FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

45th Floor, GT Tower International
6813 Ayala Ave. cor. H.V. dela Costa St.
1227 Makati City, Philippines

Ground Floor, Skyland Plaza Condominium
2302 Sen. Gil Puyat Ave. cor. Tindalo St.
1203 Makati City, Philippines

Tel. No. (63 2) 858 7900
Fax No. (63 2) 840 3706

www.firstmetro.com.ph

FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

creating opportunities in the new world

2018 ANNUAL REPORT

creating opportunities in the new world

After nearly two years of extraordinary calm, the global and local financial markets were again plunged in a period of turmoil in early 2018. Growing inflationary pressures and their impact on interest rates suddenly reawakened investors who have been lulled into the false sense of security of "cheap money".

Welcome to this brave "New World" where the rise in volatility has now become part of the normal investment cycle. Against this backdrop, First Metro Investment Corporation continued to demonstrate its leadership and resilience to bounce back from challenging situations and navigate the turbulence. Banking on its more-than-half-a-century experience and track record, seeing the Philippine economy through cycles of booms and busts, First Metro relies on its speed, strength, creativity, innovation, and deep understanding of the markets to spot opportunities and create value for its clients, and fulfill its role as the country's prime mover of capital.

Vision

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

Mission

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

Values

Teamwork
Respect
Integrity
Innovation
Passion for Excellence

Thriving Amidst Rapid Change

Volatile. Uncertain. Complex. Ambiguous.

While the U.S. Army first coined the acronym "VUCA" to refer to the post-Cold War era, it was only in recent years that the business world understood what this means in the world we now live in.

In many respects, 2018 was a VUCA year.

Financial markets went into a tailspin after interest rates soared, spearheaded by the U.S. Federal Reserve's monetary tightening as good economic growth results are feared to stoke reigniting inflation. The volatility in oil prices exaggerated such fears. At the start of 2018, global equities touched record highs, only to lose steam by October when the impact of a trade war between two of the world's economic giants started to unravel. By December, the escalation of the rift was enough to slow global and regional trade. But before year-end, financial markets made a strong comeback that spilled over to 2019.

It did not help that hate was very much all around: the U.S. government shutdown, the contentious Brexit issue that remains unresolved in the United Kingdom, and other issues that hound Turkey, Italy, Venezuela, and the Middle East, among others, raised political and economic risks. Complicating this landscape is rapid technological disruption. Growing digitalization, the rise of artificial intelligence, robotics, and machine learning are redefining business models. With an operating environment moving in many different directions, the pressure for an institution like ours to move as quickly or stay ahead of the curve is mounting, too.

For the seventh consecutive year, the domestic economy breached the 6% GDP growth mark, albeit slower than the 6.7% pace in 2017. Derailing its momentum was higher inflation, which rose to 5.2% in 2018 from 2.9% a year ago. This was caused by the sharp rise in world crude oil prices to an average of around US$70 per barrel, delayed rice imports, and the short-term impact of Republic Act 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law that included excise taxes on fuel. With inflation at a 10-year high, the Bangko Sentral ng Pilipinas (BSP) aggressively raised policy rates five times, bringing the total increase to 175 basis points from May to November.

"Amidst the dark clouds in 2018, First Metro continues to look for the silver lining — a skill it has been perfecting in the past 55 years, thriving in opportunities and overcoming the challenges that came with the Philippine economy's boom-and-bust cycles."

With higher interest rates signaling the end of an era of cheap money, consumer spending slid to a four-year low and businesses started to put a brake on expansion and capital raising plans. As panicky portfolio investors fled the local stock market, the bellwether Philippine Stock Exchange index closed at 7,466.02, translating to a dismal year-end performance of -12.76%.

With exports growth still flat in 2018, the country's trade deficit rose to US$37.687 billion as of November 2018, much bigger than the US$23.408 billion shortfall the same period in 2017. The good news is that about a third of our 11-month imports were capital goods that rose 15.5% year-on-year – a good bellwether of the kind of future economic expansion that generates jobs and sustained growth over time.

Another silver lining was the country's hardworking overseas Filipino workers (OFW), which continued to be the economy's saving grace. Defying pundits' forecasts, OFW remittances remained at an all-time high of US$32.2 billion, 3% higher than the previous year, and accounted for 10% of the country's GDP. Inflows from the business process outsourcing (BPO) sector also continued to be the second strong engine of our growth despite facing many headwinds.

Our Unique Position

Amidst the dark clouds in 2018, First Metro continues to look for the silver lining – a skill it has been perfecting in the past 55 years, thriving in opportunities and overcoming the challenges that came with the Philippine economy's boom-and-bust cycles.

In the past 18 years, the country has been experiencing uninterrupted growth of over 5% in average GDP. This places First Metro at a unique position in history as a prime mover of the country's capital markets.

While 2018 was a trying time for capital raising, First Metro managed to pull off significant and impactful deals that showcased the depth and breadth of our capability. From sizeable deals such as the P60 billion Metrobank stock rights offer to trailblazing deals like the P1 billion fixed rate corporate notes issuance of ÆON Credit Service (Philippines), Inc., the first-ever issuance under the ASEAN+3 Multi-Currency Bond Issuance Framework in the country – First Metro has demonstrated the wisdom behind the age-old adage: "Like mighty winds, opportunities abound for those who decide to see them."

Moving Ahead of the Curve

As we enter 2019 with renewed optimism in the robustness of the capital markets, economic growth sustained by demographic and consumption factors, boosted by the government's ambitious infrastructure projects and heightened activity in foreign investments and tourism, expect to see First Metro to put more resources in equity markets, M&A, and financial advisory. With the country's foreign direct investments (FDIs) approaching the US$10 billion mark, we will continue to seize cross-border opportunities from the growing investor interest from Japan, Vietnam, Indonesia, and China. First Metro has been leveraging on the strength of the Metrobank Group of companies, which has a strong presence in China, to open doors to foreign companies looking to acquire, partner, or set up shop in the Philippines, as well as local firms looking for reciprocal opportunities abroad.

Besides this strong bond with our parent company, Metrobank, we at First Metro have also benefited from the life and legacy of Metrobank founder, Dr. George S.K. Ty. When I was still president of First Metro, Dr. Ty attended all our 156 board meetings without fail. Reporting to the Board with him around was an exercise in care, precision, clarity, and brevity. We have been blessed to work for him as he has taught us by his words, by his work, by his life that we must make the best of ourselves – being proper and trustworthy, always doing the right things in the best we can, and trying our utmost. Most of all, by working hard all the time.

Dr. Ty has created an institution that has remained a household name, a symbol of trust, a cornerstone of the Philippine economy, and one that will be around for generations and generations to come. For us, he will always be the taipan of Philippine banking.

Trust that we will always honor your legacy, Dr. Ty. Thank you for everything.

FRANCISCO C. SEBASTIAN
Chairman

A Year of Defying the Odds

2018 was an eventful year for capital markets in the Philippines and around the world.

During the year, financial markets were battered by the trade war between the United States and China, fears over rising interest rates, rising crude oil prices, and geopolitical tensions such as the "Brexit" in the United Kingdom.

In the U.S., the FTSE All-World index, which tracks thousands of stocks across a range of markets, plummeted 11.3% in end-2018 – "its worst performance since the global financial crisis, and a sharp reversal from a gain of nearly 25% in 2017," according to CNN. The market damage was most pronounced in China, the world's second-largest economy, as well as in other emerging market economies that were vulnerable to U.S. import tariffs and a rapidly appreciating U.S. greenback.

This roller-coaster ride, and the resulting liquidity squeeze, caught many capital market players by surprise. For most of the last 10 years, fixed income investors have not had to worry about liquidity. The U.S. Federal Reserve and other central banks around the world flooded the markets with cash and drew investors towards higher-yielding assets, such as stocks and corporate bonds. But liquidity, as they say, is like good health. No one really appreciates it until it is lost.

As volatility surged in 2018, liquidity started to dry up, and investors started longing for the era of cheap money.

In the Philippines, while the economy grew by 6.2% in GDP, this was slower than the 6.7% growth in 2017. There were several factors that applied the brakes on what would have been the fastest-growing economy in the world. One was the spike in inflation, which rose to 5.2% in 2018 from 2.9% a year ago, triggered by the sharp rise in world crude oil prices, delayed rice imports, and the impact of the Tax Reform for Acceleration and Inclusion (TRAIN) Law that included excise taxes on fuel. As inflation touched a 10-year high, the Bangko Sentral ng Pilipinas (BSP) resorted to unleashing its arsenal of monetary tools. It raised policy rates five times or by a cumulative 175 basis points from May to November 2018.

The interest rate hikes consequently dampened consumer spending and halted capital raising plans. In 2018, total capital raised in the domestic market slumped by

"In this ever-challenging operating environment we are in, where expectations and conditions can change rapidly and economies are more interconnected, agility becomes paramount in our ability to meet our stakeholders' needs. In pursuit of our vision to be the Philippines' prime mover of capital, we must also be guided by a strong and steady moral compass that does not flinch or waver at the sight of quick gains. It is only by these principles that First Metro can survive in navigating the world we now call the 'New Normal' and emerge as an enduring institution."

a quarter to P546 billion from P732 billion in 2017. And with only one initial public offering in the Philippine Stock Exchange (PSE), transactions in the equities market dwindled by more than 61% to P227 billion. After restoring confidence in the domestic market and reversing a two-year slump in 2017, the bellwether Philippine Stock Exchange index (PSEi) again retreated to negative territory by -12.8%, closing at 7,466.02.

Shifting Gears

There were plenty of reasons the capital markets was in a bad shape, but the major culprit is VUCA – volatility, uncertainty, complexity, and ambiguity – which came in full display in 2018.

This market shift affected the financial performance of First Metro. Our consolidated net income fell by 57% to P503 million from P1.17 billion in 2017. This translated to a return on equity (ROE) of 3.5%, lower than the 7.9%, previously, while return on assets stood at 1.1% from the year-ago 2.2%.

During the year, our Investment Banking Group generated fee income of P322 million on the back of revenues from various deals. This represented a 15% increase from the P279 million generated in 2017.

For our Financial Markets Group (FMG), it was a difficult year for both debt and equities, with local rates shooting up by 58% and equity prices dropping by 12.8%. As such, after rebounding in 2017, FMG retreated to a P242 million net loss in 2018.

Our non-operating income stood at P352 million, 570% higher than the P52 million made the previous year. Our share of net earnings from First Metro subsidiaries and affiliates amounted to P769 million, 37% or P449 million lower than a year ago.

First Metro's total assets stood at P43.20 billion as of end-2018, lower by 19% from P53.60 billion in 2017. Capital funds increased by 6% to P14.89 billion from P14.10 billion. Our capital adequacy ratio under Basel III, however, remained at a healthy 60.8%, higher than the internationally prescribed 10%.

Amid the VUCA world we now live in, First Metro managed to seize pockets of opportunities that led to a good number of investment banking deals, seven of which were considered landmark deals for setting significant milestones and benchmarks, not just in the Philippine capital markets, but also in the region. The most notable of these are Metrobank's P60 billion stock rights offer, the first by any bank for 2018, deemed as one of the largest, fastest, and most successful rights offerings in the country; and ÆON Credit Service (Philippines), Inc.'s P1 billion fixed rate corporate notes issuance, the first-ever issuance under the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) in the country and only the second AMBIF issuance in the region.

Another solid testament to the way we navigate and thrive in this VUCA world is the string of awards and recognitions that First Metro clinched in 2018 from several prestigious organizations here and abroad.

Election Booster

While 2018 was fraught with many challenges in our operating environment, we at First Metro have renewed optimism that 2019 would turn out to be a better year. This confidence is anchored in the government's ability to sustain its public investments in infrastructure, improved consumer spending, and the May elections which has served as an economic stimulus in all elections the past 15 years.

The recovery in the manufacturing sector and rising tourist arrivals will also act as economic growth drivers, which may lead to the country's GDP expanding by 6.8% to 7.2%. Stability in our food supply and lower global oil prices could tame inflation to 3% to 3.5% this year. We also project cash remittances from overseas Filipino workers to be sustained at a 2% to 4% growth rate. Exports could recover at 4% to 8% despite their dismal growth in 2018 while imports are seen sustaining their double-digit growth of 10% to 14% on the back of strong government infrastructure spending and private investments. However, this rosy outlook is contingent on many factors, including the approval of the P3.757 trillion national budget for 2019 which threatens to drag overall economic growth if the programmed infrastructure spending gets delayed.

We maintain an upbeat outlook on the stock market, with the local index expected to rally between 8,400 and 8,800, with earnings per share growth of 10% and a price earnings ratio of 18-19x.

With all these indicators pointing towards a more favorable environment for capital raising and business opportunities, we should expect the volume of transactions in the Philippine capital markets to reach P824 billion or 51% higher than in 2018. If we are able to sustain our performance, which translated to deals that accounted for nearly half of the total publicly listed capital transactions in the country in 2018, First Metro should end the year on a higher note.

In this ever-challenging operating environment we are in, where expectations and conditions can change rapidly and economies are more interconnected, agility becomes paramount in our ability to meet our stakeholders' needs. In pursuit of our vision to be the Philippines' prime mover of capital, we must also be guided by a strong and steady moral compass that does not flinch or waver at the sight of quick gains. It is only by these principles that First Metro can survive in navigating the world we now call the "New Normal" and emerge as an enduring institution.

To paraphrase a good quote: "Endurance is not just the ability to bear a hard thing, but to turn it into opportunity and glory."

RABBONI FRANCIS B. ARJONILLO
President

Navigating the Volatility

The downturn in the capital markets affected the First Metro Group's financial performance in 2018. Its consolidated net income fell to P503 million in 2018 from P1.17 billion the previous year. Despite this setback, First Metro and its subsidiaries remain steadfast in the pursuit of opportunities for their clients and achieving operational efficiency.

	Consolidated		Parent Company	
	2018	2017	2018	2017
Profitability				
Total Net Interest Income	353,839,294	525,018,374	171,313,197	358,529,945
Total Non-Interest Income	797,954,200	1,592,645,586	693,249,773	703,274,912
Pre-tax Income	814,840,945	1,578,419,066	728,446,597	1,448,160,889
Provision for Income Taxes	311,929,934	386,592,941	225,413,332	273,215,616
Net Income*	503,033,265	1,174,945,273	503,033,265	1,174,945,273
Selected Balance Sheet Data				
Liquid Assets**	10,223,565,230	18,792,840,181	1,992,146,878	10,114,726,932
Gross Loans and Receivables	1,616,520,587	3,127,517,722	1,167,344,255	2,231,946,123
Total Assets	43,199,223,140	53,597,144,126	34,718,419,807	43,670,058,876
Bills Payable	16,222,302,558	25,714,692,549	16,222,302,558	25,911,978,184
Total Equity	14,893,868,192	14,096,557,347	14,802,683,926	13,995,923,806
Selected Ratios				
Return on Equity	3.46%	7.92%	3.46%	7.92%
Return on Assets	1.07%	2.16%	1.35%	2.61%
Capital Adequacy Ratio	60.79%	28.67%	67.00%	30.03%
Earnings per Share	1.35	3.15	1.35	3.15
Book Value	39.74	37.57	39.74	37.57
Others				
Cash Dividends Declared			-	2,849,965,777

Attributable to Equity holders of the Parent Company

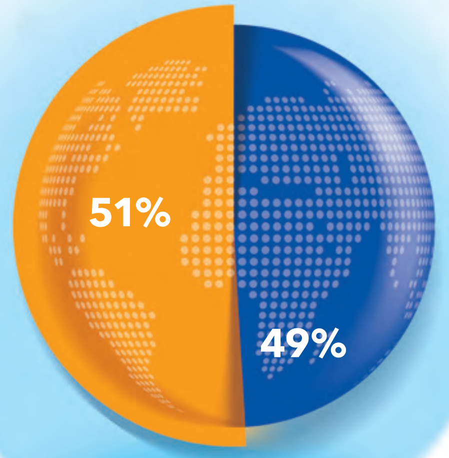
** *Consists of FVTPL, FVOCI, and AFS investments*

2018 Philippine Capital Markets

Market Share

₱546 billion
Industry

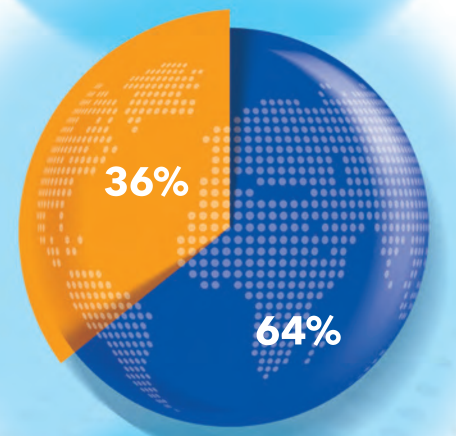
₱268 billion
First Metro



Bond Market Issuance

₱319 billion
Industry

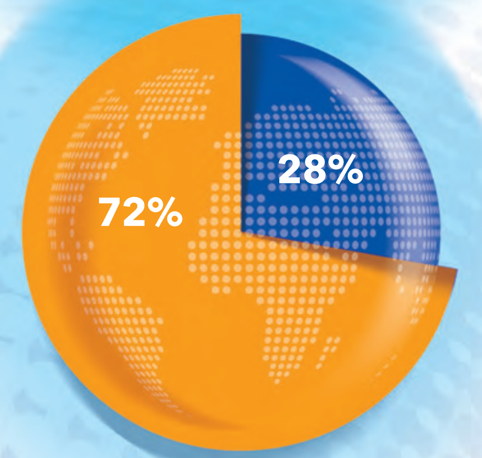
₱205 billion
First Metro



Equity Capital Markets

₱227 billion
Industry

₱63 billion
First Metro



First Metro Participation   Other Transactions

Based on publicly available information

Consistency Amidst Change

First Metro has consistently delivered on its commitment to its clients even in the face of evolving stakeholder demands in this ever-changing business environment. The numerous awards that First Metro and its subsidiaries received, and the partnerships forged in 2018, serve as proof points of this steadfast commitment to create value and fulfill its role as the prime mover in the Philippine capital markets.

Best in M&A and Equity

For the second consecutive year, First Metro was named the Best M&A House by *Alpha Southeast Asia* at the regional investment magazine's 12th Annual Best Financial Institution Awards. It also bagged the Philippines' Best Equity House award.

The awards recognized First Metro's participation in 60% of the total publicly listed capital markets transactions in the Philippines, raising P293.82 billion for the public and private sectors as of the awards coverage period.

In the equity space, First Metro completed two stock rights offerings (SRO), including the landmark P60 billion SRO of its parent company, Metrobank, where it acted as joint global coordinator, joint bookrunner, issue manager, and domestic lead underwriter. First Metro also served as joint lead underwriter in the P2.9 billion SRO of the Philippine Stock Exchange, Inc.

In mergers and acquisitions (M&A), First Metro served as buy-side financial advisor of Metrobank's acquisition of up to 40% stake (equivalent to P14.8 billion) in Metrobank Card Corporation, the country's leading provider of credit cards.

Benchmark Bond Deal

Alpha Southeast Asia also recognized First Metro for arranging the P1 billion debt issuance of ÆON Credit Service (Philippines), Inc. which it considered "a milestone deal for the region's bond market, let alone a feather in the cap of the Philippines." The regional investment magazine

said: "The deal not only plays a key role in fine-tuning the implementation of AMBIF (ASEAN+3 Multi-Currency Bond Issuance Framework) in the Philippines but also serves as an important benchmark for issuers that may seek to tap intraregional capital markets moving forward."

ÆON Credit also earned a special citation at the 2019 PDS Awards for being the pilot issuance in the Philippines under the AMBIF and the first non-reporting company and restricted issuer to enroll its securities in the PDEx-organized secondary market.

Bond Market Dominance

First Metro remains as the country's leading bond house as it received another slew of awards from *The Asset* Benchmark Research (ABR) of Hong Kong. In ABR's 2018 Asian Local Currency Bond Benchmark Review, First Metro ranked first as Top Arranger, Investors' Choices for Government Primary Issues. It also ranked 4th as Top Bank in Government Bonds. For corporate issuances, the investment house was 2nd in the category Top Bank in Corporate Bonds and 4th as Top Arranger, Investors' Choices for Corporate Primary Issues.

First Metro sales and trading officers were also voted as some of the Philippines' Best Local Currency Bond Individuals in Sales and Trading. Senior manager Mary Grace Ong-Singson and vice president David Ignacio Estacio were highly commended in sales and trading, respectively.

GSED Market Maker

First Metro emerged as the only investment bank in the top ten list of the top Government Securities Eligible Dealer (GSED) market makers in 2018. The commendation, given by the Bureau of the Treasury, was a recognition of First Metro's support to capital markets development through its presence in the primary and secondary markets for government securities.

Top Corporate Securities Market Maker

For eight years in a row, First Metro bagged the Top Corporate Securities Market Maker at the 2019 PDS Annual Awards. It also ranked 5th in two categories – Top 5 Fixed Income Dealing Participants and Top 5 Corporate Issue Managers/Arrangers (Investment House) – while its wholly owned subsidiary, First Metro Securities Brokerage Corporation (FirstMetroSec) ranked 4th in the Top 5 Depository Brokering Participants category.

The PDS Awards recognizes members of the investment community and market stakeholders that exhibit outstanding performance, leadership, innovation, and contributions to the robustness of the domestic capital markets from January to December 2018.

Deal of the Year

The Bureau of the Treasury's (BTr) P255 billion issuance of Retail Treasury Bonds (RTB) won Deal of the Year at the 2018 Investment House Association of the Philippines (IHAP) Awards. First Metro was one of the joint issue managers in BTr's biggest RTB issuance to date.

Gaining Recognition with FAMI's Funds

First Metro Asset Management, Inc. (FAMI) once 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. PIFA is a trade organization that represents mutual fund companies in the country.

For balanced funds, the Save & Learn Balanced Fund bagged first place in the 1-year and 10-year return categories. Among bond funds, the Save & Learn Fixed Income Fund won first place in the 10-year return category and 2nd place in the 5-year return category. The Save & Learn Equity Fund won 2nd place for the 10-year return category for equity funds.

Winning Broker Awards

For the second consecutive year, FirstMetroSec was awarded Best Broker in the Philippines by Hong Kong-based financial publishing firm *FinanceAsia* in its Country Awards for Achievement 2018. FirstMetroSec was recognized for its value traded that reached P160 billion, as well as its market share and reputation as one of the top local online stockbrokers in the Philippines. The company also received two recognitions from *International Finance*, a London-based publishing firm, as the Best Online Broker and Best Online Trading Platform.

Going Global with *The Market Call*

The Market Call, the monthly capital markets research publication of First Metro and the University of Asia and the Pacific (UA&P), now reaches a global audience, thanks to First Metro's content partnership agreement with international finance publication *FinanceAsia*.

The Market Call, which has been in publication for 11 years, is being carried by *FinanceAsia* in its website and printed magazine. This reinforces First Metro's thought leadership in the Philippine capital markets, and also promotes the Philippines to *FinanceAsia's* digital and print audience globally comprising of corporate CEOs, finance officers, bank and broker executives, fund managers, treasurers, fixed income and equity research analysts, and investors.

FinanceAsia is owned by Haymarket Media Group, a privately owned company based in London with over 700 market-leading brands in all forms of media across the globe.

Casting a Bigger Net with Bank of China

First Metro signed a memorandum of understanding (MOU) with the Bank of China (BOC), one of the four biggest state-owned commercial banks in China. The MOU establishes the business cooperation between First Metro and BOC in exploring further opportunities in Asia, adding more value to their respective clients and businesses. The key areas of collaboration between First Metro and BOC focus on the debt capital markets and debt-related transactions, which include debt securities underwriting and distribution, infrastructure finance, advisory services, and other business opportunities that will benefit both companies and their clients.

Establishing Turkish Business Links

First Metro and parent firm Metrobank jointly hosted a forum for Turkish business leaders to explore possible business synergies between the Philippines and Turkey. First Metro presented to the Turkish delegation the current state and prospects of the Philippine economy, as well as business and investment opportunities arising from the government's massive infrastructure projects.

As Turkey is targeting to double its trade and investments in the Philippines in 2-3 years, both Metrobank and First Metro could play a role in forging business alliances between Philippine and Turkish companies.

Riding on Consumer Confidence

FAMI officially launched its newest mutual fund, the First Metro Consumer Fund, which tracks the performance of the First Metro Index on MSCI Philippines IMI (First Metro Index). The First Metro Index was developed in partnership with globally renowned index provider MSCI, Inc. and launched in 2017.

The First Metro Index is meant to help Filipino investors multiply their investments with the guidance of a benchmark that captures the Philippine consumption-led growth story. With the rollout of the First Metro Consumer Fund, investors now have a tangible investment product to go to where they can benefit from the superior returns brought about by the robust Filipino household expenditure pattern.

The First Metro Consumer Fund is invested in a basket of securities comprising the First Metro Index, which is currently made up of 21 stocks with huge revenue exposure to industries that benefit from the Philippine family consumption expenditure pattern, such as food and beverage manufacturing, processing, fastfood and restaurants, mall development, communications, financial services, tourism, and transportation.

Turning OFWs into Savvy Investors

FirstMetroSec aims to increase the number of overseas Filipino workers (OFWs) investing in the Philippine stock market through the launch of its financial and investment literacy campaign, PINASimpleng Investments para Sa ating OFWs (PISO).

For the initial run of the PISO campaign, FirstMetroSec targeted those in Europe and the Middle East, where 65% of the total land-based OFWs are deployed. In partnership with the Ateneo Leadership and Social Entrepreneurship Program, and the Philippine embassies in the Netherlands and Belgium, FirstMetroSec conducted seminars for Filipino communities in Amsterdam, The Hague, and Brussels. The stockbroker also partnered with MADTalks for seminars in Doha, Qatar.

The seminars included discussions on managing one's personal finance, the basics of investing and how it differs from saving, and how to do fundamental and technical analyses. Dr. Alvin Ang, Ateneo economics professor and director of the Ateneo Center for Economic Research and Development (ACERD), talked about the state of the Philippine economy and how it can guide investing plans and decisions, the TRAIN Law and its effects on various sectors and industries, and the impact of a depreciating peso on the value of OFW remittances.

