
** *Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱50,000.*
*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.*

	Parent Company			
	2015			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱1,219,343,346	₱3,585,402,536	₱971,032,555	₱5,775,778,437
Electricity, gas and water	822,007,866	–	3,566,656,324	4,388,664,190
Real estate, renting and business activities	949,147,961	–	2,664,863,092	3,614,011,053
Philippine government	759,245,172	6,600,000,000	29,821,428,890	37,180,674,062
Information and communication	38,216	–	19,889,998	19,928,214
Construction	521,697	–	49,483,353	50,005,050
Mining and quarrying	–	–	–	–
Others (various industries)	571,437,528	–	65,087,513	636,525,041
	4,321,741,786	10,185,402,536	37,158,441,725	51,665,586,047
Less allowance for credit losses	72,907,522	–	188,734,597	261,642,119
	₱4,248,834,264	₱10,185,402,536	₱36,969,707,128	₱51,403,943,928

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*
** *Comprises Cash and other cash items, Due from BSP and IBLR excluding petty cash fund which amounted to ₱50,000.*
*** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱30,205,419), AFS and HTM investments.*

The following tables show the credit quality of financial assets:

	Consolidated			
	2016			
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Total**
Neither past due nor impaired	**₱2,846,054,119**	**₱12,554,497,986**	**₱33,811,055,083**	**₱49,211,607,188**
Impaired	**117,769,157**	–	**131,773,985**	**249,543,142**
Gross	**2,963,823,276**	**12,554,497,986**	**33,942,829,068**	**49,461,150,330**
Less allowance for credit losses***	**103,020,053**	–	**131,773,985**	**234,794,038**
Net	**₱2,860,803,223**	**₱12,554,497,986**	**₱33,811,055,083**	**₱49,226,356,292**

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱115,001.*
** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.*
*** *Includes allowance for collective impairment.*

	Consolidated			
	2015			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	₱4,340,877,225	₱13,129,047,748	₱46,884,852,922	₱64,354,777,895
Impaired	100,406,717	–	1,360,113,605	1,460,520,322
Gross	4,441,283,942	13,129,047,748	48,244,966,527	65,815,298,217
Less allowance for credit losses***	104,818,134	–	319,175,178	423,993,312
Net	₱4,336,465,808	₱13,129,047,748	₱47,925,791,349	₱65,391,304,905

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱115,001.*
** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱24,590,116), AFS and HTM investments.*
*** *Includes allowance for collective impairment.*

	Parent Company			
	2016			
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Total**
Neither past due nor impaired	**₱2,343,130,191**	**₱9,847,647,510**	**₱24,717,148,480**	**₱36,907,926,181**
Impaired	**44,190,789**	**–**	**1,333,404**	**45,524,193**
Gross	**2,387,320,980**	**9,847,647,510**	**24,718,481,884**	**36,953,450,374**
Less allowance for credit losses***	**72,282,442**	**–**	**1,333,404**	**73,615,846**
Net	**₱2,315,038,538**	**₱9,847,647,510**	**₱24,717,148,480**	**₱36,879,834,528**

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱50,000.*
** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱15,922), AFS and HTM investments.*
*** *Includes allowance for collective impairment.*

	Parent Company			
	2015			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	₱3,867,555,247	₱10,185,402,536	₱35,928,768,702	₱49,981,726,485
Impaired	44,186,539	–	1,229,673,023	1,273,859,562
Gross	3,911,741,786	10,185,402,536	37,158,441,725	51,255,586,047
Less allowance for credit losses***	72,907,522	–	188,734,597	261,642,119
Net	₱3,838,834,264	₱10,185,402,536	₱36,969,707,128	₱50,993,943,928

* *Comprises Cash and other cash items, Due from BSP and Interbank loans receivable and securities purchased under resale agreements excluding petty cash fund which amounted to ₱50,000.*
** *Comprises Financial assets at FVPL (excluding derivative asset on embedded call options on Bonds issued by the Parent Company in November 2011 amounting to ₱30,205,419), AFS and HTM investments.*
*** *Includes allowance for collective impairment.*

The table below shows the credit quality per class of financial assets based on the Group's rating system, gross of allowance for credit losses:

	Consolidated					
	December 31, 2016					
	Neither past due nor impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Impaired**	**Total**
Loans and advances to banks						
Due from BSP	**₱7,231,151,183**	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,231,151,183**
Cash and other cash items*	**1,995,009,760**	**–**		**1,109,488,226**	**–**	**3,104,497,986**
Interbank loans receivable and securities purchased under resale agreements	**2,218,848,817**	**–**	**–**	**–**	**–**	**2,218,848,817**
	11,445,009,760	**–**	**–**	**1,109,488,226**	**–**	**12,554,497,986**
Financial assets at FVPL**						
Government debt securities	**1,803,783,500**	**31,147,908**	**–**	**–**	**–**	**1,834,931,408**
Private debt securities	**579,831,956**	**43,092,770**	**–**	**–**	**–**	**622,924,726**
Equity securities	**4,630,734,706**	**2,227,290,912**	**57,580,388**	**20,529,042**	**–**	**6,936,135,048**
	7,014,350,162	**2,301,531,590**	**57,580,388**	**20,529,042**	**–**	**9,393,991,182**

(Forward)

	Consolidated					
	December 31, 2016					
	Neither past due nor impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Impaired**	**Total**
AFS investments						
Government debt securities	**5,223,219,869**	**265,833,055**	–	–	–	**5,489,052,924**
Private debt securities	**560,976,717**	**148,165,206**	–	–	–	**709,141,923**
Equity securities						
Quoted	**134,792,469**	**62,779,498**	–	**57,240,761**	–	**254,812,728**
Unquoted	–	**249,014,301**	–	**7,972,500**	–	**256,986,801**
	5,918,989,055	**725,792,060**	–	**65,213,261**	–	**6,709,994,376**
HTM investments						
Government debt securities	**15,265,870,030**	**426,350,880**	–	–	–	**15,692,220,910**
Private debt securities	**1,902,132,539**	**244,490,061**	–	–	–	**2,146,622,600**
	17,168,002,569	**670,840,941**	–	–	–	**17,838,843,510**
Loans and receivables						
Loans and discounts						
Corporate lending	–	**1,549,521,772**	–		–	**1,549,521,772**
Others	–	–	–	**21,103,576**	–	**21,103,576**
	–	**1,549,521,772**	–	**21,103,576**	–	**1,570,625,348**
Unquoted commercial papers	–	**810,000,000**	–	–	–	**810,000,000**
Dividends receivable	**602,698**	**483,370**	–	**1,363,680**	–	**2,449,748**
Accrued interest receivable	**230,295,123**	**42,047,507**	–	**288,082**	–	**272,630,712**
Accounts receivable	**12,058,353**	**16,667,623**	–	**136,373,028**	**117,769,157**	**282,868,161**
Sales contract receivable	–	**8,479,598**	–	–	–	**8,479,598**
Other receivables	–	–	–	**16,769,529**	–	**16,769,529**
	242,956,174	**2,427,199,870**	–	**175,897,895**	**117,769,157**	**2,963,823,096**
	₱41,789,307,720	**₱6,125,364,461**	**₱57,580,388**	**₱1,371,128,424**	**₱117,769,157**	**₱49,461,150,150**

**Excludes petty cash fund amounting to ₱115,001.*
***Excludes derivatives amounting to ₱15,922.*

	Consolidated					
	December 31, 2015					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱6,600,000,000	₱–	₱–	₱–	₱–	₱6,600,000,000
Cash and other cash items*	3,329,047,748	–	–	–	–	3,329,047,748
Interbank loans receivable and securities purchased under resale agreements	3,200,000,000	–	–	–	–	3,200,000,000
	13,129,047,748	–	–	–	–	13,129,047,748
Financial assets at FVPL**						
Government debt securities	739,120,018	–	–	–	–	739,120,018
Private debt securities	468,566,473	71,673,601	–	–	–	540,240,074
Equity securities	4,611,398,900	4,759,678,688	–	20,208,424	–	9,391,286,012
	5,819,085,391	4,831,352,289	–	20,208,424	–	10,670,646,104
AFS investments						
Government debt securities	13,871,010,027	–	–	–	–	13,871,010,027
Private debt securities	389,621,752	146,350,922	–	–	–	535,972,674
Equity securities						
Quoted	16,000	775,256,935	–	87,220,018	1,360,113,604	2,222,606,557
Unquoted	–	3,376,154,946	–	7,972,500		3,384,127,446
	14,260,647,779	4,297,762,803	–	95,192,518	1,360,113,604	20,013,716,704
HTM investments						
Government debt securities	15,888,417,210	–	–	–	–	15,888,417,210
Private debt securities	1,428,258,217	243,928,292	–	–	–	1,672,186,509
	17,316,675,427	243,928,292	–	–	–	17,560,603,719
Loans and receivables						
Loans and discounts						
Corporate lending	–	1,727,193,277	–	–	–	1,727,193,277
Others	–	–	–	25,827,760	–	25,827,760
	–	1,727,193,277	–	25,827,760	–	1,753,021,037
Unquoted commercial papers	522,745,525	1,213,750,000	–	–	–	1,736,495,525
Dividends receivable	–	145,508,244	–	4,219,740	–	149,727,984
Accrued interest receivable	355,571,851	44,136,767	–		–	399,708,618

(Forward)

	Consolidated					
	December 31, 2015					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Accounts receivable	₱34,900	₱2,729,536	₱12,645,161	₱190,147,124	₱100,406,717	₱305,963,438
Sales contract receivable	–	–	–	10,744,309	–	10,744,309
Other receivables	–	–	–	85,623,031	–	85,623,031
	878,352,276	3,133,317,824	12,645,161	316,561,964	100,406,717	4,441,283,942
	₱51,403,808,621	₱12,506,361,208	₱12,645,161	₱431,962,906	₱1,460,520,321	₱65,815,298,217

**Excludes petty cash fund amounting to ₱115,001.*
***Excludes derivatives amounting to ₱24,590,116.*

	Parent Company					
	December 31, 2016					
	Neither past due nor impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Impaired**	**Total**
Loans and advances to banks						
Due from BSP	**₱7,231,151,183**	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,231,151,183**
Cash and other cash items*	**397,647,510**	–	–	–	–	**397,647,510**
Interbank loans receivable and securities purchased under resale agreements	**2,218,848,817**	–	–	–		**2,218,848,817**
	9,847,647,510	–	–	–	–	**9,847,647,510**
Financial assets at FVPL**						
Government debt securities	**1,355,373,633**	**6,445,915**	–	–	–	**1,361,819,548**
Private debt securities	**282,972,448**	**38,082,177**	–	–	–	**321,054,625**
	1,638,346,081	**44,528,092**	–	–	–	**1,682,874,173**
AFS investments						
Government debt securities	**5,199,573,724**	**265,346,217**	–	–	–	**5,464,919,941**
Private debt securities	**49,091**	–	–	–	–	**49,091**
Equity securities						
Quoted	**134,776,469**	**47,455,412**	–	–	–	**182,231,881**
Unquoted	–	**118,573,720**	–	**7,972,500**	–	**126,546,220**
	5,334,399,284	**431,375,349**	–	**7,972,500**	–	**5,773,747,133**
HTM investments						
Government debt securities	**15,265,870,031**	**309,592,231**	–	–	–	**15,575,462,262**
Private debt securities	**1,491,814,538**	**194,583,778**	–	–	–	**1,686,398,316**
	16,757,684,569	**504,176,009**	–	–	–	**17,261,860,578**
Loans and receivables						
Loans and discounts						
Corporate lending	–	**1,549,521,772**	–	–	–	**1,549,521,772**
Others	–	–	–	**15,988,493**	–	**15,988,493**
	–	**1,549,521,772**	–	**15,988,493**	–	**1,565,510,265**
Unquoted commercial papers	–	**487,500,000**	–	–	–	**487,500,000**
Dividends receivable	**35,712**	–	–	–	–	**35,712**
Accrued interest receivable	**215,086,130**	**38,053,523**	–	–	–	**253,139,653**
Accounts receivable	**12,058,353**	**13,235,499**	–	**3,150,870**	**44,190,789**	**72,635,511**
Sales contract receivable	–	**8,479,598**	–	–	–	**8,479,598**
Other receivables	–	–	–	**20,241**	–	**20,241**
	227,180,195	**2,096,790,392**	–	**19,159,604**	**44,190,789**	**2,387,320,980**
	₱33,805,257,639	**₱3,076,869,842**	**₱–**	**₱27,132,104**	**₱44,190,789**	**₱36,953,450,374**

**Excludes petty cash fund amounting to ₱50,000.*
***Excludes derivatives amounting to ₱15,922.*

	Parent Company					
	December 31, 2015					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱6,600,000,000	₱–	₱–	₱–	₱–	₱6,600,000,000
Cash and other cash items*	385,402,536	–	–	–	–	385,402,536
Interbank loans receivable and securities purchased under resale agreements	3,200,000,000	–	–	–	–	3,200,000,000
	10,185,402,536	–	–	–	–	10,185,402,536
Financial assets at FVPL**						
Government debt securities	195,918,283	–	–	–	–	195,918,283
Private debt securities	177,126,619	66,612,940	–	–	–	243,739,559
Equity securities	4,858,000	160,750,406	–		–	165,608,406
	377,902,902	227,363,346	–		–	605,266,248
AFS investments						
Government debt securities	13,846,642,955	–	–	–	–	13,846,642,955
Private debt securities	1,175,746	666,134	–	–	–	1,841,880
Equity securities						
Quoted	–	775,256,935	–	–	1,229,673,023	2,004,929,958
Unquoted	–	3,376,154,946	–	7,972,500	–	3,384,127,446
	13,847,818,701	4,152,078,015	–	7,972,500	1,229,673,023	19,237,542,239
HTM investments						
Government debt securities	15,778,867,652	–	–	–	–	15,778,867,652
Private debt securities	1,342,732,835	194,032,752	–	–	–	1,536,765,587
	17,121,600,487	194,032,752	–	–	–	17,315,633,239
Loans and receivables						
Loans and discounts						
Corporate lending	–	1,727,193,277	–	–	–	1,727,193,277
Others	–	–	–	23,766,471	–	23,766,471
	–	1,727,193,277	–	23,766,471	–	1,750,959,748
Unquoted commercial papers	522,745,525	840,000,000	–	–	–	1,362,745,525
Dividends receivable	–	300,522,444	–	–	–	300,522,444
Accrued interest receivable	341,133,857	40,981,838	–	–	–	382,115,695
Accounts receivable	34,900	10,122,295	12,645,161	35,170,315	44,186,539	102,159,210
Sales contract receivable	–	–	–	10,744,309	–	10,744,309
Other receivables	–	–	–	2,494,855	–	2,494,855
	863,914,282	2,918,819,854	12,645,161	72,175,950	44,186,539	3,911,741,786
	₱42,396,638,908	₱7,492,293,967	₱12,645,161	₱80,148,450	₱1,273,859,562	₱51,255,586,048

**Excludes petty cash fund amounting to ₱50,000.*
***Excludes derivatives amounting to ₱30,205,419.*

Impaired loans and receivables - are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory note and security agreements. These loans are graded 8, 9 and 10 in the Group's ICRRS if provided with allowance.

Past due but not impaired loans and receivables - are loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate based on the cash flows of the available collateral or status of collection of the amounts due to the Group.

As of December 31, 2016 and 2015, the Group and the Parent Company has no outstanding past due but not impaired loans and receivables.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

Liquidity management is among the most important activities conducted within the Parent Company. The Parent Company manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

For liquidity risk, the Parent Company uses the Maximum Cumulative Outflow (MCO or Liquidity Gap) analysis in analyzing its funding requirements. The report is prepared once a month and forwarded to the SMC and the RTU. The assumptions employed in the preparation of this report are approved by the BOD. These assumptions are reviewed and updated, as necessary, by the Senior Management through the RMD and Treasury Group. In addition, the Parent Company develops a Liquidity Risk Management and Contingency Funding Plan to serve as reference in case of an occurrence of an event. This plan is also approved by the BOD.

The Parent Company's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a portfolio of unencumbered government securities. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The Treasury Group uses liquidity forecast models that estimate the Parent Company's cash flow needs based on the Parent Company's actual contractual obligations and under normal and extraordinary circumstances. Based on the behavioral pattern of the deposit substitute accounts, which has been observed to have a "core deposit" level of about 80.0% to 90.0%, liquidity forecast and/or plans for its use are determined like earmarking for future loans and for other investment outlets. The plans and strategies in the liquidity risk management are contained in the board-approved Liquidity Risk Management and Contingency Funding Plan.

Liquidity is monitored by the Parent Company on a daily basis and further analyzed at predetermined scenarios/situations.

The table below shows the maturity profile of the financial instruments based on contractual undiscounted cash flows:

	Consolidated								
	December 31, 2016								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱3,104,612,987	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱3,104,612,987
Due from BSP	7,231,151,183	–	–	–	–	–	–	–	7,231,151,183
Interbank loans receivable	2,218,848,817	–	–	–	–	–	–	–	2,218,848,817
	12,554,612,987	–	–	–	–	–	–	–	12,554,612,987
Loans and receivables									
Loans and discounts									
Corporate lending	–	–	62,842,955	81,651,879	144,494,834	288,989,668	785,317,124	62,842,955	1,426,139,415
Others	–	15,715	61,367	41,674	622,595	2,494,021	11,535,629	17,021,547	31,792,548
	–	15,715	62,904,322	81,693,553	145,117,429	291,483,689	796,852,753	79,864,502	1,457,931,963
Unquoted commercial papers	12,417,969	51,522,163	4,365,505	13,387,668	24,087,835	171,016,655	609,971,625	232,250,000	1,119,019,420
Accrued interest receivable	–	–	275,882,106	–	–	–	–	–	275,882,106
Accounts receivable	–	–	355,530,070	–	–	–	–	–	355,530,070
Sales contract receivable	–	–	–	–	254,388	1,017,552	10,514,701	–	11,786,641
Dividends receivable	–	–	2,449,748	–	–	–	–	–	2,449,748
Other receivables	–	–	16,769,529	–	–	–	–	–	16,769,529
	12,417,969	51,537,878	717,901,280	95,081,221	169,459,652	463,517,896	1,417,339,079	312,114,502	3,239,369,477
Financial assets at FVPL									
Government debt securities	–	1,834,931,408	–	–	–	–	–	–	1,834,931,408
Private debt securities	–	622,924,726	–	–	–	–	–	–	622,924,726
Equity securities	–	6,936,135,048	–	–	–	–	–	–	6,936,135,048
AFS investments									
Government debt securities	517,181,225	605,217	23,043,563	105,865,015	99,268,396	207,768,918	1,468,265,824	5,227,028,500	7,649,026,658
Private debt securities	–	5,012,691	64,393,377	16,545,811	52,626,182	34,765,864	346,956,379	578,013,708	1,098,314,012
Quoted equity investments	–	–	–	–	–	–	–	254,812,728	254,812,728
Unquoted equity investments	–	–	–	–	–	–	–	125,212,816	125,212,816
Held-to-maturity investments									
Government debt securities	–	30,745,705	3,292,705,128	532,694,721	1,645,386,321	4,409,813,548	1,629,855,744	10,417,111,870	21,958,313,037
Private debt securities	–	3,907,442	20,333,788	21,043,665	45,284,895	90,569,789	1,024,006,299	1,049,382,585	2,254,528,463
	517,181,225	9,434,262,237	3,400,475,856	676,149,212	1,842,565,794	4,742,918,119	4,469,084,246	17,651,562,207	42,734,198,896
	₱13,084,212,181	₱9,485,800,115	₱4,118,377,136	₱771,230,433	₱2,012,025,446	₱5,206,436,015	₱5,886,423,325	₱17,963,676,709	₱58,528,181,360

(Forward)

	Consolidated								
	December 31, 2016								
	On Demand	**Up to 1 Month**	**More than 1 Month**	**More than 3 Months**	**More than 6 Months**	**More than 1 Year**	**More than 2 Years**	**Beyond 5 Years**	**Total**
Financial Liabilities									
Bills payable	**₱113,745,285**	**₱8,105,312,878**	**₱6,735,257,726**	**₱230,091,531**	**₱15,120,754**	**₱–**	**₱–**	**₱–**	**₱15,199,528,174**
Bonds payable	**–**	**–**	**5,169,062,500**	**98,125,000**	**4,141,250,000**	**172,500,000**	**3,086,250,000**	**–**	**12,667,187,500**
Accrued interest and other expenses	**–**	**161,539,869**	**–**	**–**	**–**	**–**	**–**	**–**	**161,539,869**
Accounts payable	**–**	**1,623,935,301**	**–**	**–**	**–**	**–**	**–**	**–**	**1,623,935,301**
Other liabilities	**–**	**3,067,106,046**	**–**	**–**	**–**	**–**	**–**	**–**	**3,067,106,046**
	113,745,285	**12,957,894,094**	**11,904,320,226**	**328,216,531**	**4,156,370,754**	**172,500,000**	**3,086,250,000**	**–**	**32,719,296,890**
Puttable instruments classified as liability	**7,942,584,367**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,942,584,367**
	₱8,056,329,652	**₱12,957,894,094**	**₱11,904,320,226**	**₱328,216,531**	**₱4,156,370,754**	**₱172,500,000**	**₱3,086,250,000**	**₱–**	**₱40,661,881,257**
Commitments	**₱410,000,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱410,000,000**

	Consolidated								
	December 31, 2015								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱3,329,162,749	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱3,329,162,749
Due from BSP	6,600,000,000	–	–	–	–	–	–	–	6,600,000,000
Interbank loans receivable	3,200,000,000	–	–	–	–	–	–	–	3,200,000,000
	13,129,162,749	–	–	–	–	–	–	–	13,129,162,749
Loans and receivables									
Loans and discounts									
Corporate lending	–	–	28,335,305	31,309,226	59,644,531	145,116,821	357,867,184	1,843,508,417	2,465,781,484
Others	–	479,461	958,922	1,438,382	2,876,765	4,738,418	11,618,362	14,655,944	36,766,254
	–	479,461	29,294,227	32,747,608	62,521,296	149,855,239	369,485,546	1,858,164,361	2,502,547,738
Unquoted commercial papers	–	14,509,488	420,233,272	28,394,790	577,294,832	69,585,408	329,663,958	750,387,476	2,190,069,224
Accrued interest receivable	–	–	399,708,618	–	–	–	–	–	399,708,618
Accounts receivable	–	–	305,963,438	–	–	–	–	–	305,963,438
Sales contract receivable	–	327,394	654,789	982,183	1,443,896	2,679,604	8,038,812	–	14,126,678
Dividends receivable	–	–	149,727,984	–	–	–	–	–	149,727,984
Other receivables	–	–	85,623,031	–	–	–	–	–	85,623,031
	–	15,316,343	1,391,205,359	62,124,581	641,260,024	222,120,251	707,188,316	2,608,551,837	5,647,766,711
Financial assets at FVPL									
Government debt securities	₱–	₱–	₱739,120,018	₱–	₱–	₱–	₱–	₱–	₱739,120,018
Private debt securities	–	–	540,240,074	–	–	–	–	–	540,240,074
Equity securities	–	9,391,286,012	–	–	–	–	–	–	9,391,286,012

(Forward)