2018 Investment Banking Deals

Megawide GMR Construction JV, Inc.
PHP7,500,000,000
Term Loan Facility
Joint Mandated Lead Arranger
Bookrunner
March 2018

SM Prime Holdings, Inc.
PHP20,000,000,000
5- and 7-year
Fixed Rate Bonds
Joint Lead Underwriter
March 2018

San Miguel Corporation
PHP20,000,000,000
5-, 7- and 10-year
Fixed Rate Bonds
Joint Lead Underwriter
Joint Bookrunner
March 2018

The Philippine Stock Exchange, Inc.
PHP2,898,000,000
Stock Rights Offering
Joint Lead Underwriter
March 2018

Metropolitan Bank & Trust Company
PHP59,988,168,170
Stock Rights Offering
Joint Global Coordinator
Joint Bookrunner
Issue Manager
Domestic Lead Underwriter
April 2018

Bounty Fresh Group
PHP16,500,000,000
Syndicated PHP Term Loan and
USD Bridge Loan Facility
Joint Lead Arranger
May 2018

NLEX Corporation
PHP6,000,000,000
7- and 10-year
Fixed Rate Bonds
Joint Lead Underwriter
July 2018

Toyota Financial Services Philippines Corporation
PHP2,500,000,000
18- and 24-month
Fixed Rate Notes
Sole Arranger
August 2018

Ayala Land, Inc.
PHP8,000,000,000
5-year
Fixed Rate Bonds
Joint Lead Underwriter
Joint Bookrunner
October 2018

ORIX METRO Leasing and Finance Corporation
PHP2,600,000,000
18- and 24-month
Fixed Rate Notes
Sole Arranger
October 2018

Petron Corporation
PHP20,000,000,000
5.5- and 7-year
Fixed Rate Bonds
Co-Lead Underwriter
October 2018

ÆON Credit Service (Philippines), Inc.
PHP1,000,000,000
CGIF-Guaranteed
Fixed Rate Corporate Notes
(An AMBIF Issuance)
Sole Arranger
November 2018

Philippine Savings Bank
PHP3,000,000,000
18-month
Fixed Rate Notes
Arranger
December 2018

Braving Challenges in the 'New Normal'

If 2017 was a "tale of two halves," 2018 was a case of seeing the glass half full or half empty. However, if one thing is certain, it was that liquidity was tight for the most part of the year.

There were plenty of reasons to be dreary about in 2018. After coming off from a strong finish in 2017, the global economy started to lose its momentum when the United States imposed tariffs on imports from China and other major economies. This prompted retaliatory measures and increased protectionist rhetoric on trade. As uncertainty clouded the investment horizon, global trade and manufacturing started to slow.

"Despite these actions, the U.S. economy expanded at a fast pace in 2018, as tax cuts and spending stimulated demand. The U.S. Federal Reserve has continued to raise the policy interest rate as a result," the International Monetary Fund reported. The higher rates made the U.S. dollar mightier than most currencies, interest rate spreads started to widen and raised external borrowing costs in many emerging markets.

Another dark cloud loomed when the U.S. restored sanctions on Iran, OPEC's third-biggest oil producer, raising concerns about a supply squeeze in the oil market. This pushed up the prices of crude oil to as much as US$70 per barrel before dipping down in November and sparking fears of a global glut.

With the double whammy of rising interest rates and oil prices, the import- and oil-dependent Philippine economy was naturally not spared from the global beating in 2018. Plus, it had a lot of challenges of its own.

Higher oil and food prices, a weak currency, and the impact of the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Law drove up inflationary pressures. By August 2018, inflation had risen to an almost a decade high of 6.4% from 5.7% a month ago, averaging 4.8% in the first eight months of the year and exceeding the 2% to 4% target band of the Bangko Sentral ng Pilipinas (BSP). To keep inflation at bay, the country's central bank increased its key policy rates five times or a total of 175 basis points from May to November 2018.

A month prior to the first BSP policy rate hike, the Bureau of the Treasury (BTr) announced the issuance of its 21st tranche of Retail Treasury Bonds (RTBs), its first in 2018. While its initial offer size in May 2018 was only P66 billion, the BTr was able to sell P121.765 billion worth of three-year paper. Strong investor demand remained despite the fact that the BTr offered the RTBs twice in 2017 (April and December) and raised a total of more than P430 billion for the National Government.

In 2018, total capital raised in the domestic market amounted to P546 billion, dwindling nearly a quarter from P732 billion in 2017. Of the total, P319 billion came from debt issuances, which fell by 46%, while equity transactions amounted to P227 billion or more than 61% lower versus the previous year. With only one IPO listing on the Philippine Stock Exchange (PSE) and portfolio investment retreating to the U.S., the bellwether PSE index closed at 7,466.02, ending the year with a dismal -12.76%.

Despite these pockets of turbulence, which included growing trade and current account deficits, the Philippine economy managed to grow by 6.1% in GDP terms. While slower than the 6.7% pace in 2017, it was the seventh consecutive year that the domestic economy breached the 6% growth mark as the country starts to reap the so-called "demographic dividend" of a young population joining the labor force for the first time. Combined with a resilient source of dollar inflows – overseas Filipino workers' remittances – net foreign direct investments also boosted the economy. Net foreign direct investments, however, went down slightly by 4% to US$9.8 billion in 2018 from US$10.3 billion the previous year.

Agile and Nimble

For investment banks here and abroad, 2018 was a trying time marked with volatility, uncertainty, complexity, and ambiguity – what is now termed as the "VUCA" world. This, however, is no longer uncharted territory for First Metro, which has 55 years of experience in riding the Philippine economy's cycles of boom and bust. Its strategy was simple: adopt an agile and nimble stance to create value and opportunities for its clients even amid the challenging business environment.

Thus, out of the various investment banking deals that First Metro closed during the year, seven emerged as landmark deals, notably because of the transactions' size, as well as their pioneering nature and impact in the capital markets in the Philippines and in the region.

Metrobank's P60 billion SRO: A Banking Giant's Gargantuan Deal

Timing of execution made all the difference in the success of the P60 billion stock rights offering (SRO) of Metropolitan Bank & Trust Company (Metrobank) in April 2018. This is by far the largest in Southeast Asia, the largest equity raising by the Metrobank Group, as well as the largest in the Philippine history of deal making.

Before the market volatility prevailed during the second quarter of 2018, the parent company of First Metro was already positioned to take first-mover advantage for its largest equity capital raising exercise to date. The P60 billion deal was completed less than three months from announcement to listing, making it the fastest equity capital raising completed via SRO and enabling Metrobank to command a more attractive pricing than its competition, which also issued an SRO just weeks after.

Thanks to the broad support of Metrobank's existing strong shareholder base, the SRO was substantially oversubscribed when it was listed on the PSE on April 12, 2018. The offer to eligible shareholders of 799,842,250 common shares was priced at P75 per share. Metrobank believes the success of the offer represents a strong vote of confidence from investors in the bank and its strategy.

Despite its gargantuan size, the stock rights offer was managed by only two highly experienced investment banks, with First Metro as joint global coordinator, joint bookrunner, issue manager, and domestic lead underwriter; and UBS as joint global coordinator, joint bookrunner, and international underwriter.
DBS served as co-manager and co-underwriter.

The SRO enabled Metrobank to capitalize on the growth opportunities of large-cap corporations, the middle market, and small to medium enterprises (SME) segments. Proceeds also helped the bank fund its acquisition of the 40% equity stake in Metrobank

Card Corp., which it bought from ANZ in 2017. The final tranche of the transaction was completed in the third quarter of 2018.

In addition, Metrobank used the fresh capital from the SRO to keep its capital adequacy ratio (CAR) comfortably above the BSP's minimum ratio and meet Basel III requirements. By end-2018, the bank said its CAR stood at 17.0% and its Common Equity Tier 1 ratio at 14.6%

TFSPH, ORIX METRO, and PSBank's Month Fixed Rate Notes: Short but Sweet Deals

As the markets' roller-coaster ride continued to test the nerves of investors in the second half of 2018, First Metro saw the risk appetite shifting to shorter tenors. Thus, it started offering month fixed rate notes (MFNs) with tenors of 18 and 24 months, which proved attractive to institutional investors in search of investment alternatives to stave off the risks of market volatility and rising inflation.

The introduction of these notes allowed three companies under the Metrobank Group to take advantage of the prevailing liquid environment and obtained interest rates at desired levels even before the market turned.

First Metro successfully arranged the P2.5 billion fixed rate notes issuance of Toyota Financial Services Philippines Corporation (TFSPH). This represented the third tranche of the funding program launched in 2017 which enabled TFSPH to raise an aggregate amount of P6.5 billion. The issuance expands TFSPH's sources of funding while allowing it to manage its funding sources. It also enables the Metrobank Group to continue providing flexible and affordable financing services to Toyota customers and dealers.

TFSPH is owned by Toyota Financial Services Corporation – Japan and GT Capital Holdings, Inc. It is part of Toyota's network of sales finance companies that operates in over 35 countries worldwide. In line with Toyota Motor Corporation's global objectives, it supports Toyota sales in the Philippines through auto loans, finance lease, fleet financing, and other financing schemes.

The same shorter-tenor notes enabled ORIX METRO Leasing and Finance Corporation to raise P2.6 billion for its working capital and other funding requirements. Strong support from institutional and trust investors resulted in the notes' oversubscription of 1.3x — a testament to the positive investor sentiment in ORIX METRO, as well as its major shareholders, Metrobank and ORIX Corporation Japan.

The fundraising exercise helped ORIX METRO solidify its position in the industry as one of the country's most profitable leasing and financing companies. It ended fiscal year 2018 with P1.3 billion in net income after tax, an increase of 5.87% from the previous year that came on the heels of a challenging and volatile economic backdrop.

The company, owned by Metrobank (40%), ORIX Corporation of Japan (40%), and First Metro (20%), achieved a return on average equity (ROE) of 17.52% in 2018 and return on average assets of 3.16%.

Encouraged by the success of TFSPH and ORIX METRO, Philippine Savings Bank (PSBank) also braved the markets and issued its own MFNs in December 2018. The publicly listed thrift banking arm of the Metrobank Group became the first banking institution to avail of the product. The issuance was oversubscribed, with PSBank raising P3 billion or three times more than the original issue size of P1 billion. This success validated the existence of market demand for shorter-tenor debt instruments.

As the sole arranger for the three issuances, First Metro demonstrated its vast distribution capability and its intimate understanding of the domestic capital markets, which proved crucial to the success of the fundraising exercises.

ÆON Credit's P1 billion CGIF-Guaranteed Notes: Market Trailblazer

There's no better way to capture the 2018 landmark transaction of ÆON Credit Service (Philippines), Inc. than the popular phrase, "small is beautiful." And its beauty has several facets.

While the deal size is modest at P1 billion, the fixed rate corporate notes issuance offered in three- and five-year tranches was a significant milestone, not just for First Metro, but for the Philippines' and the region's capital markets. For one, it was the first-ever issuance under the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) in the country and the second AMBIF issuance in the region. AMBIF is a policy initiative under the Asian Development Bank's (ADB) Asian Bond Market Initiative that seeks to facilitate intraregional bond and note issuances by streamlining market practices, documentation, and disclosure requirements common among ASEAN+3 domestic bond markets. Since the framework was first published in 2014, there has been only one issuance done under AMBIF: the Thai baht-denominated bonds issued by Mizuho Bank Ltd. in September 2015.

The notes facility, solely arranged by First Metro, plays a key role in fine-tuning the implementation of a multi-currency bond framework in the Philippines. It sets the foundation for issuers to tap investors and foreign currencies across ASEAN+3 countries, and allows investors to participate in intraregional bonds and notes issuances.

"This landmark transaction is a testament to First Metro's relentless pursuit to develop the Philippine capital markets. Not only were we able to bring another new name like ÆON Credit to the capital markets, we are optimistic that this notes facility will pave the way for similar bond issues and encourage local issuers, particularly those looking to expand their regional presence, to tap the ASEAN+3 capital markets," First Metro president Rabboni Francis Arjonillo said.

In addition, the issuance was also the first fully-guaranteed debt facility of the Credit Guarantee and Investment Facility (CGIF) in the Philippines. CGIF is a trust fund of the ADB that seeks to provide credit enhancements, mainly in local currencies, issued by credit-worthy ASEAN+3-domiciled bond issuers.

The trailblazing deal was also the first security by a non-reporting company in the Philippine Dealing & Exchange Corp.'s (PDEx) system. As such, the issuance signifies the expansion of the Philippine capital markets to accommodate new types of issuers.

Aside from promoting investor knowledge and acceptance of the AMBIF in the domestic market, First Metro also sought support from the Securities and Exchange Commission and the Philippine Dealing System to facilitate the implementation of guidelines that allow companies covered by the 19-lender limit, such as ÆON Credit, to be enrolled on an exchange platform. The regulators' support was instrumental in the success of ÆON Credit's notes, which were more than three times oversubscribed with total orders reaching P3.25 billion. A total of seven noteholders participated in the transaction.

These reasons earned the "Benchmark Bond Deal" recognition from *Alpha Southeast Asia* which commended First Metro for arranging the P1 billion debt, "a milestone deal for the region's bond market, let alone a feather in the cap of the Philippines." ÆON Credit also earned a special citation at the 2019 PDS Awards for being the pilot issuance in the Philippines under the AMBIF and the first non-reporting company and restricted issuer to enroll its securities in the PDEx-organized secondary market.

ÆON Credit is a Philippine subsidiary of Japan-based retail giant ÆON Group of Companies. Proceeds from the notes issuance will be used to fund the growing loan portfolio of ÆON Credit, which provides vehicle and tricycle loans, personal loans and consumer product loans for Filipinos with typically limited access to banking services.

Bounty Fresh's P16.5 billion Outbound Deal: More Than Chicken

In a dreary year shrouded with a veil of uncertainty, the US$309 million (P16.5 billion) Bounty Fresh acquisition of Tegel Group Holdings Ltd. offered a glimmer of hope and excitement in the market.

Made through Bounty Fresh's subsidiary, Bounty Holdings New Zealand, at NZ$1.23 per share, the Tegel deal represented a 50% premium, said Tegel's independent chairman, David Jackson, in a letter to shareholders that was posted on the Australian Stock Exchange website.

The deal also follows a continuing "David versus Goliath" tale about Philippine companies making multi-billion purchases of companies overseas and jumping the global buyout bandwagon.
Founded in the 1980s, Bounty Fresh started as a one-layer house in Sta. Maria, Bulacan. From a 5,000-head chicken farm, the business grew to be one of the largest broiler integrators in the country. Continuous innovation and investment in technology and machinery enabled Bounty Fresh to establish a reputation as the country's only fully integrated poultry company and the first company to put up a single-stage commercial broiler hatchery, a technology that ensures better hatchery sanitation with controlled ventilation that will, in turn, produce better chick quality.

From making its flagship brand, Bounty Fresh Chicken, a household name, the company rolled out rotisserie outlets selling Chooks-to-Go, its oven roasted chicken brand, along with processed meat products, roasted pork belly, dressed chicken, and other derivative products. In just two years, Chooks-to-Go became the dominant market leader in the rotisserie business with close to 1,000 outlets.

Given that New Zealand is widely known for its high quality standards for dairy and other produce, Bounty Fresh's acquisition of Tegel is considered a groundbreaking deal for a Filipino company. Apart from being an iconic brand, Tegel is also New Zealand's largest exporter of chicken and is responsible for more than half of the country's poultry production. The acquisition, announced in April 2018, came at a challenging time for the New Zealand company struggling with a glut in domestic chicken supply.

First Metro acted as joint lead arranger for the P16.5 billion syndicated PHP term loan and USD bridge loan facility which helped Bounty Fresh take majority control of Tegel.

Megawide GMR Construction JV, Inc.'s P7.5 billion Facility: Jumpstarting PPP

At first glance, there was nothing especially remarkable about the P7.5 billion term loan facility of Megawide GMR Construction JV, Inc., the joint venture between Megawide Construction Corporation and GMR Group of India.

What qualified it as a landmark deal, however, is not its size, but its significance. The term loan facility will be used to finance the construction of the new terminal building of the Clark International Airport in Mabalacat, Pampanga – the first public-private partnership (PPP) under the Duterte administration's massive "Build Build Build" infrastructure program. First Metro was tapped as joint mandated lead arranger and bookrunner for the P7.5 billion term loan facility.

The new 101,977-square meter terminal would increase Clark International Airport's capacity from the present 4.2 million to 12 million passengers per annum by 2020. The bulk of passengers arriving at and departing from the Ninoy Aquino International Airport in Manila are expected to be reduced as some flights will be directed to Clark upon the completion of the expansion project.

The Clark International Airport terminal building is the second joint venture airport construction project in the Philippines between Megawide and the GMR Group. In 2014, the consortium also won the operations and maintenance of the country's second busiest gateway, the Mactan-Cebu International Airport.

Making a Difference in a Changing World

In good or in bad times, First Metro recognizes its corporate social responsibility (CSR) to help improve the quality of life in local communities. Promoting investment and financial literacy, access to education, good health, and spiritual well being are important company goals that go beyond meeting bottom line targets.

MAKING NUMBERS MATTER

2018 Economic Briefings

First Metro held six economic briefings – two in Manila, two in Davao, and two in Cebu – for clients and investors in 2018. It also conducted two economic briefings for the media. The events gathered a total of 1,480 participants. With the theme, "Stepping on the Pedal, Accelerating Growth," the briefings enabled First Metro to present its analyses and outlook on the Philippine and global economies. These also served as venue to unveil the company's outlook for the fixed income, equities, and corporate debt markets, as well as those for corporate issuances and emerging growth industries.

Running for a Cause

First Metro remained an active participant in the annual marathon organized by the Philippine Stock Exchange. This activity aimed to raise the level of stock market awareness and financial literacy among the general public, and promote camaraderie among stock market participants such as the listed companies, trading participants, investors, and various stakeholders. Sixteen First Metro employees took part in the 13th PSE Bull Run which was held on January 14, 2018.

Twenty First Metro employees also took part in the 6th Founder's Run of Manila Tytana Colleges held on February 10, 2018. The annual event aimed to raise funds for the scholarship of incoming senior high school students of Manila Tytana Colleges. Event participants were composed of students, faculty, administrators, alumni, employees, and their families and friends, together with participants from the Metrobank Group.

FAMI Literacy Sessions

First Metro Asset Management, Inc. (FAMI), a First Metro subsidiary, supports the company's CSR advocacy on investment literacy to transform Filipinos from being mere savers into intelligent investors.

In 2018, FAMI mounted over 92 investment literacy sessions nationwide that drew more than 3,961 participants, including students, teachers, bank employees, and people of varying backgrounds. Through these financial literacy sessions, FAMI is helping raise awareness and imparting the importance of setting financial goals.

FirstMetroSec Financial and Investment Literacy Seminars

First Metro Securities Brokerage Corporation (FirstMetroSec), the stockbrokerage arm of the Metrobank Group and a wholly owned subsidiary of First Metro, continued to reach out to Filipinos nationwide through its series of financial and investment education seminars. In 2018, FirstMetroSec conducted a total of 60 seminars that benefited 8,918 senior high school, college and post-graduate students, faculty members, employees of private firms and local government units, government-owned and –controlled corporations, small and medium enterprises and their clients, and overseas workers.

REACHING OUT TO COMMUNITIES

Giving the Gift of Sight

The company sustained its Bigay Liwanag vision care project, a program under its CSR platform dubbed "First Metro Inspires Cares", by donating prescription glasses to a total of 241 students in Bacood Elementary School, Margarita Roxas de Ayala Elementary School, and Silahis ng Katarungan Special School in 2018. The eye check-ups were conducted by Dr. Ederlinda Marquez of Marquez Optical. Bigay Liwanag has already benefitted more than 3,000 children since its inception 11 years ago.

Sharing Its Blessings

First Metro joined the Metrobank Group to celebrate the Chinese New Year with the Bags of Blessing project on February 16, 2018 at Lancaster New City in Imus, Cavite.

A brainchild of the late Metrobank Group founder and chairman Dr. George S.K. Ty, Bags of Blessing is a series of gift-giving activities in select areas nationwide catering to underprivileged families. Instead of the traditional *ang-paos* (red envelopes containing cash), the Group distributed P10 million worth of food packages to 10,000 families in 21 cities and municipalities nationwide. Beneficiaries were carefully selected from the National Household Targeting System for Poverty Reduction of the Department of Social Welfare and Development.

Honoring Teachers

First Metro joined the Department of Education and Metrobank Foundation in honoring the modern-day unsung heroes – the teachers – and acknowledging their crucial role in developing globally minded students and shaping the future of the nation. Aside from giving thank you cards to teachers and featuring inspiring stories of teachers for the entire month of September during its flag ceremony, a fundraising activity dubbed "Isang Daang Piso mula sa Puso para sa mga Guro" was also carried out during the month-long celebration. Employees of the First Metro Group raised funds to buy gifts and tokens for the teachers of Margarita Roxas de Ayala Elementary School. A financial literacy seminar for teachers was also conducted in the same school.

Walking the Talk

First Metro also participated and contributed in the annual ANCOP Global Walk which aimed to initiate and create opportunities that will help the poorest of the poor in society in terms of educational scholarship programs. The event was organized by the Couples for Christ Global Mission Foundation, Inc. through its work with ANCOP (Answering the Cry of the Poor).

Good Governance Beyond Compliance

First Metro's corporate governance is a reflection of its value system, which encompasses its culture, policies, and relationships with stakeholders. Considered the core of its corporate governance philosophy are integrity and transparency which ensures that the trust of stakeholders are preserved at all times.

COMPLIANCE

Manual on Corporate Governance and Amendments

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

Last revised in June 2018, the Manual includes amendments to the Manual of Regulations for Non-bank Financial Institutions introduced by BSP Circular No. 970 (Enhanced Guidelines for BSP-supervised Financial Institutions). Significant changes, among others, involve the inclusion of the qualification of officers which is aligned with the parent bank and addresses the requirements of BSP Circular No. 970.

Board of Directors

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

The Board is committed to upholding the highest principles of good corporate governance. It is guided by the principles of fairness or equity, accountability, and transparency, not only in promoting the interest of stockholders but also that of its stakeholders. The members of the Board shall exhibit honesty and integrity, diligence and dedication, efficiency and effectiveness, loyalty and fidelity, adherence to sound business practices and the rule of law, as well as fairness and equity to all. They are accountable to shareholders for maximizing shareholder value and also to the investing public for safeguarding investments and maintaining trust.

It is the Board's responsibility to foster First Metro's long-term success and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it exercises in the best interest of the company, the shareholders, and other stakeholders. The Board discharges its duties, functions, and responsibilities under the provisions of the relevant regulatory agency rules and regulations. It is also tasked to approve and oversee the implementation of First Metro's strategic objectives, risk strategy, corporate governance, and corporate values.

The Board exercises control over First Metro's corporate powers, the conduct of the company's business, and all of its properties. The directors are charged with the duty to exercise sound and objective judgment for the best interest of the company.

Board Composition

The Board is composed of nine directors (three of whom are independent) elected by 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 its compliance with all relevant regulations relative to the election of directors and that they remain fit and proper for the duration of their term as members of the Board.

Role of the Chairman

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

Role of Independent Directors

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

In 2018, First Metro's independent directors were Rufino Luis T. Manotok, Raphael Perpetuo M. Lotilla, and Philip G. Soliven. The company is compliant with the required number of independent directors and each is within the term limit prescribed by the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP).

The three independent directors do not participate in the company's day-to-day affairs and do not engage in any business dealings or other relationships 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.

Name of Directors	Type of Directorship	Principal Stockholder Represented if Nominee	Years Served as Director	Direct and Indirect Shares Held	Percentage of Shares Held to Total Outstanding Shares of the QB
Francisco C. Sebastian	Executive	Metrobank	22	10	0.0000027%
Arthur Ty	Executive	Metrobank	7	100	0.0000268%
Rabboni Francis B. Arjonillo	Executive	Metrobank	4	100	0.0000268%
Martin Q. Dy Buncio	Non-Executive	Metrobank	24	1,100	0.0002953%
Ismael G. Cruz	Non-Executive	Metrobank	11	100	0.0000268%
Joshua E. Naing	Non-Executive	Metrobank	4	100	0.0000268%
Raphael Perpetuo M. Lotilla	Independent Director	Metrobank	5	100	0.0000268%
Rufino Luis T. Manotok	Independent Director	Metrobank	5	100	0.0000268%
Philip G. Soliven	Independent Director	Metrobank	1	100	0.0000268%

Top 20 Stockholders as of December 31, 2018

	Name of Stockholder	No. of Common Shares Held	Ratio (%) to Total Amount Subscribed	Nationality	Voting Status
1	Metropolitan Bank & Trust Co.	369,737,060	99.228%	Filipino	Yes
2	Jose G. Cuaycong	85,320	0.023%	Filipino	Yes
3	Apolinario O. Per	60,800	0.016%	Filipino	Yes
4	Juan G. Yu and/or Grace C. Yu	57,350	0.015%	Filipino	Yes
5	Lea Lee Dudan	49,500	0.013%	Filipino	Yes
6	Rosalina T. Suarez	43,386	0.012%	Filipino	Yes
7	John Peter C. Yu and/or Juan G. Yu	38,800	0.010%	Filipino	Yes
8	Asilo De San Vicente De Paul	38,080	0.010%	Filipino	Yes
9	Juan Yu and/or John Philip Yu	33,480	0.009%	Filipino	Yes
10	A. P. ITF Madrigal	32,640	0.009%	Filipino	Yes
11	Pura Lim Aco	30,920	0.008%	Filipino	Yes
12	Esperanza M. Calingo	30,780	0.008%	Filipino	Yes
13	Trinidad Ramirez	26,120	0.007%	Filipino	Yes
14	Antonio J. Montinola	24,760	0.007%	Filipino	Yes
15	Inter-Islands Insurance Agency	24,720	0.007%	Filipino	Yes
16	Arch. Jose Ma. Cuenco Foundation	24,400	0.007%	Filipino	Yes
17	Jose Rodriguez, Jr.	21,200	0.006%	Filipino	Yes
18	Ma. Encarnacion Suarez	21,120	0.006%	Filipino	Yes
19	Trusteeship, Inc.	20,000	0.005%	Filipino	Yes
20	Maria Lourdes Tuason	19,240	0.005%	Filipino	Yes

Board Meetings

The Board of Directors meets every month, with additional meetings convened as needed. During the reporting period, the Board met 12 times to take up significant matters.

In 2018, all directors complied with the requirement that they attend at least 50% of Board meetings, as prescribed by the SEC and the BSP.

Attendance in Board and Committee Meetings

Name of Directors	Board		Executive Committee		Corporate Governance and Compensation Committee		Audit Committee		Risk Oversight Committee		Nominations Committee		Related Party Transactions Committee	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Francisco C. Sebastian	12/0	100%	7/0	100%							1/0	100%		
Arthur Ty	12/0	100%	7/0	100%							1/0	100%		
Rabboni Francis B. Arjonillo[a]	12/0	100%	7/0	100%	3/0	100%								
Martin Q. Dy Buncio	12/0	100%			7/0	100%			10/0	100%				
Ismael G. Cruz[b]	11/1	92%			4/0	100%							14/1	93%
Joshua E. Naing	12/0	100%							10/0	100%				
Raphael Perpetuo M. Lotilla	12/0	100%			6/1	86%	5/0	100%	4/2	67%	1/0	100%	15/0	100%
Rufino Luis T. Manotok	12/0	100%			7/0	100%	5/0	100%	9/1	90%				
Philip G. Soliven[c,d]	9/0	100%			3/1	75%	2/0	100%	6/0	100%			9/1	90%

Legend : Present/Absent

[a]Appointed from CGCom member to Resource Person on April 27, 2018
[b]Appointed as CGCom member on April 27, 2018
[c]Appointed as Director on April 27, 2018
[d]Appointed as CGCom, Auditcom, ROC, and RPTC member on April 27, 2018

Board Committees

Board-level committees aid the Board in complying with the principles of good corporate governance and in the performance of its corporate functions and responsibilities. Each committee has its own charter detailing its purpose, membership requirements, meetings, and duties and responsibilities. The 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
Vice Chairman	Arthur Ty
Member	Rabboni Francis B. Arjonillo
Advisers	Carmelo Maria L. Bautista
	Mary Mylene A. Caparas

The **Corporate Governance and Compensation Committee** assists the Board in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value and protecting shareholders through effective oversight and observance of corporate governance practices and principles, among others. It is tasked with establishing a formal and transparent procedure in determining the remuneration of directors and officers, consistent with First Metro's culture, strategy, business environment, and industry practice. The committee is composed of five directors; three of whom, including the chairman, are independent. It convenes once every two months or as often as necessary.