	Consolidated								
	December 31, 2015								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
AFS investments									
Government debt securities	–	67,358,574	136,948,357	46,938,818	245,814,692	849,894,026	4,032,841,122	14,219,263,041	19,599,058,630
Private debt securities	–	3,116,123	3,748,625	5,085,537	15,477,385	20,203,220	107,908,571	537,397,592	692,937,053
Quoted equity investments	–	–	–	–	–	–	–	1,903,431,379	1,903,431,379
Unquoted equity investments	–	–	–	–	–	–	–	3,384,127,446	3,384,127,446
Held-to-maturity investments									
Government debt securities	–	24,596,564	97,640,707	173,018,113	295,255,384	5,221,521,553	5,105,661,087	6,672,799,485	17,590,492,893
Private debt securities	–	3,816,667	17,539,234	–	71,689,481	138,304,733	458,534,792	1,912,781,826	2,602,666,733
	–	9,490,173,940	1,535,237,015	225,042,468	628,236,942	6,229,923,532	9,704,945,572	28,629,800,769	56,443,360,238
	₱13,129,162,749	₱9,505,490,283	₱2,926,442,374	₱287,167,049	₱1,269,496,966	₱6,452,043,783	₱10,412,133,888	₱31,238,352,606	₱75,220,289,698
Financial Liabilities									
Bills payable	₱–	₱23,118,584,929	₱6,011,916,725	₱316,598,681	₱386,503,232	₱–	₱–	₱–	₱29,833,603,567
Bonds payable	–	–	135,250,000	135,250,000	270,500,000	8,902,923,505	3,225,624,674		12,669,548,179
Accrued interest and other expenses	–	108,057,839	–	–	–	–	–	–	108,057,839
Accounts payable	–	1,206,421,848	–	–	–	–	–	–	1,206,421,848
Other liabilities	–	113,438,557	–	–	–	–	–	–	113,438,557
	–	24,546,503,173	6,147,166,725	451,848,681	657,003,232	8,902,923,505	3,225,624,674	–	43,931,069,990
Puttable instruments classified as liability	9,908,429,186	–	–	–	–	–	–	–	9,908,429,186
	₱9,908,429,186	₱24,546,503,173	₱6,147,166,725	₱451,848,681	₱657,003,232	₱8,902,923,505	₱3,225,624,674	₱–	₱53,839,499,176
Commitments	₱410,000,000	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱410,000,000

	Parent Company								
	December 31, 2016								
	On Demand	**Up to 1 Month**	**More than 1 Month**	**More than 3 Months**	**More than 6 Months**	**More than 1 Year**	**More than 2 Years**	**Beyond 5 Years**	**Total**
Financial Assets									
Loans and advances									
Cash and other cash items	**₱397,697,510**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱397,697,510**
Due from BSP	**7,231,151,183**	–	–	–	–	–	–	–	**7,231,151,183**
Interbank loans receivable	**2,218,848,817**	–	–	–	–	–	–	–	**2,218,848,817**
	9,847,697,510	–	–	–	–	–	–	–	**9,847,697,510**

(Forward)

	Parent Company								
	December 31, 2016								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Loans and receivables									
Loans and discounts									
Corporate lending	₱–	₱–	₱62,842,955	₱81,651,879	₱144,494,834	₱288,989,668	₱785,317,124	₱62,842,955	₱1,426,139,415
Others	–	11,288	20,482	25,837	500,589	1,538,703	7,128,166	17,021,547	26,246,612
	–	11,288	62,863,437	81,677,716	144,995,423	290,528,371	792,445,290	79,864,502	1,452,386,027
Unquoted commercial papers	–	9,022,163	–	9,022,163	18,044,325	36,088,650	577,721,625	–	649,898,926
Accrued interest receivable	–	–	256,391,047	–	–	–	–	–	256,391,047
Accounts receivable	–	–	72,635,511	–	–	–	–	–	72,635,511
Sales contract receivable	–	–	–	–	254,388	1,017,552	10,514,701	–	11,786,641
Dividends receivable	–	–	35,712	–	–	–	–	–	35,712
Other receivables	–	–	20,241	–	–	–	–	–	20,241
	–	9,033,451	391,945,948	90,699,879	163,294,136	327,634,573	1,380,681,616	79,864,502	2,443,154,105
Financial assets at FVPL									
Government debt securities	–	1,361,819,548	–	–	–	–	–	–	1,361,819,548
Private debt securities	–	321,054,625	–	–	–	–	–	–	321,054,625
AFS investments									
Government debt securities	517,181,225	538,617	22,664,500	105,730,832	96,473,949	192,947,899	1,462,206,086	5,224,031,500	7,621,774,608
Private debt securities	–	1,250	–	–	1,250	2,500	7,500	56,250	68,750
Quoted equity investments	–	–	–	–	–	–	–	177,062,733	177,062,733
Unquoted equity investments	–	–	–	–	–	–	–	126,546,220	126,546,220
Held-to-maturity investments									
Government debt securities	–	30,745,705	3,292,705,128	532,694,721	1,645,386,321	4,409,813,548	1,629,855,744	10,417,111,870	21,958,313,037
Private debt securities	–	3,907,442	20,333,788	21,043,665	45,284,895	90,569,789	1,024,006,299	1,049,382,585	2,254,528,463
	517,181,225	1,718,067,187	3,335,703,416	659,469,218	1,787,146,415	4,693,333,736	4,116,075,629	16,994,191,158	33,821,167,984
	₱10,364,878,735	₱1,727,100,638	₱3,727,649,364	₱750,169,097	₱1,950,440,551	₱5,020,968,309	₱5,496,757,245	₱17,074,055,660	₱46,112,019,599
Financial Liabilities									
Bills payable	₱113,745,285	₱8,105,312,878	₱6,735,257,726	₱230,091,531	₱15,120,754	₱–	₱–	₱–	₱15,199,528,174
Bonds payable	–	–	5,169,062,500	98,125,000	4,141,250,000	172,500,000	3,086,250,000	–	12,667,187,500
Accrued interest and other expenses	–	131,933,482	–	–	–	–	–	–	131,933,482
Accounts payable	–	375,048,735	–	–	–	–	–	–	375,048,735
Other liabilities	–	3,074,541,501	–	–	–	–	–	–	3,074,541,501
	₱113,745,285	₱11,686,836,596	₱11,904,320,226	₱328,216,531	₱4,156,370,754	₱172,500,000	₱3,086,250,000	₱–	₱31,448,239,392
Commitments	₱410,000,000	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱410,000,000

	Parent Company								
	December 31, 2015								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱385,452,536	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱385,452,536
Due from BSP	6,600,000,000	–	–	–	–	–	–	–	6,600,000,000
Interbank loans receivable	3,200,000,000	–	–	–	–	–	–	–	3,200,000,000
	10,185,452,536	–	–	–	–	–	–	–	10,185,452,536
Loans and receivables									
Loans and discounts									
Corporate lending	–	–	28,335,305	31,309,226	59,644,531	143,055,533	357,867,184	1,843,508,417	2,463,720,196
Others	–	479,461	958,922	1,438,382	2,876,765	4,738,418	9,557,073	14,655,944	34,704,965
	–	479,461	29,294,227	32,747,608	62,521,296	147,793,951	367,424,257	1,858,164,361	2,498,425,161
Unquoted commercial papers	–	14,509,488	365,498,820	24,501,688	567,311,176	58,037,952	174,113,856	519,018,976	1,722,991,956
Accrued interest receivable	–	–	382,115,695	–	–	–	–	–	382,115,695
Accounts receivable	–	–	102,159,210	–	–	–	–	–	102,159,210
Sales contract receivable	–	327,394	654,789	982,183	1,443,896	2,679,604	8,038,812	–	14,126,678
Dividends receivable	–	–	300,522,444	–	–	–	–	–	300,522,444
Other receivables	–	–	2,494,855	–	–	–	–	–	2,494,855
	–	15,316,343	1,182,740,040	58,231,479	631,276,368	208,511,507	549,576,925	2,377,183,337	5,022,835,999
Financial assets at FVPL									
Government debt securities	–	–	195,918,283	–	–	–	–	–	195,918,283
Private debt securities	–	67,305,294	243,739,559	–	–	–	–	–	311,044,853
Equity securities	–	165,608,406	–	–	–	–	–	–	165,608,406
AFS investments									
Government debt securities	–	–	136,673,490	46,892,024	245,304,807	846,568,465	4,017,642,045	14,210,745,370	19,503,826,201
Private debt securities	–	1,000	19,321	19,321	39,643	79,286	237,858	2,033,784	2,430,213
Quoted equity investments	–	–	–	–	–	–	–	842,709,285	842,709,285
Unquoted equity investments	–	–	–	–	–	–	–	3,385,460,850	3,385,460,850
Held-to-maturity investments									
Government debt securities	–	24,596,564	97,640,707	171,723,963	293,961,234	5,218,933,253	5,097,896,187	6,548,678,735	17,453,430,643
Private debt securities	–	3,181,507	16,482,984	33,317,916	66,635,831	133,271,663	438,971,352	1,744,747,976	2,436,609,229
	–	260,692,771	690,474,344	251,953,224	605,941,515	6,198,852,667	9,554,747,442	26,734,376,000	44,297,037,963
	₱10,185,452,536	₱276,009,114	₱1,873,214,384	₱310,184,703	₱1,237,217,883	₱6,407,364,174	₱10,104,324,367	₱29,111,559,337	₱59,505,326,498
Financial Liabilities									
Bills payable	₱–	₱23,218,809,044	₱6,011,916,725	₱316,598,681	₱386,503,232	₱–	₱–	₱–	₱29,933,827,682
Bonds payable	–	–	135,250,000	135,250,000	270,500,000	8,902,923,505	3,225,624,674	–	12,669,548,179
Accrued interest and other expenses	–	217,655,035	–	–	–	–	–	–	217,655,035
Accounts payable	–	176,406,885	–	–	–	–	–	–	176,406,885
Other liabilities	–	73,987,191	–	–	–	–	–	–	73,987,191
	₱–	₱23,686,858,155	₱6,147,166,725	₱451,848,681	₱657,003,232	₱8,902,923,505	₱3,225,624,674	₱–	₱43,071,424,972
Commitments	₱410,000,000	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱410,000,000

Financial assets
Analysis of equity and debt securities at FVPL into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

Market Risk
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The Parent Company's market risk originates from its holdings of debt securities and equities.

The Parent Company manages market risk by segregating its statement of financial position into a trading book and a banking book. The management of this portfolio is assigned to the SMC, chaired by the President.

The RMD serves under the ROC and performs daily market risk analyses to ensure compliance with the company's policies and procedures. The methodologies used in managing the risk include the daily marking-to-market, monitoring of loss alerts and stop loss limits, profit alert and start sell limits, nominal position limits as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits.

Stress testing on the portfolio is also done on a daily basis to complement the VaR methodology. The stress testing results are reported to the President and Treasurer as well as to the Controller and the CRO and subsequently to the ROC and the BOD.

The table below shows the stress testing results for positions of the Parent Company as of December 31, 2016:

	Market Value		**Mark-to-Market Loss**	
Interest Rate (Peso)	**HFT**	**AFS**	**HFT**	**AFS**
Current market rate	**₱1,644,572,494**	**₱5,200,010,560**	**(₱10,307,382)**	**(₱277,170,189)**
Increase of 50 bps	**1,628,770,602**	**5,069,961,774**	**(26,109,273)**	**(407,218,975)**
Increase of 100 bps	**1,613,517,850**	**4,944,023,833**	**(41,362,025)**	**(533,156,916)**
Increase in volatility by 5	**1,518,850,234**	**4,136,889,726**	**(136,029,641)**	**(1,340,291,023)**
Highest Historical volatility in 5 yrs.	**1,596,950,002**	**4,928,117,457**	**(57,929,873)**	**(549,063,292)**

	Market Value		**Mark-to-Market Loss**	
Interest Rate (US$)	**HFT**	**AFS**	**HFT**	**AFS**
Current market rate	**$129,648**	**$5,336,845**	**($17,479)**	**($613,041)**
Increase of 50 bps	**135,915**	**5,010,536**	**(11,211)**	**(939,350)**
Increase of 100 bps	**129,728**	**4,712,378**	**(17,399)**	**(1,237,508)**
Increase in volatility by 5	**90,000**	**3,737,744**	**(57,126)**	**(2,212,142)**
Highest Historical volatility in 5 yrs.	**119,694**	**4,891,489**	**(27,432)**	**(1,058,397)**

	Market Value		**Mark-to-Market Gain (Loss)**	
Equities	**HFT**	**AFS**	**HFT**	**AFS**
Base Case Scenario	**₱–**	**₱487,730,771**	**₱–**	**₱39,867,490**
Decline in prices by 10%	**–**	**438,957,694**	**–**	**(8,905,587)**
Decline in prices by 20%	**–**	**390,184,617**	**–**	**(57,678,664)**
Decline in prices by 30%	**–**	**341,411,540**	**–**	**(106,451,741)**
Decline in prices by 40%	**–**	**292,638,463**	**–**	**(155,224,818)**

Guiding daily monitoring activities are limits structures that are based on annual targets set during budget hearings, approved by the ROC and the BOD. Monitoring reports are discussed in the ROC monthly meetings.

The Group follows a prudent policy in managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Majority of the Parent Company's loan portfolio have no repricing rate arrangements. The determination of the applicable rates is sourced from the Parent Company's approved lending rates. Lending rates are determined based on funding cost plus certain spreads. As of December 31, 2016 and 2015, total loans and discounts earned fixed annual interest rates ranging from 3.0% to 15.0% for the Group and the Parent Company.

Another interest rate risk area where the Parent Company has exposures is on the effect of future changes in the prevailing level of interest rates on its fixed and floating interest rate-financial assets and liabilities. It has identified the financial assets and liabilities that are to mature or to reprice in the future and monitors its effect on the statement of income and equity.

The tables below demonstrate the sensitivity to a reasonable possible change in interest rates with all other variables held constant, of the Group's income before tax (through the impact on interest on floating rate instruments and financial debt assets at FVPL) and the Group's equity (through the impact on unrealized gain (loss) on AFS fixed rate debt securities).

	Consolidated						
	December 31, 2016						
		Sensitivity of net interest	**Sensitivity of equity**				
	Increase in basis points	**income and trading gains**	**0 up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
Currency							
PhP	**+10**	**(₱5,897,277)**	**(₱24,513)**	**(₱30,205)**	**(₱3,703,516)**	**(₱33,200,739)**	**(₱36,958,973)**
USD	**+10**	**–**	**–**	**–**	**–**	**(3,927,239)**	**(3,927,239)**
Currency							
PhP	**-10**	**5,949,206**	**24,527**	**30,237**	**3,716,735**	**33,481,383**	**37,252,882**
USD	**-10**	**–**	**–**	**–**	**–**	**4,001,884**	**4,001,884**

	Consolidated						
	December 31, 2015						
		Sensitivity of net interest	Sensitivity of equity				
	Increase in basis points	income and trading gains	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Currency							
PhP	+10	(₱12,705,202)	(₱967)	₱–	(₱10,883,472)	(₱113,141,277)	(₱124,025,716)
USD	+10	–	–	–	–	(2,319,200)	(2,319,200)
Currency							
PhP	-10	12,750,686	967	–	10,928,125	114,585,756	125,514,848
USD	-10	–	–	–	–	2,359,817	2,359,817

	Parent Company						
	December 31, 2016						
		Sensitivity of net interest	**Sensitivity of equity**				
	Increase in basis points	**income and trading gains**	**0 up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
Currency							
PhP	**+10**	**(₱2,537,363)**	**(₱12,561)**	**₱–**	**(₱2,808,589)**	**(₱30,073,456)**	**(₱32,894,606)**
USD	**+10**	**–**	**–**	**–**	**–**	**(3,924,354)**	**(3,924,354)**
Currency							
PhP	**-10**	**2,572,787**	**12,571**	**–**	**2,818,380**	**30,330,044**	**33,160,995**
USD	**-10**	**–**	**–**	**–**	**–**	**3,998,979**	**3,998,979**

	Parent Company						
	December 31, 2015						
		Sensitivity of net interest	Sensitivity of equity				
	Increase in basis points	income and trading gains	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Currency							
PhP	+10	(₱9,161,309)	(₱967)	–	(₱10,238,427)	(₱110,162,248)	(₱120,401,642)
USD	+10	–	–	–	–	(2,316,090)	(2,316,090)
Currency							
PhP	-10	9,162,335	967	–	10,280,669	111,584,673	121,866,309
USD	-10	–	–	–	–	2,356,683	2,356,683

The impact on the Company's equity already excludes the impact on transactions affecting the statement of income. The sensitivity to predetermined basis points of 50.0 is considered stressful enough for this purpose.

Foreign exchange risk
Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes an exposure to effects on the fluctuations in the prevailing foreign currency exchange rates on its cash flows.

The tables below summarize the Group and the Parent Company's exposure to foreign currency risk as of December 31, 2016 and 2015:

	Consolidated	
	2016	
	US Dollar	**Euro**
Financial assets		
Loans and advances		
Cash and other cash items	**$5,833**	**€6,283,755**
Financial assets at FVPL		
Government securities	**11,693,336**	**–**
Accrued interest receivable	**147,957**	**–**
	$11,847,126	**€6,283,755**
Financial liabilities		
Bills payable	**$3,884,069**	**€–**
IBCL Payable	**15,000,000**	**–**
Accrued interest payable	**11,613**	**–**
	$18,895,682	**–**
Net assets in foreign currency	**($7,048,556)**	**€6,283,755**

	Consolidated	
	2015	
	US Dollar	Euro
Financial assets		
Loans and advances		
Cash and other cash items	US$5,974,153	€261,832
Financial assets at FVPL		
Government securities	10,036,373	–
Accrued interest receivable	117,576	–
	US$16,128,102	€261,832
Financial liabilities		
Bills payable	US$5,377,158	€–
IBCL Payable	10,000,000	–
Accrued interest payable	15,521	–
	US$15,392,679	€–
Net assets in foreign currency	US$735,423	€261,832

	Parent Company	
	2016	
	US Dollar	**Euro**
Financial assets		
Loans and advances		
Cash and other cash items	**$5,833**	**€6,283,755**
AFS investments		
Government securities	**11,693,336**	**–**
Accrued interest receivable	**147,957**	**–**
	$11,847,126	**€6,283,755**
Financial liabilities		
Bills payable	**$3,884,069**	**€–**
IBCL Payable	**15,000,000**	**–**
Accrued interest payable	**11,613**	**–**
	$18,895,682	**–**
Net assets in foreign currency	**($7,048,556)**	**€6,283,755**

	Parent Company	
	2015	
	US Dollar	Euro
Financial assets		
Loans and advances		
Cash and other cash items	US$5,964,690	€261,832
AFS investments		
Government securities	10,036,373	–
Accrued interest receivable	117,576	–
	US$16,118,639	€261,832
Financial liabilities		
Bills payable	US$5,377,158	€–
IBCL Payable	10,000,000	–
Accrued interest payable	15,521	–
	US$15,392,679	–
Net assets in foreign currency	US$725,960	€261,832

The exchange rates used to convert the Group's US Dollar-denominated assets and liabilities into Philippine Peso follow:

	US Dollar-Philippine Peso	**Euro-Philippine Peso**
Exchange rate		
2016	**₱49.72 to US$1.0**	**₱52.03 to €1.0**
2015	₱47.06 to US$1.0	₱51.12 to €1.0

The following tables set forth the impact of the range of reasonable possible changes in the US Dollar-Philippine Peso exchange rate and Euro-Philippine Peso exchange rate on the Group's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2016 and 2015 (in millions):

	Consolidated and Parent Company			
	2016		2015	
Reasonable Possible Change	**Change in Income Before Tax**	**Change in Equity**	Change in Income Before Tax	Change in Equity
US Dollar				
1.0%	**0.36**	**–**	0.34	–
(1.0%)	**(0.36)**	**–**	(0.34)	–
Euro				
1.0%	**0.14**	**–**	0.13	–
(1.0%)	**(0.14)**	**–**	(0.13)	–

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposures arise from the Parent Company's investment portfolio and a few golf shares.

The Parent Company's policies and procedures as well as risk limit structures on its equity investment portfolio are approved by the ROC and BOD. Management's strategies and plans are discussed in the regular Incom meetings. The committee is headed by the President and the members include the Treasurer and the investment managers.

The following tables set forth, for the period indicated, the impact of a reasonable possible change in the PSE index (PSEi), with all other factors being held constant, on the Group's and the Parent Company's unrealized gain or loss on held for trading securities:

	Consolidated			
	2016		2015	
Changes in PSEi	**9.6%**	**(9.6%)**	7.9%	(7.9%)
Change on trading income under:				
Mining and oil industry	**₱641,338**	**(₱641,338)**	₱30,325,971	(₱30,325,971)
Holding firm industry	**245,271,794**	**(245,271,794)**	156,861,514	(156,861,514)
Financial industry	**51,477,728**	**(51,477,728)**	75,856,610	(75,856,610)
Property industry	**135,072,875**	**(135,072,875)**	122,979,522	(122,979,522)
Industrial industry	**134,871,871**	**(134,871,871)**	179,049,546	(179,049,546)
Services industry	**66,976,759**	**(66,976,759)**	151,766,604	(151,766,604)
Total	**₱634,312,365**	**(₱634,312,365)**	₱716,839,767	(₱716,839,767)
As a percentage of the Group's net trading gain for the year	**127.8%**	**(127.8%)**	99.3%	(99.3%)

	Parent Company			
	2016		2015	
Changes in PSEi	**9.6%**	**(9.6%)**	7.9%	(7.9%)
Change on trading income under:				
Mining and oil industry	**₱–**	**₱–**	₱–	(₱–)
Holding firm industry	**–**	**–**	4,797,749	(4,797,749)
Property industry	**–**	**–**	3,320,948	(3,320,948)
Financial industry	**–**	**–**	–	–
Industrial industry	**–**	**–**	2,634,053	(2,634,053)
Services industry	**–**	**–**	1,548,326	(1,548,326)
Total	**₱–**	**₱–**	₱12,301,076	(₱12,301,076)
As a percentage of the Parent Company's net trading gain for the year	**–**	**–**	(3.8%)	3.8%

The increase or decrease in PSEi will directly impact the statement of income of both the Group and Parent Company.

The following tables set forth, for the period indicated, the impact of changes in the PSEi to the Group's and the Parent Company's unrealized gain or loss on AFS investments:

	Consolidated			
	2016		2015	
Changes in PSEi	**9.6%**	**(9.6%)**	7.9%	(7.9%)
Change on equity under:				
Mining and oil industry	**₱–**	**(₱–)**	₱–	(₱–)
Financial industry	**3,044,252**	**(3,044,252)**	29,730,690	(29,730,690)
Property industry	**2,899,277**	**(2,899,277)**	36,589,990	(36,589,990)
Services industry	**1,590,579**	**(1,590,579)**	–	–
Holding Company	**7,641,235**	**(7,641,235)**	–	–
Industrial	**4,438,963**	**(4,438,963)**	–	–
Total	**₱19,614,306**	**(₱19,614,306)**	₱66,320,680	(₱66,320,680)
As a percentage of the Group's net unrealized gain for the year	**34.0%**	**(34.0%)**	8.4%	(8.4%)

	Parent Company			
	2016		2015	
Changes in PSEi	**9.6%**	**(9.6%)**	7.9%	(7.9%)
Change on equity under:				
Mining and oil industry	**₱–**	**(₱–)**	₱–	(₱–)
Property industry	**2,899,277**	**(2,899,277)**	36,589,990	(36,589,990)
Financial industry	**3,044,252**	**(3,044,252)**	28,045,342	(28,045,342)
Holding Company	**7,641,235**	**(7,641,235)**	–	–
Industrial	**4,438,963**	**(4,438,963)**	–	–
Services industry	**1,588,906**	**(1,588,906)**	–	–
Total	**₱19,612,633**	**(₱19,612,633)**	₱64,635,332	(₱64,635,332)
As a percentage of the Parent Company's net unrealized gain for the year	**320.5%**	**(320.5%)**	8.8%	(8.8%)

The increase or decrease in PSEi will directly impact the equity of both the Group and Parent Company.

5. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of financial instruments and nonfinancial assets are:

Cash and other cash items and due from BSP, financial liabilities at cost except for bills payable and bonds payable - Carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

Trading and investment securities - Fair values of debt securities (HFT, AFS and HTM investments) and quoted equity investments are generally based on their quoted market prices. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments - Fair values are estimated based on prices derived using acceptable valuation models. The model utilizes published underlying rates (e.g. interest rates and quoted price volatilities) and are implemented through validated calculation engines.

Loans and receivables - Fair values of loans are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amount approximate fair value.

Investment properties - Fair value has been determined based on valuations made by independent appraisers. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the highest and best use of the properties at the time the valuations were made (Note 11).

Bills payable - Carrying value approximates fair value for borrowings with relatively short maturity. For certain borrowings which are long-term in nature, fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The Company's nonperformance risk as at December 31, 2016 and 2015 was assessed to be insignificant.