Corporate Governance and Compensation Committee	
Chairman	Raphael Perpetuo M. Lotilla
Members	Martin Q. Dy Buncio
	Ismael G. Cruz
	Philip G. Soliven
	Rufino Luis T. Manotok

The **Audit Committee** oversees senior management in establishing and maintaining an adequate, effective, and efficient internal control environment. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. It is composed of three independent directors and meets at least once every quarter. Pursuant to BSP Circular No. 749, the CEO, CFO, and treasurer are not part of the Audit Committee.

Audit Committee	
Chairman	Rufino Luis T. Manotok
Members	Raphael Perpetuo M. Lotilla
	Philip G. Soliven

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 2018, the ROC convened ten times. It is composed of five directors, three of whom, including the chairman, are independent.

Risk Oversight Committee	
Chairman	Philip G. Soliven
Members	Martin Q. Dy Buncio
	Rufino Luis T. Manotok
	Raphael Perpetuo M. Lotilla
	Joshua E. Naing
Resource Persons	Rabboni Francis B. Arjonillo
	Happy Mar S. Lomigo

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

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

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

Related Party Transactions Committee	
Chairman	Raphael Perpetuo M. Lotilla
Members	Ismael G. Cruz
	Philip G. Soliven
Resource Person	Representative of Internal Audit Group

Performance Assessment Program

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

Orientation and Education Program

All first-time directors must have attended a special seminar on corporate governance for board of directors conducted by accredited training providers. In addition, First Metro requires continuing education for directors. To ensure that the Board is equipped to provide effective governance and oversight, First Metro shall liaise with external training providers for appropriate and relevant training and seminar for directors. First Metro may also provide its own internal training for directors or coordinate with Metrobank for the conduct of the internal training.

In 2018, First Metro hosted the First Metro Group Annual Seminar on Anti-Money Laundering, Corporate Governance, Cybersecurity and Data Privacy, which was attended by the directors, senior officers, and representatives of the First Metro Group, GT Capital Holdings, and Metrobank Group of Companies.

Remuneration Policy

As outlined in the standard remuneration policy, the Directors 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 the company's performance.

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

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

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

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

Disclosure and Transparency

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

First Metro makes timely disclosures of all material information, such as earnings results, the acquisition or disposal of significant assets, amendments to its charter, 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 its stockholders. In addition, periodic reports are also submitted to the BSP and the SEC.

Policies and Procedures on Related Party Transactions

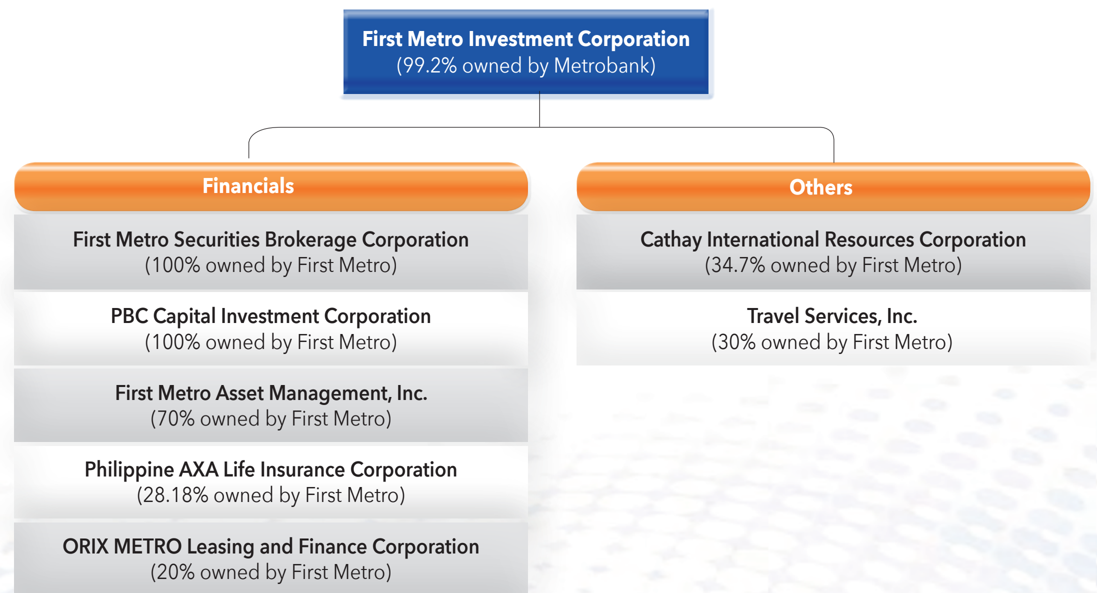
The latest Related Party Transactions (RPT) Policy was amended and approved by the Policies Committee on December 5, 2018 and confirmed by the Senior Management Committee on December 17, 2018. The RPT Committee reviews material RPTs and ensures that the terms are no less favorable to First Metro than to any non-related party under the same or similar circumstances.

First Metro recognizes that engaging in RPTs have economic benefits to individual entities and to the entire First Metro and Metrobank Group. As such, RPTs are generally allowed, provided these are done on an arm's length basis, transactions are regularly monitored, appropriate steps are taken to control or mitigate the risks, and transactions are done in accordance with the RPT policy guidelines.

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

As defined in the RPT Policy, material RPTs are those that cross the threshold amount of P1 million. For 2018, the material RPTs are the following:

(1) Metrobank's P60 billion stock rights offering;
(2) NLEX Corporation's P3 billion fixed rate corporate bonds issuance;
(3) ORIX METRO Leasing and Finance Corporation's 24-month fixed rate notes issuance of up to P3 billion;
(4) Toyota Financial Services Philippines Corporation's 18-month and 24-month fixed rates notes issuance of up to P3 billion;
(5) PSBank's 24-month fixed rate notes issuance of up to P3 billion; and
(6) Financial advisory to GT Capital Holdings, Inc.



Senior Management Committee

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

Remuneration Policy

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

Succession Management Program
First Metro ensures highly qualified replacements for officers who currently hold positions essential to the company's success in the event these officers are separated from office. Under the First Metro Succession Management Program (SMP), incumbent unit heads are to prepare the identified deputy/successor to assume the position before their separation or retirement date. The officers-in-charge in cases of prolonged or permanent absences of key officers or employees are also identified through the SMP, and any change in the company's organizational structure is immediately addressed. The implementation of the SMP will ensure the preservation, continuity, and resiliency of First Metro's operations, considering an adequate transition among incumbents and the availability of external talents.

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

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

Dividends are declared and paid out of unrestricted retained earnings of the company at such intervals as the Board may determine and in accordance with the provisions of law and the regulations of the BSP and the SEC. The payment of dividends in the future will depend on the company's earnings, cash flow, financial condition, regulatory requirements for capital, and other factors. The Board may, at any time, modify First Metro's dividend payout ratio depending on the results of operations and future projects and plans of the company.

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

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

The compliance system is embodied in the updated compliance system manual duly approved by the Board in December 2016 and regularly reviewed to conform with the latest trends and adopt new/amended regulations, particularly BSP Circular No. 972. The latest amendments to First Metro's Compliance System Manual was approved by the Policies Committee on November 14, 2018 and confirmed by the Senior Management Committee on November 22, 2018.

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

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

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

First Metro submitted a Certification on Compliance with the Manual on Corporate Governance on January 14, 2019 covering the calendar year 2018 to SEC.

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

The company adopted its own Money Laundering and Terrorist Financing Prevention Program (MLPP), approved by the Board. The program applies to First Metro, its existing/future branches, including subsidiaries.

First Metro regularly reviews and updates its program to incorporate changes in anti-money laundering (AML) policies and procedures, latest trends in money laundering and terrorist financing typologies, and latest pertinent regulatory issuances. In 2018, the company embarked on initiatives to comply with BSP Circular No. 1022, which amended the Manual of Regulations for Banks/Manual of Regulations for Non-Bank Financial Institutions and Circular No. 980 dated November 6, 2017.

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

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

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

Consumer Protection Practices
The Board shall be primarily responsible for approving and overseeing the implementation of First Metro's consumer protection policies, as well as the mechanism to ensure compliance with these policies. Senior Management is responsible for the implementation of these policies.

First Metro developed its own Consumer Protection Risk Management System (CPRMS), which identifies, measures, controls and monitors consumer protection risks inherent to both the company and its financial customers. The CPRMS serves as the foundation for ensuring First Metro's adherence to consumer protection standards, and conduct and compliance with consumer protection laws, rules, and regulations.

As required by BSP Circular No. 857, First Metro's consumer protection policies and procedures are embedded in the policies and procedures manuals of the strategic business units, the Information Security Department, and the Human Resources Division, among others.

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

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

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

In compliance with the SEC mandate, First Metro yearly files its Annual Report on the Chinese Wall Rule. First Metro submitted the report on March 15, 2019.

RISK MANAGEMENT

Enterprise-wide Responsibility

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

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

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

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

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

The ERM framework is guided by the following functional structure:

Board of Directors

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

Risk Oversight Committee (ROC)

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

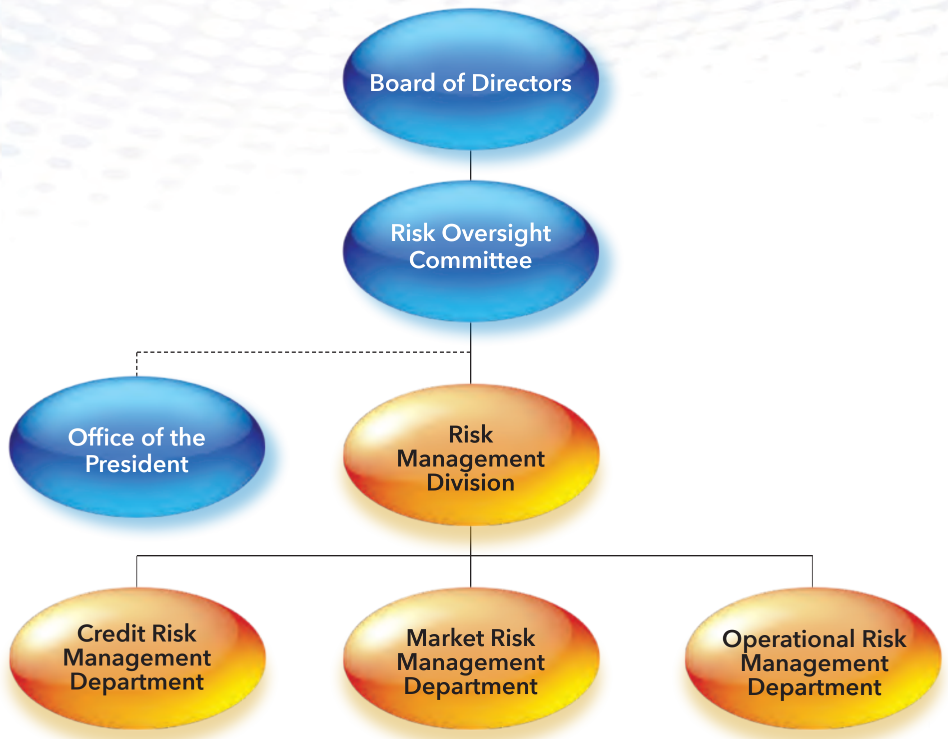
The ROC Charter defines the duties and responsibilities of ROC members and their reporting functions to the Board, including the membership composition and regularity of meetings. The ROC:

- oversees the risk management framework;
- oversees adherence to risk appetite;
- oversees the risk management function;
- approves and recommends for confirmation by the Board of Directors corporate policies and guidelines for risk management and reporting;
- reviews and recommends a system of risk limits for approval/confirmation by the Board;
- monitors the timely and accurate reporting of risks by the strategic business units/risk-taking units and/or the strategic support units;
- evaluates the magnitude, direction and distribution of risks across the company and its subsidiaries/affiliates;
- analyzes and confirms that the risk infrastructure satisfies corporate policies and is consistent with current technology and techniques;
- promotes the continuous development of risk programs and infrastructure;
- ensures that business units provide for ongoing review and validation of the adequacy and soundness of policies and procedures;
- 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;
- works closely with the Corporate Governance Committee in evaluating the incentives created by the remuneration system;
- engages in any other activity or responsibility that may be delegated by the Board of Directors.

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

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

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



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

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

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

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

The following shows the risk appetite of the company as can be seen in its 2018 Internal Capital Adequacy Assessment Process (ICAAP) document:

Risk Type	Current Limits
Credit	Transactional, ceilings to SBL & Real Estate exposures, counterparty limits, concentration risk limits
Market	Set of position and portfolio limits
Interest Rate Risk in the Banking Book	EaR limits
Liquidity	MCO limits
Operational	Thresholds for various KRI
Reputational	None
Compliance/ Anti-Money Laundering	KRI threshold for Regulatory Compliance
Related Party Transaction	Transactional, set of internal ceilings
Legal	KRI threshold for Contingent Legal Liability
Strategic	VaR, EaR, Stop Loss Limits, etc.
Underwriting	Transactional

Managing Various Types of Risk
The risk issues that affect First Metro are the following:

Risk Type	Description	Action Taken by First Metro
Liquidity Risk	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 MCO analysis, identification of large funds providers, and development of core investors. To strengthen the company's monitoring system, it created additional stressful scenarios in its analysis to comply with the requirements of the BSP.
Interest Rate Risk in the Banking Book	Interest rate risk is a company's exposure to adverse movements in interest rates. Interest rate risk in the banking book more specifically refers to the current or prospective risk to the company's capital and earnings arising from adverse movements in interest rates that affect its banking book positions.	At present, First Metro primarily assesses interest rate risk exposure in the book by way of an Interest Rate Re-pricing Gap analysis and EaR. These tools are further supplemented by performing sensitivity analysis or earnings simulation over specified rate shocks.

Risk Type	Description	Action Taken by First Metro
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 the company's overall portfolio, both on- and off-balance sheet. Market risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange and equity.	The company has an existing framework to measure market risk. The RMD 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 their 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. Management of concentration risk includes compliance with external and internal ceilings approved by the Board, as well as stress testing analysis. The RMD also regularly undertakes and reports credit monitoring of risk areas to the ROC covering the exposures of First Metro and its subsidiaries.
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 First Metro's resolve to effectively manage operational risk via a staged approach. Clear-cut principles and guidelines are stipulated in the ORM manual. The company implemented a structured five-year information systems strategic plan approved by the Board that is in sync with its strategic business direction. It 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 First Metro's 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 chief 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 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.
Strategic Risk	Strategic risk is the exposure to losses resulting from a business decision that turns out to be defective or inappropriate. Strategic risk may also be defined as current and prospective impact of strategic initiatives made by management arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	First Metro uses the following methods of strategic risk management: • business planning • financial planning • variance monitoring of approved budget • plans implementation • market analysis • readjustment of plans

INTERNAL AUDIT

The 2018 risk-based audit plan, approved by the Audit Committee (AuditCom) before the start of the year, was developed through a detailed and comprehensive evaluation of First Metro's strategy, attendant risks, and significant regulatory requirements, as well as other factors which may affect its delivery. The plan is revisited quarterly and changes, if any, are approved by the AuditCom. The audit plan developed by the outsourced internal audit covers all critical business areas, control activities, regulatory requirements, and emerging risks, which enables the Internal Audit Activity (IAA) to render an overall assessment on the adequacy and effectiveness of the company's governance, risk management, and internal control processes.
The completion of the audit plan complemented the oversight function of the Board of Directors (BOD), the AuditCom and the Senior Management, supported management initiatives, and encouraged system and process improvements.

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

The IAG ensures that its methodologies and approaches are in conformity with the International Standards for the Professional Practice of Internal Auditing and regulations, including advancements with the changing business environment. To adapt with and meet the demands for assurance and consulting services, audit skills and knowledge are continuously developed and elevated through formal training and validation, especially on technical and specialized topics (e.g., financial markets, anti-money laundering, risk management, information technology, related party transactions, financial consumer protection), that 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 Controllership and Planning 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 2019, this will extend to other monitoring and support functions to optimize and expand the use of available systems and work products.

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

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) has discharged its responsibilities and affairs independently in compliance with its Board-approved Charter which was last amended on July 19, 2017, and assisted the Board of Directors (BOD) in fulfilling its statutory and fiduciary responsibilities to enhance stakeholders' value and protect their interest by: providing effective oversight on the Bank's financial reporting framework, internal and external audit functions; monitoring and evaluating the adequacy and effectiveness of internal control system, and implementation of corrective actions; and investigating issues/concerns raised.

The Committee, composed of three (3) members, who are all independent directors, held five (5) regular meetings with external auditor and internal auditor over financial reporting and internal operational matters during the year 2018. The Committee periodically reported to the Board results of its reviews and activities, and also met with the Board without the presence of the chief executive officer, executive directors or other management team. Moreover, Committee members hold concurrent roles in other Board-level Committees, through which, they are apprised of significant developments and are able to provide advice on risk taking and management activities. The meetings of the Committee are designed to facilitate and encourage communication among the Committee, the company, internal audit function and independent auditor. In 2018, the Committee comprehensively deliberated the following matters:

Financial Reporting
Reviewed and discussed the interim and audited financial statements and the related schedules and disclosures in the Annual Report with First Metro Management, including valuation techniques (i.e., financial instruments), estimates and assumptions used (i.e., allowance and liability provisioning), and impact of significant plans, new accounting standards and regulations, particularly on the adoption of Philippine Financial Reporting Standards (PFRS) 9 business models and techniques.

Internal Control and Fraud Prevention
Evaluated and monitored management's plans and actions taken to improve internal controls on trading financial markets and investment banking processes; conducted extensive discussions with the internal and external auditors on governance, internal controls, and fraud prevention resulting in enhanced internal control, improved audit programs and processes; and, assessed the company's programs to: continuously convey a culture of honesty and integrity; ensure effectiveness of the whistleblowing program; and encourage employees to proactively report improprieties.

Regulatory Requirements
Evaluated the results of IAG's review on the adequacy and effectiveness of the company's Anti-Money Laundering framework, financial consumer framework, handling of related party transactions, business continuity management, and information technology and information security risk assessment.

Information System Controls & Cyber Security
Reviewed the results of vulnerability assessment on the company's networks, systems, servers and devices; and monitored rectification of IT-related weaknesses to prevent exposing the company's systems and data to unauthorized access and manipulation, and improve operational efficiency.

Oversee the External and Internal Auditors
Ensured the external and internal auditors' objectivity, independence and qualifications; approved the appointment, re-appointment of internal/external auditors, terms of engagement and audit fees; evaluated scope, plan and performance; regularly received reports, discussed significant matters, including status of resolving control issues, and implementation of recommendations to improve internal controls; reviewed and discussed the impact of PFRS 9 conversion project; and, discussed adoption of successful practices to enhance the effectiveness of the Audit Committee's governance function.

Based on the Committee's accomplishments, representation letter from the company management, an unqualified opinion from the external auditor on the financial statements, and Chief Audit Executive's positive overall assessment on the adequacy and effectiveness of the Bank's internal control, risk management, and governance processes, the Audit Committee concludes that business risks are managed in accordance with the BOD-set policies and in compliance with relevant regulatory requirements.

Rufino Luis T. Manotok Chairman	Raphael Perpetuo M. Lotilla Member	Philip G. Soliven Member

Board of Directors


Francisco C. Sebastian
Chairman


Arthur Ty
Vice Chairman


Rabboni Francis B. Arjonillo
President & Director


Ismael G. Cruz
Director


Martin Q. Dy Buncio
Director


Joshua E. Naing
Director


Rufino Luis T. Manotok
Independent Director


Raphael Perpetuo M. Lotilla
Independent Director


Philip G. Soliven
Independent Director

Francisco C. Sebastian
Chairman
65, Filipino

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

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

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

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

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

Rabboni Francis B. Arjonillo
60, Filipino
President & Director

Mr. Arjonillo was appointed president and director of First Metro on January 1, 2016. He is concurrently the chairman of First Metro Securities Brokerage Corporation. He has more than three decades of extensive international and local banking experience.

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

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

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

Mr. Arjonillo 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
74, Filipino
Director

Mr. Cruz has over 30 years of experience in investment banking in the Philippines and in 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 governor of the Philippine Stock Exchange and the Makati Stock Exchange for several years. He was also 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.; an independent director of Penta Capital Investment Corp.; the founder and president of IGC Securities, Inc.; and the 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
54, Filipino
Director

Mr. Dy Buncio has served as a director since 1995 and brings with him over 23 years of experience in interdisciplinary management.

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

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

Joshua E. Naing
58, Filipino
Director

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

From 2013 to present he has been the head of the Financial Control Sector of Metrobank. Concurrent to his position as senior executive vice president of Metrobank, he also serves as director of Manila Medical Services , Inc. since April 2018, 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.

Rufino Luis T. Manotok
68, Filipino
Independent Director

Mr. Manotok held several key positions at Ayala Corporation: senior managing director, chief financial officer, chief information officer, and head of Strategic Planning Group. He was also a member of the Senior Management Committee of the Ayala Group of Companies. 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 Advanced Management Program of Harvard Business School.

Raphael Perpetuo M. Lotilla
59, Filipino
Independent Director

Mr. Lotilla remains active in policy studies. He currently serves as a trustee of the Philippine Institute for Development Studies, and chairs the board of the Center for the Advancement of Trade Integration and Facilitation and of the Asia-Pacific Pathways to Progress Foundation.

Mr. Lotilla is an independent director of several private companies and foundations, and sits as a member of the advisory board of the Ateneo de Manila University Professional Schools.

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

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

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

Philip G. Soliven
57, Filipino
Independent Director

Mr. Soliven is the president and country representative of Cargill Philippines, Inc., the main operating company and the parent company of Cargill's various businesses in the Philippines. He is also the commercial director for various Food Ingredients and Bio-Industrial (FIBI) businesses and the president of Philippine Bio-Industries, Inc., a Cargill joint venture. He also represents Cargill on the board of C-Joy Poultry Meats, Inc., a Cargill-Jollibee Foods joint venture.

Mr. Soliven joined Cargill in 1995 as a Singapore-based manager in the Financial Markets Trading Group, then Cargill's proprietary financial trading business. He managed the group's investment portfolio for the Philippines and subsequently moved to the Philippines where he assumed the country lead role concurrent with his responsibilities as Asia Pacific regional treasurer.

He began his professional career with the First National Bank of Boston, Manila branch, as a foreign exchange trader. In 1984, he moved to the bank's corporate headquarters in Boston, Massachusetts to assume a role in corporate banking. In 1985, he was assigned in Hong Kong as manager of the bank's corporate banking business. During his six years in Hong Kong, he occupied a number of positions across Corporate Loan Recovery, Treasury Sales-Foreign Exchange, Debt Trading and Trade Services. In 1991, he relocated to Singapore as vice president for corporate banking covering clients in Singapore, Indonesia, and Thailand.

Mr. Soliven is currently a director of the American Chamber of Commerce of the Philippines, and is also chairman of its Agribusiness committee. In addition, he serves as a director at the Rotary Club of Makati, as well as a member of the U.S. ASEAN Business Council, Makati Business Club, and Management Association of the Philippines.

Mr. Soliven holds a degree in Business Management from the Ateneo de Manila University.

Florencio T. Mallare
Adviser

Lorna Ty
Adviser

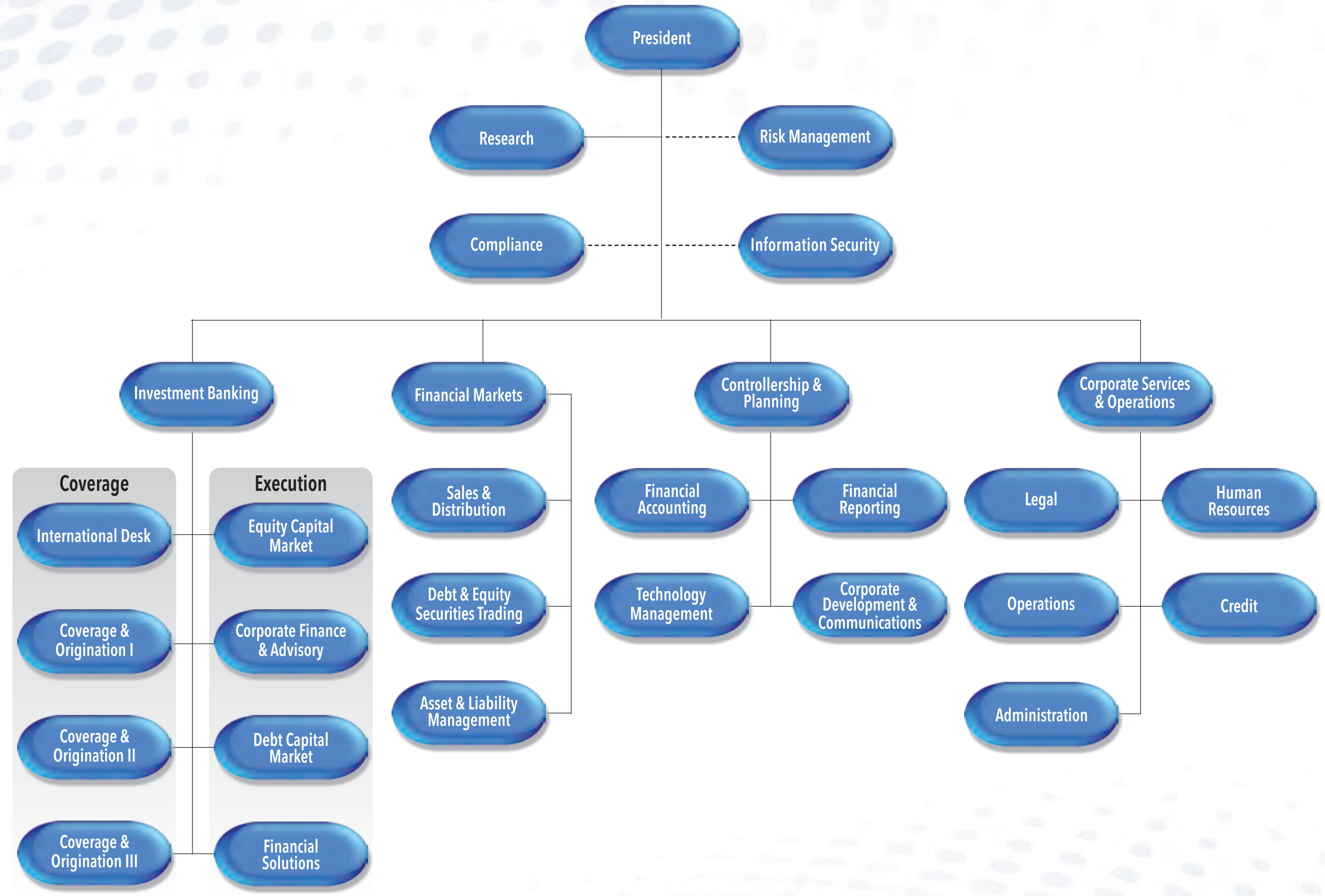
Mayo Jose B. Ongsingco
Adviser

Alesandra Ty
Treasurer & Corporate Secretary

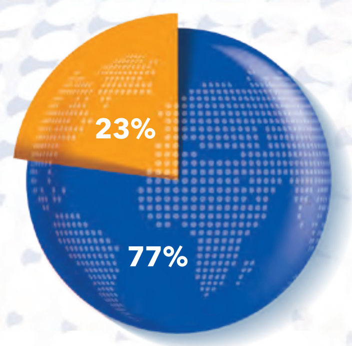
Nimfa B. Pastrana
Assistant Corporate Secretary

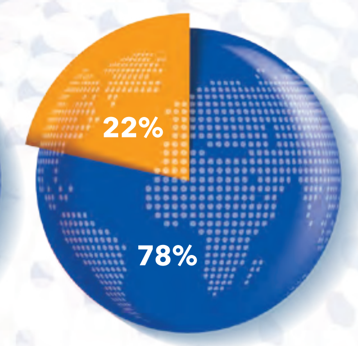
Organizational Structure

First Metro has an agile organization designed to respond to the needs of its clientele in a dynamic business environment. The chart below shows our organizational structure:



Headcount			
2018		2017	
Officers	121	Officers	124
Staff	36	Staff	34





Senior Management

Gonzalo G. Ordoñez
President, First Metro Securities Brokerage Corporation
56, Filipino

- Former assistant vice president, Yield Management and Marketing Automation, Philippine Airlines
- Former manager, Vendor Marketing, Infiniti Travel Information, Inc., Tokyo
- Former management trainee, International Marketing, Philippines and USA
- Former market analyst, Integrated Computer Systems, Inc.
- Strategic Business Economics Program, University of Asia and the Pacific
- BS Management, Ateneo de Manila University

Karen Liza M. Roa
President, First Metro Asset Management, Inc.
50, Filipino

- Former president & CEO, Philam Asset Management, Inc.
- Former product director, SunGard Solutions
- Former head, Trust Banking Group, Philam Savings Bank
- Former head, Operations - Citibank's Global Asset Management
- Former management trainee, Chase Manhattan Bank, New York
- Lecturer, University of the Philippines and Ateneo de Manila University
- Master's degree in Business Administration, Fordham University
- BS Legal Management, Ateneo de Manila University

Daniel D. Camacho
Executive Vice President
Head – Investment Banking Group
48, Filipino

- Former executive director, Acquisition & Strategic Finance Asia, Natixis (Hong Kong)
- Former executive director, Leveraged & Acquisition Finance Asia and Telecom & Media Finance, WestLB AG (Hong Kong)
- Former director for Media and Communications Finance, GE Capital (Hong Kong)
- Former vice president for Structured Capital Markets, Leveraged Finance Asia, TMT Finance Asia, and Structured Finance, ABN AMRO (Hong Kong/Manila)
- Master's degree in Management, Northwestern University – J.L. Kellogg Graduate School of Management
- BS Management of Financial Institutions and BA Economics (Cum Laude), De La Salle University

Rabboni Francis B. Arjonillo
President
60, Filipino

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

Christopher Ma. Carmelo Y. Salazar
Senior Vice President
Head – Financial Markets Group
45, Filipino

- Former head, Asset and Liability Management Group, Treasury and Investment Banking Sector, Land Bank of the Philippines
- Former head, Asset and Liability Management, Standard Chartered Bank U.A.E. and Oman
- Former head, Asset and Liability Management, Standard Chartered Bank Thailand
- Former head, Foreign Exchange Spot Trading and Asset Liability Management, Standard Chartered Bank Manila
- Former foreign exchange trader, ING Bank
- BS Management Engineering (Cum Laude), Ateneo de Manila University

Maricel L. Madrid
First Vice President
Controller and Head – Controllership and Planning Group
39, Filipino

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

Nimfa B. Pastrana
First Vice President
Head – Corporate Services & Operations Group
57, Filipino

- Assistant Corporate Secretary, First Metro Investment Corporation
- Head, Legal Division, First Metro Investment Corporation
- Corporate Secretary, First Metro Securities Brokerage Corporation
- Corporate Secretary, First Metro Asset Management, Inc.
- Corporate Secretary, Save & Learn Mutual Funds
- Bachelor of Laws, San Beda College
- AB Philosophy, University of the Philippines

Investment Banking Group

Luis Martin E. Villalon – *VP/Deputy Head, Equity Capital Market*
Charles Ian Salvador – *FVP/Division Head, International Desk*
Melissa T. Dimayuga – *VP/Division Head, Coverage & Origination II*
Maria Teresa V. de Vera – *FVP/Division Head, Coverage & Origination III*
Arsenio Kenneth M. Ona – *FVP/Division Head, Coverage & Origination I*
Abigail B. Magpayo – *FVP/Division Head, Equity Capital Market and Corporate Finance & Advisory*
John Wesley M. Peralta – *VP/Division Head, Debt Capital Market*
Daniel D. Camacho – *EVP/Group Head, Investment Banking*

Financial Markets Group

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

Controllership & Planning Group and Risk Management Division

Jamie James M. Javier – *AVP/Chief Risk Officer and Division Head, Risk Management*
Maria Avalen A. Dianco – *SM/Division Head, Financial Reporting*
George B. Arenas – *AVP/Department Head, Operational Risk Management*
Anna Marie S. Tuprio – *SM/Department Head, Corporate Communications*
Girlly P. Dollaga – *SM/Division Head, Financial Accounting*
Maricel L. Madrid – *FVP/Controller and Group Head, Controllership & Planning*
Eric M. Salazar – *VP/Division Head, Technology Management*
Mauro B. Placente – *VP/Deputy Controller*

Corporate Services & Operations Group, Compliance Division, Information Security Department, and Research Department

Leah Mabel M. Faustino – *VP/Division Head, Human Resources*
Ma. Eleanor T. Raz – *AVP/Division Head, Credit*
Nimfa B. Pastrana – *FVP/Group Head, Corporate Services & Operations and Division Head, Legal*
Rodger Joaquin P. Clemente – *SM/Division Head, Operations*
Arnel Alexis A. Azores – *AVP/Chief Information Security Officer and Department Head, Information Security*
Cristina S. Ulang – *VP/Department Head, Research*
Ryan Mark T. Sitjar – *M/Division Head, Administration*
Sergio M. Ceniza – *VP/Chief Compliance Officer and Division Head, Compliance*

Moving Markets in a Rapidly Changing World

As one of the biggest investment banks in the Philippines, First Metro Investment Corporation is in a unique position to move the capital markets and serve as a catalyst for economic growth.

The investment banking arm of the Metrobank Group has a 55-year track record in origination, structuring, execution, and distribution. First Metro offers a complete suite of products and services: debt and equity underwriting, loan syndication, project finance, financial advisory, government securities and corporate debt trading, equity brokering, asset management, and research.

Through the years, First Metro has lived up to its vision: to be the leading investment banking institution and prime mover in the development of the Philippine capital markets. As a staunch partner of the public and private sectors, First Metro helps mobilize capital to fuel and sustain their growth and ultimately spur the country's economic development.

The investment bank has earned a solid reputation for its creativity, innovation, and timely execution. It has proven its ability to create value and opportunities, as well as provide solutions that are pioneering, game changing, and responsive to the needs of both issuers and investors.

- **Moving capital.** First Metro has perennially dominated the domestic fixed income market, accounting for the lion's share of capital markets transactions and helping pillars of the industry address their funding requirements through bond issuances.

- **Deepening the Market.** True to its mission to deepen the capital markets, the company has developed innovative products such as the first exchange-traded fund (ETF) in the country, the First Metro Philippine Equity Exchange-Traded Fund; project notes (for Hedcor Sibulan's P4.1 billion project notes facility) involving an SPV and non-bank institutions as investors; the month fixed rate notes with tenors of 18 and 24 months (for Toyota Financial Services, ORIX METRO, and PSBank); and the first AMBIF (ASEAN+3 Multi-Currency Bond Issuance Framework) in the Philippines (for ÆON Credit), to name a few.

- **Widening Investor Base.** To entice more Filipinos to become investors and promote investment literacy, First Metro pioneered the issuance of financial market instruments such as the Retail Treasury Bonds (RTBs), Multi-currency Bonds, and On-shore Dollar Bonds that help boost the National Government's fiscal position in addition to encouraging small investors and savings mobilization. Since the Bureau of the Treasury (BTr) launched its first RTB issuance in 2001, there have been 22 issuances and a total of P2.3 trillion funds raised as of end-2018.

- **Addressing Project Financing Needs.** First Metro has long been supporting the country address its infrastructure requirements, particularly in power, transportation and airports, by raising the much-needed capital and offering innovative project financing solutions to public-private partnerships, joint ventures, and private consortiums.

- **Bringing New Names.** To further grow the capital markets, the company has also been introducing new names to the capital markets such as Wilcon Depot, a family business that's now a household name and a globally investable company.

Through its strategic business units, the company is able to address the rapidly evolving needs of its growing clientele:

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

First Metro is a widely recognized leader in **debt and equity underwriting**, helping government institutions and the Philippines' top corporations and conglomerates with their debt capital market issuances and providing debt-financing solutions to pursue their capital and business expansion, refinancing, strategic acquisitions or buyouts, and complex project financing.

IBG 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**, it offers strategic advice on maximizing financing options so First Metro clients can pursue their growth ambitions. Mid-tier corporations can seize business opportunities through capital restructuring and piggyback on the country's growth trajectory.

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

The company also dispenses advice on **fundraising**, debt and equity, whether through a public or private offering, and selecting the activity's optimal structure.

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

Being a Philippine Stock Exchange-accredited financial advisor, First Metro also renders **fairness opinions** that are used by publicly listed companies for listing by way of introduction, debt to equity conversions, share-for-share/asset swaps, and tender offers.

Under the IBG is First Metro's **International Desk**, created in 2017 to help First Metro achieve its regional aspirations by expanding its market coverage in foreign territories, especially in Japan, China, Taiwan, and South Korea where Metrobank has a strong branch presence. Through the International Desk, First Metro will be able to serve the financing and financial advisory needs of Philippine companies expanding abroad, as well as of foreign firms exploring mergers and acquisitions, expansions, or partnership opportunities in the Philippines.

First Metro's **Financial Markets Group (FMG)** 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 the company**.

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

First Metro's underwriting strength is complemented by its ability to distribute securities widely, thanks to the dynamic synergy between the IBG and the FMG.

FMG is also engaged in the trading of fixed income instruments, such as government securities and corporate bonds. As a market maker for most corporate issues, it provides counterparties and clients with active two-way quotes, delivering financial solutions that address their specific funding requirements. It also trades equities for its proprietary portfolio and has a solid track record for its dealing and trading activities. Its brokers are consistently recognized as top salespersons by prestigious publications and organizations.

Franchise Value

- Best Equity House
  2018
- Best M&A House
  2018, 2017
- Best Investment Bank
  2017
- Best Benchmark Bond Deal: ÆON Credit Service (Philippines), Inc.'s P1 billion Fixed Rate Corporate Notes
  2018
- Best Project Finance Deal of the Year in Southeast Asia: Light Rail Manila Corporation's P24 billion Project Loan Facility
  2016
- Best Project Finance Deal of the Year in Southeast Asia: Pagbilao Energy Corp.'s P33.3 billion (US$750 million) Lending Facility
  2014
- Best Small Cap Equity Deal of the Year in Southeast Asia: Xurpas' P1.36 billion (US$30 million) Initial Public Offering
  2014

- Best Bond House in the Philippines
  2014

- Deal of the Year: Bureau of the Treasury's P255 billion Retail Treasury Bonds
  2018
- Best Advisory House
  2017
- Deal of the Year: GT Capital Holdings, Inc.'s P22.06 billion Sale of 56% Equity Stake in Global Business Power and P29.89 billion Acquisition of 15.5% Stake in Metro Pacific Investments Corporation
  2017
- Best Advisory Deal of the Year: GT Capital Holdings, Inc.'s P22.06 billion Sale of 56% Equity Stake in Global Business Power and P29.89 billion Acquisition of 15.5% Stake in Metro Pacific Investments Corporation
  2017

- Best Investment Bank in the Philippines
  2016

- Deal of the Year, Loans category for Asia Pacific: Monde Nissin's Acquisition of Quorn Foods Ltd.
  2016

- Best Domestic Bond House
  2015, 2014
- Best M&A House
  2015
- Best IPO, Philippines: Wilcon Depot, Inc.'s P7.04 billion Initial Public Offering
  2017
- Best Power Deal, Philippines: San Buenaventura Power Ltd. Co.'s P42.15 billion Project Finance Loan Facility
  2016
- Most Innovative Deal: Therma Visayas, Inc.'s P31.97 billion Project Loan Facility
  2016
- Deal of the Year, Philippines: Bureau of the Treasury's P264.038 billion Domestic Liability Management Exercise (Bond Exchange)
  2015
- Best Power Deal, Philippines: Pagbilao Energy Corporation's P33.31 billion Project Finance Facility
  2015
- Best Deal, Philippines: Century Pacific Food, Inc.'s P3.16 billion Initial Public Offering
  2014

- Top Bank Arranger, Investors' Choice for Primary Issues in Asian Currency Bonds, Corporate Bonds, Philippines
  2018, 2016, 2015
- Top Bank Arranger, Investors' Choice for Primary Issues in Asian Currency Bonds, Government Bonds, Philippines
  2018, 2015
- Top Banks in Government Bonds, Philippines
  2018, 2017, 2016
- Top Banks in Corporate Bonds, Philippines
  2018, 2016
- Top Investment Houses in Asian Local Currency Bonds, Philippines
  2017
- Top Bank in the Secondary Market, Government Bonds, Philippines
  2015

- Best Investment Bank in the Philippines
  2015

- Cesar E.A. Virata Award for Best Securities House (Investment House Category)
  2014
- Top Corporate Securities Market Maker
  2018, 2017, 2016, 2015, 2014
- Top 5 Fixed Income Dealing Participant
  2018, 2017, 2016, 2015, 2014
- Top 5 Corporate Issue Manager/ Arranger
  2018, 2015, 2014
- Top 5 Fixed Income Brokering Participant
  2017, 2016, 2015, 2014

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

- One of the Ten Best Performing Government Securities Eligible Dealers
  2018, 2015, 2014

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

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

- Best Domestic Bond House in the Philippines
  2016

** Awards in the last five years*

Other Allied Services

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

Fund Management
First Metro Asset Management, Inc. (FAMI) is engaged in the mutual funds business. It 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. These are the products offered by FAMI:

- First Metro Save & Learn Equity Fund, Inc.
- First Metro Save & Learn Fixed Income Fund, Inc.
- First Metro Save & Learn Balanced Fund, Inc.
- First Metro Save & Learn Money Market Fund, Inc.
- First Metro Save & Learn Dollar Bond Fund, Inc.
- First Metro Consumer Fund on MSCI Philippines IMI, Inc.
- One Wealthy Nation Fund, Inc.

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

Registered with the SEC on January 15, 2013, 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).

Backed by the Strength of Metrobank

First Metro is a subsidiary of Metropolitan Bank & Trust Company (Metrobank), one of the country's largest universal banks with a market capitalization of P329.7 billion as of end-2018.

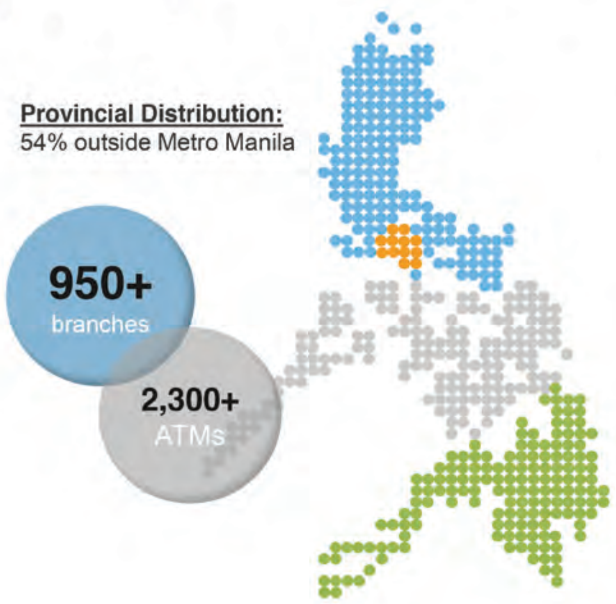
Established in 1962 to serve the Filipino-Chinese community, Metrobank is majority-owned by the Ty family, whose major business interests include financial services, real estate development, infrastructure, and insurance. Its local and international subsidiaries include Metrobank Card Corporation, Toyota Motors Philippines Corporation (a partnership with Japan's largest automotive manufacturer), and Philippine AXA Life Insurance Corporation (with global giant AXA Group).

With a solid track record that spans 56 years, Metrobank has grown to become the premier universal bank in the Philippines, offering a full range of banking and other financial products and services, including corporate, commercial and consumer banking, as well as credit cards, remittances, leasing, investment banking, and trust banking. Its consolidated network covers 2,352 ATMs nationwide and 952 domestic, making it one of the largest domestic branch networks in the industry.

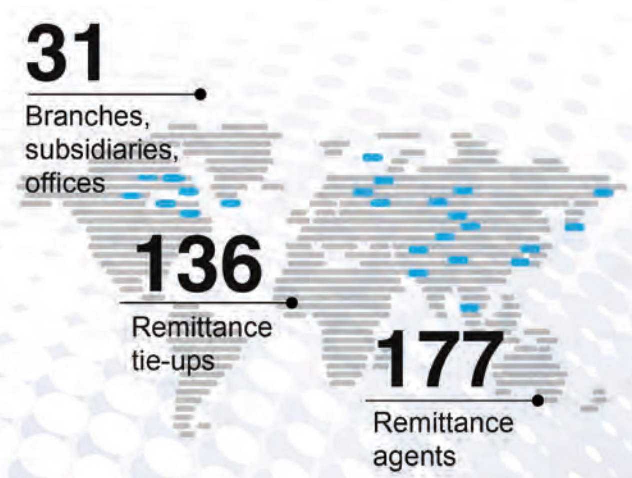
In addition, Metrobank has a strong overseas presence, with 31 foreign branches, subsidiaries, and representative offices as of 2018. Its international expansion started in the late 1990s when it opened branches and offices in London, Taichung, Tokyo, and Seoul. It was the first Philippine bank granted a banking license by the Japan Ministry of Finance, and the first Philippine bank in South Korea and China.

As of December 2018, Metrobank has consolidated assets of P2.2 trillion and equity at P283 billion. It successfully completed its landmark P60 billion stock rights issue which First Metro arranged in April 2018. This boosted the Bank's total capital adequacy ratio that stood at 17.0% and Common Equity Tier 1 ratio at 14.6% as of end-2018.

Domestic Branch Network



Overseas Network Coverage



First Metro Securities Brokerage Corporation

First Metro Securities Brokerage Corporation (FirstMetroSec) is a wholly owned subsidiary of First Metro. Since its establishment in 1994, FirstMetroSec has been a trusted provider of equity brokering services and an investment solutions partner, which caters to individuals, corporations, and financial institutions.

In 2018, FirstMetroSec ranked 12th out of 132 active trading participants in the Philippine Stock Exchange (PSE), with P103 billion in value traded, equivalent to a 2.96% market share.

The company continues to enhance its suite of financial services, with the launch of FirsMetroSec PRO in September 2018, the most advanced online stock trading platform available for the Philippine stock market.

It promotes financial and investment literacy nationwide and reaches out to Filipinos overseas. In 2018, it intensified its in-house seminars on Basic Education for Stock Trading (BEST), Guided Investor Fearless Trader (GIFT), and GIFT Advanced, a program designed to help clients build their own trading system. These seminars comprised the company's Learning Series curriculum.

FirstMetroSec has also been actively broadening its reach through webinars and live streaming sessions in its social media platforms for viewers, both local and abroad. In 2018, FirstMetroSec conducted over 371 seminars for more than 47,000 individuals. It has also increased its media presence in various social media platforms, which includes its latest Facebook community page.

FirstMetroSec has also been awarded again by *FinanceAsia*, a Hong Kong-based financial publishing firm, as the Philippines' Best Broker in 2018. The company also received two recognitions from *International Finance*, a London-based publishing firm, as the Best Online Broker and Best Online Trading Platform.

FOR THE YEAR	2018	2017
Gross Revenues	**295,266,415**	348,110,612
Total Expenses	**268,692,672**	251,204,397
Net Income	**26,573,743**	96,906,215
AT YEAR END		
Total Assets	**2,026,136,009**	2,271,899,949
Total Liabilities	**1,606,236,203**	1,810,022,264
Total Shareholders' Equity	**419,899,806**	461,877,685

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

First Metro Asset Management, Inc.

First Metro Asset Management, Inc. (FAMI) engages in the mutual fund business, promotes savings mobilization, and advocates investment literacy among Filipinos. FAMI is a partnership among First Metro, the Catholic Educational Association of the Philippines, and the Marist Brothers Foundation. 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.

In 2018, FAMI ended the year with P10.3 billion in assets under management, with a client base exceeding over 27,000 accounts.

Driving the growth of FAMI's funds in 2018 was the launch of the First Metro Consumer Fund (FMCF) on MSCI. FMCF aims to provide total return from dividend income and long-term capital appreciation through investments in equity securities. Another development was the continuous offering of the First Metro Philippine Equity Exchange-Traded Fund (FMETF), the pioneering ETF in the Philippines today. FAMI also launched the Save & Learn Money Market Fund (SLMMF), which seeks to provide steady growth of income and liquidity through investments in peso-denominated deposits and money market instruments.

FOR THE YEAR	2018	2017
Gross Revenues	**167,232,216**	220,721,317
Total Expenses	**166,206,939**	166,453,920
Net Income	**1,025,277**	54,267,397
AT YEAR END		
Total Assets	**325,653,985**	352,154,883
Total Liabilities	**16,264,980**	16,500,928
Total Shareholders' Equity	**309,477,648**	335,653,955

Contact Details:
Karen Liza M. Roa (President)
18th Floor, PSBank Center
777 Paseo de Roxas cor. Sedeño St.
Salcedo Village, Makati City
Tel: (02) 891 2860 to 65
www.fami.com.ph

First Metro Philippine Equity Exchange-Traded Fund

First Metro Philippine Equity Exchange-Traded Fund (FMETF) aims to provide returns which would reflect the performance of the Philippine equities market by investing in a basket of securities included in the Philippine Stock Exchange index (PSEi).

Amid the highly volatile environment in 2018, the FMETF posted a year-on-year return of -12.07% in 2018 versus the PSEi performance of -12.76%. Since its inception, FMETF has already delivered a total return of 26.33% compared to 13.76% average return of equity mutual funds in the industry for the same period.

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

AXA Philippines

AXA Philippines is one of the largest and fastest-growing insurance companies in the country, offering financial security to more than 1.5 million individuals through group and individual life insurance, as well as general insurance products. The company was established in 1999 as a joint venture between the AXA Group, headquartered in France, and the Metrobank Group, one of the largest financial conglomerates in the Philippines.

AXA Philippines closed 2018 with a total premium income of P29.7 billion and with around 1.5 million customers protected under various individual and group life insurance products, as well as general insurance products through its non-life subsidiary, Charter Ping An. The year also marked the first time that Charter Ping An started operating under the AXA Philippines brand name.

AXA further expanded its footprint in the country with the opening of several centers nationwide. To date, it has established close to 70 branches, including Charter Ping An, and has installed more than 900 AXA Advisory Corners in Metrobank and PSBank branches nationwide.

The year also saw the inauguration of the AXA Shared Services Centre-Philippines, one of the IT hubs for AXA in Asia. It has hired around 300 IT professionals, offering innovations in customer service to the AXA entities that it serves.

Another milestone in 2018 was the opening of the AXA Academy, its newest state-of-the-art facility that seeks to raise the training of insurance professionals to an unmatched level of excellence in the industry. Housed at the Bank of Makati Building on Ayala Avenue extension (corner Metropolitan Avenue) in Makati City, the AXA Academy serves as the main training hub for AXA agents and employees.

AXA also continued to widen its product portfolio with the launch of its latest offering, Asset Master. Designed as a single-pay, investment-linked insurance plan, Asset Master allows customers to build a diversified investment portfolio of local and global investments – a solid foundation on which to build one's financial legacy.

AXA embarked on a brand campaign towards the end of 2018 with "Choose AXA," communicating the new proposition that the company now offers both life and general insurance products to address customers' various needs all under one roof, whether savings, retirement, business protection, or motor security, to name a few. Billboards and video ads bearing the message, "For all that you value, choose AXA," permeated traditional, as well as online spaces nationwide.

AXA's online insight community, MyAXA Café, won silver at the prestigious Efma-Accenture Innovation in Insurance Awards, an awards program that aims to recognize the most innovative projects, initiatives and ideas in insurance around the world. Also in 2018, AXA Philippines president and CEO Rahul Hora was named Outstanding Leader in Asia at the Asia Corporate Excellence & Sustainability Awards for his outstanding business acumen, professionalism, and entrepreneurial skills.

AXA celebrated Corporate Responsibility Week in 2018 with nearly 450 employee-volunteers from Manila and Cebu donating their time and skills to touch 2,250 lives in partnership with the Metrobank Foundation, Hands On Manila, Philippine Red Cross, and the University of San Carlos Cebu, to name a few. Outreach activities included food packing, a blood drive, and training sessions on first aid and financial literacy.

FOR THE YEAR	2018	2017
Gross Premiums	**29,708,433,098**	26,359,115,868
Total Expenses	**7,379,381,460**	7,472,474,388
Net Income	**2,735,228,253**	2,360,573,603
AT YEAR END		
Total Assets	**116,340,744,146**	114,378,624,510
Total Liabilities	**106,819,301,795**	106,814,470,211
Stockholders' Equity	**9,521,442,351**	7,564,154,299

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

ORIX METRO Leasing and Finance Corporation

ORIX METRO Leasing and Finance Corporation (ORIX METRO) maintained its position as one of the country's most profitable leasing and financing companies after ending fiscal year 2018 with P1.30 billion in net income after tax. This represented an increase of 5.87% from P1.23 billion the previous year. The accomplishment came on the heels of a challenging and volatile economic backdrop in 2018.

The company, owned by Metrobank (40%), ORIX Corporation of Japan (40%), and First Metro (20%), achieved a return on average equity of 17.52% in 2018 versus an average ROE of 20% for the past years. Return on average assets was registered at 3.16% in FY 2018 versus 2.72% in FY 2017.

ORIX METRO's total group resources grew to P51.75 billion during FY 2018 from P43.97 billion, previously. Total new bookings amounted to P34.92 billion compared to P30.72 billion in FY 2017. Portfolio quality remains healthy despite the increase in the company's past due ratio to 1.90% compared to 1.59% in FY 2017.