The following tables summarize the carrying amount and fair values of the financial assets, financial liabilities and nonfinancial assets, analyzed based on inputs to fair value:

	Consolidated				
	2016				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	**₱1,834,931,408**	**₱1,694,010,238**	**₱140,921,170**	**₱–**	**₱1,834,931,408**
Private	**622,924,726**	**622,924,726**	**–**	**–**	**622,924,726**
Equity securities	**6,936,135,048**	**6,936,135,048**	**–**	**–**	**6,936,135,048**
Derivative assets	**15,922**	**–**	**–**	**15,922**	**15,922**
AFS investments:					
Debt securities:					
Government	**5,489,052,924**	**5,489,052,924**	**–**	**–**	**5,489,052,924**
Private	**709,141,923**	**709,141,923**	**–**	**–**	**709,141,923**
Equity securities	**254,812,728**	**254,812,728**	**–**	**–**	**254,812,728**
	₱15,847,014,679	**₱15,706,077,587**	**₱140,921,170**	**₱15,922**	**₱15,847,014,679**
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	**₱1,521,430,119**	**₱–**	**₱–**	**₱1,693,928,640**	**₱1,693,928,640**
Others	**21,103,756**	**–**	**23,568,817**	**–**	**23,568,817**
Other receivables:					
Unquoted commercial papers	**810,000,000**	**–**	**–**	**882,189,722**	**882,189,722**
Sales contract receivable	**8,479,598**	**–**	**–**	**10,012,811**	**10,012,811**
HTM investments					
Government	**15,692,220,908**	**7,425,043,575**	**8,184,121,301**	**–**	**15,609,164,876**
Private	**2,146,622,602**	**2,177,894,555**	**–**	**–**	**2,177,894,555**
	₱20,199,856,983	**₱9,602,938,130**	**₱8,207,690,118**	**₱2,586,131,173**	**₱20,396,759,421**
Financial liabilities					
Bonds payable	**₱11,498,497,579**	**₱–**	**₱–**	**₱11,756,474,049**	**₱11,756,474,049**
Nonfinancial assets					
Investment properties	**₱330,514,369**	**₱–**	**₱–**	**₱986,540,680**	**₱986,540,680**

	Consolidated				
	2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	₱739,120,018	₱646,306,381	₱92,813,637	₱–	₱739,120,018
Private	540,240,074	540,240,074	–	–	540,240,074
Equity securities	9,391,286,012	9,391,286,012	–	–	9,391,286,012
Derivative assets	24,590,116	–	–	24,590,116	24,590,116
AFS investments:					
Debt securities:					
Government	13,871,010,027	13,467,802,885	403,207,142	–	13,871,010,027
Private	535,972,674	535,972,674	–	–	535,972,674
Equity securities	1,903,431,379	1,903,431,379	–	–	1,903,431,379
	₱27,005,650,300	₱26,485,039,405	₱496,020,779	₱24,590,116	₱27,005,650,300
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	₱1,698,472,294	₱–	₱–	₱1,893,349,640	₱1,893,349,640
Others	25,827,760	–	30,177,772	–	30,177,772
Other receivables:					
Unquoted commercial papers	1,736,495,525	–	–	1,835,159,092	1,835,159,092
Sales contract receivable	10,744,309	–	–	12,929,336	12,929,336
HTM investments					
Government	15,888,417,210	3,136,105,734	12,490,966,069	–	15,627,071,803
Private	1,672,186,509	1,699,516,676	–	–	1,699,516,676
	₱21,032,143,607	₱4,835,622,410	₱12,521,143,841	₱3,741,438,068	₱21,098,204,319
Financial liabilities					
Bonds payable	₱11,516,298,180	₱–	₱–	₱11,857,855,118	₱11,857,855,118
Nonfinancial assets					
Investment properties	₱345,004,757	₱–	₱–	₱841,607,161	₱841,607,161

	Parent Company				
	2016				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	**₱1,361,819,548**	**₱1,220,898,378**	**₱140,921,170**	**₱–**	**₱1,361,819,548**
Private	**321,054,625**	**321,054,625**	**–**	**–**	**321,054,625**
Derivative assets	**15,922**	**–**	**–**	**15,922**	**15,922**
AFS investments:					
Debt securities:					
Government	**5,464,919,941**	**5,464,919,941**	**–**	**–**	**5,464,919,941**
Private	**49,091**	**49,091**	**–**	**–**	**49,091**
Equity securities	**182,231,881**	**182,231,881**	**–**	**–**	**182,231,881**
	₱7,330,091,008	**₱7,189,153,916**	**₱140,921,170**	**₱15,922**	**₱7,330,091,008**
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	**1,521,430,119**	**–**	**–**	**1,693,928,640**	**1,693,928,640**
Others	**15,988,493**	**–**	**18,453,553**	**–**	**18,453,553**
Other receivables:					
Unquoted commercial papers	**487,500,000**	**–**	**–**	**545,433,815**	**545,433,815**
Sales contract receivable	**8,479,598**	**–**	**–**	**10,012,811**	**10,012,811**

(Forward)

	Parent Company				
	2016				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
HTM investments					
Government	**₱15,575,462,262**	**₱7,303,334,110**	**₱8,184,121,301**	**₱–**	**₱15,487,455,411**
Private	**1,686,398,316**	**1,710,857,605**	**–**	**–**	**1,710,857,605**
	₱19,295,258,788	**₱9,014,191,715**	**₱8,202,574,854**	**₱2,249,375,266**	**₱19,466,141,835**
Financial liabilities					
Bonds payable	**₱11,981,719,616**	**₱–**	**₱–**	**₱12,248,277,404**	**₱12,248,277,404**
Nonfinancial assets					
Investment properties	**₱330,514,369**	**₱–**	**₱–**	**₱986,540,680**	**₱986,540,680**

	Parent Company				
	2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVPL:					
Debt securities:					
Government	₱195,918,283	₱103,104,646	₱92,813,637	₱–	₱195,918,283
Private	243,739,559	243,739,559	–	–	243,739,559
Equity securities	165,608,406	165,608,406	–	–	165,608,406
Derivative assets	30,205,419	–	–	30,205,419	30,205,419
AFS investments:					
Debt securities:					
Government	13,846,642,955	13,443,435,813	403,207,142	–	13,846,642,955
Private	1,841,880	1,841,880	–	–	1,841,880
Equity securities	1,816,195,360	1,816,195,360	–	–	1,816,195,360
	₱16,300,151,862	₱15,773,925,664	₱496,020,779	₱30,205,419	₱16,300,151,862
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	₱1,698,472,294	₱–	₱–	₱1,893,349,640	₱1,893,349,640
Others	23,766,471	–	28,116,484	–	28,116,484
Other receivables:					
Unquoted commercial papers	1,362,745,525	–	–	1,447,133,724	1,447,133,724
Sales contract receivable	10,744,309	–	–	12,929,336	12,929,336
HTM investments					
Government	15,778,867,651	3,023,155,374	12,490,966,069	–	15,514,121,443
Private	1,536,765,587	1,559,932,274	–	–	1,559,932,274
	₱20,411,361,837	₱4,583,087,648	₱12,519,082,553	₱3,353,412,700	₱20,455,582,901
Financial liabilities					
Bonds payable	₱11,971,195,297	₱–	₱–	₱12,296,365,691	₱12,296,365,691
Nonfinancial assets					
Investment properties	₱343,968,226	₱–	₱–	₱840,570,630	₱840,570,630

As of December 31, 2016 and 2015, 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.

6. **Segment Information**

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit.

As of December 31, 2016 and 2015, the Group's operating segments are as follows:

- Financial Markets Group - manages the liquidity and funding requirements of the Parent Company and the distribution of financial instruments such as government securities and corporate papers. It offers a wide variety of profitable and secure instruments such as treasury bills, treasury notes/bonds, commercial papers, and promissory notes. As a quasi-bank licensed by the BSP, it borrows money from the public and issues its own financial instruments. Moreover, it is an accredited government securities eligible dealer authorized by the Bureau of Treasury in trading government securities and it remains a dominant selling agent in the distribution of government securities, government-owned or controlled corporations and other corporate issuances;

- Investment Banking - is responsible for raising long-term funding requirements of the government and the private sectors. Its products and services include debt and equity underwriting, loan syndication, financial advisory, project finance and structured financial solutions.

- Investment Advisory & Trust Group - develops and enhances the wealth of private clients, uncovering investment opportunities and seeking a thorough understanding of the market through first-hand research. It also provides meticulous and comprehensive professional portfolio advisory and research services to both individuals and firms.

  In June 2016, the trust and other fiduciary business of the Parent Company, comprising this segment, ceased its operations. The Parent Company applied for the revocation of its trust license on July 5, 2016 and was subsequently approved by the BSP on February 1, 2017. The Group and the Parent Company did not present the results of operations of this segment as a discontinued operation on the face of the statement of income for the years ended December 31, 2016, 2015 and 2014 as the amounts are not material. Results of this segment included in the statement of income of the Group pertain only to trust fee income amounting to ₱2.6 million, ₱6.4 million and ₱3.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

- Mutual Funds - these are the fund business of the Group;

- Strategic Investments - these are the business of the Group which are involved in leasing and finance, 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 the reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. These segment information are presented monthly to the Parent Company's BOD which is the Chief Operating Decision Maker.

The following tables present revenue and income information of the Group's operating segments measured in accordance with PFRS as of and for the years ended December 31, 2016, 2015 and 2014:

	2016								
	Financial Markets	Investment Banking	Investment Advisory & Trust*	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations									
Net interest income	₱415,898,189	₱–	₱–	₱159,113,575	₱–	₱22,869,228	₱597,880,992	₱–	₱597,880,992
Non-interest income (loss)	(367,037,418)	626,360,441	2,571,490	(355,656,902)	–	**1,530,662,744	1,436,900,355	–	1,436,900,355
Total revenue	48,860,771	626,360,441	2,571,490	(196,543,327)	–	1,553,531,972	2,034,781,347	–	2,034,781,347
Intersegment income	(8,201,398)	–	13,639,081	16,149,157	–	237,734,044	259,320,884	(269,826,134)	(10,505,250)
Revenue - net of interest expense	40,659,373	626,360,441	16,210,571	(180,394,170)	–	1,791,266,016	2,294,102,231	(269,826,134)	2,024,276,097
Non-interest expense	154,360,257	43,001,227	1,134,740	(123,077,846)	–	1,349,236,763	1,424,655,141	(264,220,089)	1,160,435,052
Income (loss) before share in net income of subsidiaries, associates, income tax and net income attributable to non-controlling interests	(113,700,884)	583,359,214	15,075,831	(57,316,324)	–	442,029,253	869,447,090	(5,606,045)	863,841,045
Share in net income of associates	–	–	–	–	408,712,292	3,819,518	412,531,810	–	412,531,810
Provision for income tax	(291,174,090)	–	–	(82,267,170)	–	(242,429,022)	(615,870,282)	–	(615,870,282)
Net income attributable to non-controlling interest	–	–	–	–	–	(15,444,874)	(15,444,874)	–	(15,444,874)
Net income attributable to the Parent Company	(₱404,874,974)	₱583,359,214	₱15,075,831	(₱139,583,494)	₱408,712,292	₱187,974,875	₱650,663,744	(₱5,606,045)	₱645,057,699
Statement of Financial Position									
Total assets	₱36,406,189,227	₱–	₱–	₱11,157,820,160	₱2,822,126,176	₱6,369,022,142	₱56,755,157,705	(₱ 1,300,220,007)	₱55,454,937,698
Total liabilities	27,181,158,814	–	–	108,298,644	–	4,931,547,559	32,221,005,017	7,328,848,236	39,549,853,253
Other Segment Information									
Capital expenditures	–	–	–	–	–	38,433,641	38,433,641	–	38,433,641
Deferred tax assets	–	–	–	–	–	38,716,237	38,716,237	–	38,716,237
Depreciation and amortization	–	–	–	–	–	98,201,173	98,201,173	–	98,201,173
Provision for impairment and other probable losses	–	–	–	–	–	64,649,490	64,649,490	–	64,649,490

**In June 2016, the trust and other fiduciary business of the Group ceased its operations. The total income recognized by the Group from this segment amounted to ₱2.6 million and presented under 'Miscellaneous income'.*
***Includes gain from sale of AFS amounting to ₱875.7 million.*

	2015								
	Financial Markets	Investment Banking	Investment Advisory & Trust*	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations									
Net interest income	₱465,967,672	₱4,571,111	₱–	₱154,160,083	₱–	₱16,335,168	₱641,034,034	₱–	₱641,034,034
Non-interest income (loss)	(146,267,911)	646,456,972	6,374,688	(195,087,091)	–	419,999,537	731,476,195	–	731,476,195
Total revenue	319,699,761	651,028,083	6,374,688	(40,927,008)	–	436,334,705	1,372,510,229	–	1,372,510,229
Intersegment income	(10,151,510)	–	29,203,170	22,467,835	–	264,532,434	306,051,929	(306,051,929)	–
Revenue - net of interest expense	309,548,251	651,028,083	35,577,858	(18,459,173)	–	700,867,139	1,678,562,158	(306,051,929)	1,372,510,229
Non-interest expense	261,246,090	(45,267,991)	2,490,450	47,766,535	–	1,115,106,194	1,381,341,278	(302,968,556)	1,078,372,722
Income (loss) before share in net income of associates, income tax and net income attributable to non-controlling interests	48,302,161	696,296,074	33,087,408	(66,225,708)	–	(414,239,055)	297,220,880	(3,083,373)	294,137,507
Share in net income (loss) of associates	–	–	–	–	529,736,153	(210,719)	529,525,434	–	529,525,434
Provision for income tax	(383,310,324)	–	–	(25,754,386)	–	(13,408,591)	(422,473,301)	–	(422,473,301)
Net income attributable to non-controlling interest	–	–	–	–	–	(15,649,877)	(15,649,877)	–	(15,649,877)
Net income attributable to the Parent Company	(₱335,008,163)	₱696,296,074	₱33,087,408	(₱91,980,094)	₱529,736,153	(₱443,508,242)	₱388,623,136	(₱3,083,373)	₱385,539,763
Statement of Financial Position									
Total assets	₱45,076,930,782	₱–	₱–	₱13,573,635,196	₱2,987,437,863	₱12,148,015,777	₱73,786,019,618	(₱2,212,781,728)	₱71,573,237,890
Total liabilities	41,989,993,203	–	–	91,086,333	–	1,836,368,795	43,917,448,331	9,086,727,432	53,004,175,763
Other Segment Information									
Capital expenditures	–	–	–	–	–	65,836,643	65,836,643	–	65,836,643
Deferred tax assets	–	–	–	–	–	2,621,194	2,621,194	–	2,621,194
Depreciation and amortization	–	–	–	–	–	102,999,576	102,999,576	–	102,999,576
Recovery from impairment and other probable losses	–	(90,950,087)	–	–	–	(59,217,280)	(150,167,367)	–	(150,167,367)

**In June 2016, the trust and other fiduciary business of the Group ceased its operations. The total income recognized by the Group from this segment amounted to ₱6.4 million and presented under 'Miscellaneous income'.*

	2014								
	Financial Markets	Investment Banking	Investment Advisory & Trust*	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations									
Net interest income	₱591,860,798	₱163,627,487	₱–	₱177,483,017	₱–	₱16,837,060	₱949,808,362	₱–	₱949,808,362
Non-interest income	1,005,709,460	364,612,263	3,865,970	1,824,834,924	244,979,791	387,049,504	3,831,051,912	–	3,831,051,912
Total revenue	1,597,570,258	528,239,750	3,865,970	2,002,317,941	244,979,791	403,886,564	4,780,860,274	–	4,780,860,274
Intersegment income	(3,078,102)	9,574,000	30,531,647	–	–	294,566,352	331,593,897	(331,593,897)	–
Revenue - net of interest expense	1,594,492,156	537,813,750	34,397,617	2,002,317,941	244,979,791	698,452,916	5,112,454,171	(331,593,897)	4,780,860,274
Non-interest expense	(24,374,867)	26,193,039	2,407,833	1,513,535,208	105,410,877	959,585,860	2,582,757,950	(267,593,544)	2,315,164,406
Income (loss) before share in net income of associates, income tax and net income attributable to non-controlling interests	1,618,867,023	511,620,711	31,989,784	488,782,733	139,568,914	(261,132,944)	2,529,696,221	(64,000,353)	2,465,695,868
Share in net income of associates	–	–	–	–	527,513,157	12,282,714	539,795,871	–	539,795,871
Provision for income tax	(346,309,355)	–	–	(32,374,941)	–	(266,230,176)	(644,914,472)	–	(644,914,472)
Net income attributable to non-controlling interest	–	–	–	–	–	(24,400,079)	(24,400,079)	–	(24,400,079)
Net income attributable to the Parent Company	₱1,272,557,668	₱511,620,711	₱31,989,784	₱456,407,792	₱667,082,071	(₱539,480,485)	₱2,400,177,541	(₱64,000,353)	₱2,336,177,188
Statement of Financial Position									
Total assets	₱43,115,707,182	₱–	₱–	₱13,885,744,215	₱695,609,109	₱14,537,778,463	₱72,234,838,969	(₱2,352,046,502)	₱69,882,792,467
Total liabilities	39,786,584,748	–	–	149,776,211	–	2,057,757,103	41,994,118,062	9,583,051,339	51,577,169,401
Other Segment Information									
Capital expenditures	–	–	–	–	–	170,638,933	170,638,933	–	170,638,933
Deferred tax assets	–	–	–	–	–	4,250,594	4,250,594	–	4,250,594
Depreciation and amortization	–	–	–	–	–	72,311,061	72,311,061	–	72,311,061
Recovery from impairment and other probable losses	–	–	–	–	–	(403,047,261)	(403,047,261)	–	(403,047,261)

**In June 2016, the trust and other fiduciary business of the Group ceased its operations. The total income recognized by the Group from this segment amounted to ₱3.9 million and presented under 'Miscellaneous income'.*

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustment/elimination' column.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

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

Interest income is reported net of interest expense as management primarily relies on the net interest income as performance measure, not the gross income and expense. Interest is charged or credited to business segments based on a pool rate which approximates the cost of funds.

Non-interest income consists of 'Service charges, fees and commissions', 'Gain (loss) on sale of assets', 'Trading and securities gain (loss)', 'Dividends' and 'Miscellaneous income'.

Non-interest expense consists of 'Taxes and licenses', 'Compensation and fringe benefits', 'Broker's commission', 'Rent, light and water', 'Foreign exchange gain (loss)', 'Depreciation and amortization', 'Entertainment, amusement and recreation', 'Provision for (recovery from) impairment and other probable losses' and 'Miscellaneous expense'.

Capital expenditure consists of additions to property and equipment, investment properties and software licenses.

For the years ended December 31, 2016, 2015 and 2014, the Group has a significant customer in its Financial Markets segment, which contributed ₱0.6 billion, ₱1.3 billion and ₱2.2 billion, respectively, to the consolidated revenue.

The only foreign operation of the Group is handled by FMIIC for which the Parent Company has a 20% ownership interest.

7. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial assets at FVPL	**₱9,394,007,104**	₱10,695,236,220	**₱1,682,890,095**	₱635,471,667
AFS investments	**6,578,220,391**	19,694,541,526	**5,772,413,729**	19,048,807,641
HTM investments	**17,838,843,510**	17,560,603,719	**17,261,860,578**	17,315,633,239
	₱33,811,071,005	₱47,950,381,465	**₱24,717,164,402**	₱36,999,912,547

Financial Assets at FVPL

Financial assets at FVPL consist of the following held-for-trading (HFT) securities and derivative asset:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Debt securities:				
Government	**₱1,834,931,408**	₱739,120,018	**₱1,361,819,548**	₱195,918,283
Private	**622,924,726**	540,240,074	**321,054,625**	243,739,559
	2,457,856,134	1,279,360,092	**1,682,874,173**	439,657,842
Equity securities	**6,936,135,048**	9,391,286,012		165,608,406
Derivative asset	**15,922**	24,590,116	**15,922**	30,205,419
	₱9,394,007,104	₱10,695,236,220	**₱1,682,890,095**	₱635,471,667

HFT securities include fair value gain (loss) of (₱355.5 million), (₱775.4 million) and ₱571.7 million in 2016, 2015 and 2014, respectively, for the Group, and fair value loss of ₱10.2 million, ₱11.7 million and ₱22.2 million in 2016, 2015 and 2014, respectively, for the Parent Company.

Peso-denominated HFT debt securities bear nominal annual interest rates ranging from 1.6% to 13.0%, from 1.6% to 10.2% and from 1.6% to 11.9% in 2016, 2015 and 2014, respectively, for the Group and the Parent Company. US dollar-denominated HFT debt securities bear nominal annual interest rates ranging from 3.7% to 6.4%, from 4.0% to 9.5% and from 4.2% to 6.4% in 2016, 2015 and 2014, respectively, for the Group and the Parent Company.

As of December 31, 2016 and 2015, peso-denominated HFT debt securities with a total face value of ₱32.0 million and ₱33.2 million, respectively, are deposited with BSP for trust operations (Note 28).

Dividends earned from HFT equity securities amounted to ₱110.4 million, ₱184.1 million and ₱200.2 million in 2016, 2015 and 2014, respectively, for the Group, and ₱2.7 million, ₱13.6 million and ₱12.5 million in 2016, 2015 and 2014, respectively, for the Parent Company.

<u>AFS Investments</u>
AFS investments consist of the following:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Debt securities (Note 16):				
Government	**₱5,489,052,924**	₱13,871,010,027	**₱5,464,919,941**	₱13,846,642,955
Private	**709,141,923**	535,972,674	**49,091**	1,841,880
	6,198,194,847	14,406,982,701	**5,464,969,032**	13,848,484,835
Equity securities:				
Quoted	**254,812,728**	1,903,431,379	**182,231,881**	1,816,195,360
Unquoted	**125,212,816**	3,384,127,446	**125,212,816**	3,384,127,446
	380,025,544	5,287,558,825	**307,444,697**	5,200,322,806
	₱6,578,220,391	₱19,694,541,526	**₱5,772,413,729**	₱19,048,807,641

Peso-denominated AFS debt securities bear nominal annual interest rates ranging from 2.9% to 8.0%, from 1.6% to 8.0% and from 1.6% to 12.4% in 2016, 2015 and 2014, respectively, for the Group and the Parent Company. Foreign-denominated AFS debt securities bear nominal annual interest rates ranging from 3.7% to 6.4%, from 2.8% to 6.4% and from 2.8% to 4.1% in 2016, 2015, and 2014, respectively, for US dollar-denominated AFS debt securities, and 0.0% in 2016, 0.0% in 2015 and 4.1% in 2014 for euro-denominated AFS debt securities for the Group and the Parent Company.

Unquoted equity securities are investments where the Group and the Parent Company generally have less than 20.0% in equity holdings. These are strategic investments initiated by the Group and the Parent Company with the objective of generating income through dividends. The Group and the Parent Company intend to hold on or retain their holdings in companies that provide acceptable or modest returns. The Group and the Parent Company will dispose of these investments depending on liquidity requirements but the primary consideration would be the profit out of the sale or disposal.

As of December 31, 2015, unquoted AFS equity investments include the Group's 4.7% ownership interest in Global Business Power Corporation (GBPC) which was sold to GT Capital Holdings, Inc. (GT Capital) for ₱3.3 billion in 2016. As part of the sales agreement, GT Capital reimbursed the Parent Company for the related taxes in connection with the sale of the investment. The taxes reimbursed by the Parent Company amounting to ₱361.5 million was recognized by the Group and the Parent Company in 'Miscellaneous income' (Note 23).

Dividends earned from AFS equity securities amounted to ₱23.8 million, ₱286.6 million and ₱54.1 million in 2016, 2015 and 2014, respectively, for the Group, and ₱23.8 million, ₱286.6 million and ₱51.9 million in 2016, 2015 and 2014, respectively, for the Parent Company.