ORIX Rental Corporation (ORC), the company's wholly owned subsidiary engaged in long-term full service operating lease (FSOL) of cars and light trucks, registered an income of P1.90 billion in FY 2018 compared to P1.72 billion in FY 2017. As of 30 September 2018, the company's total fleet under FSOL and fleet management is composed of 7,694 cars, pickups, vans, and light trucks.

ORIX METRO continued with its aggressive branch expansion in FY 2018, ending the year with 103 branches from 98 in FY 2017. It will continue to seek avenues of growth as it expands its branch network, particularly in the countryside. This expansion will continue as ORIX METRO further strengthens its coverage of small and medium sized enterprises in the rural areas.

FOR THE YEAR	2018 (September)	2017 (September)
Gross Revenues	**6,649,891,924**	5,432,560,728
Total Expenses	**4,803,090,268**	3,688,284,136
Income before tax	**1,846,801,656**	1,744,276,592
AT YEAR END		
Total Assets	**51,747,532,337**	43,968,225,186
Total Liabilities	**43,649,669,697**	37,222,971,964
Stockholders' Equity	**8,097,862,640**	6,745,253,222

Contact Details:
Constancio B. Tan (President)
21st Floor, GT Tower International
6813 Ayala Ave. cor. H.V. dela Costa St., Makati City
Tel: (02) 825 8888
www.orix.com.ph

Contact Information

Annual Stockholders' Meeting
April 23, 2019 (Tuesday), 3:00 p.m.
Metrobank Penthouse, Metrobank Plaza
Sen. Gil Puyat Ave., Makati City

Shareholder Services
For inquiries regarding dividend payments, change of address, and account status, please contact:

The Controller
First Metro Investment Corporation
Ground Floor, Skyland Plaza Condominium
2302 Sen. Gil Puyat Ave. cor. Tindalo St.
1203 Makati City
Tel. No. (02) 858 7900
Fax. No. (02) 840 3706

Annual Report in SEC Form 17-A
The financial statements included in this report follow the information contained in the SEC Form 17-A as required by and submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge from:

The Controller
First Metro Investment Corporation
Ground Floor, Skyland Plaza Condominium
2302 Sen. Gil Puyat Ave. cor. Tindalo St.
1203 Makati City

Corporate Communications Department
First Metro Investment Corporation
45th Floor, GT Tower International
6813 Ayala Ave. cor. H.V. dela Costa St.
1227 Makati City

Tel. No. (02) 858 7900
Fax. No. (02) 840 3706
Email: corpcom@firstmetro.com.ph

Summary Group Financial Statements
(In Million Pesos, Except Per Share Amounts)

At Year End	2018	2017
Total Assets	**43,199**	**53,597**
Cash and Other Cash Equivalents	6,425	9,721
Interbank loans receivable and securities purchased under resale agreements	-	500
Investment Securities at		
Financial Assets at Fair Value Through Profit or Loss	9,559	10,605
Fair Value Through Other Comprehensive Income	665	-
Amortized Cost	17,034	-
Available-for-Sale Investments	-	8,187
Held-to-Maturity Investments	-	14,250
Loans and receivables	1,588	3,024
Investments in Subsidiaries, Associates and Joint Venture	6,583	5,847
Property and equipment	106	95
Investment properties	206	314
Deferred tax assets	35	50
Other assets	999	1,002
Total Liabilities	**28,305**	**39,501**
Bills Payable	16,222	25,715
Accounts Payable	1,859	2,195
Bonds Payable	2,917	2,910
Accrued taxes, interest and other expenses	150	208
Other Liabilities	7,157	8,472
Total Equity	**14,894**	**14,097**
Attributable to:		
Equity Holders of the Parent Company	14,803	13,996
Non-controlling Interest	91	101
Book value per share	**39.74**	**37.57**

For the Year	2018	2017	2016
Net Interest Income	**354**	**525**	**598**
Interest Income	1,123	1,326	1,607
Interest Expense	769	801	1,009
Non Interest Income	**798**	**1,592**	**1,858**
Service Charges, Fees and Commissions	611	557	884
Dividend Income	117	163	134
Trading and Securities Gain (Loss)	-386	799	375
Gain (Loss) on Sale of Asset	367	34	8
Miscellaneous	89	39	457
Total Operating Income	**1,152**	**2,117**	**2,455**
Total Expenses	**1,640**	**1,755**	**2,207**
Operating Expenses	1,328	1,368	1,592
Provision for Income Tax	312	387	616
Share in Net Income of Associates	991	830	543
Net Income	**503**	**1,192**	**791**
Attributable to			
Equity Holders of the Parent Company	503	1,175	775
Non-controlling Interest	-	17	15
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	1.3	3.2	2.1

Key Ratios	2018	2017
Net Interest Margin	1.36%	1.57%
Return on Average Equity	3.46%	7.92%
Return on Average Assets	1.07%	2.16%
Non-performing Loans Ratio	-	-
Cost-to-Income Ratio	119.57%	64.56%

Results of Operations

First Metro reported P503 million consolidated net income attributable to equity holders of the Parent Company, 57% lower than that of the previous year.

Total gross operating income reached P1.15 billion, consisting of investment banking and other fees, net interest income, dividends from our investee companies, net trading gains, and other operating income.

Investment banking and other related fees amounted to P611 million due to numerous landmark deals. Net interest income derived from lending, investment and borrowing activities contributed P354 million, lower than that of previous year due to the decline in volume of loans and investments on account of maturities and sales during the year. Dividends earned from our investment in tradable and non-tradable stocks and share in the net earnings of associate companies likewise contributed P117 million and P991 million, respectively.

Total expenses consisting mainly of compensation and benefits, taxes and licenses, occupancy and equipment-related costs and other miscellaneous expenses registered a 3% decrease to P1.33 billion level.

Provision for income taxes totaled P312 million, 19% or P75 million lower than last year.

First Metro recorded 3.5% return on average equity and 1.1% return on average assets.

Financial Position

The Group closed the year with total consolidated resources of P43.20 billion, lower by 19.4% or P10.40 billion from P53.60 billion level last year.

Deposits maintained with local banks and Bangko Sentral ng Pilipinas, as reserves for deposit, reached P6.43 billion, lower by 33.9% or P3.30 billion.

Total investment securities at financial assets at fair value through profit or loss, fair value through other comprehensive income (available-for-sale investments in 2017), and amortized cost (held-to-maturity investments in 2017) amounted to P27.26 billion, or a decrease of P5.78 billion.

Loans and Receivables comprising of unquoted private debt securities, loans and discount and other receivables amounted to P1.59 billion, or a decrease of P1.44 million.

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

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

Meanwhile, consolidated total liabilities decreased to P28.31 billion from P39.50 billion in previous year. Bills payable consisting of deposit substitute borrowings and other borrowings obtained from local banks, private firms and individuals decreased by 36.9% or P9.49 billion from P25.72 billion to P16.22 billion.

Equity attributable to equity holders of the Parent Company ended at P14.80 billion, 5.8% or P807 million higher from last year's P14.0 billion, which translates to 60.8% capital adequacy ratio (CAR). This is above the 10.0% CAR required by BSP for 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, 2018 and 2017, respectively, follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
CET 1 capital	**₱17,306,229,570**	₱16,659,362,114	**₱17,306,229,570**	₱16,659,362,114
Less: Required deductions	**13,067,659,722**	13,855,473,779	**13,499,143,734**	14,150,123,109
Net Tier 1 capital	**4,238,569,848**	2,803,888,335	**3,807,085,836**	2,509,239,005
Tier 2 capital	**41,602,506**	57,596,239	**32,945,110**	56,311,901
Total qualifying capital	**₱4,280,172,354**	₱2,861,484,574	**₱3,840,030,946**	₱2,565,550,906
Risk weighted assets	**₱7,041,239,125**	₱9,981,674,184	**₱5,731,092,351**	₱8,542,557,516
CET 1 ratio*	**60.2%**	28.1%	**66.4%**	29.4%
*Capital conservation buffer	**54.2%**	22.1%	**60.4%**	23.4%
Tier 1 capital ratio	**60.2%**	28.1%	**66.4%**	29.4%
Total capital ratio	**60.8%**	28.7%	**67.0%**	30.0%

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 2018 and 2017 is presented as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
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	**10,964,111,416**	9,199,113,547	**10,964,111,416**	9,199,113,547
Undivided profits	**387,811,218**	942,888,967	**387,811,218**	942,888,967
Net unrealized gain (loss) (NUGL) on AFS	**(196,614,403)**	375,186,125	**(154,968,112)**	332,747,574
Remeasurement of Defined Benefit Assets (Liabilities) (RDBA)	**29,737,573**	(22,606,880)	**29,737,573**	(22,606,880)
Other comprehensive income	**64,145,623**	107,742,212	**22,499,332**	150,180,763
Total CET 1 capital	**₱17,306,229,570**	₱16,659,362,114	**₱17,306,229,570**	₱16,659,362,114

As of December 31, 2018 and 2017, the Group has outstanding and issued common shares of 372.53 million, out of the 800.00 million authorized shares at ₱10.00 par value.

Tier 2 capital represents the BSP required general loan loss provisioning of the Group as December 31, 2018 and 2017.

The reconciliation of the regulatory capital elements back to the statement of financial position as of December 31, 2018 and 2017 is as follows:

Consolidated

	Paid-up common stock	Additional paid-in capital	Retained earnings	Undivided profits	NUGL on AFS	RDBA	Other comprehensive income	Total
Balance per CAR Report at December 31, 2018	**₱4,208,692,400**	**₱1,848,345,743**	**₱10,964,111,416**	**₱387,811,218**	**(₱196,614,403)**	**₱29,737,573**	**₱64,145,623**	**₱17,306,229,570**
Audit Adjustments	**–**	**217,348,299**	**(85,582,772)**	**115,222,047**	**(53,380,940)**	**17,572,322**	**(55,173,730)**	**156,005,226**
Balance per Statement of Financial Position at December 31, 2018	**₱4,208,692,400**	**₱2,065,694,042**	**₱10,878,528,644**	**₱503,033,265**	**(₱249,995,343)**	**₱47,309,895**	**₱8,971,893**	**₱17,462,234,796**

Consolidated

	Paid-up common stock	Additional paid-in capital	Retained earnings	Undivided profits	NUGL on AFS	RDBA	Other comprehensive income	Total
Balance per CAR Report at December 31, 2017	₱4,208,692,400	₱1,848,345,743	₱9,199,113,547	₱942,888,967	₱375,186,125	(₱22,606,880)	₱107,742,212	₱16,659,362,114
Audit Adjustments	–	217,348,299	492,222,652	232,056,306	(714,932,274)	76,612,682	(307,371,538)	(4,063,873)
Balance per Statement of Financial Position at December 31, 2017	₱4,208,692,400	₱2,065,694,042	₱9,691,336,199	₱1,174,945,273	(₱339,746,149)	₱54,005,802	(₱199,629,326)	₱16,655,298,241

Parent

	Paid-up common stock	Additional paid-in capital	Retained earnings	Undivided profits	NUGL on AFS	RDBA	Other comprehensive income	Total
Balance per CAR Report at December 31, 2018	**₱4,208,692,400**	**₱1,848,345,743**	**₱10,964,111,416**	**₱387,811,218**	**(₱154,968,112)**	**₱29,737,573**	**₱22,499,332**	**₱17,306,229,570**
Audit Adjustments	**–**	**217,348,299**	**(85,582,772)**	**115,222,047**	**(95,027,231)**	**17,572,322**	**(13,527,439)**	**156,005,226**
Balance per Statement of Financial Position at December 31, 2018	**₱4,208,692,400**	**₱2,065,694,042**	**₱10,878,528,644**	**₱503,033,265**	**(₱249,995,343)**	**₱47,309,895**	**₱8,971,893**	**₱17,462,234,796**

Parent

	Paid-up common stock	Additional paid-in capital	Retained earnings	Undivided profits	NUGL on AFS	RDBA	Other comprehensive income	Total
Balance per CAR Report at December 31, 2017	₱4,208,692,400	₱1,848,345,743	₱9,199,113,547	₱942,888,967	₱332,747,574	(₱22,606,880)	₱150,180,763	₱16,659,362,114
Audit Adjustments	–	217,348,299	492,222,652	232,056,306	(714,932,274)	76,612,682	(307,371,538)	(4,063,873)
Balance per Statement of Financial Position at December 31, 2017	₱4,208,692,400	₱2,065,694,042	₱9,691,336,199	₱1,174,945,273	(₱339,746,149)	₱54,005,802	(₱199,629,326)	₱16,655,298,241

The breakdown of the regulatory adjustments for 2018 and 2017 is presented as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Treasury shares	**₱2,659,550,871**	₱2,662,140,699	**₱2,659,550,871**	₱2,662,140,699
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests	**4,886,129**	–	**4,886,129**	–
Other intangible assets	**38,282,506**	34,413,237	**38,282,506**	34,413,237
Deferred tax assets (DTA)	**35,777,327**	57,902,779	**10,271,445**	33,424,983
Defined benefit pension fund assets (DBPFA)	**39,952,469**	16,035,891	**39,952,469**	16,035,891
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any	**2,933,495,140**	2,908,176,866	**3,134,632,974**	3,085,182,045
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any	**2,667,712**	3,642,171	**452,917,823**	478,382,594
Significant minority investments (10%-50% of voting stock) in banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any	**1,876,132,464**	1,641,300,507	**1,876,132,464**	1,641,300,507
Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any	**2,418,860,107**	2,028,375,978	**2,418,860,107**	2,028,375,978
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	**531,664,215**	640,797,169	**391,735,663**	415,372,163
Other equity investments in non-financial allied undertakings and non-allied undertakings	**2,526,390,782**	3,862,688,482	**2,471,921,283**	3,755,495,012
Total regulatory deductions	**₱13,067,659,722**	₱13,855,473,779	**₱13,499,143,734**	₱14,150,123,109

The breakdown of the risk-weighted assets for 2018 and 2017 is presented as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Total credit risk-weighted assets	**₱4,146,774,877**	₱6,642,541,634	**₱3,272,377,926**	₱5,629,905,776
Total market risk-weighted assets	**418,271,112**	714,024,361	**438,555,865**	689,234,404
Total operational risk-weighted assets	**2,476,193,136**	2,625,108,189	**2,020,158,560**	2,223,417,336
Total risk-weighted assets	**₱7,041,239,125**	₱9,981,674,184	**₱5,731,092,351**	₱8,542,557,516

The specific capital requirements of each risk weighted assets for 2018 and 2017 is presented as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Total credit risk-weighted assets	**₱414,677,488**	₱664,254,163	**₱327,237,793**	₱562,990,578
Total market risk-weighted assets	**41,827,111**	71,402,436	**43,855,587**	68,923,440
Total operational risk-weighted assets	**247,619,314**	262,510,819	**202,015,856**	222,341,734
Total capital requirements	**₱704,123,913**	₱998,167,418	**₱573,109,236**	₱854,255,752

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

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Total risk-weighted on-balance sheet assets (Schedule A)	**₱3,750,250,592**	₱6,232,541,634	**₱2,884,511,036**	₱5,221,190,114
Total risk-weighted off-balance sheet assets (Schedule B)	**410,000,000**	410,000,000	**410,000,000**	410,000,000
Excess general loan loss provision	**(13,475,715)**	–	**(22,133,110)**	(1,284,338)
Total credit risk-weighted assets	**₱4,146,774,877**	₱6,642,541,634	**₱3,272,377,926**	₱5,629,905,776

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Interest rate exposures	**₱411,751,238**	₱685,073,323	**₱411,751,238**	₱685,073,323
Equity exposures	**–**	–	**–**	–
Foreign exposures	**6,519,874**	28,951,038	**26,804,627**	4,161,081
Total market risk-weighted assets	**₱418,271,112**	₱714,024,361	**₱438,555,865**	₱689,234,404

Schedule A

	Consolidated			
	2018		2017	
	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	**₱1,824,065,003**	**₱475,142,824**	₱3,793,914,658	₱1,651,951,167
Due from BSP	**3,489,997,884**	**–**	4,399,997,307	–
AFS investments	**30,207,971**	**6,041,594**	6,793,219,175	131,331,932
HTM investments	**17,073,229,129**	**1,196,715,829**	13,501,771,622	575,366,536
Unquoted commercial papers	**–**	**–**	493,277,770	493,277,770
Loans and receivables	**511,117,731**	**508,632,939**	1,903,147,535	1,500,904,655
Loans and receivables arising from repurchase agreements, certificates of assignment / participation with recourse and securities lending and borrowing transactions	**–**	**–**	–	–
Sales contract receivable	**–**	**–**	–	–
Investment properties	**173,552,354**	**260,328,531**	173,552,354	260,328,531
Total exposures excluding other assets	**23,102,170,072**	**2,446,861,717**	31,058,880,421	4,613,160,591
Other assets	**1,303,388,875**	**1,303,388,875**	1,619,381,043	1,619,381,043
Total exposures including other assets	**24,405,558,947**	**3,750,250,592**	32,678,261,464	6,232,541,634
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants		**3,750,250,592**		6,232,541,634
Total risk-weighted on-balance sheet assets covered by credit risk mitigants		**–**		–
Total credit risk-weighted on-balance sheet assets		**₱3,750,250,592**		₱6,232,541,634

Schedule A

	Parent Company			
	2018		2017	
	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	**₱156,508,928**	**₱96,464,574**	₱2,233,523,832	₱1,291,928,913
Due from BSP	**3,489,997,884**	**–**	4,399,997,307	–
AFS investments	**–**	**–**	6,691,083,774	111,625,694
HTM investments	**17,073,229,129**	**1,196,715,829**	13,501,771,622	575,366,536
Unquoted commercial papers	**–**	**–**	493,277,770	493,277,770
Loans and receivables	**508,384,287**	**505,899,495**	1,899,460,717	1,497,217,837
Loans and receivables arising from repurchase agreements, certificates of assignment / participation with recourse and securities lending and borrowing transactions	**–**	**–**	–	–
Sales contract receivable	**–**	**–**	–	–
Investment properties	**173,552,354**	**260,328,531**	173,552,354	260,328,531
Total exposures excluding other assets	**21,401,672,582**	**2,059,408,429**	29,392,667,376	4,229,745,281
Other assets	**825,102,607**	**825,102,607**	991,444,833	991,444,833
Total exposures including other assets	**22,226,775,189**	**2,884,511,036**	30,384,112,209	5,221,190,114
Total risk-weighted on-balance sheet assets not covered by credit risk mitigants		**2,884,511,036**		5,221,190,114
Total risk-weighted on-balance sheet assets covered by credit risk mitigants		–		–
Total risk-weighted on-balance sheet assets		**₱2,884,511,036**		₱5,221,190,114

Schedule B

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Direct credit substitutes (financial stand-by letters of credit)	**₱410,000,000**	₱410,000,000	**₱410,000,000**	₱410,000,000

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, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

FRANCISCO C. SEBASTIAN
Chairman

RABBONI FRANCIS B. ARJONILLO
President

MARICEL L. MADRID
FVP/Controller

Signed this 14th day of February 2019

SUBSCRIBED AND SWORN to before me this March 12, 2019 affiants exhibiting to me their identification, as follows:

Name	Identification	Place of Issue	Date of Expiry
Francisco C. Sebastian	Passport No. P6088950A	DFA Manila	02/19/2028
Rabboni Francis B. Arjonillo	Passport No. P7939219A	DFA Manila	07/13/2028
Maricel L. Madrid	Passport No. EC3441643	West, Metro Manila	02/11/2020

Notary Public

RUBEN T.M. RAMIREZ
NOTARY PUBLIC
UNTIL DEC. 31, 2019
IBP NO. 058333/1-3-2019 CY 2019
ROLL NO 28947/MCLE 4 / 6-19-12
PTR NO. MKT 7333572/1-3-19 APPT NO. M-127
MAKATI CENTRAL POST OFFICE

Doc. No. 22
Page No. 6
Book No. 844
Series of 2019

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
First Metro Investment Corporation

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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 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 matters below, our description of how our audit addressed the matters 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 these matters. 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 matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

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

Assessment of recoverability of Investment in an Associate
The Group assesses the recoverability of its investments in associates whenever events or changes in circumstances indicate that the carrying amounts of the investments may not be recoverable. In 2018, there has been a significant and prolonged decline in the fair value of an investment in an associate. The Group performed impairment testing using the value-in-use (VIU) of the investment. We considered the impairment testing of the Group's investment in this associate a key audit matter as the determination of the investment's VIU requires significant judgment and is based on assumptions, specifically, expected production volume, capital expenditures, price assumption, exchange rates, long-term growth rate and discount rate.

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

Audit response

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

Adoption of PFRS 9, Financial Instruments
On January 1, 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*. PFRS 9, which replaces Philippine Accounting Standards (PAS) 39, *Financial Intruments: Recognition and Measurement*, provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Group and the Parent Company used the modified retrospective approach in adopting PFRS 9.

1. Classification and Measurement of Financial Assets

   As at January 1, 2018 (the transition date), the Group and the Parent Company classified their financial assets based on their business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria. The Group's and the Parent Company's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

   The disclosures in relation to the effect of adoption of the PFRS 9 classification criteria are included in Note 2 to the financial statements.

   Audit response

   We obtained an understanding of the Group's and the Parent Company's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the board approved business models for the Group's and the Parent Company's portfolios of financial assets. We compared the parameters set within the business models with the portfolio and risk management policies of the Group and the Parent Company.

   We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

2. Expected Credit Loss (ECL)

   The Group's and the Parent Company's adoption of the ECL model is significant to our audit as it involves the exercise of significant judgment. Key areas of judgment include: determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, and incorporating forward-looking information (called overlay) in calculating ECL.

   The disclosures on the changes in the accounting policies of the Group and the Parent Company and the effect of adoption of ECL model are included in Notes 2 and 13 to the financial statements.

   Audit response

   We obtained an understanding of the board approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and best available forward-looking information.

   We (a) tested the definition of default and significant increase in credit risk against historical analysis of accounts and credit risk management policies; (b) tested the application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (c) checked the reasonableness of forward-looking information used for overlay; and (d) reviewed changes in the Group's and the Parent Company's policies in developing ECL models. Further, we checked the data used in the ECL models by reconciling data from source system reports to the loss allowance analysis and models, and financial reporting systems. We also assessed the assumptions used where there are missing or insufficient data.

   We recalculated impairment provision on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

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, 2018, 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, 2018 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 34 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

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-AR-3 (Group A),
June 19, 2018, valid until June 18, 2021
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-62-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332517, January 3, 2019, Makati City

February 14, 2019

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
ASSETS				
Cash and other cash items (Note 27)	₱2,935,131,821	₱5,320,741,050	₱156,588,928	₱2,233,603,832
Due from Bangko Sentral ng Pilipinas (BSP) (Notes 14 and 16)	3,489,997,884	4,399,997,307	3,489,997,884	4,399,997,307
Interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA) (Note 31)	–	500,000,000	–	500,000,000
Investment securities at				
Fair value through profit or loss (FVTPL) (Notes 7 and 27)	9,559,054,436	10,605,469,783	1,486,794,195	2,141,780,898
Fair value through other comprehensive income (FVOCI) (Notes 7)	664,510,794	–	505,352,683	–
Amortized cost (Notes 7, 14, 16, and 27)	17,033,927,705	–	16,475,283,711	–
Available-for-sale investments (AFS) (Notes 7, 16 and 27)	–	8,187,370,398	–	7,972,946,034
Held-to-maturity (HTM) investments (Notes 7, 14, 16, and 27)	–	14,250,114,946	–	13,381,508,355
Loans and receivables (Notes 8, 13 and 27)	1,587,576,834	3,024,239,472	1,139,256,852	2,159,663,681
Property and equipment (Note 9)	106,196,100	95,354,274	67,726,444	56,334,056
Investments in subsidiaries, associates and joint venture (Notes 10 and 27)	6,582,805,970	5,847,233,845	10,394,461,153	9,717,133,174
Investment properties (Note 11)	205,902,887	314,297,147	205,902,887	314,297,147
Deferred tax assets (Note 26)	34,799,806	50,269,782	10,613,537	24,694,682
Other assets (Notes 12 and 27)	999,318,903	1,002,056,122	786,441,533	768,099,710
	₱43,199,223,140	₱53,597,144,126	₱34,718,419,807	₱43,670,058,876
LIABILITIES AND EQUITY				
LIABILITIES				
Bills payable (Notes 14 and 27)	₱16,222,302,558	₱25,714,692,549	₱ 16,222,302,558	₱25,911,978,184
Accounts payable (Note 27)	1,858,785,376	2,195,069,559	265,510,103	346,182,703
Accrued taxes, interest and other expenses (Notes 15 and 27)	153,186,149	147,566,088	116,198,648	97,011,661
Bonds payable (Note 16)	2,916,957,750	2,909,949,893	2,997,133,864	2,992,580,674
Income taxes payable	14,342,538	60,699,885	8,397,014	16,865,628
Deferred tax liabilities (Note 26)	5,178,369	200,086	–	–
Puttable instruments of mutual fund subsidiaries classified as liability (Note 17)	6,779,145,036	8,002,041,695	–	–
Other liabilities (Notes 17 and 27)	355,457,172	470,367,024	306,193,694	309,516,220
	28,305,354,948	39,500,586,779	19,915,735,881	29,674,135,070
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
Capital paid in excess of par value	2,065,694,042	2,065,694,042	2,065,694,042	2,065,694,042
Retained earnings (Note 19)	11,381,561,910	10,866,281,472	11,381,561,910	10,866,281,472
Treasury stock (Note 19)	(2,659,550,871)	(2,659,374,435)	(2,659,550,871)	(2,659,374,435)
Net unrealized loss on FVOCI investments (Notes 7 and 27)	(249,995,343)	–	(249,995,343)	–
Net unrealized loss on AFS investments (Notes 7 and 27)	–	(339,746,149)	–	(339,746,149)
Remeasurements of retirement liability (Note 22)	47,309,895	54,005,802	47,309,895	54,005,802
Cumulative translation adjustment	32,745,913	20,821,280	32,745,913	20,821,280
Equity in other comprehensive income of associates (Note 10)	(23,774,020)	(220,450,606)	(23,774,020)	(220,450,606)
	14,802,683,926	13,995,923,806	14,802,683,926	13,995,923,806
Equity attributable to non-controlling interests	91,184,266	100,633,541	–	–
	14,893,868,192	14,096,557,347	14,802,683,926	13,995,923,806
	₱43,199,223,140	₱53,597,144,126	₱34,718,419,807	₱43,670,058,876