The changes in the net unrealized (gain) loss on AFS investments of the Group follow:

	2016		
	Equity Holders of the Parent Company	**Non-controlling interest and puttable instruments**	**Total**
Balance at January 1	**(₱18,529,720)**	**₱1,487,058**	**(₱17,042,662)**
Net fair value changes during the year on AFS investments, net of tax	**229,301,456**	**(7,367,840)**	**221,933,616**
Realized (gain) loss on sale of AFS investments	**(464,259,670)**	**28**	**(464,259,642)**
Net change during the year	**(234,958,214)**	**(7,367,812)**	**(242,326,026)**
Balance at December 31	**(₱253,487,934)**	**(₱5,880,754)**	**(₱259,368,688)**

	2015		
	Equity Holders of the Parent Company	Non-controlling interest and puttable instruments	Total
Balance at January 1	₱131,874,512	₱3,752,192	₱135,626,704
Net fair value changes during the year on AFS investments, net of tax	(658,218,992)	(31,730,780)	(689,949,772)
Reclassification from AFS investment to investment in associate (Note 10)	629,753,613		629,753,613
Realized (gain) loss on sale of AFS investments	(121,938,853)	29,465,646	(92,473,207)
Net change during the year	(150,404,232)	(2,265,134)	(152,669,366)
Balance at December 31	(₱18,529,720)	₱1,487,058	(₱17,042,662)

	2014		
	Equity Holders of the Parent Company	Non-controlling interest and puttable instruments	Total
Balance at January 1	₱1,598,043,907	₱17,907,096	₱1,615,951,003
Net fair value changes during the year on AFS investments, net of tax	(477,479,883)	(6,544,470)	(484,024,353)
Realized gain on sale of AFS investments	(988,689,512)	(7,610,434)	(996,299,946)
Net change during the year	(1,466,169,395)	(14,154,904)	(1,480,324,299)
Balance at December 31	₱131,874,512	₱3,752,192	₱135,626,704

The changes in the net unrealized (gain) loss on AFS investments of the Parent Company follow:

	Parent Company		
	2016	2015	2014
Balance at January 1	**(₱73,000,219)**	₱73,851,645	₱1,552,000,681
Net fair value changes during the year on AFS investments, net of tax	**232,967,692**	(93,214,174)	(494,231,102)
Realized gain on sale of AFS investments	**(462,818,464)**	(53,637,690)	(983,917,934)
Net change during the year	**(229,850,772)**	(146,851,864)	(1,478,149,036)
Balance at December 31	**(₱302,850,991)**	(₱73,000,219)	₱73,851,645

HTM Investments

As of December 31, 2016 and 2015, HTM investments consist of government bonds amounting to ₱15.7 billion and ₱15.9 billion, respectively, for the Group, and ₱15.6 billion and ₱15.8 billion, respectively, for the Parent Company and bonds issued by private companies amounting to ₱2.1 billion and ₱1.7 billion, respectively, for the Group and ₱1.7 billion and ₱1.5 billion, respectively, for the Parent Company.

As of December 31, 2016 and 2015 the unamortized premium related to HTM investments amounted to ₱1.4 billion and ₱1.7 billion, respectively, for the Group and the Parent Company. Effective interest rates on the HTM investments ranges from 2.1% to 6.4% and from 2.9% to 6.1% for the Group and the Parent Company in 2016 and 2015, respectively. HTM investments bear nominal annual interest rates ranging from 2.1% to 14.4%.

Trading and Securities Gain (Loss)

The composition of trading and securities gain (loss) follows:

	Consolidated		
	2016	2015	2014
Realized gain (loss) from sale of:			
HFT securities	**(₱140,751,885)**	₱53,734,290	₱1,147,219,996
AFS investments	**464,259,642**	92,473,207	996,299,946
	323,507,757	146,207,497	2,143,519,942
Changes in fair value of financial instruments at FVPL:			
HFT securities	**(355,543,773)**	(775,395,303)	571,706,415
Derivative asset	**(24,574,194)**	(19,864,666)	(40,788,945)
	(380,117,967)	(795,259,969)	530,917,470
	(₱56,610,210)	(₱649,052,472)	₱2,674,437,412

	Parent Company		
	2016	2015	2014
Realized gain (loss) from sale of:			
HFT securities	**(₱20,158,028)**	(₱312,725,680)	₱108,621,700
AFS investments	**462,818,464**	53,637,690	983,917,934
	442,660,436	(259,087,990)	1,092,539,634
Changes in fair value of financial instruments at FVPL:			
HFT securities	**(10,156,864)**	(11,677,135)	(22,234,821)
Derivative asset	**(30,189,497)**	(19,864,666)	(40,788,945)
	(40,346,361)	(31,541,801)	(63,023,766)
	₱402,314,075	(₱290,629,791)	₱1,029,515,868

Derivative Financial Instruments

Embedded derivatives from issuance of corporate fixed bonds with call option

On November 25, 2011, the Parent Company issued fixed corporate bonds amounting to ₱5.0 billion which contain an embedded call option. The call option allows the Parent Company to redeem the bonds at 102.0% of its face value plus accrued interest on any interest period date after November 25, 2015. At the date of inception, the fair value of the embedded call option amounted to ₱55.7 million and ₱56.6 million for the Group and the Parent Company, respectively.

As of December 31, 2016 and 2015, the fair value of the embedded call option amounted to ₱0.02 million and ₱24.6 million, respectively, for the Group, and ₱0.02 and ₱30.2 million, respectively, for the Parent Company (Note 16).

Details of the Group's and the Parent Company's derivatives follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balance at beginning of year				
Derivative asset	**₱24,590,116**	₱44,454,782	**₱30,205,419**	₱50,070,085
Net changes in fair value of derivatives recognized in statement of income:				
Trading and securities loss	**(24,574,194)**	(19,864,666)	**(30,189,497)**	(19,864,666)
Balance at end of year				
Derivative asset	**₱15,922**	₱24,590,116	**₱15,922**	₱30,205,419

8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Loans and discounts:				
Corporate lending	**₱1,549,521,772**	₱1,727,193,277	**₱1,549,521,772**	₱1,727,193,277
Others	**21,103,756**	25,827,760	**15,988,493**	23,766,471
	1,570,625,528	1,753,021,037	**1,565,510,265**	1,750,959,748
Unquoted commercial papers	**810,000,000**	1,736,495,525	**487,500,000**	1,362,745,525
Accounts receivable	**282,868,161**	305,963,438	**72,635,511**	102,159,210
Accrued interest receivable	**272,630,712**	399,708,618	**253,139,653**	382,115,695
Sales contracts receivable	**8,479,598**	10,744,309	**8,479,598**	10,744,309
Dividends receivable	**2,449,748**	149,727,984	**35,712**	300,522,444
Other receivables	**16,769,529**	85,623,031	**20,241**	2,494,855
	2,963,823,276	4,441,283,942	**2,387,320,980**	3,911,741,786
Allowance for credit losses (Note 13)	**(103,020,053)**	(104,818,134)	**(72,282,442)**	(72,907,522)
	₱2,860,803,223	₱4,336,465,808	**₱2,315,038,538**	₱3,838,834,264

The following table shows the breakdown of loans and receivables to related parties as of December 31, 2016 and 2015:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Loans and discounts:				
Corporate lending	**₱–**	₱683,193,277	**₱–**	₱683,193,277
Others	**15,988,493**	25,827,760	**15,988,493**	23,766,471
Dividends receivable	**–**	123,104,800	**–**	278,119,000
Accounts receivable	**44,190,788**	45,100,422	**44,190,788**	45,100,422
Accrued interest receivable	**2,194,327**	20,626,766	**–**	19,526,764
	₱62,373,608	₱897,853,025	**₱60,179,281**	₱1,049,705,934

As of December 31, 2016 and 2015, none of the total loans and discounts were subject to periodic interest repricing for the Group and the Parent Company. Total loans and discounts earned fixed annual interest rates ranging from 7.2% to 10.4% in 2016 and 2015 for the Group and the Parent Company.

Unquoted Commercial Papers
This account consists of various debt instruments issued by government-owned or controlled corporations and private corporations. As of December 31, 2016, 2015 and 2014, the nominal annual interest for these securities ranges from 5.9% to 8.9%, from 5.4% to 11.0% and from 5.0% to 13.0%, respectively, for the Group, and from 5.9% to 8.9%, from 5.9% to 11.0% and from 5.9% to 13.0%, respectively, for the Parent Company.

As of December 31, 2016 and 2015, the unamortized discount related to unquoted commercial papers amounted to nil and ₱2.5 million, respectively, for the Group and Parent Company.

Unquoted commercial papers earned fixed annual interest rates ranging from 5.9% to 7.4%, from 5.4% to 8.9% and from 5.0% to 8.9% in 2016, 2015 and 2014, respectively, for the Group and the Parent Company.

In 2014, realized gain from sale of unquoted commercial papers amounted to ₱14.7 million from the Parent Company. No sale of unquoted commercial paper occurred in 2016 and 2015.

Accounts Receivable
As of December 31, 2016 and 2015, accounts receivable is comprised mainly of receivables from customers arising from brokerage services rendered by FMSBC and various advances of the Parent Company.

Other Receivables
As of December 31, 2016 and 2015, other receivables mainly consists of receivables from clearing house amounting to ₱75.9 million and ₱68.7 million, respectively, which arise from selling transactions of FMSBC for the account of customers.

BSP Reporting
As of December 31, 2016 and 2015, the Group and the Parent Company have no secured and unsecured non-performing loans (NPL).

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This applies to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.0% of the total receivable balance.

Receivables are classified as non-performing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and that future payments appear assured.

Restructured receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

Current banking regulations allow banks and non-bank financial intermediaries with quasi-banking functions with no unbooked valuation reserves and capital adjustments to exclude from the non-performing classification those receivables from customers classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued. As of December 31, 2016 and 2015, the Group and the Parent Company have no receivables classified as NPLs.

As of December 31, 2016 and 2015, the Group and the Parent Company have no outstanding restructured loans.

The following table shows the breakdown of loans and discounts, gross of unearned discounts, of the Group and of the Parent Company as to secured and unsecured, and the breakdown of secured loans as to type of security as of December 31, 2016 and 2015 (amounts in thousands).

	Consolidated				Parent Company			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Secured loans:								
Shares of stock	**₱936,000**	**59.6**	₱1,044,000	59.6	**₱936,000**	**59.8**	₱1,044,000	59.6
Chattel	**536,767**	**34.2**	598,766	34.2	**531,722**	**34.0**	598,766	34.2
Real estate	**92,061**	**5.9**	102,516	5.9	**92,061**	**5.9**	102,516	5.9
	1,564,828	**99.6**	1,745,282	99.7	**1,559,783**	**99.6**	1,745,282	99.7
Unsecured loans	**5,798**	**0.4**	7,739	0.3	**5,727**	**0.4**	5,678	0.3
	₱1,570,626	**100.0**	₱1,753,021	100.0	**₱1,565,510**	**100.0**	₱1,750,960	100.0

As of December 31, 2016 and 2015, information on the concentration of credit risk as to industry of the Group's and the Parent Company's loans and discounts follows (amounts in thousands, gross of unearned discounts):

	Consolidated				Parent Company			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial intermediaries	**₱936,000**	**59.6**	₱1,044,000	59.5	**₱936,000**	**59.8**	₱1,044,000	59.6
Electricity, gas and water	**613,522**	**39.1**	683,193	39.0	**613,522**	**39.2**	683,193	39.0
Private households	**21,104**	**1.3**	25,828	1.5	**15,988**	**1.0**	23,767	1.4
	₱1,570,626	**100.0**	₱1,753,021	100.0	**₱1,565,510**	**100.0**	₱1,750,960	100.0

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.0% of the total loan portfolio.

9. Property and Equipment

The composition of and movements in property and equipment account follow:

	Consolidated					
	2016			2015		
	Leasehold Improvements	Furniture, Fixtures and Equipment	Total	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	**₱141,908,050**	**₱211,682,432**	**₱353,590,482**	₱133,375,423	₱215,437,656	₱348,813,079
Acquisitions	**2,806,019**	**23,364,212**	**26,170,231**	8,554,483	14,580,038	23,134,521
Disposals		**(8,012,986)**	**(8,012,986)**	(21,856)	(18,335,262)	(18,357,118)
Balance at end of year	**144,714,069**	**227,033,658**	**371,747,727**	141,908,050	211,682,432	353,590,482
Accumulated depreciation and amortization						
Balance at beginning of year	**98,602,186**	**157,764,318**	**256,366,504**	81,684,530	143,403,423	225,087,953
Depreciation and amortization	**14,537,203**	**26,539,038**	**41,076,241**	16,917,656	29,415,848	46,333,504
Disposals		**(7,420,738)**	**(7,420,738)**		(15,054,953)	(15,054,953)
Balance at end of year	**113,139,389**	**176,882,618**	**290,022,007**	98,602,186	157,764,318	256,366,504
Net book value at end of year	**₱31,574,680**	**₱50,151,040**	**₱81,725,720**	₱43,305,864	₱53,918,114	₱97,223,978

	Parent Company					
	2016			2015		
	Leasehold Improvements	**Furniture, Fixtures and Equipment**	**Total**	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost						
Balance at beginning of year	**₱109,395,860**	**₱169,991,305**	**₱279,387,165**	₱101,372,511	₱176,639,642	₱278,012,153
Acquisitions	**2,354,617**	**16,285,314**	**18,639,931**	8,023,349	10,581,254	18,604,603
Disposals		**(12,831,823)**	**(12,831,823)**		(17,229,591)	(17,229,591)
Balance at end of year	**111,750,477**	**173,444,796**	**285,195,273**	109,395,860	169,991,305	279,387,165
Accumulated depreciation and amortization						
Balance at beginning of year	**84,643,681**	**130,204,622**	**214,848,303**	73,061,433	121,164,360	194,225,793
Depreciation and amortization	**9,356,432**	**20,460,304**	**29,816,736**	11,582,248	23,712,267	35,294,515
Disposals		**(10,754,297)**	**(10,754,297)**		(14,672,005)	(14,672,005)
Balance at end of year	**94,000,113**	**139,910,629**	**233,910,742**	84,643,681	130,204,622	214,848,303
Net book value at end of year	**₱17,750,364**	**₱33,534,167**	**₱51,284,531**	₱24,752,179	₱39,786,683	₱64,538,862

As of December 31, 2016 and 2015, the gross carrying value of fully depreciated property and equipment that are still in use amounted to ₱144.1 million and ₱152.6 million, respectively, for the Group, and ₱127.7 million and ₱134.8 million, respectively, for the Parent Company.

The Group and the Parent Company recognized gain from sale of property and equipment amounting to ₱0.06 million, ₱1.7 million and nil in 2016, 2015 and 2014, respectively, booked under 'Gain on sale of assets' account in the statements of income.

10. Investments in Subsidiaries, Associates and Joint Venture

The consolidated financial statements of the Group include:

			Effective Percentage of Ownership	
Subsidiaries	**Principal Activities**	**Country of Incorporation**	**2016**	2015
First Metro Securities Brokerage Corporation (FMSBC)	Stock Brokerage	The Republic of the Philippines	**100.0**	100.0
Multi-Currency FX Corp.	Foreign Exchange Trading	-do-	**100.0**	100.0
PBC Capital Investment Corporation (PBC)	Investment Banking	-do-	**100.0**	100.0
First Metro Insurance Agency, Inc.	Insurance	-do-	**100.0**	100.0
First Metro Insurance Brokers Corporation (FMIBC)	-do-	-do-	**100.0**	100.0
Prima Ventures Development Corporation (PVDC)	Holding Company	-do-	**100.0**	100.0
FMIC Equities, Inc. (FEI)	Holding Company	-do-	**100.0**	100.0
SBC Properties, Inc. (SPI)	Real Estate	-do-	**100.0**	100.0
Resiliency (SPC), Inc. (Resiliency)	Financial Holding Company	-do-	**100.0**	100.0
First Metro Asia Focus Equity Fund (FMAFEF)*	Mutual Fund	-do-	**100.0**	100.0
First Metro Save and Learn Dollar Bond Fund, Inc. (FMSLDBF)	-do-	-do-	**94.7**	94.4
First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPEETFI)	Exchange Traded Fund	-do-	**46.2**	50.8
First Metro Asset Management, Inc. (FAMI)	Asset Management	-do-	**70.0**	70.0
First Metro Save and Learn Equity Fund, Inc. (FMSALEF)	Mutual Fund	-do-	**24.7**	22.2

(Forward)

Subsidiaries	Principal Activities	Country of Incorporation	Effective Percentage of Ownership 2016	2015
First Metro Save and Learn Balanced Fund, Inc. (FMSALBF)	-do-	-do-	**20.8**	19.8
First MetroSave and Learn Fixed Income Fund (FMSLFIF)	-do-	-do-	**19.5**	17.2
Paradigm Global Growth Fund (PGGF)	-do-	-do-	**70.0**	70.0

The Group's percentage ownership in its investment in associates and joint venture follow:

	Effective Percentage of Ownership 2016	2015
Associates:		
Cathay International Resources, Corp. (CIRC)	**34.7**	34.7
Travel Services, Inc. (TSI)	**30.0**	30.0
Philippine AXA Life Insurance Corporation (PALIC)	**28.2**	28.2
FMIIC**		20.0
Skyland Realty Development Corporation (SRDC)	**20.0**	20.0
Orix Metro Leasing and Finance Corp (OMLFC)	**20.0**	20.0
Dahon Realty Corporation	**20.0**	20.0
LCMC	**14.3**	14.3
Joint Venture:		
Aurora Towers, Inc.	**50.0**	50.0

** Formerly First Metro Global Opportunity Fund*

*** On August 11, 2016, FMIIC executed the buy-back of its outstanding shares*

The movements on 'Investments in subsidiaries, associates and joint venture' account follow:

	Consolidated 2016	Consolidated 2015	Parent Company 2016	Parent Company 2015 (As restated)	Parent Company 2014 (As restated)
Acquisition cost					
Balance at beginning of year	**₱3,217,173,715**	₱925,344,963	**₱6,162,385,363**	₱3,629,066,910	₱6,422,162,855
Additions				257,724,500	
Disposals	**(363,567,634)**		**(599,225,957)**	(16,234,801)	(395,966,894)
Reclassification		2,291,828,752		2,291,828,754	(2,397,129,051)
	2,853,606,081	3,217,173,715	**5,563,159,406**	6,162,385,363	3,629,066,910
Accumulated equity in net earnings					
Balance at beginning of year	**1,707,924,463**	1,178,399,029	**2,677,026,594**	2,463,234,049	2,193,921,962
Equity share in net earnings	**412,531,810**	529,525,434	**372,153,186**	499,029,745	1,094,541,598
Cash dividends			**(10,505,250)**	(285,237,200)	(512,311,594)
Disposals	**147,292,421**		**147,292,421**		(392,836,141)
Reclassification					79,918,224
Balance at end of year	**2,267,748,694**	1,707,924,463	**3,185,966,951**	2,677,026,594	2,463,234,049
Equity in net unrealized gain on AFS investments					
Balance at beginning of year	**175,054,888**	260,044,562	**229,525,387**	318,067,429	310,828,135
Equity share in changes in fair value of AFS investments	**(110,533,639)**	(84,989,674)	**(115,641,081)**	(88,542,042)	(51,582,889)
Disposals					58,822,183
Balance at end of year	**64,521,249**	175,054,888	**113,884,306**	229,525,387	318,067,429
Equity in translation adjustment					
Balance at beginning of year	**(32,658,679)**	(44,460,976)	**(22,832,321)**	(46,049,528)	(43,102,630)
Share in changes in translation adjustment	**32,658,679**	11,802,297	**45,087,146**	23,217,207	(2,946,898)
Balance at end of year		(32,658,679)	**22,254,825**	(22,832,321)	(46,049,528)
Equity in remeasurement of retirement benefits					
Balance at beginning of year	**(12,849,091)**	(4,238,457)	**(13,246,727)**	(16,350,340)	(6,682,055)
Share in changes in remeasurement of retirement liability	**(12,999,113)**	(8,610,634)	**(11,906,631)**	3,103,613	(9,668,285)
Balance at end of year	**(25,848,204)**	(12,849,091)	**(25,153,358)**	(13,246,727)	(16,350,340)
Allowance for impairment losses (Note 13)		(28,075,229)		(28,075,229)	(28,075,229)
	₱5,160,027,820	₱5,026,570,067	**₱8,860,112,130**	₱9,004,783,067	₱6,319,893,291

The carrying values of the Group's and the Parent Company's investments in investee companies are shown below:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Carrying value:				
Subsidiaries:				
FMSALEF	**₱–**	₱–	**₱1,221,147,405**	₱1,322,133,047
PBC	**–**	–	**313,845,092**	559,424,326
FMPEETFI	**–**	–	**324,014,527**	319,360,412
FMSALBF	**–**	–	**328,631,526**	368,684,285
FMSLFIF	**–**	–	**424,242,074**	419,526,405
FMSLDBF	**–**	–	**231,129,911**	216,107,501
FMSBC	**–**	–	**399,528,669**	351,744,035
FMAFEF	**–**	–	**158,658,783**	151,948,957
SPI	**–**	–	**64,347,110**	63,881,494
FEI	**–**	–	**12,787,722**	12,849,484
FAMI	**–**	–	**218,258,354**	188,652,403
Resiliency	**–**	–	**2,707,462**	2,824,254
PVDC	**–**	–	**23,681,406**	20,069,351
FMIBC	**–**	–	**2,895,783**	2,979,042
	–	–	**3,725,875,824**	4,000,184,996
Associates:				
LCMC	**2,134,048,023**	2,254,459,364	**2,134,048,023**	2,254,459,364
PALIC	**1,652,427,380**	1,457,388,659	**1,652,427,380**	1,457,388,658
OMLFC	**1,146,429,263**	928,290,045	**1,146,429,263**	928,290,045
CIRC	**201,331,637**	208,634,225	**201,331,637**	208,634,225
FMIIC	**–**	155,825,776	**–**	155,825,776
TSI	**25,791,514**	21,971,995	**–**	–
SRDC	**1**	1	**1**	1
Dahon Realty Corporation	**1**	1	**1**	1
	5,160,027,819	5,026,570,066	**5,134,236,305**	5,004,598,070
Joint Venture:				
Aurora Towers, Inc.	**1**	1	**1**	1
	₱5,160,027,820	₱5,026,570,067	**₱8,860,112,130**	₱9,004,783,067

Acquisition of Paradigm Global Growth Fund by FAMI
On February 2, 2015, FAMI acquired a 100.0% interest in Paradigm Global Growth Fund, a mutual fund company, for a cash consideration of ₱0.5 million. The excess of the consideration transferred over the fair value of the net assets acquired as of acquisition date was recognized as 'Goodwill' in the consolidated financial statements of the Group.

Investment of FMIC in CPAIC
In January 2014, the Parent Company sold its 33.3% ownership in CPAIC to GT Capital at a consideration of ₱712.0 million which resulted in a gain of ₱313.9 million for the Group and Parent Company, and is included under 'Gain on sale of assets'.

Investment in LCMC
As of December 31, 2016 and 2015, the Group's direct ownership in LCMC is 14.3%.

In 2014, the Parent Company accounted for its 14.3% investment in LCMC as AFS investments.

In July 2015, the Parent Company entered into a collaboration agreement with another investor to jointly vote their 18.6% ownership in LCMC. As such, the Parent Company's 14.3% investment in LCMC was reclassified from 'AFS investment' to an equity investment in an associate presented under 'Investments in subsidiaries, associates and joint venture'. The Group and the Parent Company recognized investment in associate amounting to ₱2.3 billion at the date of reclassification. The net unrealized loss on the investment amounting to ₱0.6 billion at the date of reclassification was taken out from OCI and reclassified as part of the cost of the investment in associate.

As of December 31, 2016, the fair value of the Group's and the Parent Company's investment in LCMC amounted to ₱1.5 billion. The Group performed an assessment of the recoverability of its investment in LCMC. The recoverable amount of the investment has been determined based on VIU calculations using cash flow projections based on financial budgets approved by LCMC's BOD covering a five-year period, which include forecast on production volume and capital expenditures, among others. For the assumptions on gold price, exchange rate and long-term growth rate, the Group used the available economic, industry and market data. Further, the Group used the associate's weighted average cost of capital (WACC) as the discount rate for the VIU calculation. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

Investment in FMIIC
On August 11, 2016, FMIIC executed the buy-back of its outstanding shares held by the Group and the Parent Company with a carrying value amounting to ₱216.2 million (after the accumulated equity in net earnings or losses and adjustment on dividends) at a consideration of ₱287.4 million which resulted in a gain of ₱71.2 million for the Group and Parent Company, and is included under 'Miscellaneous income' (Note 23).

The following tables present the financial information of significant associates with classified statements of financial position as of and for the years ended December 31, 2016, 2015, and 2014 (amounts in thousands):

		Statement of Financial Position					Statement of Comprehensive Income					
Year	Name of Company	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Carrying amount of the investment	Revenue	Costs and Expenses	Net Income (Loss)	Other Comprehensive Loss	Total Comprehensive Income	Share in net earnings for the year
2016	**CIRC**	**₱1,012,244**	**₱1,455,158**	**₱887,392**	**₱709,164**	**₱201,332**	**₱297,599**	**₱293,388**	**₱3,063**	**₱**	**₱3,063**	**₱1,064**
	LCMC	**868,884**	**8,090,976**	**1,289,572**	**1,746,434**	**2,134,048**	**1,431,928**	**2,082,947**	**(623,830)**		**(623,830)**	**(89,377)**
2015	CIRC	1,158,349	1,464,765	570,279	1,733,406	208,634	291,009	254,474	25,657		25,657	8,913
	LCMC	936,671	8,410,418	958,858	2,903,589	2,254,459	1,048,553	1,686,791	(642,367)		(642,367)	(37,369)
2014	CIRC	1,021,036	1,468,264	731,743	1,157,131	209,739	352,321	294,766	40,378	(312)	40,066	26,060

The following tables present the financial information of significant associates with unclassified statements of financial position as of and for the years ended December 31, 2016, 2015, and 2014 (amounts in thousands):

		Statement of Financial Position			Statement of Income			
Year	Name of Company	Total Assets	Total Liabilities	Carrying amount of the investment	Gross Income	Operating Income (Loss)	Net Income (Loss)	Share in net earnings
2016	**PALIC**	**₱97,299,890**	**₱91,440,038**	**₱1,652,427**	**₱10,087,661**	**₱1,783,468**	**₱1,129,719**	**₱318,355**
	OMLFC	**36,797,923**	**30,977,976**	**1,146,429**	**4,708,418**	**1,564,913**	**1,091,543**	**218,309**
2015	PALIC	79,978,147	74,810,413	1,457,389	7,188,601	1,925,084	1,383,471	390,593
	OMLFC	28,769,661	24,039,663	928,290	4,060,543	1,301,778	892,066	178,378
	FMIIC	920,899	1,394	155,826	5,508	(3,803)	(3,803)	(761)
2014	PALIC	68,007,174	63,915,040	1,151,901	11,831,309	1,627,852,231	1,223,888	342,614
	OMLFC	22,900,256	19,019,848	758,408	3,499,642	1,043,410	760,807	154,004
	FMIIC	877,935	13,639	758,408	5,890	(8,452)	(8,452)	(1,690)

Major assets of significant associates with unclassified statements of financial position include the following (amounts in thousands):

Year	Name of Company	Cash and cash equivalents	AFS investments	Financial assets at FVPL	Receivables-net of allowance for credit losses	Investment in unit-linked funds	Equipment for lease
2016	**PALIC**	**₱4,103,683**	**₱11,414,488**	**₱867,848**	**₱2,500,878**	**₱48,812**	**₱397,353**
	OMLFC	**468,882**	**905**	–	**27,593,205**	–	**2,497,615**
2015	PALIC	4,240,563	8,088,586	1,069,732	783,515	49,997	199,345
	OMLFC	587,595	809	–	21,298,959	–	2,210,481
	FMIIC	883,940	–	–	–	–	–
2014	PALIC	3,767,724	6,492,091	1,083,671	758,012	51,464	213,383
	OMLFC	283,544	741	–	16,943,098	–	2,065,998
	FMIIC	843,766	–	–	–	–	–

The Group received dividends from PALIC amounting to ₱293.9 million in 2014.

Aggregate financial information of associates and joint venture that are not individually significant follows:

	2016	2015
Associates		
Statements of Financial Position		
Total assets	**₱188,218,965**	₱215,010,535
Total liabilities	**83,627,180**	123,110,930
Statements of Income		
Gross income	**58,072,339**	37,057,701
Operating income	**31,511,943**	18,006,053
Net income	**8,343,558**	5,713,238
Joint Venture		
Statements of Financial Position		
Total assets	**12,275,687**	12,311,543
Total liabilities	**78,401,656**	76,921,150
Statements of Income		
Gross income	**1,394**	1,390
Operating income	**1,394**	1,390
Net loss	**(1,518,599)**	(2,178,117)

Unrecognized share of losses of the Group from its investment in Aurora Towers, Inc., a joint venture, amounted to ₱1.5 million and ₱1.1 million in 2016 and 2015, respectively.

The cumulative unrecognized share of losses of the Group from its investment in Aurora Towers, Inc. amounted to ₱15.4 million and ₱13.9 million as of December 31, 2016 and 2015, respectively.

The financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests and puttable instruments classified as liability:

	Principal Activities	2016	2015
FMSLFIF	Mutual Fund	**80.5%**	82.8%
FMSALBF	-do-	**79.2%**	80.2%
FMSALEF	-do-	**75.3%**	77.8%
FAMI	Asset Management	**30.0%**	30.0%
FMPEETFI	Exchange Traded Fund	**53.8%**	49.2%

Accumulated balances of material non-controlling interests:

	2016	2015
FMSLFIF	**₱1,781,137,815**	₱2,112,766,252
FMSALBF	**1,516,175,848**	1,790,460,556
FMSALEF	**4,260,171,688**	5,426,266,714
FAMI	**97,502,009**	88,934,002
FMPEETFI	**464,854,759**	658,857,401

Profit/(loss) allocated to material non-controlling interests:

	2016	2015
FMSLFIF	**₱6,689,805**	₱36,553,537
FMSALBF	**(171,216,097)**	(65,854,997)
FMSALEF	**(298,017,742)**	(265,245,736)
FAMI	**15,445,176**	16,420,902
FMPEETFI	**10,759,073**	(25,586,704)

The following tables present financial information of subsidiaries with material non-controlling interests and puttable instruments classified as liability as of and for the years ended December 31, 2016 and 2015 (amounts in thousands):

	2016				
	FMSLFIF	**FMSALBF**	**FMSALEF**	**FMPEETFI**	**FAMI**
Statement of Financial Position					
Cash and other cash items	**₱565,010**	**₱140,167**	**₱404,334**	**₱4,161**	**₱74,621**
Financial assets at FVPL	**517,370**	**1,347,172**	**5,177,913**	**859,772**	**–**
AFS investments	**370,925**	**305,579**	**116,930**	**–**	**153,248**
HTM investments	**459,036**	**101,667**	**101,667**	**–**	**–**
Loans and receivables	**304,805**	**34,613**	**22,380**	**680**	**21,395**
Other assets	**14,396**	**3,129**	**1,478**	**–**	**61,777**
Other liabilities	**18,931**	**19,013**	**56,395**	**1,160**	**13,566**
Non-controlling interests	**1,781,138**	**1,516,176**	**4,260,172**	**464,855**	**97,502**
Statement of Income					
Gross income	**77,523**	**(128,316)**	**(176,808)**	**28,581**	**225,612**
Operating income	**23,925**	**(194,333)**	**(395,756)**	**19,924**	**(73,738)**
Net income (loss)	**7,454**	**(215,394)**	**(403,399)**	**19,924**	**51,785**
Net income attributable to non-controlling interests	**6,690**	**(171,216)**	**(298,018)**	**10,759**	**15,445**
Total comprehensive income	**8,107**	**(220,907)**	**402,859**	**19,924**	**43,755**
Statement of Cash Flows					
Net cash provided by (used in) operating activities	**57,983**	**(82,075)**	**1,082,792**	**498,137**	**52,382**
Net cash used in investing activities	**(189,390)**	**48,333**	**(12,000)**	**–**	**(3,626)**
Net cash used in financing activities	**(347,623)**	**(98,692)**	**(916,228)**	**(496,883)**	**(15,008)**
Net increase in cash and cash equivalents	**(479,030)**	**(132,434)**	**154,564**	**1,254**	**33,748**
Cash and other cash items at beginning of year	**1,044,039**	**272,601**	**249,770**	**2,908**	**40,873**
Cash and other cash items at end of year	**565,010**	**140,167**	**404,334**	**4,161**	**74,621**

	2015				
	FMSLFIF	FMSALBF	FMSALEF	FMPEETFI	FAMI
Statement of Financial Position					
Cash and other cash items	₱1,044,039	₱272,601	₱249,770	₱2,908	₱40,873
Financial assets at FVPL	614,401	1,639,344	6,656,389	1,337,425	–
AFS investments	313,120	198,262	104,390	–	165,871
HTM investments	216,486	–	–	–	–
Loans and receivables	357,041	162,016	5,580	1,043	24,152
Other assets	12,877	3,129	1,478	–	49,002
Other liabilities	5,836	42,440	42,025	962	15,149
Non-controlling interests	2,112,766	1,790,461	5,426,267	658,857	88,934
Dividends paid to non-controlling interests	–	–	–	–	7,500
Statement of Income					
Gross income	116,587	17,860	(127,440)	(42,135)	248,197
Operating income	61,557	(78,974)	(344,142)	(52,054)	78,265
Net income (loss)	43,972	(83,465)	(347,785)	(52,054)	54,736
Net income attributable to non-controlling interests	36,554	(65,855)	(265,246)	(25,587)	16,420
Total comprehensive income	37,968	(75,432)	(343,209)	(52,054)	52,732
Statement of Cash Flows					
Net cash provided by (used in) operating activities	(31,899)	(8,685)	60,349	(491,848)	49,758
Net cash used in investing activities	639,840	251,859	–	–	(23,736)
Net cash used in financing activities	(192,446)	(123,210)	(21,492)	492,639	(25,000)
Net increase in cash and cash equivalents	415,494	119,963	38,857	791	1,021
Cash and other cash items at beginning of year	628,545	152,638	210,913	2,117	39,852
Cash and other cash items at end of year	1,044,039	272,601	249,770	2,908	40,873

Limitation on dividend declaration of subsidiaries and associates

CPAIC

Section 195 of the Insurance Code provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

As of December 31, 2016 and 2015, the Parent Company has no share on commitments and contingencies of its associates and joint venture.

As of December 31, 2016 and 2015, there were no guarantees or other requirements entered into by the subsidiaries of the Parent Company that may restrict dividends and other capital distributions to be paid, or loans and advances to be made or repaid to or from other entities within the Group.

11. **Investment Properties**

The composition of and movements in this account for the Group and the Parent Company follow:

	Consolidated					
	2016			2015		
	Land	**Building/land improvements/ condominium for sale/lease**	**Total**	Land	Building/land improvements/ condominium for sale/lease	Total
Cost						
Balances at beginning of year	**₱331,287,738**	**₱120,907,901**	**₱452,195,639**	₱460,945,287	₱120,907,901	₱581,853,188
Reclassification	–	**(4,711,631)**	**(4,711,631)**	(25,745,000)	–	(25,745,000)
Disposals	**(11,517,800)**	–	**(11,517,800)**	(103,912,549)	–	(103,912,549)
Balances at end of year	**319,769,938**	**116,196,270**	**435,966,208**	331,287,738	120,907,901	452,195,639
Accumulated depreciation						
Balances at beginning of year	–	**78,109,810**	**78,109,810**	–	74,015,143	74,015,143
Depreciation	–	**4,094,667**	**4,094,667**	–	4,094,667	4,094,667
Reclassification	–	**(3,863,560)**	**(3,863,560)**	–	–	–
Balances at end of year	–	**78,340,917**	**78,340,917**	–	78,109,810	78,109,810
Allowance for impairment losses (Note 13)	**(27,110,922)**	–	**(27,110,922)**	(29,081,072)	–	(29,081,072)
Net book value at end of year	**₱292,659,016**	**₱37,855,353**	**₱330,514,369**	₱302,206,666	₱42,798,091	₱345,004,757

	Parent Company					
	2016			2015		
	Land	**Building/land improvements/ condominium for sale/lease**	**Total**	Land	Building/land improvements/ condominium for sale/lease	Total
Cost						
Balances at beginning of year	**₱331,287,738**	**₱116,196,276**	**₱447,484,014**	₱460,945,287	₱116,196,276	₱577,141,563
Additions/Reclassification	**–**	**–**	**–**	(25,745,000)	–	(25,745,000)
Disposals	**(11,517,800)**	**–**	**(11,517,800)**	(103,912,549)	–	(103,912,549)
Balances at end of year	**319,769,938**	**116,196,276**	**435,966,214**	331,287,738	116,196,276	447,484,014
Accumulated depreciation						
Balances at beginning of year	–	**74,434,716**	**74,434,716**	–	70,528,509	70,528,509
Depreciation	–	**3,906,207**	**3,906,207**	–	3,906,207	3,906,207
Balances at end of year	–	**78,340,923**	**78,340,923**	–	74,434,716	74,434,716
Allowance for impairment losses (Note 13)	**(27,110,922)**	–	**(27,110,922)**	(29,081,072)	–	(29,081,072)
Net book value at end of year	**₱292,659,016**	**₱37,855,353**	**₱330,514,369**	₱302,206,666	₱41,761,560	₱343,968,226

The aggregate fair value of investment properties as of December 31, 2016 and 2015 amounted to ₱986.5 million and ₱841.6 million, respectively, for the Group and ₱986.5 million and ₱840.6 million, respectively, for the Parent Company (Note 5).

In 2016, 2015 and 2014, the Group and the Parent Company recognized gain (loss) from the disposal of investment properties amounting to (₱0.02 million), (₱28.7 million) and ₱5.0 million, respectively, booked under 'Gain (loss) on sale of assets' accounts in the statements of income.

Rental income from investment properties in 2016, 2015 and 2014 amounted to ₱11.3 million, ₱11.8 million and ₱11.0 million, respectively, for the Group and ₱11.3 million, ₱11.3 million and ₱9.8 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to ₱3.5 million, ₱4.6 million and ₱4.7 million in 2016, 2015 and 2014, respectively. Direct operating expenses on investment properties that did not generate rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to ₱4.1 million, ₱4.2 million and ₱4.3 million in 2016, 2015 and 2014, respectively.

12. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Creditable withholding tax	**₱405,661,302**	₱465,822,010	**₱334,576,948**	₱408,243,903
Software licenses	**69,041,624**	109,808,479	**58,430,611**	94,099,677
Retirement asset (Note 22)	**46,105,998**	6,198,966	**39,807,713**	6,130,016
Prepaid expenses	**35,988,576**	41,521,105	**27,315,047**	34,303,377
Other investments	**25,879,380**	25,901,880	**25,879,380**	25,901,880
Tax credit certificates	**6,474,605**	7,680,609	**6,474,605**	7,680,609
Goodwill (Note 10)	**456,153**	456,153		
Miscellaneous (Note 27)	**27,858,699**	28,418,670	**14,263,278**	14,944,881
	₱617,466,337	₱685,807,872	**₱506,747,582**	₱591,304,343

Movements in software licenses follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cost				
Balance at beginning of year	**₱233,854,679**	₱191,152,557	**₱201,485,291**	₱164,203,664
Additions	**12,263,410**	42,702,122	**11,731,209**	37,281,627
Balance at end of year	**246,118,089**	233,854,679	**213,216,500**	201,485,291
Accumulated amortization				
Balance at beginning of year	**124,046,200**	72,052,311	**107,385,614**	60,515,665
Amortization (Note 25)	**53,030,265**	52,571,405	**47,400,275**	47,447,465
Adjustments		(577,516)		(577,516)
Balance at end of year	**177,076,465**	124,046,200	**154,785,889**	107,385,614
Net book value at end of year	**₱69,041,624**	₱109,808,479	**₱58,430,611**	₱94,099,677

Creditable withholding taxes arise from income such as service charges, fees and commissions, interest income and rental income, in which customers are required to withhold taxes.

Prepaid expenses consist of prepaid taxes (i.e., real estate tax, documentary stamp tax) and other prepaid expenses (i.e., licenses, insurance and membership fees).

Miscellaneous assets include unused office supplies and rental and other deposits.

13. **Allowance for Impairment and Credit Losses**

Changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balance at beginning of year				
Loans and receivables	**₱104,818,134**	₱289,217,876	**₱72,907,522**	₱255,481,492
Investment properties	**29,081,072**	58,920,221	**29,081,072**	58,920,221
Investments in associates	**28,075,229**	28,075,229	**28,075,229**	28,075,229
Other assets	**8,446,506**	8,201,854	**8,446,506**	8,201,853
	170,420,941	384,415,180	**138,510,329**	350,678,795
Recovery from impairment and credit losses	**(31,252,102)**	(213,994,239)	**(30,045,379)**	(212,168,466)
Write off and others	**(591,358)**	–	**(625,080)**	–
	(31,843,460)	(213,994,239)	**(30,670,459)**	(212,168,466)

(Forward)

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balance at end of year				
Loans and receivables (Note 8)	**₱103,020,053**	₱104,818,134	**₱72,282,442**	₱72,907,522
Investment properties (Note 11)	**27,110,922**	29,081,072	**27,110,922**	29,081,072
Investments in associates (Note 10)		28,075,229		28,075,229
Other assets	**8,446,506**	8,446,506	**8,446,506**	8,446,506
	₱138,577,481	₱170,420,941	**₱107,839,870**	₱138,510,329

Below is the breakdown of the provision for (recovery from) impairment and other probable losses in 2016, 2015 and 2014.

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Provision for (recovery from) impairment and credit losses						
Loans and receivables	**(₱1,798,081)**	(₱184,399,742)	₱586,102	**(₱625,080)**	(₱182,573,970)	₱189,912
Investment in associates	**(28,075,229)**	–	–	**(28,075,229)**	–	–
Investment properties	**(1,970,150)**	(29,839,149)	(4,015,249)	**(1,970,150)**	(29,839,149)	(4,015,251)
Other assets		244,652	8,201,853		244,652	8,201,853
	(31,843,460)	(213,994,239)	4,772,706	**(30,670,459)**	(212,168,467)	4,376,514
Provision (reversal of provisions) for other probable losses (Note 29)	**96,492,950**	63,826,872	(407,819,967)	**96,526,672**	63,523,884	(407,819,965)
	₱64,649,490	(₱150,167,367)	(₱403,047,261)	**₱65,856,213**	(₱148,644,583)	(₱403,443,451)

With the foregoing level of allowance for impairment and other credit losses, management believes that the Group and the Parent Company have sufficient allowance to cover any losses that the Group and the Parent Company may incur from the noncollection or nonrealization of receivables and other risk assets.

A reconciliation of the allowance for credit losses on loans and receivables by class follows:

	Consolidated			
	2016			
	Corporate lending	**Unquoted commercial papers**	**Accounts receivable**	**Total**
At January 1, 2016	**₱28,720,983**	**₱**	**₱76,097,151**	**₱104,818,134**
Recovery from credit losses	**(629,330)**		**(1,168,751)**	**(1,798,081)**
At December 31, 2016	**₱28,091,653**	**₱**	**₱74,928,400**	**₱103,020,053**
Individual impairment	**₱**	**₱**	**₱74,928,400**	**₱74,928,400**
Collective impairment	**28,091,653**			**28,091,653**
	₱28,091,653	**₱**	**₱74,928,400**	**₱103,020,053**
Gross amount of loans and receivables individually determined to be impaired	**₱**	**₱**	**₱79,808,339**	**₱79,808,339**

	Consolidated			
	2015			
	Corporate lending	Unquoted commercial papers	Accounts receivable	Total
At January 1, 2015	₱106,720,527	₱104,613,202	₱77,884,147	₱289,217,876
Recovery from credit losses	(77,999,544)	(104,613,202)	(1,786,996)	(184,399,742)
At December 31, 2015	₱28,720,983	P	₱76,097,151	₱104,818,134
Individual impairment	P	P	₱76,097,151	₱76,097,151
Collective impairment	28,720,983			28,720,983
	₱28,720,983	P	₱76,097,151	₱104,818,134
Gross amount of loans and receivables individually determined to be impaired	P	P	₱100,406,717	₱100,406,717

	Parent Company			
	2016			
	Corporate lending	**Unquoted commercial papers**	**Accounts receivable**	**Total**
At January 1, 2016	**₱28,720,983**	**₱**	**₱44,186,539**	**₱72,907,522**
Provision for (recovery from) credit losses	**(629,330)**		**4,250**	**(625,080)**
At December 31, 2016	**₱28,091,653**	**₱**	**₱44,190,789**	**₱72,282,442**
Individual impairment	**₱**	**₱**	**₱44,190,789**	**₱44,190,789**
Collective impairment	**28,091,653**			**28,091,653**
	₱28,091,653	**₱**	**₱44,190,789**	**₱72,282,442**
Gross amount of loans and receivables individually determined to be impaired	**₱**	**₱**	**₱44,190,789**	**₱44,190,789**

	Parent Company			
	2015			
	Corporate lending	Unquoted commercial papers	Accounts receivable	Total
At January 1, 2015	₱106,720,527	₱104,613,202	₱44,147,763	₱255,481,492
Provision for (recovery from) credit losses	(77,999,544)	(104,613,202)	38,776	(182,573,970)
At December 31, 2015	₱28,720,983	P	₱44,186,539	₱72,907,522
Individual impairment	P	P	₱44,186,539	₱44,186,539
Collective impairment	28,720,983			28,720,983
	₱28,720,983	P	₱44,186,539	₱72,907,522
Gross amount of loans and receivables individually determined to be impaired	P	P	₱44,186,539	₱44,186,539

Movements in the allowance for impairment losses on investments in associates, investment properties and other assets follow:

	Consolidated			
	Investments in associates	**Investment properties**	**Other assets**	**Total**
At January 1, 2016	**₱28,075,229**	**₱29,081,072**	**₱8,446,506**	**₱65,602,807**
Recovery from credit losses	**(28,075,229)**	**(1,970,150)**		**(30,045,379)**
At December 31, 2016	**₱**	**₱27,110,922**	**₱8,446,506**	**₱35,557,428**
At January 1, 2015	₱28,075,229	₱58,920,221	₱8,201,854	₱95,197,304
Provision for (recovery from) credit losses		(29,839,149)	244,652	(29,594,497)
At December 31, 2015	₱28,075,229	₱29,081,072	₱8,446,506	₱65,602,807

	Parent Company			
	Investments in associates	**Investment properties**	**Other assets**	**Total**
At January 1, 2016	**₱28,075,229**	**₱29,081,072**	**₱8,446,506**	**₱65,602,807**
Recovery from credit losses	**(28,075,229)**	**(1,970,150)**		**(30,045,379)**
At December 31, 2016	**₱**	**₱27,110,922**	**₱8,446,506**	**₱35,557,428**
At January 1, 2015	₱28,075,229	₱58,920,221	₱8,201,854	₱95,197,304
Provision for (recovery from) credit losses		(29,839,149)	244,652	(29,594,497)
At December 31, 2015	₱28,075,229	₱29,081,072	₱8,446,506	₱65,602,807

14. **Bills Payable**

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deposit substitutes:				
Promissory notes issued	**₱14,297,482,889**	₱29,310,922,908	**₱14,339,982,889**	₱29,411,067,575
Borrowings from other banks (Note 27)	**745,800,000**	470,600,000	**745,800,000**	470,600,000
	₱15,043,282,889	₱29,781,522,908	**₱15,085,782,889**	₱29,881,667,575

Deposit substitutes have maturities of 15-364 days. Peso-denominated deposit substitutes bear annual interest rates ranging from 0.1% to 2.9% in 2016, from 0.1% to 4.5% in 2015 and from 0.2% to 5.4% in 2014. US dollar-denominated deposit substitutes bear annual interest rates ranging from 0.8% to 1.4%, from 0.8% to 1.6% and from 0.8% to 2.2% in 2016, 2015 and 2014, respectively.

Borrowings from other banks represent US dollar-, Euro- and peso-denominated loans. Outstanding borrowings from other banks denominated in US dollar amounted to ₱745.8 million and ₱470.6 million as of December 31, 2016 and 2015, respectively, bearing annual interest rates ranging from 1.5% to 1.9%, from 1.6% to 2.3% and from 1.2% to 2.2% in 2016, 2015 and 2014, respectively.