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
INTEREST INCOME (Notes 7, 8, 20 and 27)						
Investment securities at FVOCI, at amortized cost, AFS Investments, and HTM investments	₱825,662,611	₱914,671,459	₱981,639,305	₱799,419,819	₱858,306,788	₱929,715,269
Investment securities at FVTPL	138,768,940	115,555,986	127,898,001	55,817,656	77,717,258	84,923,521
Other financial assets	158,087,204	295,467,375	497,546,971	89,290,639	238,635,332	432,813,929
	1,122,518,755	1,325,694,820	1,607,084,277	944,528,114	1,174,659,378	1,447,452,719
INTEREST EXPENSE (Notes 14, 16, 21 and 27)	768,679,461	800,676,446	1,009,203,285	773,214,917	816,129,433	1,034,493,995
NET INTEREST INCOME	353,839,294	525,018,374	597,880,992	171,313,197	358,529,945	412,958,724
Service charges, fees and commissions (Note 27)	610,668,176	556,636,117	883,855,142	415,328,362	350,869,143	679,959,748
Trading and securities gains (losses) (Notes 7 and 27)	(386,594,520)	799,103,600	374,570,652	(178,008,002)	269,644,694	402,314,075
Gain on sale of assets (Notes 9 and 11)	367,038,211	33,605,247	8,313,825	374,627,710	33,605,247	8,313,825
Dividends (Notes 7, 10 and 27)	117,388,219	162,962,719	134,256,019	22,546,628	35,554,325	26,590,697
Foreign exchange gain	8,237,237	914,760	9,349,906	283,315	166,939	474,750
Miscellaneous (Notes 23)	81,216,877	39,423,143	456,580,329	58,471,760	13,434,564	464,591,992
TOTAL OPERATING INCOME	1,151,793,494	2,117,663,960	2,464,806,865	864,562,970	1,061,804,857	1,995,203,811
OTHER EXPENSES						
Compensation and fringe benefits (Notes 22 and 27)	520,837,059	513,746,343	515,051,557	383,380,348	389,319,812	397,522,384
Taxes and licenses	248,673,928	207,478,879	387,813,782	235,759,591	197,815,434	379,145,761
Rent, light and water (Note 24 and 27)	59,516,816	66,435,245	78,546,854	36,546,708	44,635,519	58,228,594
Provision for (recovery from) impairment, credit and other probable losses (Notes 13)	(47,624,794)	1,610,058	64,649,490	(23,083,496)	1,610,058	65,856,213
Broker's commissions	43,773,245	39,326,883	45,666,503	24,473,376	19,087,439	23,571,434
Depreciation of property and equipment (Note 9)	36,445,766	36,033,632	41,264,701	19,927,914	21,846,532	29,816,736
Representation and entertainment (Note 26)	21,639,266	18,497,885	19,004,794	13,560,246	12,131,920	13,852,672
Depreciation of investment properties (Note 11)	1,628,077	3,115,595	3,906,207	1,628,077	3,115,595	3,906,207
Miscellaneous (Notes 11 and 25)	443,121,004	482,874,510	445,061,932	212,806,237	234,783,693	258,456,490
	1,328,010,367	1,369,119,030	1,600,965,820	904,999,001	924,346,002	1,230,356,491
INCOME (LOSS) BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND ASSOCIATES	(176,216,873)	748,544,930	863,841,045	(40,436,031)	137,458,855	764,847,320
SHARE IN NET INCOME (LOSS) OF SUBSIDIARIES (Note 10)	–	–	–	(208,830,773)	486,461,515	(36,559,106)
SHARE IN NET INCOME OF ASSOCIATES (Note 10)	991,057,818	829,874,136	542,856,111	977,713,401	824,240,519	539,036,593
INCOME BEFORE INCOME TAX	814,840,945	1,578,419,066	1,406,697,156	728,446,597	1,448,160,889	1,267,324,807
PROVISION FOR INCOME TAX (Note 26)	311,929,934	386,592,941	615,870,282	225,413,332	273,215,616	491,942,807
NET INCOME	₱502,911,011	₱1,191,826,125	₱790,826,874	₱503,033,265	₱1,174,945,273	₱775,382,000
Attributable to:						
Equity holders of the Parent Company	₱503,033,265	₱1,174,945,273	₱775,382,000			
Non-controlling interests	(122,254)	16,880,852	15,444,874			
	₱502,911,011	₱1,191,826,125	₱790,826,874			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	₱1.4	₱3.2	₱2.1			

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	**2018**	2017	2016
NET INCOME	**₱502,911,011**	₱1,191,826,125	₱790,826,874	**₱503,033,265**	₱1,174,945,273	₱775,382,000
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Changes in net unrealized loss on FVOCI debt investments (Note 7)	**(49,115,871)**	–	–	**–**	–	–
Changes in net unrealized loss on AFS investments (Note 7)	**–**	(82,973,098)	(247,476,361)	**–**	(96,268,336)	(228,838,670)
Income tax effect (Notes 7 and 26)	**(2,049,559)**	3,353,231	5,150,335	**–**	11,249	(1,012,102)
	(51,165,430)	(79,619,867)	(242,326,026)	**–**	(96,257,087)	(229,850,772)
Cumulative translation adjustment	**11,924,633**	(1,433,545)	12,428,467	**–**	–	–
Share in other comprehensive income (loss) of subsidiaries (Note 10)	**–**	–	–	**(38,483,203)**	8,565,327	7,321,025
Share in other comprehensive loss of associates (Note 10)	**(220,892,625)**	(33,198,236)	(77,874,960)	**(220,892,625)**	(33,198,236)	(77,874,960)
Other comprehensive income (loss) attributable to puttable instruments	**(469,427)**	(5,553,708)	5,416,188	**–**	–	–
	(260,602,849)	(119,805,356)	(302,356,331)	**(259,375,828)**	(120,889,996)	(300,404,707)
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurements of retirement liability (Note 22)	**(10,079,550)**	61,555,897	3,867,332	**(16,881,442)**	58,264,104	338,395
Income tax effect (Notes 22 and 26)	**3,383,643**	(18,975,548)	(2,537,973)	**5,064,433**	(17,479,231)	(101,518)
	(6,695,907)	42,580,349	1,329,359	**(11,817,009)**	40,784,873	236,877
Changes in net unrealized loss on FVOCI equity investments (Note 7)	**(254,241,575)**	–	–	**(254,241,575)**	–	–
Share in other comprehensive income of subsidiaries (Note 10)	**–**	–	–	**5,121,102**	1,795,476	1,092,482
Share in other comprehensive income (loss) of associates (Note 10)	**417,569,211**	82,448,011	(4,250,775)	**417,569,211**	82,448,011	(4,250,775)
	156,631,729	125,028,360	(2,921,416)	**156,631,729**	125,028,360	(2,921,416)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱398,939,891**	₱1,197,049,129	₱485,549,127	**₱400,289,166**	₱1,179,083,637	₱472,055,877
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱400,289,166**	₱1,179,083,637	₱472,055,877			
Non-controlling interests	**(1,349,275)**	17,965,492	13,493,250			
	₱398,939,891	₱1,197,049,129	₱485,549,127			

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** (Note 19)	**Retained Earnings** (Note 19)	**Treasury Stock** (Note 19)	**Net Unrealized Gain (Loss) on AFS and FVOCI 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 December 31, 2017	**₱4,208,692,400**	**₱2,065,694,042**	**₱10,866,281,472**	**(₱2,659,374,435)**	**(₱339,746,149)**	**₱54,005,802**	**₱20,821,280**	**(₱220,450,606)**	**₱13,995,923,806**	**₱100,633,541**	**₱14,096,557,347**
Effect of adoption of PFRS 9, *Financial Instruments* (Note 2)	**–**	**–**	**134,989,611**	**–**	**271,657,779**	**–**	**–**	**–**	**406,647,390**	**–**	**406,647,390**
Balance at January 1, 2018	**4,208,692,400**	**2,065,694,042**	**11,001,271,083**	**(2,659,374,435)**	**(68,088,370)**	**54,005,802**	**20,821,280**	**(220,450,606)**	**14,402,571,196**	**100,633,541**	**14,503,204,737**
Total comprehensive income	**–**	**–**	**503,033,265**	**–**	**(304,649,411)**	**(6,695,907)**	**11,924,633**	**196,676,586**	**400,289,166**	**(1,349,275)**	**398,939,891**
Realized loss on sale of FVOCI equity securities	**–**	**–**	**(122,742,438)**	**–**	**122,742,438**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends declared (Note 19)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,100,000)**	**(8,100,000)**
Acquisition of treasury shares (Note 19)	**–**	**–**	**–**	**(176,436)**	**–**	**–**	**–**	**–**	**(176,436)**	**–**	**(176,436)**
Balance at December 31, 2018	**₱4,208,692,400**	**₱2,065,694,042**	**₱11,381,561,910**	**(₱2,659,550,871)**	**(₱249,995,343)**	**₱47,309,895**	**₱32,745,913**	**(₱23,774,020)**	**₱14,802,683,926**	**₱91,184,266**	**₱14,893,868,192**
Balance at January 1, 2017	₱4,208,692,400	₱2,065,694,042	₱12,541,301,976	(₱2,658,509,711)	(₱253,487,934)	₱11,425,453	₱22,254,825	(₱269,700,381)	₱15,667,670,670	₱91,669,286	₱15,759,339,956
Total comprehensive income	–	–	1,174,945,273	–	(86,258,215)	42,580,349	(1,433,545)	49,249,775	1,179,083,637	17,965,492	1,197,049,129
Dividends declared (Note 19)	–	–	(2,849,965,777)	–	–	–	–	–	(2,849,965,777)	(9,001,237)	(2,858,967,014)
Acquisition of treasury shares (Note 19)	–	–	–	(864,724)	–	–	–	–	(864,724)	–	(864,724)
Balance at December 31, 2017	₱4,208,692,400	₱2,065,694,042	₱10,866,281,472	(₱2,659,374,435)	(₱339,746,149)	₱54,005,802	₱20,821,280	(₱220,450,606)	₱13,995,923,806	₱100,633,541	₱14,096,557,347
Balance at January 1, 2016	₱4,208,692,400	₱2,065,694,042	₱14,768,630,516	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	(₱187,574,646),	₱18,201,566,713	₱82,678,286	₱18,284,244,999.
Total comprehensive income	–	–	775,382,000	–	(234,958,214)	1,329,359	12,428,467	(82,125,735)	472,055,877	13,493,250	485,549,127
Dividends declared (Note 19)	–	–	(3,002,710,540)	–	–	–	–	–	(3,002,710,540)	(4,502,250)	(3,007,212,790)
Acquisition of treasury shares (Note 19)	–	–	–	(3,241,380)	–	–	–	–	(3,241,380)	–	(3,241,380)
Balance at December 31, 2016	₱4,208,692,400	₱2,065,694,042	₱12,541,301,976	(₱2,658,509,711)	(₱253,487,934)	₱11,425,453	₱22,254,825	(269,700,381)	₱15,667,670,670	₱91,669,286	₱15,759,339,956

Parent Company	Common Stock (Note 19)	Capital Paid in Excess of Par Value (Note 19)	Retained Earnings (Note 19)	Treasury Stock (Note 19)	Net Unrealized Gain (Loss) on AFS and FVOCI 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 December 31, 2017	**₱4,208,692,400**	**₱2,065,694,042**	**₱10,866,281,472**	**(₱2,659,374,435)**	**(₱339,746,149)**	**₱54,005,802**	**₱20,821,280**	**(₱220,450,606)**	**₱13,995,923,806**
Effect of adoption of PFRS 9, *Financial Instruments* (Note 2)	**–**	**–**	**134,989,611**	**–**	**271,657,779**	**–**	**–**	**–**	**406,647,390**
Balance at January 1, 2018	**4,208,692,400**	**2,065,694,042**	**11,001,271,083**	**(2,659,374,435)**	**(68,088,370)**	**54,005,802**	**20,821,280**	**(220,450,606)**	**14,402,571,196**
Total comprehensive income	**–**	**–**	**503,033,265**	**–**	**(304,649,411)**	**(6,695,907)**	**11,924,633**	**196,676,586**	**400,289,166**
Realized loss on sale of FVOCI equity securities	**–**	**–**	**(122,742,438)**		**122,742,438**	**–**	**–**	**–**	**–**
Acquisition of treasury shares (Note 19)	**–**	**–**	**–**	**(176,436)**	**–**	**–**	**–**	**–**	**(176,436)**
Balance at December 31, 2018	**₱4,208,692,400**	**₱2,065,694,042**	**₱11,381,561,910**	**(₱2,659,550,871)**	**(₱249,995,343)**	**₱47,309,895**	**₱32,745,913**	**(₱23,774,020)**	**₱14,802,683,926**
Balance at January 1, 2017	₱4,208,692,400	₱2,065,694,042	₱12,541,301,976	(₱2,658,509,711)	(₱253,487,934)	₱11,425,453	₱22,254,825	(₱269,700,381)	₱15,667,670,670
Total comprehensive income	–	–	1,174,945,273	–	(86,258,215)	42,580,349	(1,433,545)	49,249,775	1,179,083,637
Dividends declared (Note 19)	–	–	(2,849,965,777)	–	–	–	–	–	(2,849,965,777)
Acquisition of treasury shares (Note 19)	–	–	–	(864,724)	–	–	–	–	(864,724)
Balance at December 31, 2017	₱4,208,692,400	₱2,065,694,042	₱10,866,281,472	(₱2,659,374,435)	(₱339,746,149)	₱54,005,802	₱20,821,280	(₱220,450,606)	₱13,995,923,806
Balance at January 1, 2016	₱4,208,692,400	₱2,065,694,042	₱14,768,630,516	(₱2,655,268,331)	(₱18,529,720)	₱10,096,094	₱9,826,358	(₱187,574,646),	₱18,201,566,713
Total comprehensive income	–	–	775,382,000	–	(234,958,214)	1,329,359	12,428,467	(82,125,735)	472,055,877
Dividends declared (Note 19)	–	–	(3,002,710,540)	–	–	–	–	–	(3,002,710,540)
Acquisition of treasury shares (Note 19)	–	–	–	(3,241,380)	–	–	–	–	(3,241,380)
Balance at December 31, 2016	₱4,208,692,400	₱2,065,694,042	₱12,541,301,976	(₱2,658,509,711)	(₱253,487,934)	₱11,425,453	₱22,254,825	(269,700,381)	₱15,667,670,670

See accompanying Notes to Financial Statements.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱814,840,945**	₱1,578,419,066	₱1,406,697,156	**₱728,446,597**	₱1,448,160,889	₱1,267,324,807
Adjustments for:						
Gain on sale of FVOCI and AFS investments (Note 7)	**(2,429,901)**	(136,851,739)	(464,259,642)	**(2,594)**	(146,864,610)	(462,818,464)
Share in net (income) loss of subsidiaries (Note 10)	**–**	–	–	**208,830,770**	(486,461,515)	36,559,106
Share in net income of associates (Note 10)	**(991,057,818)**	(829,874,136)	(542,856,111)	**(977,713,401)**	(824,240,519)	(539,036,593)
Dividend income (Notes 7 and 10)	**(117,388,219)**	(162,962,719)	(134,256,019)	**(22,546,628)**	(35,554,325)	(26,590,697)
Depreciation and amortization (Notes 9, 11 and 12)	**62,550,888**	80,716,045	98,201,173	**41,432,253**	61,567,740	81,123,218
Gain on return of investments (Notes 10 and 23)	**–**	–	(71,151,471)	**–**	–	(71,151,471)
Provision for (recovery from) impairment, credit, and other probable losses (Note 13)	**(47,624,794)**	1,610,058	64,649,490	**(23,083,496)**	1,610,058	65,856,213
Unrealized foreign exchange loss	**21,556,790**	6,526,715	25,462,289	**22,036,519**	7,202,989	30,531,075
Loss (gain) on sale of:						
Investments in subsidiaries and associates (Note 10)	**(13,127,087)**	–	(8,267,789)	**(20,716,586)**	–	(8,267,789)
Property and equipment (Note 9)	**(549,807)**	(709,191)	(64,211)	**(549,807)**	(709,191)	(64,211)
Investment properties (Note 11)	**(353,233,817)**	(32,386,056)	18,175	**(353,233,817)**	(32,386,056)	18,175
Amortization of:						
Net premium on HTM investments	**62,099,612**	119,515,573	219,652,814	**60,621,539**	117,355,444	220,359,126
Net premium on FVOCI and AFS investments	**120**	20,157,905	25,803,092	**(33)**	10,892,444	24,482,290
Debt issuance cost	**7,007,857**	12,658,175	21,156,310	**4,553,190**	12,658,175	41,529,319
Net premium on bonds payable	**–**	(1,797,117)	(10,631,992)	**–**	(1,797,117)	(31,005,001)
Net discount on unquoted debt securities classified as loans	**45,617**	–	(1,790,599)	**–**	–	(1,790,599)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets FVTPL	**1,348,077,338**	49,274,006	1,301,229,116	**1,232,734,600**	(458,890,803)	(1,047,418,428)
Loans and receivables	**1,217,154,026**	(161,695,610)	404,893,628	**1,041,159,560**	153,572,856	348,688,549
Other assets	**(18,466,624)**	(401,304,802)	25,400,166	**(31,355,357)**	(277,402,285)	48,262,614
Increase (decrease) in the amounts of:						
Accounts payable	**(336,202,382)**	632,886,511	355,761,200	**(80,672,600)**	(28,667,964)	196,443,782
Accrued taxes, interest and other expenses	**6,371,260**	(30,220,043)	(87,661,438)	**19,186,987**	(34,768,609)	(109,819,641)
Other liabilities	**(809,340,303)**	(995,231,802)	(1,717,073,048)	**20,035,305**	69,420,445	257,239,298
Net cash generated from (used in) operations	**850,283,701**	(251,269,161)	910,912,289	**1,869,163,001**	(445,301,954)	320,454,678
Income taxes paid	**(338,754,446)**	(381,453,440)	(991,298,543)	**(214,736,368)**	(267,636,729)	(874,798,571)
Net cash provided by (used in) operating activities	**₱511,529,255**	(₱632,722,601)	(₱80,386,254)	**₱1,654,426,633**	(₱712,938,683)	(₱554,343,893)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	**2018**	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
AFS and FVOCI investments	**(₱773,234,189)**	(₱6,624,047,230)	(₱5,039,746,052)	**(₱673,232,668)**	(₱6,606,815,301)	(₱4,876,852,025)
Amortized cost and HTM investments	**(249,053,308)**	(1,293,109,432)	(498,330,030)	**–**	(1,000,000,000)	(150,000,000)
Property and equipment (Note 9)	**(49,083,369)**	(49,634,120)	(26,170,231)	**(31,752,989)**	(26,693,526)	(18,639,931)
Software licenses (Note 12)	**(23,734,953)**	(19,246,634)	(12,263,410)	**(23,745,531)**	(15,382,770)	(11,731,209)
Capital infusion to subsidiaries (Note 10)	**–**	(235,621,037)	–	**(291,501,074)**	(543,816,764)	–
Proceeds from sale/redemption/ maturities of:						
AFS and FVOCI investments	**757,309,578**	5,035,528,883	18,379,175,095	**648,723,016**	4,448,280,451	18,373,041,421
Investment in subsidiaries associates and joint ventures (Note 10)	**20,716,586**	–	287,426,683	**20,716,587**	608,566,528	531,352,795
Amortized cost and HTM investments	**4,503,324,621**	4,764,326,000	950,352,199	**3,946,085,000**	4,764,326,000	877,036,123
Investment properties (Note 11)	**460,000,000**	37,709,000	11,499,625	**460,000,000**	37,709,000	11,499,625
Property and equipment (Note 9)	**2,345,584**	3,366,338	1,880,962	**982,495**	3,366,338	2,141,737
Deconsolidation of a subsidiary (Note 10)	**15,733,660**	–	–	**–**	–	–
Dividends received from investment securities	**119,811,942**	160,963,883	281,534,254	**22,643,897**	35,492,769	172,063,229
Dividends received from subsidiaries and associates (Notes 10 and 32)	**452,162,280**	281,794,433	–	**520,362,281**	302,797,321	165,519,450
Net cash provided by investing activities	**5,236,298,432**	2,062,030,084	14,335,359,095	**4,599,281,014**	2,007,830,046	15,075,431,215
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of bills payable	**587,615,722,354**	228,168,582,653	145,537,687,948	**587,615,722,353**	228,799,346,957	145,580,187,948
Payments of bills payable	**(597,158,707,922)**	(217,507,999,008)	(160,333,343,487)	**(597,355,993,556)**	(217,983,977,677)	(160,433,488,152)
Purchase of Parent Company bonds by subsidiaries (Note 16)	**–**	–	(28,324,920)	**–**	–	–
Redemption of bonds payable	**–**	(8,599,408,744)	–	**–**	(9,000,000,000)	–
Dividends paid (Notes 19 and 33)	**(274,335)**	(5,823,492,290)	(2,300,764)	**(274,335)**	(5,823,492,290)	(2,300,764)
Acquisition of treasury shares (Notes 19 and 33)	**(176,436)**	(864,724)	(3,241,380)	**(176,436)**	(864,724)	(3,241,380)
Net cash used in financing activities	**(9,543,436,339)**	(3,763,182,113)	(14,829,522,603)	**(9,740,721,974)**	(4,008,987,734)	(14,858,842,348)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,795,608,652)**	(2,333,874,630)	(574,549,762)	**(3,487,014,327)**	(2,714,096,371)	(337,755,026)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**5,320,741,050**	3,104,612,987	3,329,162,749	**2,233,603,832**	397,697,510	385,452,536
Due from BSP	**4,399,997,307**	7,231,151,183	6,600,000,000	**4,399,997,307**	7,231,151,183	6,600,000,000
IBLR and SPURA	**500,000,000**	2,218,848,817	3,200,000,000	**500,000,000**	2,218,848,817	3,200,000,000
	10,220,738,357	12,554,612,987	13,129,162,749	**7,133,601,139**	9,847,697,510	10,185,452,536
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**2,935,131,821**	5,320,741,050	3,104,612,987	**156,588,928**	2,233,603,832	397,697,510
Due from BSP	**3,489,997,884**	4,399,997,307	7,231,151,183	**3,489,997,884**	4,399,997,307	7,231,151,183
IBLR and SPURA	**–**	500,000,000	2,218,848,817	**–**	500,000,000	2,218,848,817
	₱6,425,129,705	₱10,220,738,357	₱12,554,612,987	**₱3,646,586,812**	₱7,133,601,139	₱9,847,697,510

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	**2018**	2017	2016
Interest paid	**₱745,845,140**	₱823,326,593	₱1,042,860,573	**₱750,768,764**	₱840,989,974	₱1,068,087,741
Interest received	**1,161,547,273**	1,399,125,206	1,734,162,412	**992,899,272**	1,240,588,571	1,576,428,761

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 have been prepared on a historical cost basis except for debt and equity investment securities 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 of the Group and of the Parent Company provide comparative information in respect of the previous period.

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

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 Group controls an investee if, and only if, the Group 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 re-assesses 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.

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

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

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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

Amendments
- PAS 40, *Investment Property, Transfers of Investment Property*
- PAS 28, *Investment in Associate and Joint Venture - Measuring an associate or joint venture at fair value*
- PFRS 2, *Share-based Payment, Classification and Measurement of Share based Payment Transactions*
- PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contract standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendment also provides relief to investors in associates and joint ventures where the investors are permitted, but not required, to retain the relevant accounting policies applied by the associates or joint ventures, for accounting periods before January 1, 2021, when those associates or joint ventures apply PFRS 9 but the investor invokes the temporary exemption from PFRS 9.

  The Group applied the amendments for their investment in Philippine AXA Life Insurance Corporation (PALIC) which availed the temporary exemption from PFRS 9 and have provided additional disclosures in Note 10 in addition to the required information by PFRS 12, *Disclosure of Interests in Other Entities.*

Philippine Interpretation
- IFRIC 22, *Foreign Currency Transaction and Advance Consideration*

New Standards

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9 (2009, 2010 and 2013 versions). Accordingly, the Group and the Parent Company adopted PFRS 9 using the modified retrospective approach with date of initial application of January 1, 2018. The comparative information for 2017 for financial instruments in the scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other comprehensive income as of January 1, 2018 and are disclosed under Transition to PFRS 9 below.

The new standard introduces new requirements for classification and measurement, impairment and hedge accounting. Changes in hedge accounting has no significant impact to the Group and the Parent Company financial statements while impact of changes in classification and measurement and impairment is described below.

a. *Classification and Measurement*
Prior to January 1, 2018, the Group classified its financial assets in the following categories: investment securities at FVTPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities carried at amortized cost under PAS 39. 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 reporting date.

Starting January 1, 2018, the Group classifies its financial assets in the following categories investment securities at FVTPL, investment securities at FVOCI and financial assets measured at amortized cost while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost under PFRS 9. The classification of financial instruments depends on the contractual terms and the business model for managing the instruments (see Note 3).

The following are the changes in the classification of the Group and the Parent Company financial assets as a result of the application of the classification and measurement requirements of PFRS 9:

A. *Cash in banks, Due from BSP, Interbank loans receivable and Securities purchased under resale agreements* classified as Loans and Receivables as at December 31, 2017, are held to collect contractual cash flows and give rise to cash flows that are SPPI. Accordingly, these financial assets are continued to be carried at amortized cost, and are classified as Financial assets at amortized costs starting January 1, 2018.

B. *Quoted debt and equity securities* classified as Financial assets at FVTPL as at December 31, 2017 under PAS 39 are continued to be carried at fair value and are classified as Financial assets at FVTPL starting January 1, 2018 under PFRS 9 except for certain quoted equity securities amounting to ₱124.4 million classified as Financial assets at FVOCI that are held by the Group for strategic investments with the objective of generating income through dividends. Disposal of these investments depends on the liquidity requirements of the Group.

C. *Quoted debt securities* classified as AFS investments as at December 31, 2017 are classified as Financial assets at amortized costs starting January 1, 2018 as the business model is to collect contractual cash flows until the instruments' corresponding maturities except for certain corporate debt securities amounting to ₱144.6 million and ₱0.04 million for the Group and Parent Company, respectively, that are held by the Group not only to hold the assets to collect contractual cash flows but also to sell when opportunity for capital gains arises . *Quoted equity securities* classified as AFS investments as at December 31, 2017 under PAS 39 are classified as Financial assets at FVTPL except for certain private equity securities in which the Group elected the option to irrevocably designate at Financial assets at FVOCI. These equity securities are held by the Group for strategic investments and provides higher returns but can be disposed depending on the liquidity requirements.

D. *Quoted debt securities* classified as HTM investments as at December 31, 2017 under PAS 39 are classified as Financial assets at amortized costs starting January 1, 2018 under PFRS 9 as the Group expects to hold on to these securities in order to collect contractual cash flows.

E. *Loans and receivables* classified as such as at December 31, 2017 under PAS 39 were continued to be carried at amortized cost and are classified as Financial assets at amortized costs starting January 1, 2018 under PFRS 9, except for investments in Tier 2 notes amounting to ₱199.0 million that did not pass the SPPI test and thus mandatorily classified as Financial assets at FVTPL.

In summary, upon the adoption of PFRS 9, the Group and the Parent Company had the following elected or required reclassifications as at January 1, 2018.

		PAS 39 measurement		Re-	Re-	PFRS 9	
Consolidated	*Ref*	*Category*	*Amount*	*classification*	*measurement*	*Category*	*Amount*
Cash and cash equivalents							
Cash and other cash items	*A*	L&R	₱5,320,741,050	₱-	₱–	Amortized cost	₱5,320,741,050
Due from BSP	*A*	L&R	4,399,997,307	-	–	Amortized cost	4,399,997,307
IBLR & SPURA	*A*	L&R	500,000,000	-	–	Amortized cost	500,000,000
			₱10,220,738,357	**₱-**	**₱–**		**₱10,220,738,357**
Financial assets at FVTPL							
Debt		FVTPL	₱2,686,424,300	₱215,000,000	(₱15,956,895)	FVTPL	₱2,885,467,405
From: Loans and receivables	*E*			*215,000,000*	*(15,956,895)*		
		FVTPL	**2,686,424,300**	**215,000,000**	**(15,956,895)**	**FVTPL**	**2,885,467,405**
Equity			7,919,045,483	577,747,899	–	FVTPL	8,496,793,382
To: Investment securities at FVOCI	*B*			*(124,448,655)*	–		
From: AFS investments	*C*			*702,196,554*	–		
		FVTPL	**7,919,045,483**	**577,747,899**	**–**	**FVTPL**	**8,496,793,382**
		FVTPL	**₱10,605,469,783**	**₱792,747,899**	**(₱15,956,895)**	**FVTPL**	**₱11,382,260,787**
AFS Investments							
Debt		AFS	₱6,807,966,838	(₱6,807,966,838)	₱–	N/A	₱–
To: Investment securities at FVOCI	*C*			*(144,614,407)*	–		–
To: Investment securities at amortized cost	*C*			*(6,663,352,431)*	–	N/A	–
		AFS	**6,807,966,838**	**(6,807,966,838)**	**–**	**N/A**	**–**
Equity		AFS	1,379,403,560	(1,381,891,062)	–	N/A	–
To: Investment securities at FVTPL	*C*			*(702,196,554)*			
To: Investment securities at FVOCI	*C*			*(681,694,508)*			
		AFS	**1,379,403,560**	**(1,381,891,062)**	**–**	**N/A**	**–**
		AFS	**₱8,187,370,398**	**(₱8,191,857,900)**	**₱–**	**N/A**	**₱–**
HTM Investments		HTM	₱14,250,114,946	(₱14,250,114,946)	₱–	N/A	₱–
To: Investment at amortized cost	*D*			(14,250,114,946)			
		HTM	**₱14,250,114,946**	**(₱14,250,114,946)**	**₱–**	**N/A**	**₱–**

	Ref	Category	Amount	Reclassification	Remeasurement	Category	Amount
Investment securities at FVOCI							
Equity		N/A	₱–	₱806,143,163	₱4,487,502	FVOCI	₱806,143,163
From: Financial assets at FVTPL	***B***			*124,448,655*	–		
From: AFS investments	***C***			*677,207,006*	*4,487,502*		
		N/A	**₱–**	**806,143,163**	**4,487,502**	**FVOCI**	**806,143,163**
Debt		N/A	–	144,614,408	–	FVOCI	144,614,408
From: AFS investments	***C***			*144,614,408*			
		N/A	**–**	**144,614,408**	**–**	**FVOCI**	**144,614,408**
		N/A	**₱–**	**₱950,757,571**	**₱–**	**FVOCI**	**₱950,757,571**
Investment at amortized cost		N/A	₱–	₱20,913,467,376	₱406,070,407	Amortized Cost	₱21,319,537,783
From: AFS investments	***C***			*6,663,352,430*	*406,070,407*		
From: HTM investments	***D***			*14,250,114,946*	–		
		N/A	**₱–**	**₱20,913,467,376**	**₱406,070,407**	**Amortized Cost**	**₱21,319,537,783**
Loans and receivables		L&R	₱3,024,239,472	(₱215,000,000)	₱–	Amortized Cost	₱1,383,891,062
To: Financial assets at FVTPL	***E***			*(215,000,000)*			
		L&R	**₱3,024,239,472**	**(₱215,000,000)**	**₱–**	**Amortized Cost**	**₱1,383,891,062**

Differences arising from the adoption of PFRS 9 have been recognized directly in Retained earnings, Net unrealized loss on FVOCI/AFS investments and Puttable instruments of mutual fund subsidiaries classified as liability as of January 1, 2018 as follows:

Consolidated as at January 1, 2018	**Ref.**	**Retained earnings**	**Net unrealized loss on FVOCI/AFS investments**	**Puttable instruments of mutual fund subsidiaries classified as liability**	**Total**
Reclassification of net unrealized loss for securities reclassified from FVTPL to FVOCI	**B**	₱2,264,122	(₱2,264,122)	₱–	₱–
Reclassification of net unrealized gain for AFS investment reclassified to FVTPL	**C**	24,604,588	(24,604,588)	–	–
Reversal of net unrealized loss on AFS debt securities reclassified to Amortized costs	**C**	–	406,070,407	–	406,070,407
Recognition of unrealized gain on loans and receivables reclassified to FVTPL	**E**	(3,910,519)	–	(12,046,376)	(15,956,895)
Reversal of previously recognized allowance on AFS equity investment and reclassification to net unrealized loss on FVOCI investments	**C**	112,031,420	(112,031,420)	–	–
Fair valuation of unquoted equity securities	**C**	–	4,487,502	–	4,487,502
		₱134,989,611	₱271,657,779	(₱12,046,376)	₱394,601,014

As at January 1, 2018, the change in classification and measurement of financial instruments of the Group resulted in net increase in Retained earnings by ₱135.0 million and reversal of net unrealized loss of ₱271.7 million. The ₱12.1 million decrease in ‘Puttable instruments of mutual fund subsidiaries classified as liability’ pertains to the impact to the ownership interest of other shareholders of mutual fund subsidiaries of the Parent Company.

		PAS 39 measurement		***Re-***	***Re-***	**PFRS 9**	
Parent Company	***Ref***	***Category***	***Amount***	***classification***	***measurement***	***Category***	***Amount***
Cash and cash equivalents							
Cash and other cash items	***A***	L&R	₱2,233,603,832	₱–	₱–	Amortized cost	₱2,233,603,832
Due from BSP	***A***	L&R	4,399,997,307	–	–	Amortized cost	4,399,997,307
IBLR & SPURA	***A***	L&R	500,000,000	–	–	Amortized cost	500,000,000
			₱7,133,601,139	**–**	**–**		**₱7,133,601,139**
Financial assets at FVTPL							
Debt		FVTPL	₱1,833,014,404	₱–	₱–	FVTPL	₱1,833,014,404
		FVTPL	**1,833,014,404**			**FVTPL**	**1,833,014,404**
Equity		FVTPL	308,766,494	577,747,899	–	FVTPL	886,514,393
To: Investment securities at FVOCI	***B***			*(124,448,655)*	–		
From: AFS investments	***C***			*702,196,554*	–		
		FVTPL	**308,766,494**	**577,747,899**	**–**	**FVTPL**	**886,514,393**
		FVTPL	**₱2,141,780,898**	**₱577,747,899**	**₱–**	**FVTPL**	**₱2,719,538,797**
AFS Investments							
Debt		AFS	₱6,663,401,634	(₱6,663,401,634)	₱–	N/A	₱–
To: Investment securities at FVOCI	***C***			*(49,203)*	–		
To: Investment securities at amortized cost	***C***			*(6,663,352,431)*	–		–
		AFS	**6,663,401,634**	**(6,663,401,634)**	**–**	**N/A**	**–**
Equity		AFS	1,309,544,400	(1,309,544,400)	–	N/A	–
To: Investment securities at FVTPL	***C***			*(702,196,554)*			
To: Investment securities at FVOCI	***C***			*(607,347,846)*			
		AFS	**1,309,544,400**	**(1,309,544,400)**	**–**	**N/A**	**–**
		AFS	**₱7,972,946,034**	**(₱7,972,946,034)**	**₱–**	**N/A**	**₱–**
HTM Investments		HTM	₱13,381,508,355	₱13,381,508,355	₱–	N/A	₱–
To: Investment at amortized cost	***D***			*13,381,508,355*			
		HTM	**₱13,381,508,355**	**(₱13,381,508,355)**	**₱–**	**N/A**	**₱–**

Parent Company	Ref	PAS 39 measurement Category	PAS 39 measurement Amount	Re-classification	Re-measurement	PFRS 9 Category	PFRS 9 Amount
Investment securities at FVOCI							
Equity		N/A	₱–	₱731,796,501	₱4,487,502	FVOCI	₱806,143,163
From: Financial assets at FVTPL	***B***			*124,448,655*			
From: AFS investments	***C***			*607,347,846*	*4,487,502*		
		N/A	**₱–**	**₱731,796,501**	**₱4,487,502**	**FVOCI**	**₱736,284,003**
Debt		N/A	–	49,203	–	FVOCI	49,203
From: AFS investments	***C***			*49,203*			
		N/A	**–**	**49,203**	**–**	**FVOCI**	**49,203**
		N/A	**₱–**	**₱731,845,704**	**₱4,487,502**	**FVOCI**	**₱736,333,206**
Investment at amortized cost		N/A	₱–	₱20,044,860,786	₱406,070,407	Amortized Cost	₱20,450,931,193
From: AFS investments	***C***			6,663,352,430	406,070,407		
From: HTM investments	***D***			13,381,508,355			
		N/A	**₱–**	**₱20,044,860,786**	**₱406,070,407**	**Amortized Cost**	**₱20,450,931,193**
Loans and receivables		L&R	₱2,159,663,681	₱–	₱–	Amortized Cost	₱2,159,663,681
		L&R	**₱2,159,663,681**	**₱–**	**₱–**	**Amortized Cost**	**₱2,159,663,681**

Differences arising from the adoption of PFRS 9 have been recognized directly in Retained earnings and Net unrealized loss on FVOCI/AFS investments as of January 1, 2018 as follows:

Parent Company as at January 1, 2018	***Ref***	**Retained Earnings**	**Net Unrealized Loss on FVOCI/ AFS Investments**	**Total**
Reclassification of net unrealized loss for securities reclassified from FVTPL to FVOCI	**B**	₱2,264,122	(₱2,264,122)	₱–
Reclassification of net unrealized gain for AFS investment reclassified to FVTPL	**C**	24,604,588	(24,604,588)	–
Reversal of net unrealized loss on AFS debt securities reclassified to Amortized costs	**C**	–	406,070,407	406,070,407
Reversal of previously recognized allowance on AFS equity investment and reclassification to net unrealized loss on FVOCI investments	**C**	1,333,404	(1,333,404)	–
Fair valuation of unquoted equity securities	**C**	–	4,487,502	4,487,502
		28,202,114	382,355,795	410,557,909
Share in impact of PFRS 9 adoption by investees		106,787,497	(110,698,016)	(3,910,519)
		₱134,989,611	₱271,657,779	₱406,647,390

As at January 1, 2018, the change in classification and measurement of financial instruments of the Parent Company resulted in net increase in Retained earnings by ₱135.0 million and reversal of Net unrealized loss on FVOCI/AFS investments of ₱271.7 million.

As of December 31, 2018, the fair value of the investment securities at amortized cost which were transferred out of AFS investments amounted to ₱6,247.2 million for the Group and for the Parent Company. Had these been retained to be measured at fair value, fair value loss amounting to ₱416.2 million would have been recognized in the 2018 other comprehensive income of the Group and the Parent Company. Further, had the equity investments transferred out of FVTPL to FVOCI been retained at FVTPL, loss from sale amounting to ₱198.6 million would have been recognized by the Group and the Parent Company in the statement of Income.

b. *Impairment*
PFRS 9 requires the Group to record an allowance for expected credit loss (ECL) for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

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

Upon adoption of the PFRS 9, the Group assessed that its balances with banks, BSP, Interbank loans receivables (IBLR) and securities purchased under resale agreements (SPURA) are considered low credit risk financial assets as of January 1, 2018. Furthermore, as these financial assets are primarily repayable on demand, the Group assessed that the impact of recognizing 12-month ECL for these financial assets is not significant.

As of January 1, 2018, the Group's and the Parent Company's investment securities at FVOCI and amortized costs (which consists of government securities and quoted private debt securities) and one (1) corporate loan included under loans and receivables are all rated within investment grade category and therefore considered to be low credit risk investments. Since the corresponding risk of default for these financial assets is relatively low, the calculated ECL is not significant to the Group.

The Group used the simplified approach and applied the practical expedient to calculate the ECL using the provision matrix for trade receivables included under 'Loans and Receivables' that did not contain significant financing component. As of January 1, 2018, the trade receivables consist primarily receivables from related parties which are repayable on demand, the Group assessed that the impact of recognizing 12-month ECL for these financial assets is not significant.

Overall, the impact of the expected credit losses is determined to be insignificant and did not result in additional allowance for credit losses as of January 1, 2018.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Therefore, the comparative information was not restated and continued to be reported under PAS 11, PAS 18 and related interpretations. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at January 1, 2018.

The adoption of PFRS 15 has no significant impact on the Group and the Parent Company's financial statements since majority of the Company's revenue is interest income, which is outside the scope of PFRS 15 (scoped in under PFRS 9). In addition, the Group and Parent Company assessed that the revenue recognition requirements for other sources of income such as fees, commissions and gain on sale of assets' remain the same when they apply the five-step model under PFRS 15 (see detailed discussion in Revenue accounting policy).

Significant Accounting Policies

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

The functional currency of the Parent Company and its subsidiaries is Philippine peso (₱), except for 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 Bankers Association of the Philippines (BAP) closing rate for 2018 and Philippine Dealing System (PDS) closing rate for 2017 and prior years prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rates as at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

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

Subsidiary with different functional currency
As at the reporting date, the assets and liabilities of FMSLDBF are translated into the Group presentation currency at BAP closing rate for 2018 and PDS closing rate for 2017 and prior prevailing at the statement of financial position date, and their income and expenses are translated at BAP weighted average rate (BAPWAR) for 2018 and PDS weighted average rate (PDSWAR) for 2017 and prior. Exchange differences arising on translation are taken to statement of comprehensive income as 'Cumulative translation adjustment'. Upon disposal of FMSLDBF or when the Group ceases to have control, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

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

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

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

<u>Financial Instruments - Initial Recognition</u>
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 measured at fair value. Except for financial assets and financial liabilities valued at FVTPL, the initial measurement of financial instruments includes transaction costs.

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

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

Under PAS 39 (applicable prior to January 1, 2018), embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets or liabilities at FVTPL, when their economic risks and characteristics are not clearly and closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Under PFRS 9 (applicable beginning January 1, 2018), the Group accounts for derivatives embedded in financial liabilities and non-financial host contracts similar with PAS 39. For financial assets, embedded derivatives are accounted for together with the host contracts

and are classified based on the business model and contractual cash flows of the instrument.

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

<u>Financial Instruments – Classification and Subsequent Measurement</u>
<u>*Policies applicable beginning January 1, 2018*</u>
The Group classifies its financial assets in the following categories: financial assets at FVTPL, investment securities at FVOCI and financial assets measured at amortized cost while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost. The classification of financial instruments depends on the contractual terms and the business model for managing the instruments. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

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

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

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

A financial asset is considered as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term;

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

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

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

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

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

Equity instruments designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding these equity securities are recognized in the statement of income as 'Dividends' when the right of the payment has been established. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in other of comprehensive income is reclassified to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

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

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

<u>Policies applicable prior to January 1,2018</u>
Prior to January 1, 2018, the Group classified its financial assets in the following categories: financial assets at FVTPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVTPL and 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 reporting date.

Financial assets or financial liabilities held for trading (FVTPL)
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 FVTPL 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 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 ‘Cash and either cash items’, ‘Due from BSP’, ‘IBLR and SPURA’ 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 FVTPL’.

After initial measurement, ‘Loans and receivables’, ‘Due from BSP’, ‘IBLR’ and ‘SPURA’ 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 FVTPL, 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 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 (loss)’ in the statement of income.

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 FVTPL, are classified as financial liabilities carried at amortized cost accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. Financial liabilities carried at amortized cost include ‘Bills payable’, ‘Bonds payable’, or other appropriate financial liability accounts.

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

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

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

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

Reclassification of Financial Assets
Policy applicable beginning January 1, 2018
The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets:
(i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristics of the instrument’s contractual cash flows need the amortized cost criteria.

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

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

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

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

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

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

Definition of "default" and "cure"
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

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

SICR
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the group shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered.

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

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

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

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

Policies applicable prior to January 1, 2018
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 'Cash and other cash items', 'Due from BSP', 'Loans and receivables', 'IBLR and SPURA', 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.

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.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial assets

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

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

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

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

Financial liabilities

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

<u>Offsetting Financial Instruments</u>

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

<u>Derivative Financial Instruments and Hedge Accounting</u>

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

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

<u>Current versus Noncurrent Classification</u>

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, IBLR and SPURA with original maturities of three months or less from the dates of placements and are subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost. Due from BSP includes the statutory reserves required by the BSP, which the Company considers as cash equivalents wherein drawings can be made to meet cash requirements.

Investments in Subsidiaries, Associates and Joint Venture

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

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

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

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

The Group's investments in its associates and joint venture are accounted for using the equity method. (See discussion on the next section, 'Parent Company financial statements', 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. First Metro Save and Learn Dollar Bond Fund, Inc. (FMSLDBF), a subsidiary, has US dollars as its functional currency. Adjustments resulting from the translation of the financial statements of FMIIC and FMSLDBF into Philippine peso are shown in the statement of comprehensive income.

Property and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fee income can be divided into the following two categories:

a) Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Group. These fees includes management fees and advisory fees.

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

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

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

Revenue outside the scope of PFRS 15
Interest income
a. *Interest income recognized using the effective interest rate method* – Interest income is recognized in profit or loss for all instruments measured at amortized cost, HTM investments and debt instruments classified as investment securities at FVOCI and AFS using the effective interest method.

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

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

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

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

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

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

Realized gains and losses on disposals of financial instruments classified as at fair value through profit or loss are calculated using pro-rata approach starting January 1, 2018 and using WAC method in 2017 and 2016.

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

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

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

<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.

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

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

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

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

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

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

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

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

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

Earnings per Share

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

Dividends on Common Shares

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

Subsequent Events

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

Segment Reporting

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

Fiduciary Activities

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

Standards Issued but not yet Effective

Pronouncements issued but not yet effective up to the date of the Group's financial statements are listed below. The Group intends to adopt these pronouncements when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these pronouncements to have significant impact on its financial statements.

Effective beginning on or after January 1, 2019

New Standards

PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

Amendments

Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

PAS 19, Plan Amendment, Curtailment or Settlement
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*. The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

Annual Improvements to PFRS 2015 to 2017 Cycle
Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Effective beginning on or after January 1, 2020

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

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

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

Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

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

PFRS 17, *Insurance Contracts*

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

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

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

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

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

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

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

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:

Unless otherwise stated, below significant judgments and estimates apply as of and for the years ended December 31, 2018, 2017 and 2016.

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

a. *Classification of financial assets*
As discussed in Note 2, beginning January 1, 2018, the Group classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

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

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

b. *Classification of HTM investments*
Prior to January 1, 2018, 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.

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

The Group directly holds 45.0%, 25.1%, 21.3%, and 25.1% in First Metro Philippines Equity Exchange Traded Fund, Inc. (FMPEETFI), First Metro Save and Learn Equity Fund (FMSALEF), First Metro Save and Learn Balanced Fund (FMSALBF) and First Metro Save and Learn Fixed Income Fund (FMSLFIF), respectively, as of December 31, 2018 and 38.8%, 23.9%, 21.4%, and 20.4%, respectively, as of December 31, 2017. The Group assessed that control over FMPEETFI, FMSLFIF, FMSALEF and FMSALBF (the Funds) exists because the Parent Company is acting as principal of the Funds, through the fund manager of the Funds, FAMI, which is a 70.0% owned subsidiary of the Parent Company, and given the Parent Company's economic interests (comprising direct interests and future management and advisory fees) over these Funds. The following factors were considered in the assessment: (a) the Parent Company has wide decision making rights over the relevant activities of the Funds and (b) the removal rights are not substantive since there are multiple parties (widely dispersed shareholders) who hold the removal rights; further, members of the BOD of the Funds are normally nominated/appointed by the Parent Company.

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

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

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

Estimates
The measurement of impairment losses both under PFRS 9 and PAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

a. *Credit losses of financial assets*
Beginning January 1, 2018
The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

The gross carrying amounts of financial assets subject to ECL as of December 31, 2018 are disclosed in Note 4, while the related ECL allowances for credit losses are disclosed in Note 13.

<u>Prior to January 1, 2018</u>

The Group reviews its financial assets to assess impairment on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. In determining whether credit losses should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates in the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical loss experience adjusted on the basis of current historical data for assets with similar credit risk characteristics or using the Net Flow Rate method.

The carrying values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Note 8.

b. *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, 2018, 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. 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.

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

As of December 31, 2018 and 2017, 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.

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

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

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

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

As of December 31, 2018 and 2017, 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 RMD also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regard to the submission of requisite reports on their risk compliance and control activities.

The identified market, such as equity prices, interest rate and foreign currency, and liquidity, as well as credit and operations risks are consequently measured and then controlled by a system of limits. The RMD defines and presents for approval of the ROC and BOD the various risk management measures to be used in quantifying those risks.

The Parent Company requires either internal or external legal opinions to ensure that all documentations related to transactions entered into by the Parent Company are enforceable. Specific, internal legal functions/responsibilities including coordination with external counsel groups are handled by the Legal Department.

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

In line with the framework, various methodologies and tools were established to facilitate management of operational risk. These include operational risk incident data management, risk event database maintenance, risk assessment, key risk indicator monitoring and contingent legal liability reporting. The Parent Company, likewise, has in place a responsive risk management policy for effective oversight, due diligence and management of risks arising from outsourcing, prior to entering into, as well as, during the lifespan of an outsourcing agreement/arrangement. This is recognizing that while outsourcing can be cost effective and brings other competitive advantages, it also poses an Outsourcing Risk.

Outsourcing Risk is the risk that third party service providers may not act within the intended limits of their authority and/or not perform in a manner consistent with outsourcing party's strategies, objectives and desired results, as well as, legal and regulatory requirements.

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

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

Credit Risk

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

The management of credit risk is outlined in the Credit Policy Manual where credit authority and approval bodies are formalized within the institution. This is further supported by various operating manuals from relevant units subject to periodic review, any changes are elevated to appropriate approving body. The Parent Company operates under sound, well-defined credit-granting criteria which include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, risks and risk mitigants and its source of repayment. Independent validation of credit reviews is done annually. Credit ratings of counterparties are likewise periodically tracks and reported to board committee level. The Parent Company gathers sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counterparty through the use of Internal Credit Risk Rating System (ICRRS) as well as rating information from independent credit rating providers. With implementation of IFRS 9 on Expected Credit Losses (ECL), the Probability of default (PD) models are used in parallel to the ICRRS. The PFRS 9 - ECL Technical Document provides guidance on the methodology and calculation of the impairment provision; models are assessed and recalibrated as needed.

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.

Management of Credit Risk

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

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

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

Credit risk at initial recognition

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

Modification

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

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			
	2018			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	**₱460,025,660**	**₱931,488,207**	**₱–**	**₱460,025,660**
Others				
Fully secured	**7,973,879**	**9,827,252**	**–**	**7,973,879**
Unsecured	**7,769,200**	**–**	**7,769,200**	**–**
	15,743,079	**9,827,252**	**7,769,200**	**7,973,879**
Commercial papers				
Unsecured	**632,454,383**	**–**	**632,454,383**	**–**
	₱1,108,223,122	**₱941,315,459**	**₱640,223,583**	**₱467,999,539**

	Consolidated			
	2017			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	₱1,338,730,014	₱4,214,836,462	₱–	₱1,338,730,014
Others				
Fully secured	8,412,881	9,711,302	–	8,412,881
Unsecured	6,961,241	–	6,961,241	–
	15,374,122	9,711,302	6,961,241	8,412,881
Commercial papers				
Unsecured	834,250,000	–	834,250,000	–
	₱2,188,354,136	₱4,224,547,764	₱841,211,241	₱1,347,142,895

	Parent Company			
	2018			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables - net				
Loans and discounts:				
Corporate lending				
Fully secured	**₱460,025,660**	**₱931,488,207**	**₱–**	**₱460,025,660**
Others				
Fully secured	**5,021,808**	**6,875,181**	**–**	**5,021,808**
Unsecured	**5,777,978**	**–**	**5,777,978**	**–**
	10,799,786	**6,875,181**	**5,777,978**	**5,021,808**
Unquoted commercial papers				
Unsecured	**482,500,000**	**–**	**482,500,000**	**–**
	₱953,325,446	**₱938,363,388**	**₱488,277,978**	**₱465,047,468**

	Parent Company			
	2017			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on-balance sheet assets are as follows:				
Loans and receivables – net				
Loans and discounts:				
Corporate lending				
Fully secured	₱1,338,730,014	₱4,214,836,462	₱–	₱1,338,730,014
Others				
Fully secured	5,147,538	6,060,781	–	5,147,538
Unsecured	4,785,480	–	4,785,480	–
	9,933,018	6,060,781	4,785,480	5,147,538
Unquoted commercial papers				
Unsecured	485,000,000	–	485,000,000	–
	₱1,833,663,032	₱4,220,897,243	₱489,785,480	₱1,343,877,552

For the other financial assets of the Group and of the Parent Company not presented in the table above, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2018 and 2017.

Collateral and other credit enhancements
The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and these are periodically updated following the internally approved guidelines on accepted collaterals. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral valuations are monitored periodically by an independent unit of the Parent Company. Collateral, usually, is not held against investment securities and no such collateral was held as of December 31, 2018 and 2017.

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

Concentrations of Credit Risk
Concentrations of credit risk arise when the company is exposed to particular group of counterparties or a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location.

For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and advances; (2) loans and receivables; and (3) trading and financial investment securities. To mitigate risk concentration, the Parent Company checks for breaches in regulatory and internal limits. Internal credit concentration limits were set at not more than 20.0% and 25.0% of the selected financial assets for counterparties and industry exposures, respectively. Monitoring reports are done monthly wherein the same are elevated to the ROC on its monthly meeting for information and appropriate actions.