The following are the carrying values of the investment securities pledged under borrowings from other banks transactions of the Group and the Parent Company:

	2016		2015	
	Pledged securities	**Borrowings From other banks**	Pledged securities	Borrowings From other banks
HTM investments (Notes 7 and 33)	**₱1,063,931,997**	**₱745,800,000**	₱673,167,862	₱470,600,000

Interbank call loans are short-term borrowings that have terms of 1-5 days and bear annual interests ranging from 2.5% to 2.5%, 2.5% to 2.6% and from 2.0% to 2.6% in 2016, 2015 and 2014, respectively.

Interest expense on bills payable of the Group and the Parent Company follow (Note 21):

	Consolidated		
	2016	2015	2014
Deposit substitutes:			
Promissory notes issued	**₱330,777,682**	₱586,711,833	₱423,229,708
Repurchase agreements		83,437,500	119,756,581
Borrowings from other banks	**17,048,665**	35,007,327	73,673,586
Interbank call loans	**42,188**	39,002,999	11,196,276
	₱347,868,535	₱744,159,659	₱627,856,151

	Parent Company		
	2016	2015	2014
Deposit substitutes:			
Promissory notes issued	**₱331,457,042**	₱587,378,458	₱425,107,295
Repurchase agreements		83,437,500	119,756,581
Borrowings from other banks	**16,220,448**	35,007,327	73,673,586
Interbank call loans	**42,188**	39,002,999	11,196,276
	₱347,719,678	₱744,826,284	₱629,733,738

The Monetary Board, in its Resolution No. 500 (Circular No. 830) dated March 27, 2014 approved the 1-percentage-point increase in reserve requirement from 18% to 19% for the reserve week starting April 11, 2014. On May 8, 2014, BSP issued Circular No. 832 imposing an additional 1-percentage-point increase. The Parent Company's deposit substitutes are subject to reserve requirement of 20.0%, effective the reserve week starting May 30, 2014. As of December 31, 2016 and 2015, the Parent Company's available reserves on these deposits as reported to the BSP amounted to ₱4.2 billion and ₱6.6 billion, respectively, booked under 'Due from BSP' account in the statements of financial position.

As of December 31, 2016 and 2015, the Parent Company is in compliance with the regulations on reserve requirements.

15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial liabilities:				
Accrued interest payable	**₱87,422,855**	₱121,080,143	**₱90,236,083**	₱123,829,829
Accrued salaries payable	**9,842,259**	12,290,707	**66,685**	9,989,194
Accrued fees payable	**41,341,680**	22,943,656	**20,794,179**	20,633,342
Accrued rent payable	**5,458,022**	9,505	**4,154,545**	9,505
Accrued other expenses payable	**11,984,270**	72,813,971	**9,172,703**	63,193,165
	156,049,086	229,137,982	**124,424,195**	217,655,035
Nonfinancial liabilities:				
Accrued taxes and licenses	**9,381,579**	23,954,122	**7,356,075**	23,944,876
Retirement liability (Note 22)	**15,560,369**	8,478,214		
	24,941,948	32,432,336	**7,356,075**	23,944,876
	₱180,991,034	₱261,570,318	**₱131,780,270**	₱241,599,911

The following table shows the breakdown of accrued taxes, interest and other expenses to related parties as of December 31, 2016 and 2015 for the Group and the Parent Company:

	2016	2015
Accrued interest payable	**₱391,942**	₱1,873,208
Accrued other expenses payable	**10,321,463**	1,444,582
	₱10,713,405	₱3,317,790

16. Bonds Payable

Details of this account follow:

	Consolidated	
	2016	2015
Bonds payable	**₱12,000,000,000**	₱12,000,000,000
Unamortized premium	**1,797,117**	12,768,001
	12,001,797,117	12,012,768,001
Unamortized deferred finance charges	**(20,077,501)**	(47,279,675)
Bonds held by subsidiaries (Note 27)	**(483,222,037)**	(449,190,146)
	₱11,498,497,579	₱11,516,298,180

	Parent Company	
	2016	2015
Bonds payable	**₱12,000,000,000**	₱12,000,000,000
Unamortized premium	**1,797,117**	12,429,109
	12,001,797,117	12,012,429,109
Unamortized deferred finance charges	**(20,077,501)**	(41,233,812)
	₱11,981,719,616	₱11,971,195,297

Fixed Rate Corporate Bonds Due 2017 and 2019
On August 10, 2012, the Parent Company issued ₱7.0 billion fixed rate corporate bonds. The bonds have two tenors:

a. ₱4.0 billion worth of bonds have a tenor of five years and three months at an interest rate of 5.50% which will mature on November 10, 2017 (Five Year Bonds), and

b. ₱3.0 billion worth of bonds have a tenor of seven years at an interest rate of 5.75% which will mature on August 10, 2019 (Seven Year Bonds).

The Parent Company shall pay interest on the outstanding principal amount of the bonds on each quarterly interest payment date. All payments of interest shall be computed on the basis of 30/360 days.

The Bonds are scripless in form and sold in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth and fifth anniversary of the issue date of the Five Year Bonds and Seven Year Bonds, respectively, at 102.0% of its face value plus accrued interest.

The Bonds are exempt securities pursuant to certain provisions of the SRC and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 102.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%.

As of December 31, 2016 and 2015, the carrying amount of the government securities assigned as collateral for the ₱7.0 billion bonds follows:

	2016	2015
AFS investments (Notes 7 and 33)	**₱862,523,326**	₱845,661,224
HTM investments (Notes 7 and 33)	**6,580,208,791**	6,619,152,361
	₱7,442,732,117	₱7,464,813,585

As of December 31, 2016 and 2015, the Parent Company had complied with the terms of the issue.

In 2016, 2015 and 2014, the amount of interest expense recognized on the Bonds amounted to ₱380.5 million, ₱383.5 million and ₱392.4 million, respectively, for the Group, and ₱404.3 million, ₱401.5 million and ₱403.2 million, respectively, for the Parent Company, which includes amortization of premium and deferred finance charges amounting to ₱9.5 million, ₱9.1 million and ₱10.7 million, respectively.

Fixed Rate Corporate Bonds Due 2017
On November 25, 2011, the Parent Company issued fixed rate corporate bonds (the Bonds) amounting to ₱5.0 billion with fixed interest rate of 5.7% per annum computed based on 30/360 days, payable every quarter starting February 25, 2012 and will mature on February 25, 2017.

The Bonds are scripless in form and sold in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any interest payment date after the fourth anniversary of the issue date of the Bonds at 102.0% of its face value plus accrued interest. At initial transaction date, the Parent Company assessed that the prepayment option qualified for bifurcation. As a result, the Group and the Parent Company initially recognized ₱55.7 million derivative asset (Note 7).

The Bonds are exempt securities pursuant to certain provisions of the SRC and are covered by a deed of assignment on government securities to be held in trust by a collateral agent. The aggregate market value of such securities shall be 100.0% of the issued amount and in the event that it falls below the 100.0%, additional government securities shall be offered to increase and maintain the cover at 100.0%.

As of December 31, 2016 and 2015, the carrying amount of the government securities assigned as collateral follows:

	2016		2015	
	Pledged securities	**Bonds payable**	Pledged securities	Bonds payable
HTM investments (Notes 7 and 33)	**₱5,137,902,281**	**₱5,000,000,000**	₱5,289,912,487	₱5,000,000,000

As of December 31, 2016 and 2015, the Parent Company had complied with the terms of the issue.

In 2016, 2015 and 2014, the amount of interest expense recognized on the Bonds amounted to ₱280.8 million, ₱276.0 million and ₱273.7 million, respectively, for the Group, and ₱282.5 million, ₱283.8 million and ₱281.6 million, respectively, for the Parent Company, net of amortization of premium and deferred finance charges amounting to ₱1.9 million, ₱2.2 million and ₱2.1 million, respectively, for the Group, and ₱1.3 million, ₱2.2 million and ₱2.1 million, respectively, for the Parent Company.

17. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial liabilities:				
Puttable instruments classified as liability	**₱7,942,584,367**	₱9,908,429,186	**₱–**	₱–
Dividends payable	**3,064,192,676**	63,782,901	**3,064,192,676**	63,782,901
Payables for securities purchased	**1,436,894**	44,435,531	**–**	–
Premiums payable	**846,934**	716,815	**487,660**	547,125
Subscriptions payable	**–**	–	**9,375,000**	9,375,000
Miscellaneous	**46,531,133**	4,503,310	**46,387,757**	282,165
	11,055,592,004	10,021,867,743	**3,120,443,093**	73,987,191
Nonfinancial liabilities:				
Withholding taxes payable	**₱29,795,812**	₱34,365,185	**₱23,658,680**	₱28,196,192
Other deferred credits	**4,270,833**	4,270,833	**4,270,833**	4,270,833
Miscellaneous (Note 29)	**135,518,640**	2,497,859	**110,080,417**	350
	169,585,285	41,133,877	**138,009,930**	32,467,375
	₱11,225,177,289	₱10,063,001,620	**₱3,258,453,023**	₱106,454,566

The Parent Company has mutual fund subsidiaries that issue equity instruments that are redeemable by the holders at the net asset value per unit of the mutual funds. 'Puttable instruments classified as liability' pertains to the ownership interest of other shareholders outside the Group in these mutual funds. The income (loss) attributable to these puttable instruments is recognized in profit or loss in accordance with PAS 32 as part of operating expenses. The income (loss) attributable to puttable instruments amounted to (₱431.2 million), (₱336.5 million) and ₱1,069.8 million in 2016, 2015 and 2014, respectively.

18. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Group and of the Parent Company by contractual maturity and settlement dates as of December 31, 2016 and 2015:

	Consolidated			Parent Company		
	2016			2016		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱3,104,612,987	₱–	₱3,104,612,987	₱397,697,510	₱–	₱397,697,510
Due from BSP	7,231,151,183	–	7,231,151,183	7,231,151,183	–	7,231,151,183
Interbank loans receivable	2,218,848,817	–	2,218,848,817	2,218,848,817	–	2,218,848,817
Financial assets at FVPL	9,394,007,104	–	9,394,007,104	1,682,890,095	–	1,682,890,095
AFS investments	44,418,315	6,665,576,061	6,709,994,376	32,071,688	5,741,675,444	5,773,747,132
HTM investments	4,808,955,113	13,029,888,397	17,838,843,510	4,808,955,113	12,452,905,465	17,261,860,578
Loans and receivables - at gross (Note 8)	575,493,346	2,388,329,930	2,963,823,276	326,494,193	2,060,826,787	2,387,320,980
	27,377,486,865	22,083,794,388	49,461,281,253	16,698,108,599	20,255,407,696	36,953,516,295
Nonfinancial Assets						
Property and equipment	–	81,725,720	81,725,720	–	51,284,531	51,284,531
Investments in subsidiaries, associates and joint venture - at gross of allowance for impairment (Note 10)	–	5,160,027,820	5,160,027,820	–	8,860,112,130	8,860,112,130
Investment properties - at gross of allowance for impairment (Note 11)	–	357,625,291	357,625,291	–	357,625,291	357,625,291
Deferred tax assets	–	38,716,237	38,716,237	–	38,128,043	38,128,043
Other assets	–	625,912,842	625,912,842	–	515,194,089	515,194,089
	–	6,264,007,910	6,264,007,910	–	9,822,344,084	9,822,344,084
Allowance for impairment and credit losses (Note 13)	–	(270,351,467)	(270,351,467)	–	(109,173,276)	(109,173,276)
	₱27,377,486,865	₱28,077,450,831	₱55,454,937,696	₱16,698,108,599	₱29,965,578,504	₱46,666,687,103
Financial Liabilities						
Bills payable	₱15,043,282,889	₱–	₱15,043,282,889	₱15,085,782,889	₱–	₱15,085,782,889
Accounts payable	1,562,183,048	–	1,562,183,048	374,850,667	–	374,850,667
Accrued interest and other expenses payable (Note 15)	156,049,086	–	156,049,086	124,424,195	–	124,424,195
Bonds payable	8,707,839,274	2,790,658,305	11,498,497,579	8,993,476,257	2,988,243,359	11,981,719,616
Other liabilities (Note 17)	3,113,007,637	7,942,584,367	11,055,592,004	3,120,443,093	–	3,120,443,093
	28,582,361,934	10,733,242,672	39,315,604,606	27,698,977,101	2,988,243,359	30,687,220,460
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	24,941,948	–	24,941,948	7,356,075	–	7,356,075
Income taxes payable	30,967,046	–	30,967,046	20,685,481	–	20,685,481
Deferred tax liabilities	–	8,754,368	8,754,368	–	–	–
Other liabilities (Note 17)	165,314,452	4,270,833	169,585,285	133,739,097	4,270,833	138,009,930
	221,223,446	13,025,201	234,248,647	161,780,653	4,270,833	166,051,486
	₱28,803,585,380	₱10,746,267,873	₱39,549,853,253	₱27,860,757,754	₱2,992,514,192	₱30,853,271,946

	Consolidated			Parent Company		
	2015			2015		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱3,329,162,749	₱–	₱3,329,162,749	₱385,452,536	₱–	₱385,452,536
Due from BSP	6,600,000,000	–	6,600,000,000	6,600,000,000	–	6,600,000,000
Interbank loans receivable	3,200,000,000	–	3,200,000,000	3,200,000,000	–	3,200,000,000
Financial assets at FVPL	10,695,236,220	–	10,695,236,220	635,471,667	–	635,471,667
AFS investments	5,522,921	20,008,193,784	20,013,716,705	5,522,921	19,232,019,318	19,237,542,239
HTM investments	–	17,560,603,719	17,560,603,719	–	17,315,633,239	17,315,633,239
Loans and receivables - at gross (Note 8)	1,866,950,002	2,574,333,940	4,441,283,942	1,660,700,803	2,251,040,982	3,911,741,785
	25,696,871,892	40,143,131,443	65,840,003,335	12,487,147,927	38,798,693,539	51,285,841,466
Nonfinancial Assets						
Property and equipment	–	97,223,978	97,223,978	–	64,538,862	64,538,862
Investments in subsidiaries, associates and joint venture - at gross (Note 10)	–	5,054,645,296	5,054,645,296	–	8,976,707,838	8,976,707,838

(Forward)

	Consolidated 2015 Due Within One Year	Due Beyond One Year	Total	Parent Company 2015 Due Within One Year	Due Beyond One Year	Total
Investment properties - at gross (Note 11)	₱–	₱374,085,829	₱374,085,829	₱–	₱373,049,298	₱373,049,298
Deferred tax assets	–	2,621,194	2,621,194	–	–	–
Other assets	–	694,254,379	694,254,379	–	599,750,849	599,750,849
	–	6,222,830,676	6,222,830,676	–	10,014,046,847	10,014,046,847
Allowance for impairment and credit losses (Note 13)	–	(489,596,121)	(489,596,121)	–	(601,563,273)	(601,563,273)
	₱25,696,871,892	₱45,876,365,998	₱71,573,237,890	₱12,487,147,927	₱48,211,177,113	₱60,698,325,040
Financial Liabilities						
Bills payable	₱29,781,522,908	₱–	₱29,781,522,908	₱29,881,667,575	₱–	₱29,881,667,575
Accounts payable	1,206,421,848	–	1,206,421,848	178,406,885	–	178,406,885
Accrued interest and other expenses payable (Note 15)	229,137,982	–	229,137,982	217,655,035	–	217,655,035
Bonds payable	–	11,516,298,180	11,516,298,180	–	11,971,195,297	11,971,195,297
Other liabilities (Note 17)	10,021,867,743	–	10,021,867,743	73,987,191	–	73,987,191
	41,238,950,481	11,516,298,180	52,755,248,661	30,351,716,686	11,971,195,297	42,322,911,983
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	32,432,336	–	32,432,336	23,944,876	–	23,944,876
Income taxes payable	1,620,183	–	1,620,183	–	–	–
Deferred tax liabilities	–	173,740,706	173,740,706	–	163,085,770	163,085,770
Other liabilities (Note 17)	7,509,076	33,624,801	41,133,877	10,204,641	22,262,734	32,467,375
	41,561,595	207,365,507	248,927,102	34,149,517	185,348,504	219,498,021
	₱41,280,512,076	₱11,723,663,687	₱53,004,175,763	₱30,385,866,203	₱12,156,543,801	₱42,542,410,004

19. Equity

Details of the Parent Company's capital stock as of December 31, 2016 and 2015 follow:

	2016 Shares	**Amount**	2015 Shares	Amount
Common stock - ₱10 par value				
Authorized - 800,000,000 shares				
Issued - 420,869,240 shares				
Issued and paid-up capital	**420,869,240**	**₱4,208,692,400**	420,869,240	₱4,208,692,400
Less treasury shares	**48,324,508**	**2,658,509,711**	48,288,088	2,655,268,331
Total issued and outstanding at end of year	**372,544,732**	**₱1,550,182,689**	372,581,152	₱1,553,424,069

As of December 31, 2016 and 2015, the total number of shareholders of the Parent Company's common share is 1,385 and 1,394, respectively.

Acquisition of Treasury Shares
In 2016, 2015 and 2014, the Parent Company bought back 36,420, 20,610 and 14,660, respectively, of its own shares for a total cost of ₱3.2 million, ₱1.8 million, and ₱1.3 million, respectively.

Dividend Declaration
Details of the Parent Company's dividend distribution follow:

Date of Declaration	Dividend Per Share	Total Amount	Record Date	Payment Date
December 19, 2016	₱8.06	₱3,002,710,540	December 29, 2016	January 12, 2017
February 20, 2014	4.03	1,501,644,181	April 15, 2014	May 14, 2014

Capital Management
The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure attuned to the changes in economic conditions and the risk characteristics of its activities. The Group may adjust the amount of dividend payments to shareholders or issue capital securities in order to maintain or adjust its capital structure.

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

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

Basel III also requires that existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital. In addition, capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals) and before the effectivity of BSP Circular No. 781, are recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The details of CAR, as reported to the BSP, as of December 31, 2016 and 2015, respectively, follow (in millions):

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
CET 1 capital	**₱18,432.4**	₱20,971.1	**₱18,432.4**	₱20,971.1
Less: Required deductions	**11,598.4**	16,945.5	**12,072.4**	17,243.1
Net Tier 1 capital	**6,834**	4,025.6	**6,360**	3,728.0
Tier 2 capital	**50.0**	46.6	**43.3**	46.6
Total qualifying capital	**₱6,884**	₱4,072.2	**₱6,403.3**	₱3,774.6
Credit risk-weighted assets	**₱4,995.5**	₱6,548.0	**₱4,318.9**	₱5,836.4
Market risk-weighted assets	**425.7**	220.8	**425.9**	220.4
Operational risk-weighted assets	**3,416.4**	3,873.8	**3,018.9**	3,465.5
Total risk-weighted assets	**8,837.6**	10,642.6	**7,763.7**	9,522.3
CET 1 ratio*	**77.3%**	37.8%	**81.9%**	39.2%
*Capital conservation buffer	**71.3%**	31.8%	**75.9%**	33.2%
Tier 1 capital ratio	**77.3%**	37.8%	**81.9%**	39.2%
Total capital ratio	**77.9%**	38.3%	**82.5%**	39.6%

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

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, surplus including current year profit, surplus reserves, net unrealized gains or losses on AFS securities, cumulative foreign currency translation) and other comprehensive income (equity share on decline in value of investment securities of investees and unrealized loss on remeasurement of retirement obligation) less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI), subsidiaries and affiliates, deferred tax assets, other intangible assets, defined benefit pension fund assets and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital which includes general loan loss provision.

The RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

As of December 31, 2016 and 2015, the Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products.

Standardized credit risk weights were used in the credit assessment of asset exposures. Credit risk rating assessments from Moodys, Fitch and PhilRatings are applied for cash on hand, while assessment from PhilRatings are applied for the investment exposures. The eligible credit risk mitigants are investments with guarantees from the Government.

Operational RWA are computed using the Basic Indicator Approach.

The Group and its individual regulated operations have complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that the appropriate level and quality of capital is maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory edicts. The Group follows the Metrobank Group's ICAAP framework and submits the result of its assessment to the Ultimate Parent Company. The BSP requires submission of ICAAP documents on a group-wide basis every January 31. The Group, through the Ultimate Parent Company, has complied with the requirement.

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

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following the BSP guidelines.

In the consolidated financial statements, a portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates amounting to

₱3.2 billion and ₱2.7 billion as of December 31, 2016 and 2015, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

Minimum Capital Requirement
As required by the'Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered as Underwriters of Securities', investment houses shall have a minimum initial paid-in capital of ₱300.0 million or such amount as the BSP may prescribe at the time of incorporation. Further, BSP requires a ₱200.0 million minimum paid-in capital for investment houses to be established in Metro Manila.

The Parent Company's paid-in capital is ₱3.6 billion, which is above the required externally imposed minimum paid-in capital.

20. Interest Income

This account consists of interest income on:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
HTM investments	**₱762,183,240**	₱744,827,600	₱380,028,373	**₱744,382,122**	₱726,945,282	₱373,525,944
Loans and receivables	**241,538,670**	354,073,727	644,075,773	**223,016,827**	327,272,259	612,468,256
AFS investments	**219,456,065**	592,978,134	787,035,705	**185,333,147**	563,186,986	737,112,010
Financial assets at FVPL	**127,898,001**	306,239,236	344,392,303	**84,923,521**	251,553,897	279,607,887
IBLR and SPURA	**106,982,383**	9,935,694	22,792,916	**106,982,383**	9,935,694	22,792,917
Due from BSP	**102,719,791**	24,193,323	48,522,760	**102,719,791**	24,193,323	48,522,760
Deposits with banks	**46,306,127**	12,405,129	16,915,323	**94,928**	2,076,163	1,673,871
	₱1,607,084,277	₱2,044,652,843	₱2,243,763,153	**₱1,447,452,719**	₱1,905,163,604	₱2,075,703,645

21. Interest Expense

This account consists of interest expense on:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Bonds payable (Note 16)	**₱661,334,750**	₱659,459,150	₱666,098,640	**₱686,774,317**	₱685,312,707	₱684,836,511
Deposit substitutes (Note 14):						
Promissory notes issued	**330,777,682**	586,711,833	423,229,708	**331,457,042**	587,378,458	425,107,295
Repurchase agreements	**–**	83,437,500	119,756,581	**–**	83,437,500	119,756,581
Borrowings from other banks (Note 14)	**17,048,665**	35,007,327	73,673,586	**16,220,448**	35,007,327	73,673,586
Interbank call loans (Note 14)	**42,188**	39,002,999	11,196,276	**42,188**	39,002,999	11,196,276
	₱1,009,203,285	₱1,403,618,809	₱1,293,954,791	**₱1,034,493,995**	₱1,430,138,991	₱1,314,570,249

22. Retirement Plans

The Parent Company, FMSBC and FAMI have funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The Parent Company's, FMSBC's and FAMI's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The costs of defined benefit retirement plans as well as the present value of the retirement liability are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining the retirement liability for the defined benefit retirement plans are shown below:

	December 31, 2016				
	Actuarial Assumptions				
	Retirement Age	**Average Remaining Working Life**	**Turnover Rate**	**Salary Rate Increase**	**Discount Rate**
Parent Company	**55**	**9**	**7.6%**	**5.0%**	**5.1%**
FMSBC	**55**	**10**	**2.6%**	**5.0%**	**5.3%**
FAMI	**55**	**9**	**9.8%**	**5.0%**	**5.5%**

	December 31, 2015				
	Actuarial Assumptions				
	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	55	7	12.9%	5.0%	4.4%
FMSBC	55	10	15.6%	5.0%	4.5%
FAMI	55	7	10.4%	5.0%	4.7%

	December 31, 2014				
	Actuarial Assumptions				
	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	55	8	12.9%	10.0%	4.5%
FMSBC	55	7	15.6%	10.0%	4.8%
FAMI	55	7	10.4%	10.0%	5.6%

The amounts recognized in the Group's and the Parent Company's statements of financial position follows:

Consolidated

		Net benefit cost					Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Subtotal	Contributions paid	December 31, 2016
Present value of defined benefit obligation	₱262,501,999	₱34,177,446	₱4,734,511	₱11,883,594	₱313,297,550	(₱24,789,658)	₱–	(₱1,134,277)	(₱6,071,263)	(₱5,321,545)	(₱12,527,085)	₱–	₱275,980,807
Fair value of plan assets	(260,222,751)	–	–	(11,759,942)	(271,982,693)	24,789,658	8,659,753	–	–	–	8,659,753	(67,993,154)	(306,526,436)
Net defined benefit asset	₱2,279,248	₱34,177,446	₱4,734,511	₱123,652	₱41,314,857	₱–	₱8,659,753	(₱1,134,277)	(₱6,071,263)	(₱5,321,545)	(₱3,867,332)	(₱67,993,154)	(₱30,545,629)

**The Parent Company and FAMI are in a net pension asset position amounting to ₱39.8 million and ₱6.3 million, respectively and presented under 'Other Assets' (Note 12). FMSBC is in a net liability position amounting to ₱15.6 million and presented under 'Accrued Taxes, Interest and Other Expenses' (Note 15).*

Parent Company

		Net benefit cost					Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Net interest	Acquired/ transferred obligation	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Subtotal	Contributions paid	December 31, 2016
Present value of defined benefit obligation	₱220,943,848	₱28,466,939	₱9,823,776	(₱574,280)	₱258,660,283	(₱24,789,658)	₱–	₱3,685,198	(₱5,026,398)	(₱5,996,105)	(₱7,337,305)	₱–	₱226,533,320
Fair value of plan assets	(227,073,864)	–	(10,118,016)	459,954	(236,731,926)	24,789,658	6,998,910	–	–	–	6,998,910	(61,397,675)	(₱266,341,033)
Net pension asset (Note 12)	(₱6,130,016)	₱28,466,939	(₱294,240)	(₱114,326)	₱21,928,357	₱–	₱6,998,910	₱3,685,198	(₱5,026,398)	(₱5,996,105)	(₱338,395)	(₱61,397,675)	(₱39,807,713)

Consolidated

		Net benefit cost					Remeasurements in other comprehensive income					
	January 1, 2015	Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions paid	December 31, 2015
Present value of defined benefit obligation	₱364,786,311	₱48,616,048	₱4,782,862	₱16,189,179	₱434,374,400	(₱60,082,504)	₱–	₱17,334,914	(₱129,124,811)	(₱111,789,897)	₱–	₱262,501,999
Fair value of plan assets	(254,776,799)	–	–	(11,289,471)	(266,066,270)	60,082,504	7,136,964	–	–	7,136,964	(61,375,949)	(260,222,751)
Net defined benefit liability	₱110,009,512	₱48,616,048	₱4,782,862	₱4,899,708	₱168,308,130	₱–	₱7,136,964	₱17,334,914	(₱129,124,811)	(₱104,652,933)	(₱61,375,949)	₱2,279,248

**The Parent Company and FAMI are in a net pension asset position amounting to ₱6.1 million and ₱0.1 million, respectively and presented under 'Other Assets' (Note 12). FMSBC is in a net liability position amounting to ₱8.5 million and presented under 'Accrued Taxes, Interest and Other Expenses' (Note 15).*

Parent Company

		Net benefit cost				Remeasurements in other comprehensive income					
	January 1, 2015	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions paid	December 31, 2015
Present value of defined benefit obligation	₱321,639,300	₱41,088,330	₱14,216,420	₱376,944,050	(₱60,082,504)	₱–	₱12,640,279	(₱108,557,977)	(₱95,917,698)	₱–	₱220,943,848
Fair value of plan assets	(237,045,472)	–	(10,477,410)	(247,522,882)	60,082,504	10,193,714	–	–	10,193,714	(49,827,200)	(227,073,864)
Net pension asset (Note 12)	₱84,593,828	₱41,088,330	₱3,739,010	₱129,421,168	₱–	₱10,193,714	₱12,640,279	(₱108,557,977)	(₱85,723,984)	(₱49,827,200)	(₱6,130,016)

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated	
	2016	2015
Cash and cash equivalents	**₱20,077,955**	₱13,156,910
Equity instruments		
Services	**11,998,200**	12,441,940
Holding firms	**10,615,805**	8,452,932
Real estate	**4,245,148**	5,006,898
Industrial	**4,137,600**	3,632,770
Others	**15,840,230**	7,815,611
Debt instruments		
Government securities	**182,473,141**	158,466,098
Below AAA and not rated private debt securities	**36,749,014**	36,664,119
Investment in mutual funds/UITF	**18,608,025**	14,353,356
Loans and receivables		
Interest and other receivables	**2,281,911**	969,351
Other assets	**5,414**	9,570
	307,032,443	260,969,555
Less: Accrued trust fee payable	**491,575**	329,100
Other payables	**14,432**	417,704
Fair value of plan assets	**₱306,526,436**	₱260,222,751

	Parent Company	
	2016	2015
Cash and cash equivalents	**₱18,739,132**	₱10,871,382
Equity instruments		
Services	**11,998,200**	12,441,940
Holding firms	**10,615,805**	8,452,932
Real estate	**4,245,148**	5,006,898
Industrial	**4,137,600**	3,632,770
Others	**2,663,300**	2,420,511
Debt instruments		
Government securities	**167,475,380**	142,064,554
Below AAA and not rated private debt securities	**33,688,801**	33,796,829
Investment in mutual funds/UITF	**11,091,243**	8,249,100
Loans and receivables		
Interest and other receivables	**2,148,351**	855,974
Other assets	**5,414**	9,570
	266,808,374	227,802,460
Less: Accrued trust fee payable	**452,909**	311,180
Other payables	**14,432**	417,416
Fair value of plan assets	**₱266,341,033**	₱227,073,864

As of December 31, 2016 and 2015, equity securities included in the plan assets include shares from the Ultimate Parent Company and other related parties amounting to ₱5.06 million and ₱7.23 million, respectively (Note 27).

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

	December 31, 2016			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rates	**+1.0%**	**(258,005,360)**	**+1.0%**	**(211,373,226)**
	-1.0%	**296,335,013**	**-1.0%**	**243,667,153**
Turnover rate	**+2.0%**	**(267,944,803)**	**+2.0%**	**(221,037,223)**
	-2.0%	**285,663,910**	**-2.0%**	**232,574,565**
Future salary increase rate	**+1.0%**	**297,831,116**	**+1.0%**	**244,866,227**
	-1.0%	**(256,354,319)**	**-1.0%**	**(210,040,697)**

The Group and the Parent Company expect to contribute ₱6.0 million and nil, respectively, to its defined benefit pension plan in 2016.

The average duration of the defined benefit retirement liability at the end of the reporting period ranges from 12.6 years to 18.7 years for the Group and 12.6 years for the Parent Company.

23. Miscellaneous Income (Loss)

This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Miscellaneous income						
Rental income (Note 24)	**₱11,305,804**	₱11,814,931	₱11,028,399	**₱11,305,804**	₱11,293,354	₱9,794,106
Sales load and redemption fees	**3,923,736**	6,260,611	8,654,388	**–**	–	–
Trust fee income	**2,571,490**	6,374,688	34,397,617	**16,210,570**	35,577,857	34,397,617
Gain from sale/redemption of unquoted commercial papers (Note 8)	**–**	–	14,920,396	**–**	–	14,732,429
Gain on return of investments (Note 10)	**71,151,471**	–	–	**71,151,471**	–	–
Others	**367,627,828**	8,991,273	9,546,748	**365,924,147**	3,371,775	7,777,353
	456,580,329	33,441,503	78,547,548	**464,591,992**	50,242,986	66,701,505
Miscellaneous loss						
Loss on reclassification of asset	**–**	–	(18,333,072)	**–**	–	(18,333,072)
	–	–	(18,333,072)	**–**	–	(18,333,072)
	₱456,580,329	₱33,441,503	₱60,214,476	**₱464,591,992**	₱50,242,986	₱48,368,433

Others in 2016 include taxes reimbursed by GT Capital amounting to ₱361.5 million related to the sale of investment in GBPC (Note 7).

24. Leases

Operating Lease Commitments - Group as Lessee
The Group and the Parent Company lease the premises they occupy. The lease contracts are for periods ranging from two to five years and are renewable upon mutual agreement of parties. Annual lease payments are generally fixed. In 2016, 2015 and 2014, rent expense recognized under 'Rent, light and water expenses' in the statements of income amounted to ₱71.5 million,

₱62.5 million and ₱52.3 million, respectively, for the Group, and ₱52.9 million, ₱45.7 million and ₱40.7 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancellable operating leases of the Group and of the Parent Company as of December 31, 2016 and 2015 follow:

	2016	2015
Within one year	**₱43,490,970**	₱31,717,457
After one year but not more than five years	**22,421,162**	58,745,947
	₱65,912,132	₱90,463,404

Operating Lease Commmitments - Group as Lessor

Parent Company
As of December 31, 2016 and 2015, the Parent Company leases its investment property on a short-term basis and is renewable annually upon mutual agreement of the parties. The Parent Company have future minimum rentals under non-cancellable operating leases amounting to ₱5,000 and ₱2.4 million as of December 31, 2016 and 2015, respectively, receivable within one year from the statement of financial position date.

In 2016, 2015 and 2014, rental income from investment properties (included under 'Miscellaneous income') amounted to ₱9.8 million, ₱8.7 million and ₱7.2 million, respectively (Note 23).

On April 16, 2011, the Parent Company entered into a renewable sublease contract with a related party for a period of three years ending April 15, 2014. It was then continued until officially terminated last August 2016. Rental income earned from the sublease contract (included under 'Miscellaneous income') amounted to ₱1.5 million, ₱2.6 million and ₱2.6 million in 2016, 2015 and 2014, respectively (Note 23).

Future minimum rentals under non-cancellable sublease of the Parent Company as of December 31, 2015 follow:

Within one year	₱2,637,798
After one year but not more than five years	–
	₱2,637,798

25. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Professional fees	**₱80,133,929**	₱68,705,854	₱100,286,164	**₱32,797,833**	₱32,634,637	₱35,601,889
Amortization of software cost (Note 12)	**53,030,265**	52,571,405	31,604,882	**47,400,275**	47,447,465	28,188,715
Communication	**40,484,909**	38,187,715	30,759,617	**28,548,953**	30,153,681	21,988,723
Transfer and exchange fees	**36,534,967**	39,779,295	47,719,783	**13,272,430**	15,578,255	28,161,892
Online trading fees	**22,379,092**	17,553,524	19,225,946			
Security, messengerial and janitorial	**19,975,660**	27,918,801	29,878,458	**13,096,370**	20,757,044	23,521,076
Advertising	**18,572,553**	14,646,239	14,555,994	**3,739,159**	2,863,746	5,752,831
Supervision fees	**17,969,779**	22,216,049	22,675,067	**17,969,779**	22,216,049	22,675,067
Bank service charges and other service fees	**17,693,324**	3,902,401	3,058,365	**2,241,431**	3,548,269	
Insurance	**16,897,766**	14,735,989	12,711,428	**11,681,485**	10,778,017	9,562,791
Information technology expenses	**16,133,238**	21,508,702	12,161,626	**12,253,491**	18,663,870	9,474,005

(Forward)

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Transportation and travel	**₱12,217,778**	₱17,842,206	₱15,035,961	**₱7,078,521**	₱12,099,026	₱7,209,634
Membership dues	**10,165,003**	10,609,212	8,163,194	**8,856,872**	9,443,397	7,705,267
Research and other technical cost	**9,960,945**	8,478,963	7,547,324	**1,760,000**		
Internal audit fee (Note 27)	**9,032,258**	10,334,683	8,358,333	**9,032,258**	8,602,150	7,364,436
Repairs and maintenance	**5,864,031**	5,340,599	3,493,522	**5,041,635**	3,808,335	2,100,390
Fuel and lubricants	**5,612,208**	11,800,232	7,664,089	**5,612,208**	11,800,232	7,664,089
Stationery and supplies used	**5,056,731**	7,014,483	8,442,356	**2,750,798**	3,607,682	4,596,122
Custodianship, collateral agent, and maintenance fees	**4,179,725**	6,062,649		**4,179,725**	3,883,068	
Referral and service fees	**1,428,930**	19,627,587	22,802,347			
Litigation/asset-acquired expenses	**813,976**	993,420	1,223,095	**813,976**	993,420	1,223,095
Donations	**230,000**	388,000	1,588,920	**230,000**	388,000	1,588,920
Periodical and magazine subscriptions	**227,802**	575,904	618,038	**194,771**	553,684	618,038
Others	**40,467,063**	50,597,122	49,289,199	**29,904,520**	18,355,328	36,190,031
	₱445,061,932	₱471,391,034	₱458,863,708	**₱258,456,490**	₱278,175,355	₱261,187,011

Others consist mostly of expenses for advertising and publicity, company sponshorships, corporate social responsibility iniatives, corporate giveaways, maintenance and administrative costs.

26. Income and Other Taxes

The provision for income tax consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Current						
Final tax	**₱625,912,685**	₱411,408,151	₱467,526,944	**₱541,106,616**	₱383,310,325	₱432,928,052
Corporate	**193,651,340**	36,728,887	167,559,820	**153,163,624**	6,495,226	116,355,925
	819,564,025	448,137,038	635,086,764	**694,270,240**	389,805,551	549,283,977
Deferred	**(203,693,743)**	(25,663,737)	9,827,708	**(202,327,433)**	(23,097,835)	5,603,219
	₱615,870,282	₱422,473,301	₱644,914,472	**₱491,942,807**	₱366,707,716	₱554,887,196

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST).

Income taxes include corporate income tax, as discussed below, as well as final withholding taxes paid at the rates of 20.0% of gross interest income from peso-denominated debt instruments and other deposit substitutes, 7.5% of gross interest income from foreign currency deposits in a depository bank under the expanded foreign currency deposit system and a final tax (5.0% for the first ₱100,000 and 10.0% on any amount in excess of ₱100,000) imposed upon the net capital gains realized during the taxable year from the disposition of shares of stock in a domestic corporation not traded in the stock exchange.

The RCIT rate shall be 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax.

The National Internal Revenue Code of 1997 also provides for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Parent Company elected to apply OSD in determining its taxable income in 2014 and applied RCIT computation i.e. itemized deduction in 2016 and 2015.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. The regulations also provide for an MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's and Parent Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

The components of the net deferred tax assets follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deferred tax assets on:				
Allowance for impairment losses	**₱29,818,009**	₱–	**₱29,818,009**	₱–
Unamortized past service cost	**20,907,974**	1,082,000	**19,952,755**	–
Unrealized foreign exchange loss	**1,522,460**	–	**–**	–
Unrealized loss on HFT investments	**310,842**	**–**	**310,842**	–
Unrealized loss on AFS investments	**–**	2,179,369	**–**	–
Accrued expenses	**–**	1,574,783	**–**	–
	52,559,285	4,836,152	**50,081,606**	–
Deferred tax liabilities on:				
Retirement asset	**11,942,314**	2,214,958	**11,942,314**	–
Rent receivable	**1,889,485**	–	**–**	–
Unrealized gain on AFS debt investments	**11,249**	–	**11,249**	–
	13,843,048	2,214,958	**11,953,563**	–
	₱38,716,237	₱2,621,194	**₱38,128,043**	₱–

The components of the net deferred tax liabilities follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deferred tax liabilities on:				
Unrealized gain on AFS debt investments	**₱15,664,728**	₱18,325,448	**₱–**	₱–
Unrealized foreign exchange gain	**2,581,927**	–	–	–
Unrealized gain on HFT investments	**81,504**	43,749	–	43,748
Fair value gain on reclassification of investment in associate to AFS investments	–	206,192,591	–	206,192,591
Rent receivable	–	78,563	–	–
Retirement asset	–	1,839,005	–	1,839,005
	18,328,159	226,479,356	–	208,075,344
Deferred tax assets on:				
Accrued retirement liability	**4,668,110**	1,479,647	–	–
Accrued expenses	**2,856,672**	1,124,878	–	–
Unamortized pension cost contribution	**2,005,996**	3,527,467	–	–
Accrued lease liability	**43,013**	74,421	–	–
Unrealized loss on HFT investments	**–**	1,542,664	–	–
Unrealized loss on AFS investments	**–**	1,000,851	–	1,000,851
Allowance for impairment losses	**–**	30,596,578	–	30,596,578
Unamortized past service cost	**–**	13,392,144	–	13,392,145
	9,573,791	52,738,650	–	44,989,574
	₱8,754,368	₱173,740,706	**₱–**	₱163,085,770

Deferred tax related to items recognized directly in other comprehensive income (loss) follow:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Unrealized gain on AFS debt investements	**₱5,150,335**	₱5,477,293	₱10,942,332	**(₱1,012,102)**	(₱746,481)	₱1,747,331
Remeasurements of retirement liability	**(2,537,973)**	(10,175,987)	5,047,484	**(101,518)**	(4,497,313)	
	₱2,612,362	(₱4,698,694)	₱15,989,816	**(₱1,113,620)**	(₱5,243,794)	₱1,747,331

Certain subsidiaries did not set up deferred tax assets on the following:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Temporary differences on:				
NOLCO	**₱951,828,463**	₱1,096,265,280	**₱**	₱15,234,852
Carryforward benefits of MCIT	**7,003**	6,503,723		6,495,226
	₱951,835,466	₱1,102,769,003	**₱**	₱21,730,078

The Group believes that it is not probable that these temporary differences will be realized before the three-year expiration.

As of December 31, 2016 and 2015, deferred tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries and associates, and the related equity in translation adjustment since such amounts are not taxable.

Details of NOLCO for certain subsidiaries as of December 31, 2016 are as follows:

Consolidated					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2013	₱372,424,479	₱–	₱372,424,479	₱–	2016
2014	335,376,766	–	–	335,376,766	2017
2015	330,981,563	15,234,852	–	315,746,711	2018
2016	300,704,986	–	–	300,704,986	2019
	₱1,339,487,794	₱15,234,852	₱372,424,479	₱951,828,463	

Parent Company					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2015	₱15,234,852	₱15,234,852	₱	₱	2018

Details of MCIT for certain subsidiaries as of December 31, 2016 are as follows:

Consolidated					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2013	₱22,145,605	₱22,143,719	₱1,886	₱	2016
2014	1,548	–	–	1,548	2017
2015	6,497,979	6,495,226	–	2,753	2018
2016	2,702	–	–	2,702	2019
	₱28,647,834	₱28,638,945	₱1,886	₱7,003	

Parent Company					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2013	₱22,143,719	₱22,143,719	₱	₱	2016
2015	6,495,226	6,495,226			2017
	₱28,638,945	₱28,638,945	₱–	₱	

A reconciliation between the statutory income tax and effective income tax follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Statutory income tax rate	**30.0%**	30.0%	30.0%	**30.0%**	30.0%	30.0%
Tax effects of:						
Tax-exempt and tax-paid income	**(25.6)**	(21.4)	(35.7)	**(20.9)**	(15.6)	(15.2)
Equity in net earnings of subsidiaries and associates	**(9.7)**	(19.3)	(3.4)	**(9.8)**	(19.9)	(11.4)
Non-deductible expenses	**57.2**	68.0	18.3	**50.7**	61.8	14.2
Unrecognized deferred tax assets	**(3.7)**	(6.0)	6.6	**(6.7)**	(7.5)	1.6
Effective income tax rate	**48.2%**	51.3%	15.8%	**43.3%**	48.8%	19.2%

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group and the Parent Company have transactions with its subsidiaries, associated companies, affiliates, and with certain related interests collectively referred to as directors, officers, stockholders and other related interests (DOSRI). These transactions consist primarily of loan transactions, management contracts, outright purchases and sales of trading and investment securities, business and development support and other regular banking transactions.

Existing BSP regulations limit the amount of individual loans to DOSRI, of which 70.0% must be secured, to the total amount of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed 100.0% of the Parent Company's combined capital accounts, net of deferred income tax, unbooked valuation reserves and other capital adjustments as may be required by the BSP.

The following table shows information on loans to DOSRI as of December 31, 2016 and 2015:

	2016	2015
Total outstanding DOSRI loans	**₱15,206,506**	₱3,222,976,075
Percent of DOSRI loans to total loans	**1.0%**	65.1%
Percent of unsecured DOSRI loans to total DOSRI	**0.0%**	0.0%

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

Total interest income on DOSRI loans amounted to ₱1.9 miilion, ₱8.2 million and ₱3.8 million in 2016, 2015 and 2014, respectively.

The following table provides the total amounts of transactions that have been entered into with related parties for the relevant financial year:

Consolidated 2016

	Deposits	**Withdrawals**	**Sale of securities**	**Purchase of securities**	**Availments of term loans**	**Issuance of promissory notes**	**Borrowings**
Ultimate Parent Company	**₱381,157,776,787**	**₱382,113,384,580**	**₱30,819,310,170**	**₱18,416,621,849**	**₱227,885,000,000**	**₱–**	**₱1,665,305,000**
Subsidiaries	**–**	**–**	**11,258,364,836**	**11,039,940,799**	**–**	**367,844,026**	**–**
Associates	**–**	**–**	**846,689,813**	**261,142,157**	**–**	**–**	**–**
Affiliates	**17,294,973,102**	**16,250,609,732**	**1,623,678,704**	**922,844,165**	**12,030,000,000**	**4,952,000,000**	**–**
	₱398,452,749,889	**₱398,363,994,312**	**₱44,548,043,523**	**₱30,640,548,970**	**₱239,915,000,000**	**₱5,319,844,026**	**₱1,665,305,000**

Consolidated 2015

	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱435,964,695,321	₱436,029,328,128	₱23,696,686,614	₱17,008,272,697	₱71,900,000,000	₱–	₱221,005,437,000
Subsidiaries	–	–	16,092,301,868	14,996,608,307	–	500,273,556	–
Associates	–	–	611,338,045	69,249,645	–	–	–
Affiliates	2,975,780,105	2,984,182,010	2,903,819,669	2,269,411,760	300,000,000	25,745,000,000	136,900,000,000
	₱438,940,475,426	₱439,013,510,138	₱43,304,146,196	₱34,343,542,409	₱72,200,000,000	₱26,245,273,556	₱357,905,437,000

Parent 2016

	Deposits	**Withdrawals**	**Sale of securities**	**Purchase of securities**	**Availments of term loans**	**Issuance of promissory notes**	**Borrowings**
Ultimate Parent Company	**₱234,496,696,371**	**₱234,543,546,768**	**₱30,819,310,170**	**₱18,416,621,849**	**₱227,885,000,000**	**₱–**	**₱1,665,305,000**
Subsidiaries	**–**	**–**	**11,258,364,836**	**11,039,940,799**	**–**	**367,844,026**	**–**
Associates	**–**	**–**	**846,689,813**	**261,142,157**	**–**	**–**	**–**
Affiliates	**–**	**–**	**1,623,678,704**	**922,844,165**	**12,030,000,000**	**4,952,000,000**	**–**
	₱234,496,696,371	**₱234,543,546,768**	**₱44,548,043,523**	**₱30,640,548,970**	**₱239,915,000,000**	**₱5,319,844,026**	**₱1,665,305,000**

Parent 2015

	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱317,427,668,950	₱318,151,809,960	₱23,696,685,262	₱17,008,272,697	₱71,900,000,000	₱–	₱221,005,437,000
Subsidiaries	–	–	16,082,354,310	14,929,953,041	–	500,273,556	–
Associates	–	–	611,332,524	69,249,645	–	–	–
Affiliates	–	–	2,903,819,669	2,269,165,199	300,000,000	25,745,000,000	136,900,000,000
	₱317,427,668,950	₱318,151,809,960	₱43,294,191,765	₱34,276,640,582	₱72,200,000,000	₱26,245,273,556	₱357,905,437,000

The following are the balances of the Group's related party transactions as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 (amounts in thousands):

	As of and for the year ended December 31, 2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Ultimate Parent Company			
Cash and other items		**₱1,566,585**	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.3% to 1.4% while US dollar deposits carry interest from 0.3% to 1.1%
Financial assets at FVPL		**434,178**	Investments in the Ultimate Parent Company's share of stock
Loans and receivables		**428**	Various receivables arising from reimbursements and order placements, non-interest bearing rent receivable and accrued interest receivable from time deposit
Bills payable		**745,800**	Short-term borrowings in foreign currency with interest ranging from 1.5% to 1.9%, unsecured and are settled in cash
Accounts payable		**302**	Includes ceded fees
Accrued taxes, interest and other expenses		**5,270**	Accrued interest payable from Interbank loans payable in foreign currency, retainer's fee and internal audit fees
Other liabilities		**395**	Advance lease deposits
Interest income	**₱41,448**		From interbank loans, savings, current and time deposits
Service charges, fees commissions	**1,725**		Broker's commissions, contractual and other services
Dividend income	**3,897**		Dividends from stocks investments
Trading and securities loss	**205,600**		Realized and unrealized loss from investments in debt and equity securities
Interest expense	**10,268**		Interest expense from interbank borowings
Rent, light and water	**1,106**		Rent and utilities expense
Miscellaneous expense	**13,861**		Internal audit fee for the current year, stock and transfer agency fee

	As of and for the year ended December 31, 2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Joint Venture/Associates			
Loans and receivables		**₱44,270**	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Accounts payable		**14,439**	Payable arising out of trading transactions in behalf of customers; non-interest bearing; secured by shares of stocks
Accrued taxes, interest and other expenses		**11**	Insurance expense
Fees and commissions	**₱2,096**		Management fees; broker's commissions
Trading and securities gain	**396**		Realized gain from sale of investments in debt
Rental income	**7,551**		Rental income from sublease agreement
Miscellaneous expense	**1,063**		Insurance expense

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2016		
Other Related Parties			
Cash and other cash items		**₱1,049,929**	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 2.2% per annum
Financial assets at FVPL		**496,945**	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield of 4.7%
AFS investments		**151,169**	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield ranging from 4.9% to 5.9%
HTM investments		**29,441**	Investments in private bonds issued by other related parties with net yield of 6.0%
Loans and discounts		**15,988**	Fringe benefit loans to employees with terms ranging from 1.9 years to 15.0 years and interest rates ranging from 3.0% to 12.0%
Receivables		**2,026**	Management fee, rent receivables and accrued interest receivable from time deposits and time loans
Other assets		**5,946**	Rent deposits
Accounts payable		**1,414**	Payable to customers
Accrued taxes, interest and other expenses		**5,385**	Rent payable and accrued interest payable from bills payable
Interest income	**₱42,550**		Interest income from investment in private bonds, unquoted commercial papers, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Fees and commissions	**460,191**		Advisory and underwriting fees from GT Capital
Dividend income	**17,583**		Dividends from stocks investments
Trading and securities loss	**39,329**		Realized and unrealized gain on investments in debt and equity securities
Rent income	**1,051**		Rent income from condominium units
Miscellaneous income	**361,534**		Income related to sale of equity shares to GT Capital
Interest expense	**10,684**		From interbank borrowings, short-term bills payable
Rent, light and water	**55,914**		Rental payments for office premises
Taxes and licenses	**112,169**		Taxes related to sale of equity securities to GT Capital
Miscellaneous expense	**938**		Insurance expense and membership dues

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2016		
Key Management Personnel			
Loans and discounts		**₱5,004**	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Accrued taxes, interest and other expenses		**48**	Directors' fees payable
Interest income	**₱900**		Interest income from fringe benefit loans
Miscellaneous expense	**13,161**		Per diems given to directors during board meetings

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2015		
Ultimate Parent Company			
Cash and other items		₱2,592,130	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.3% to 1.4% while US dollar deposits carry interest from 0.3% to 1.1%
Financial assets at FVPL		165,742	Investments in Ultimate Parent Company's share of stock
IBCL receivable		3,200,000	Short-term interbank loans receivable with interest of 3.1%
Loans and receivable		1,913	Various receivables arising from reimbursements and order placements, non-interest bearing rent receivable, receivable from customer and accrued interest receivable from time deposit
Bills payable		470,600	Short-term borrowings in foreign currency with interest ranging from 1.4% to 1.7%, unsecured and are settled in cash
Accounts payable		548	Includes ceded fees
Accrued taxes, interest and other expenses		1,191	Accrued interest payable from Interbank loans payable in foreign currency, retainer's fee and internal audit fees
Other liabilities		395	Advance lease deposits
Interest income	₱13,210		From interbank loans, savings, current and time deposits
Service charges, fees commissions	112,460		Broker's commissions, contractual and other services
Dividend income	500		Dividends from stocks investments
Trading and securities loss	339,936		Realized and unrealized loss from investments in debt and equity securities
Rental income	522		Rental income from lease term of five (5) years and annual escalation rate of 5%
Interest expense	15,692		Interest expense from interbank borowings
Rent expense	328		Rent expense
Miscellaneous expense	12,617		Internal audit fee for the current year, stock and transfer agency fee

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2015		
Joint Venture/Associates			
Loans and receivables		₱44,187	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Interest income	₱137		Short-term placements with interest rates of 1.9%
Fees and commissions	5		Management fees
Trading and securities gain	1,553		Realized gain from sale of investments in debt
Rental income	4,045		Rental income from sublease agreement

	As of and for the year ended December 31, 2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Cash and other cash items		₱155,419	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 2.2% per annum
Financial assets at FVPL		844,858	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield of 4.7%
AFS investments		4,152,389	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield ranging from 4.9% to 5.9%
HTM investments		2,937	Investments in private bonds with net yield of 6.0%
Loans and discounts		706,960	Time loans with 11.0-12.0 years original term and with interest rates of 10.4% per annum; fringe benefit loans to employees with terms ranging from 1.9 years to 15.0 years and interest rates ranging from 3.0% to 12.0%
Unquoted commercial papers		350,000	Unquoted commercial papers with original term of 5 years and with interest of 8.9%
Receivable		20,437	Management fee, dividends from stocks investments and accrued interest receivable from time deposits and time loans
Other assets		2,893	Rent deposits
Bills payable		1,060,000	Promissory notes issued with term of 43-52 days and interest of 1.95%
Accounts payable		71	Payable to customers
Accrued taxes, interest and other expenses		2,127	Rent payable and accrued interest payable from bills payable
Interest income	₱123,071		Interest income from investment in private bonds, unquoted commercial papers, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Fees and commissions	84,674		Arranger fees from Panay Energy Development Corp., and advisory and underwriting fees from GT Capital
Dividend income	272,114		Dividends from stocks investments
Trading and securities gain	237,355		Realized and unrealized gain on investments in debt and equity securities
Rent income	5,588		Rent income from condominium units
Interest expense	67,687		From interbank borrowings, short-term bills payable
Rent, light and water	41,603		Rental payments for office premises
Miscellaneous expense	518		Insurance expense and membership dues

	As of and for the year ended December 31, 2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans and discounts		₱920	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Accrued taxes, interest and other expenses		1,178	Directors' fees payable
Interest income	₱913		Interest income from fringe benefit loans
Miscellaneous expense	17,517		Per diems given to directors during board meetings

	As of and for the year ended December 31, 2014		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Cash and other items		₱2,720,069	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.3% to 1.4% while US dollar deposits carry interest from 0.3% to 1.1%
Financial assets at FVPL		32,480	Investments in Ultimate Parent Company's share of stock
Loans and receivables		32,125	Non-interest bearing rent receivable, receivable from customers and accrued interest receivable from time deposits
Bills payable		417,720	Short-term borrowings in foreign currency with interest ranging from 1.4% to 1.6%, unsecured and are settled in cash
Accrued taxes, interest and other expenses		1,309	Accrued interest payable from Interbank loans payable in foreign currency, retainer's fee and internal audit fees
Other liabilities		45	DST payable
Interest income	₱18,407		From interbank loans, savings, current and time deposits
Service charges, fees commissions	8,324		Broker's commissions, contractual & other services
Dividend income	2,918		Dividends from stocks investments
Trading and securities gain	99,060		Realized and unrealized gain from investments in debt and equity securities
Rental income	1,234		Rental income from lease term of five (5) years and annual escalation rate of 5%
Interest expense	25,172		Interest expense from interbank borowings
	804		Rent expense
Miscellaneous expense	16,694		Internal audit fee for the current year, stock and transfer agency fee

	As of and for the year ended December 31, 2014		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Joint Venture/Associates			
Cash and other cash items		₱200,000	Short-term placements with interest rate of 1.9%
Loans and receivables		44,624	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses, receivable from customers and accrued interest receivable from short-term placements.
Accounts payable		83	Insurance Premium
Accrued taxes, interest and other expenses		11	Various
Other payables		15	Payable to customers
Interest income	₱1,465		Short-term placements with interest rates of 1.9%
Fees and commissions	5		Management fees
Trading and securities gain	44		Realized gain from sale of investments in debt
Rental income	4,502		Rental income from sublease agreement
Dividend income	293,912		Dividends from equity investments
Miscellaneous expense	94		Insurance expense

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2014		
Other Related Parties			
Cash and other cash items		₱170,206	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 2.1% per annum
Financial assets at FVPL		833,327	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield of 5.4%
AFS investments		3,395,233	Investments in equity securities and debt securities; debt securities includes investments in private bonds with net yield ranging from 4.9% to 5.9%
HTM investments		2,931	Investments in private bonds with net yield of 6.0%
Loans and discounts		785,705	Time loans with 11.0 -12.0 years original term and with interest rates of 10.4% per annum; fringe benefit loans to employees with terms ranging from 1.9 years to 15.0 years and interest rates ranging from 3.0% to 12.0%.
Receivable		23,202	Short-term accounts receivable with effective interest rate of 6.2% per annum and accrued interest receivable from time deposits and time loans
Other assets		2,310	Rent deposits
Accounts payable		1,367	Payable to customers
Accrued taxes, interest and other expenses		655	Rent payable
Interest income	₱104,870		Interest income from investment in private bonds, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Fees and commissions	26,965		Fees earned from underwriting activities with GT Capital and PSBank capital raising activities and Management fees and commission income
Dividend income	26,072		Dividends from stocks investments
Trading and securities gain	171,579		Realized and unrealized gain on investments in debt and equity securities
Miscellaneous Income	28,728		Income from sale of equity securities
Gain on sale of assets	291,146		Gain on sale of equity investments
Interest expense	3,831		From interbank borrowings, short-term subordinated notes payable
Rent, light and water	8,265		Rental payments for office premises

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2014		
Key Management Personnel			
Loans and discounts		₱16,395	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Accrued taxes, interest and other expenses		26	Directors' fees payable
Interest income	₱1,555		Interest income from fringe benefit loans
Miscellaneous expense	10,312		Per diems given to directors during board meetings.

The Group and the Parent Company granted credit lines to related parties (Note 29). As of December 31, 2016 and 2015, undrawn commitments/facilities is nil for the Group and the Parent Company.

Terms of Transactions with Ultimate Parent Company

Sale of shares of stock

On July 28, 2016, the Parent Company sold 7,534,081 shares of Philippine Savings Bank to Metrobank which resulted in ₱212.6 million income recorded under 'Trading and Securities Gain'.

Terms of Transactions with other related parties

Underwriting activities

In 2016, 2015 and 2014, the Parent Company acted as financial adviser, sole domestic lead manager/issue manager/lead underwriter and underwriter, respectively, for GT's capital raising activities. Fees earned from advisory and underwriting activities amounted to ₱444.3 million, ₱22.1 million and ₱23.0 million in 2016, 2015 and 2014, respectively. These are recognized in the statement of income under "Service charges, fees and commissions".

Sale of shares of stock

On May 26, 2016, the Parent Company sold 91,098,308 shares of Global Business Power Corporation to GT Capital which resulted in ₱361.5 million income recorded under 'Miscellaneous income' (Note 23).

On March 4, 2014 and March 31, 2014, the Parent Company sold 48,120,000 and 7,200,000 shares of Toyota Manila Bay Corporation and Toyota Cubao, Inc. to GT Capital which resulted in ₱189.1 million gain and ₱28.7 million gain, respectively, recorded under 'Trading and Securities Gain' account in the statements of income for the Group and Parent Company.

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group and the Parent Company's retirement plans are being managed by the Ultimate Parent Company's Trust Banking Group. The total carrying amount and fair value of the retirement plan as of December 31, 2016 and 2015 amounted to ₱306.5 million and ₱292.6 million for the Group and the Parent Company, respectively. The details of the assets of the fund as of December 31, 2016 and 2015 are disclosed in Note 22. The Group's retirement funds may hold or trade its related parties' shares or securities. A summary of transactions with related party of the retirement plans follows.

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Equity shares				
Metrobank	**₱895,231**	₱887,996	**₱895,231**	₱887,996
Subsidiaries	**13,176,930**	5,390,100	**–**	–
Other related parties	**990,600**	948,750	**990,600**	948,750
Total	**₱15,062,761**	₱7,226,846	**₱1,885,831**	₱1,836,746

The President of the Parent Company exercises the voting rights for the foregoing equity shares.

Transactions with related parties are approved by all members of the Retirement Committee whom are senior officers of the Parent Company.

The following are the balances of the consolidated retirement fund's related party transactions as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016:

		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
Counterparty		**2016**	2015	**2016**	2015	2014
Metrobank	Cash and other cash items	**₱19,861,657**	₱7,889,978	**₱–**	₱–	₱–
	Equity investments	**895,231**	887,996	**–**	–	–
	Accrued interest receivable	**27,717**	472	**–**	–	–
	Accrued trust fee payable	**490,031**	328,668	**–**	–	–
	Interest income	**–**	–	**56,404**	24,002	51,164
	Trust fee expense	**–**	–	**1,904,659**	1,796,361	1,420,623
GT Capital	Equity investments	**990,600**	948,750	**–**	–	–
FMSLBF	Investment in mutual funds	**8,226,154**	8,249,100	**–**	–	–
FMSALEF	Investment in mutual funds	**–**	1,073,151	**–**	–	–
FMPEETFI	Equity investments	**13,176,930**	5,390,100	**–**	–	–
MBTC-UITF	Investment in UITF	**4,692,497**	5,018,891	**–**	–	–

Compensation of key management personnel

The compensation of key management personnel are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Short-term employee benefits	**₱216,160,711**	₱215,957,211	₱211,013,075	**₱182,236,312**	₱186,627,504	₱179,945,872
Post-employment benefits	**19,273,659**	28,113,444	11,808,396	**16,665,537**	25,175,282	10,043,882
	₱235,434,370	₱244,070,655	₱222,821,471	**₱198,901,849**	₱211,802,786	₱189,989,754

Transactions with Subsidiaries

The following are the balances of the Parent Company's related party transactions as of and for the years ended December 31, 2016 and 2015 that have been eliminated at the consolidated level (amounts in thousands):

	As of and for the year ended December 31, 2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Accounts receivable		**₱7,031**	Receivables from sale of securities and management/advisory fees and advances for various expenses
Bills payable		**42,500**	Promissory notes issued with term of 45 days and interest of 2.1%
Bonds payable		**483,222**	Amortized cost of bonds payable with term of 5-7 years and interest ranging from 5.5% to 5.7%
Accounts payable		**77**	Payable arising out of trading transactions in behalf of customers
Accrued taxes, interest and other expenses		**2,793**	Accrued interest payable on bond payable
Miscellaneous liabilities		**9,375**	Subscriptions payable
Trading and securities loss	**₱339**		Realized trading loss from sale of various debt securities
Service charges, fees and commissions	**13,923**		Management fees and advisory fees for services rendered to subsidiaries
Gain on sale of assets	**8,268**		Gain on sale/redemption of investments in FMPEETFI and FMSLDBF
Dividend income	**10,505**		Dividend income
Interest expense	**25,659**		Interest expense from bonds payable and promissory notes issues with interest ranging from 5.5% to 5.7% and 2.1%
Broker's commission	**7,084**		Broker's commission on stock trading transactions

	As of and for the year ended December 31, 2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Accounts receivable		₱7,394	Receivables from sale of securities and management/advisory fees and advances for various expenses
Bills payable		100,145	Promissory notes issued with term of 45 days and interest of 2.1%
Bonds payable		449,190	Amortized cost of bonds payable with term of 5-7 years and interest ranging from 5.5% to 5.7%
Accrued taxes, interest and other expenses		2,824	Accrued interest payable on bond payable
Miscellaneous liabilities		9,375	Subscriptions payable
Trading and securities gain	₱8,369		Realized trading gain from sale of various debt securities
Service charges, fees and commissions	40,596		Management fees and advisory fees for services rendered to subsidiaries
Gain on sale of assets	4,003		Gain on sale/redemption of investments in FMPEETFI and FMSLDBF
Interest expense	26,520		Interest expense from bonds payable and promissory notes issues with interest ranging from 5.5% to 5.7% and 2.1%
Broker's commission	6,754		Broker's commission on stock trading transactions

Investment in debt securities of the Parent Company
As of December 31, 2016 and 2015, the subsidiaries had the following investments in debt securities of the Parent Company which are eliminated and classified as treasury bonds in the consolidated financial statements of the Group:

Subsidiary	**2016**	2015
FMSALBF	**₱155,065,000**	₱155,065,000
FMSALEF	**157,975,000**	157,975,000
FMSLFIF	**161,440,000**	134,450,000
PBC	**475,000**	475,000

Management Fees
The Parent Company and its subsidiaries executed a management contract for a monthly fee. Management fee represents payments for services rendered by seconded employees from the Parent Company such as accounting, taxation, financial control, legal and related services, administrative services and government reportorial requirements.

The table below shows the management fee charged by the Parent Company in 2016 and 2015:

	2016	2015
FMSBC	**₱1,200,000**	₱1,200,000
FAMI	**1,200,000**	1,200,000
PBC	**300,000**	300,000
SPI	**60,000**	60,000
FMIBC	**5,000**	5,000
PVDC	**5,000**	5,000
FEI	**5,000**	5,000
Resiliency	**5,000**	5,000
	₱2,780,000	₱2,780,000

Realized trading gains
The Parent Company has various sale of government and private debt securities with its subsidiaries. Realized trading gains (loss) on these transactions amounted to (₱0.3) million, ₱8.4 million and ₱20.6 million in 2016, 2015 and 2014, respectively.

28. **Trust Operations**

Properties held by the Parent Company in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company (Note 29).

In compliance with current banking regulations relative to the Parent Company's trust functions, as of December 31, 2016 and 2015, government securities classified as HFT investments with a total face value of ₱32.0 million and ₱33.2 million, respectively, are deposited with the BSP (Note 7).

In June 2016, the trust and other fiduciary business of the Parent Company ceased its operations.

29. **Commitments and Contingent Accounts**

Commitments
The following is a summary of commitments/facilities at their peso-equivalent contractual amounts arising from off-balance sheet items of the Group and Parent Company:

	2016	2015
Stand-by letter of credit	**₱410,000,000**	₱410,000,000
Asset under management by the Trust Division		2,773,971,449
Others	**750,000**	1,430,000
	₱410,750,000	₱3,185,401,449

Contingencies
In the normal course of business, the Group is involved in various contingencies which, in the opinion of the management, will not have a material effect on the Group's consolidated financial statements.

30. **Financial Performance**

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

	2016	2015	2014
Return on average equity	**3.8%**	2.1%	12.6%
Return on average assets	**1.2**	0.6	3.6
Net interest margin over average earning assets	**1.2**	1.1	1.6

31. Earnings Per Share

EPS are computed as follows:

	Consolidated 2016	2015	2014
a. Net income attributable to equity holders of the Parent Company	**₱645,057,699**	₱385,539,763	₱2,336,177,188
b. Weighted average number of common shares	**372,544,732**	372,581,152	372,601,762
c. Basic/Diluted EPS (a/b)	**₱1.7**	₱1.0	₱6.3

As of December 31, 2016, 2015 and 2014, there are no potential shares that have a dilutive effect on the basic EPS of the Parent Company.

32. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

The effects to the Group and the Parent Company of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2016

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Securities purchased under resale agreements	**₱2,218,848,817**	**₱–**	**₱2,218,848,817**	**₱–**	**₱2,218,848,817**	**₱–**
Loans and receivable - net (Notes 4 and 8):						
Loans and discounts:						
Corporate lending	**1,521,430,119**	**–**	**1,521,430,119**	**–**	**3,122,086,084**	**–**
Total	**₱3,740,278,936**	**₱–**	**₱3,740,278,936**	**₱–**	**₱5,340,934,901**	**₱–**

December 31, 2015

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Interbank loans receivable	₱3,200,000,000	₱–	₱3,200,000,000	₱–	3,979,582,231	₱–
Loans and receivable - net (Notes 4 and 8):						
Loans and discounts:						
Corporate lending	1,698,472,294	–	₱1,698,472,294	–	₱4,086,476,306	–
Unquoted commercial papers	350,000,000	–	350,000,000	–	1,014,998,283	–
Total	₱5,248,472,294	₱–	₱5,248,472,294	₱–	₱9,081,056,820	₱–

Financial liabilities

	December 31, 2016					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Bills payable (Note 14):						
Borrowings from other banks	**₱745,800,000**	**₱–**	**₱745,800,000**	**₱–**	**₱1,050,375,623**	**₱–**
Bonds payable (Note 16)	**11,981,719,616**	**–**	**11,981,719,616**	**–**	**12,538,516,547**	**–**
Total	**₱12,727,519,616**	**₱**	**₱12,727,519,616**	**₱–**	**₱13,588,892,170**	**₱–**

	December 31, 2015					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Bills payable (Note 14):						
Borrowings from other banks	₱470,600,000	₱–	₱470,600,000	₱–	649,087,387	₱–
Bonds payable (Note 16)	11,971,195,297	–	11,971,195,297	–	12,754,726,072	–
Total	₱12,441,795,297	₱–	₱12,441,795,297	₱–	₱13,403,813,459	₱–

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

33. Approval for the Release of the Financial Statements

The accompanying financial statements were authorized for issue by the Parent Company's BOD on February 27, 2017.

34. Subsequent Events

LCMC, an associate of the Group, disclosed to the PSE that on February 14, 2017, LCMC received a suspension order from the Department of Energy and Natural Resources (DENR) Secretary on its mining operation under Mineral Production Sharing Agreement No.001-90-CAR and is given not more than three months from receipt to implement the appropriate mitigating measures. LCMC will immediately file a Notice of Appeal with the Office of the President wherein pursuant to the Administrative Order No.22 Series of 2011, such filing will stay the execution of the Order, allowing LCMC to continue its operations. Further in its disclosure, LCMC maintains that it passed the DENR Mine audit, as attested by the signed audit report dated August 22, 2016 that state that "The Company substantially complied with the pertinent provisions of the Environmental and Mining laws, rules and regulations, thus, no penalty is recommended by the Team".

35. **Supplementary Information Under Revenue Regulations (RR) 15-2010**

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR 21-2002. RR 15-2010 provides that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes for the year:

GRT and DST
Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the Parent Company consist principally of GRT and DST.

Taxes and Licenses
This includes all other taxes, DST, local tax, fringe benefit tax including licenses and permit fees:

GRT	₱262,395,882
DST	112,238,620
Local taxes	2,700,313
Real estate tax	1,411,259
Fringe benefit tax	399,687
	₱379,145,761

Withholding Taxes
Details of total remittances and balance as of December 31, 2016 are as follows:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	₱167,520,589	₱14,773,438
Withholding taxes on compensation and benefits	95,184,342	7,771,631
Expanded withholding taxes	12,508,409	1,113,611
Final withholding value added tax	737,064	–
	₱275,950,404	₱23,658,680

SHAREHOLDER INFORMATION

Annual Stockholders' Meeting
April 27, 2017 (Thursday), 3:00 p.m.
Metrobank Penthouse, Metrobank Plaza
Sen. Gil Puyat Ave., Makati City

Shareholder Services
For inquiries regarding dividend payments, change of address, and account status, please contact:

The Controller
First Metro Investment Corporation
2nd Floor, Wellington Building
Plaza Lorenzo Ruiz
Binondo, Manila
Tel. Nos. (02) 241 4301 to 07
Fax. No. (02) 242 3441

Annual Report in SEC Form 17-A
The financial report included in this report follows the information contained in the SEC Form 17-A as required by and submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge from:

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