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

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			
	2018			
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Total**
Electricity, gas and water	**₱501,041,398**	**₱–**	**₱643,636,757**	**₱1,144,678,155**
Water supply, sewage, waste management and remediation activities	**490,735,101**	**–**	**–**	**490,735,101**
Real estate, renting and business activities	**425,053,249**	**–**	**3,139,699,318**	**3,564,752,567**
Financial intermediaries	**272,416,380**	**2,935,001,010**	**4,956,706,851**	**8,164,124,241**
Philippine government	**139,428,051**	**3,489,997,884**	**17,267,949,566**	**20,897,375,501**
Sovereign government	**1,200,212**	**–**	**56,862,619**	**58,062,831**
Construction	**239,630**	**–**	**44,667,931**	**44,907,561**
Information and communication	**201,024**	**–**	**108,970,757**	**109,171,781**
Wholesale and retail trade	**342**	**–**	**503,337,070**	**503,337,412**
Mining and quarrying	**–**	**–**	**225,507,859**	**225,507,859**
Manufacturing	**–**	**–**	**156,202,165**	**156,202,165**
Transportation and storage	**–**	**–**	**68,497,000**	**68,497,000**
Others (various industries)	**196,205,200**	**–**	**85,455,042**	**281,660,242**
	2,026,520,587	**6,424,998,894**	**27,257,492,935**	**35,709,012,416**
Less allowance for credit losses (Note 13)	**(28,943,753)**	**–**	**–**	**(28,943,753)**
	₱1,997,576,834	**₱6,424,998,894**	**₱27,257,492,935**	**₱35,680,068,663**

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*
** *Comprises Cash and other cash items, Due from BSP, IBLR and SPURA excluding petty cash fund which amounted to ₱130,811.*
*** *Comprises Investment securities at FVTPL, FVOCI and Amortized Cost.*

	Consolidated			
	2017			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Electricity, gas and water	₱565,373,350	₱–	₱633,096,231	₱1,198,469,581
Water supply, sewage, waste management and remediation activities	493,277,770	–	199,155,000	692,432,770
Real estate, renting and business activities	464,844,716	–	3,858,335,523	4,323,180,239
Financial intermediaries	1,312,547,669	5,820,586,049	4,021,244,131	11,154,377,849
Philippine government	152,638,879	4,399,997,307	21,155,327,604	25,707,963,790
Sovereign government	1,139,722	–	54,196,726	55,336,448
Construction	122,014,259	–	646,768,167	768,782,426
Information and communication	32,917	–	353,901,718	353,934,635
Wholesale and retail trade	1,736,080	–	661,915,627	663,651,707
Mining and quarrying	–	–	216,761,200	216,761,200
Manufacturing	–	–	905,009,865	905,009,865
Transportation and storage	–	–	313,400,426	313,400,426
Others (various industries)	423,912,360	–	155,616,894	579,529,254
	3,537,517,722	10,220,583,356	33,174,729,112	46,932,830,190
Less allowance for credit losses (Note 13)	103,278,250	–	131,773,985	235,052,235
	₱3,434,239,472	₱10,220,583,356	₱33,042,955,127	₱46,697,777,955

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*
** *Comprises Cash and other cash items, Due from BSP, IBLR and SPURA excluding petty cash fund which amounted to ₱155,001.*
*** *Comprises Investment securities at FVTPL, AFS and HTM investments.*

	Parent Company			
	2018			
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Total**
Electricity, gas and water	**₱500,244,317**	**₱–**	**₱266,433,038**	**₱766,677,355**
Water supply, sewage, waste management and remediation activities	**490,735,101**	**–**	**–**	**490,735,101**
Real estate, renting and business activities	**425,358,548**	**–**	**1,622,869,048**	**2,048,227,596**
Financial intermediaries	**42,960,318**	**156,508,928**	**637,309,187**	**836,778,433**
Philippine government	**104,529,393**	**3,489,997,884**	**15,815,538,135**	**19,410,065,412**
Sovereign government	**1,200,212**	**–**	**56,862,619**	**58,062,831**
Construction	**239,630**	**–**	**13,747,931**	**13,987,561**
Information and communication	**201,024**	**–**	**28,705,132**	**28,906,156**
Wholesale and retail trade	**–**	**–**	**–**	**–**
Mining and quarrying	**–**	**–**	**–**	**–**
Manufacturing	**–**	**–**	**1,230,915**	**1,230,915**
Transportation and storage	**–**	**–**		**–**
Others (various industries)	**11,875,712**	**–**	**24,734,584**	**36,610,296**
	1,577,344,255	**3,646,506,812**	**18,467,430,589**	**23,691,281,656**
Less allowance for credit losses (Note 13)	**(28,087,403)**	**–**	**–**	**(28,087,403)**
	₱1,549,256,852	**₱3,646,506,812**	**₱18,467,430,589**	**₱23,663,194,253**

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*
** *Comprises Cash and other cash items, Due from BSP, IBLR and SPURA excluding petty cash fund which amounted to ₱80,000.*
*** *Comprises Investment securities at FVTPL, FVOCI and Amortized Cost.*

	Parent Company			
	2017			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Electricity, gas and water	₱564,433,936	₱–	₱270,296,513	₱834,730,449
Water supply, sewage, waste management and remediation activities	493,277,770	–	–	493,277,770
Real estate, renting and business activities	463,318,817		1,887,231,594	2,350,550,411
Financial intermediaries	956,689,168	2,733,523,832	572,023,970	4,262,236,970
Philippine government	147,614,219	4,399,997,307	19,975,150,021	24,522,761,547
Sovereign government	1,139,722	–	54,196,726	55,336,448
Construction	173,723	–	141,691,875	141,865,598
Information and communication	32,917	–	5,107,318	5,140,235
Wholesale and retail trade	–	–	159,121,534	159,121,534
Mining and quarrying	–	–	181,422,160	181,422,160
Manufacturing	–	–	49,786,675	49,786,675
Transportation and storage	–	–	179,007,125	179,007,125
Others (various industries)	15,265,851	–	22,533,180	37,799,031
	2,641,946,123	7,133,521,139	23,497,568,691	33,273,035,953
Less allowance for credit losses (Note 13)	72,282,442	–	1,333,404	73,615,846
	₱2,569,663,681	₱7,133,521,139	₱23,496,235,287	₱33,199,420,107

* *Comprises Loans and receivables including commitments which amounted to ₱410,000,000.*
** *Comprises Cash and other cash items, Due from BSP, IBLR and SPURA excluding petty cash fund which amounted to ₱80,000.*
*** *Comprises Investment securities at FVTPL, AFS and HTM investments.*

Credit quality per class of financial assets

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

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 as well as the mapping of ICRRS to external credit ratings:

Credit Quality	ICRRS Grade	Description	Moody's/S&P/Fitch Rating Notations	MBRR
High Grade	1	Excellent	AAA	AAA
			Aa1/A+	
			Aa2AA	
			Aa3/AA-	
	2	Strong	A1/A+	A+
			A2/A	A
			A3/A-	A-
Standard Grade	3	Good	Baa/BBB+	BBB+
			Baa2/BBB	BBB
			Baa3/BBB-	BBB-
	4	Satisfactory	Ba1/BB+	BB+
			Ba2/BB	BB
			Ba3/BB-	BB-
	5	Acceptable	B1/B+	B+
			B2/B	B
			B3/B-	B-
Substandard Grade	6	Watchlist	Caa/CCC+	CCC+
	7	Especially mentioned	Caa2/CCC	CCC
Impaired	8	Substandard	Caa3/CCC-	CCC-
	9	Doubtful	D	D
	10	Loss	E	E

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

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

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

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

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

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

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

8 - Substandard
For a "substandard" borrower, the debt burden has become too heavy, only to be made worse by weak or negative cash flows and interest coverage. This makes the collection of principal or interest payments questionable, causing an assessment of default of up to 25.0%. Unless given closer supervision, the institution will likely suffer a future loss.

External factors may be causing an adverse trend, or there may be a significant weakness in the entity's collateral. Management has an unfavorable record and lacks managerial capability.

9 - Doubtful
This rating is given to a nonperforming borrower where a payment default has occurred, due to the borrower's inability or unwillingness to service debt over an extended period of time. Loss is unavoidable and significant, the extent of probable loss on the loan assessment of default is up to 50.0%. However, there may be external factors that may strengthen the entity's assets, e.g. merger, acquisition, and capital injection. Management has an unfavorable record and lacks managerial capability.

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

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

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

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

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

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

The following are apply in classifying the credit exposure into the PFRS 9 stages along with the corresponding PD to be assigned:

Stages	Status	ICRRS Rating	PD
Stage 1	Current	1, 2, 3, 4, 5, or 6	12-month PD
Stage 2	Current	7, 8, or 9	Lifetime PD
Stage 3	Item in Litigation ("ITL") or past due	10	100% PD

The Group considers investments in financial assets that are investment grade as low credit risk.

The following tables show the credit quality of the Group and the Parent Company's financial assets, gross of allowance for credit losses, as of December 31, 2018, all of which are classified as Stage 1.

	Consolidated	Parent
Due from BSP		
High Grade	₱3,489,997,884	₱3,489,997,884
Due From Other Banks		
High Grade	2,210,020,055	156,508,928
Standard Grade	646,492,160	–
Unrated	78,488,795	–
	2,935,001,010	156,508,928
Total Loans and Advances to Banks		
High Grade	5,700,017,939	3,646,506,812
Standard Grade	646,492,160	–
Unrated	78,488,796	–
	6,424,998,895	3,646,506,812
FVOCI Investments		
Government		
High Grade	3,342,684	–
Standard Grade	505,121	–
	3,847,805	–
Private		
High Grade	33,461,807	–
	33,461,807	–
Total FVOCI Investments		
High Grade	36,804,491	–
Standard Grade	505,121	–
	37,309,612	–
Investment Securities at Amortized Cost		
Government		
High Grade	14,372,434,798	14,222,998,628
Standard Grade	692,578,503	566,654,822
	15,065,013,301	14,789,653,450
Private		
High Grade	1,226,898,177	990,782,956
Standard Grade	742,016,227	694,847,305
	1,968,914,404	1,685,630,261
Total Investment Securities at Amortized Cost		
High Grade	15,599,332,975	15,213,781,584
Standard Grade	1,434,594,730	1,261,502,127
	17,033,927,705	16,475,283,711
Total Investment Securities		
High Grade	15,636,137,466	15,213,781,584
Standard Grade	1,435,099,851	1,261,502,127
	₱17,071,237,317	₱16,475,283,711

	Consolidated	Parent
Loans and Discount		
Standard Grade	₱488,113,063	₱488,113,063
Unrated	15,743,079	10,799,786
	503,856,142	498,912,849
Unquoted commercial papers		
Standard Grade	632,454,383	482,500,000
Accounts Receivable		
High Grade	865,813	286,298
Standard Grade	41,324,715	15,319,815
Substandard Grade	70,408,022	–
Unrated	171,736,851	6,135,991
	284,335,401	21,742,104
Accrued Interest Receivable		
High Grade	117,167,237	110,058,359
Standard Grade	43,004,571	28,780,943
	160,171,808	138,839,302
Dividend Receivables		
High Grade	1,971,923	–
Standard Grade	52,938	25,350,000
	2,024,861	25,350,000
Other Receivables		
Unrated	33,677,992	–
	33,677,992	–
Total Loans and Receivables		
High Grade	120,004,973	110,344,657
Standard Grade	1,204,949,670	1,040,063,821
Substandard Grade	70,408,022	
Unrated	221,157,923	16,935,777
	₱1,616,520,588	₱1,167,344,255
Loan Commitments and Financial Guarantees		
Standard Grade	₱410,000,000	₱410,000,000

The following tables show the credit quality of financial assets as of December 31, 2017:

	Consolidated			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	₱3,072,724,402	₱10,220,738,356	₱33,042,955,127	₱46,336,417,885
Impaired	54,793,320	–	131,773,985	186,567,305
Gross	3,127,517,722	10,220,738,356	33,174,729,112	46,522,985,190
Less allowance for credit losses***	103,278,250	–	131,773,985	235,052,235
Net	₱3,024,239,472	₱10,220,738,356	₱33,042,955,127	₱46,287,932,955

Comprises Cash and other cash items, Due from BSP and IBLR and SPURA excluding petty cash fund which amounted to ₱155,001.
** *Comprises Investment securities at FVTPL, AFS and HTM investments.*
*** *Includes allowance for collective impairment.*

	Parent Company			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	₱2,187,697,923	₱7,133,521,139	₱23,496,235,287	₱32,807,521,349
Impaired	44,248,200	–	1,333,404	45,581,6054
Gross	2,231,946,123	7,133,521,139	23,497,568,691	32,863,035,953
Less allowance for credit losses***	72,282,442	–	1,333,404	73,615,846
Net	₱2,159,663,681	₱7,133,521,139	₱23,496,235,287	₱32,789,420,107

Comprises Cash and other cash items, Due from BSP and IBLR and SPURA excluding petty cash fund which amounted to 80,000.
** *Comprises Investment securities at FVTPL, AFS and HTM investments.*
*** *Includes allowance for collective impairment.*

The table below shows the credit quality per class of financial assets that are neither past due nor individually impaired (gross of allowance for credit losses) as of December 31, 2017:

	Consolidated December 31, 2017					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱4,399,997,307	₱–	₱–	₱–	₱–	₱4,399,997,307
Cash and other cash items*	4,361,567,556	3,623,601	–	955,394,892	–	5,320,586,049
IBLR and SPURA	500,000,000	–	–	–	–	500,000,000
	9,261,564,863	3,623,601	–	955,394,892	–	10,220,583,356
Financial assets at FVTPL						
Government debt securities	2,483,677,417	40,240,856	–	–	–	2,523,918,273
Private debt securities	130,394,364	32,111,663	–	–	–	162,506,027
Equity securities	5,343,501,997	2,575,536,772	–	6,714	–	7,919,045,483
	7,957,573,778	2,647,889,291	–	6,714	–	10,605,469,783
AFS investments						
Government debt securities	6,450,370,001	220,758,825	–	–	–	6,671,128,826
Private debt securities	136,838,011	–	–	–	–	136,838,011
(Forward)						
Equity securities						
Quoted	683,908,892	588,734,766	–			1,272,643,658
Unquoted		98,787,402	–	7,972,500	131,773,986	238,533,888
	7,271,116,904	908,280,993	–	7,972,500	131,773,986	8,319,144,383
HTM investments						
Government debt securities	11,587,597,404	426,879,826	–	–	–	12,014,477,230
Private debt securities	1,313,817,882	906,819,834	15,000,000	–	–	2,235,637,716
	12,901,415,286	1,333,699,660	15,000,000	–	–	14,250,114,946
Loans and receivables						
Loans and discounts						
Corporate lending	–	1,366,817,418	–	–	–	1,366,817,418
Others	–	–	–	15,374,122	–	15,374,122
	–	1,366,817,418	–	15,374,122	–	1,382,191,540
Unquoted commercial papers	121,250,000	713,000,000	–	–	–	834,250,000
Dividends receivable	3,801,045	647,539	–	–	–	4,448,584
Accrued interest receivable	155,149,988	43,881,647	73,644	95,047	–	199,200,326
Accounts receivable	7,070,014	202,637,814	10,623,056	275,603,721	74,872,148	570,806,753
Other receivables	111,346	324,120	–	136,185,053	–	136,620,519
	287,382,393	2,327,308,538	10,696,700	427,257,943	74,872,148	3,127,517,722
	₱37,679,053,224	₱7,220,802,083	₱25,696,700	₱1,390,629,069	₱206,646,134	₱46,522,830,190

Excludes petty cash fund amounting to ₱155,001.

	Parent Company					
	December 31, 2017					
	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Impaired	Total
Loans and advances to banks						
Due from BSP	₱4,399,997,307	₱–	₱–	₱–	₱–	₱4,399,997,307
Cash and other cash items*	2,233,523,832	–	–	–	–	2,233,523,832
Interbank loans receivable and securities purchased under resale agreements	500,000,000	–	–	–	–	500,000,000
	7,133,521,139	–	–	–	–	7,133,521,139
Financial assets at FVTPL						
Government debt securities	1,670,508,377	–	–	–	–	1,670,508,377
Private debt securities	130,394,364	32,111,663	–	–	–	162,506,027
Equity securities	145,079,631	163,686,863	–	–	–	308,766,494
	1,945,982,372	195,798,526	–	–	–	2,141,780,898
AFS investments						
Government debt securities	6,663,352,431	–	–	–	–	6,663,352,431
Private debt securities	49,203	–	–	–	–	49,203
Equity securities						
Quoted	683,892,892	518,891,606	–	–	–	1,202,784,498
Unquoted	–	98,787,402	–	7,972,500	1,333,405	108,093,307
	7,347,294,526	617,679,008	–	7,972,500	1,333,405	7,974,279,439
HTM investments						
Government debt securities	11,386,918,690	308,567,251	–	–	–	11,695,485,941
Private debt securities	991,648,360	694,374,054	–	–	–	1,686,022,414
	12,378,567,050	1,002,941,305	–	–	–	13,381,508,355
Loans and receivables						
Loans and discounts						
Corporate lending	1,366,817,418	–	–	–	–	1,366,817,418
Others	–	–	–	9,933,018	–	9,933,018
	1,366,817,418	–	–	9,933,018	–	1,376,750,436
Unquoted commercial papers	–	485,000,000	–	–	–	485,000,000
Dividends receivable	97,269	–	–	–	–	97,269
Accrued interest receivable	150,501,421	36,709,039	–	–	–	187,210,460
Accounts receivable	348,723	132,958,201	–	5,332,834	44,248,200	182,887,958
	1,517,764,831	654,667,240	–	15,265,852	44,248,200	2,231,946,123
	₱30,323,129,918	₱2,471,086,079	₱–	₱23,238,352	₱45,581,605	₱32,863,035,854

**Excludes petty cash fund amounting to ₱80,000.*

Impaired loans and receivables - are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory note and security agreements. Loan classification in terms of provisioning are aligned with regulatory guidelines.

A financial instrument is considered default when the obligation is not paid on its maturity date or any event of default trigger in the agreement and if on maturity, that account is not granted an extension of payment or is not restructured. Account classification in terms of provisioning is aligned with regulatory guidelines.

As of December 31, 2017, 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 Group. The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

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

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

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

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

Financial assets

Analysis of equity and debt securities at FVTPL into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When 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.

The table below shows the maturity profile of the financial instruments:

	Consolidated December 31, 2018								
	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	₱2,935,131,821	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱2,935,131,821
Due from BSP	3,489,997,884	–	–	–	–	–	–	–	3,489,997,884
Interbank loans receivable	–	–	–	–	–	–	–	–	–
	6,425,129,705	–	–	–	–	–	–	–	6,425,129,705
Loans and receivables									
Loans and discounts									
Corporate lending	–	–	67,340,505	–	67,340,505	134,681,011	269,362,021	–	538,724,042
Others	–	66,368	80,127	471,880	1,258,247	13,389,316	25,146,653	67,858,561	108,271,152
	–	66,368	67,420,632	471,880	68,598,752	148,070,327	294,508,674	67,858,561	646,995,194
Unquoted commercial papers	–	8,929,628	2,637,375	11,567,003	23,134,005	190,993,260	500,359,255	–	737,620,526
Accrued interest receivable	–	–	160,171,808	–	–	–	–	–	160,171,808
Accounts receivable	–	–	284,335,401	–	–	–	–	–	284,335,401
Dividends receivable	–	–	2,024,861	–	–	–	–	–	2,024,861
Other receivables	–	–	33,677,992	–	–	–	–	–	33,677,992
	–	8,995,996	550,268,069	12,038,883	91,732,757	339,063,587	794,867,929	67,858,561	1,864,825,782
Financial assets at FVTPL									
Government debt securities	–	2,459,543,728	–	–	–	–	–	–	2,459,543,728
Private debt securities	–	868,105,406	–	–	–	–	–	–	868,105,406
Equity securities	–	6,633,311,628	–	–	–	–	–	–	6,633,311,628
Investment Securities at FVOCI									
Government debt securities	–	71,270	–	52,797	124,068	1,809,055	967,471	2,922,093	5,946,754
Private debt securities	225,995	1,022,328	–	112,997	1,135,326	2,270,653	34,211,411	4,356,691	43,335,401
Quoted equity investments	–	–	–	–	–	–	–	512,393,780	512,393,780
Unquoted equity investments	–	–	–	–	–	–	–	114,807,402	114,807,402
Investment Securities at amortized cost									
Government debt securities	–	13,474,892	44,656,523	361,268,065	1,887,017,824	1,842,374,099	5,699,453,935	13,403,567,747	23,251,813,085
Private debt securities	9,632,482	466,122	26,602,982	101,401,515	62,865,309	406,832,966	948,348,927	823,813,625	2,379,963,928
	9,858,477	9,975,995,374	71,259,505	462,835,374	1,951,142,527	2,253,286,773	6,682,981,744	14,861,861,338	36,269,221,112
	₱6,434,988,182	₱9,984,991,370	₱621,527,574	₱474,874,257	₱2,042,875,284	₱2,592,350,360	₱7,477,849,673	₱14,929,719,899	₱44,559,176,599

(Forward)

	Consolidated December 31, 2018								
	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	₱–	₱9,027,420,818	₱6,092,662,766	₱1,127,372,044	₱53,532,284	₱–	₱–	₱–	₱16,300,987,912
Bonds payable	–	–	–	–	2,961,975,000	–	–	–	2,961,975,000
Accrued interest and other expenses	–	–	137,689,919	–	–	–	–	–	137,689,919
Accounts payable	–	–	1,858,785,376	–	–	–	–	–	1,858,785,376
Other liabilities	–	–	104,535,544	–	–	–	–	–	104,535,544
	–	9,027,420,818	8,193,673,605	1,127,372,044	3,015,507,284	–	–	–	21,363,973,751
Puttable instruments classified as liability	6,779,145,036	–	–	–	–	–	–	–	6,779,145,036
	₱6,779,145,036	₱9,027,420,818	₱8,193,673,605	₱1,127,372,044	₱3,015,507,284	₱–	₱–	₱–	₱28,143,118,787
Commitments	₱410,000,000	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱410,000,000

	Consolidated December 31, 2017								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱5,320,741,050	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱5,320,741,050
Due from BSP	4,399,997,307	–	–	–	–	–	–	–	4,399,997,307
Interbank loans receivable	500,000,000	–	–	–	–	–	–	–	500,000,000
	10,220,738,357	–	–	–	–	–	–	–	10,220,738,357
Loans and receivables									
Loans and discounts									
Corporate lending	308,875,817	–	56,687,363	97,750,545	154,437,908	308,875,817	576,688,452	-	1,503,315,902
Others	–	5,407	48,031	46,201	562,581	2,950,919	9,271,456	10,475,490	23,360,085
	308,875,817	5,407	56,735,394	97,796,746	155,000,489	311,826,736	585,959,908	10,475,490	1,526,675,987
Unquoted commercial papers	–	8,975,895	125,598,383	39,663,395	20,639,290	46,653,580	571,105,370	221,500,000	1,034,135,913
Accrued interest receivable	–	–	199,200,326	–	–	–	–	–	199,200,326
Accounts receivable	–	–	570,806,753	–	–	–	–	–	570,806,753
Dividends receivable	–	–	4,448,584	–	–	–	–	–	4,448,584
Other receivables	–	–	136,620,519	–	–	–	–	–	136,620,519
	308,875,817	8,981,302	1,093,409,959	137,460,141	175,639,779	358,480,316	1,157,065,278	231,975,490	3,471,888,082

(Forward)

	Consolidated								
	December 31, 2017								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial assets at FVTPL									
Government debt securities	₱–	₱2,523,918,273	₱–	₱–	₱–	₱–	₱–	₱–	₱2,523,918,273
Private debt securities	–	162,506,027	–	–	–	–	–	–	162,506,027
Equity securities	–	7,919,045,483	–	–	–	–	–	–	7,919,045,483
AFS investments									
Government debt securities	–	1,462,560	40,416,205	90,425,176	132,303,941	1,138,231,883	2,170,678,971	5,106,272,150	8,679,790,886
Private debt securities	–	–	–	1,816,543	3,219,043	6,438,085	100,204,255	65,009,113	176,687,039
Quoted equity investments	–	–	–	–	–	–	–	1,212,075,273	1,212,075,273
Unquoted equity investments	–	–	–	–	–	–	–	238,533,887	238,533,887
Held-to-maturity investments									
Government debt securities	–	11,687,500	1,873,875,520	2,354,057,471	321,505,182	973,010,363	2,213,192,119	10,173,283,225	17,920,611,380
Private debt securities	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	2,937,130,449	23,497,043,592
	₱13,466,744,623	₱13,564,731,594	₱5,944,832,133	₱5,520,889,780	₱3,569,798,394	₱5,413,291,096	₱8,578,271,072	₱19,964,279,587	₱76,022,838,279
Financial Liabilities									
Bills payable	₱–	₱18,005,730,763	₱6,740,729,924	₱1,158,670,637	₱7,823,980	₱–	₱–	₱–	₱25,912,955,304
Bonds payable	–	–	–	–	–	3,043,125,000	–	–	3,043,125,000
Accrued interest and other expenses	–	–	80,021,439	–	–	–	–	–	80,021,439
Accounts payable	–	–	2,195,069,559	–	–	–	–	–	2,195,069,559
Other liabilities	–	–	532,840,863	–	–	–	–	–	532,840,863
	–	18,005,730,763	9,548,661,785	1,158,670,637	7,823,980	3,043,125,000	–	–	31,764,012,165
Puttable instruments classified as liability	8,002,041,695	–	–	–	–	–	–	–	8,002,041,695
	₱8,002,041,695	₱18,005,730,763	₱9,548,661,785	₱1,158,670,637	₱7,823,980	₱3,043,125,000	₱–	₱–	₱39,766,053,860
Commitments	₱410,000,000	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱410,000,000

	Parent Company								
	December 31, 2018								
	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	**₱156,588,928**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱156,588,928**
Due from BSP	**3,489,997,884**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,489,997,884**
Interbank loans receivable	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	3,646,586,812	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,646,586,812**
Loans and receivables									
Loans and discounts									
Corporate lending	**–**	**–**	**67,340,505**	**–**	**67,340,505**	**134,681,011**	**269,362,021**	**–**	**538,724,042**
Others	**–**	**626**	**17,911**	**164,512**	**158,687**	**1,793,506**	**4,999,007**	**10,008,155**	**17,142,404**
	–	**626**	**75,608,580**	**164,512**	**75,749,356**	**152,974,844**	**231,771,014**	**10,008,155**	**546,277,087**
Unquoted commercial papers	**–**	**8,929,628**	**–**	**8,929,628**	**17,859,255**	**35,718,510**	**500,359,254**	**–**	**571,796,275**
Accrued interest receivable	**–**	**–**	**138,839,303**	**–**	**–**	**–**	**–**	**–**	**138,839,303**
Accounts receivable	**–**	**–**	**21,742,104**	**–**	**–**	**–**	**–**	**–**	**21,742,104**
Sales contract receivable	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends receivable	**–**	**25,350,000**	**–**	**–**	**–**	**–**	**–**	**–**	**25,350,000**
Other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**34,280,254**	**236,189,987**	**9,094,140**	**93,608,611**	**188,693,354**	**732,130,268**	**10,008,155**	**1,304,004,769**
Financial assets at FVTPL									
Government debt securities	**–**	**3,542,291,032**	**–**	**–**	**–**	**–**	**–**	**–**	**3,542,291,032**
Private debt securities	**–**	**1,272,152,296**	**–**	**–**	**–**	**–**	**–**	**–**	**1,272,152,296**
Equity Securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Investment Securities at FVOCI									
Government debt securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private debt securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Quoted equity investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**390,545,280**	**390,545,280**
Unquoted equity investments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**114,807,403**	**114,807,403**
Investment Securities at amortized cost									
Government debt securities	**–**	**12,412,392**	**44,656,522**	**308,458,874**	**1,883,694,502**	**1,737,247,091**	**5,560,430,066**	**13,406,867,299**	**22,953,766,746**
Private debt securities	**–**	**69,442**	**24,171,787**	**41,549,880**	**49,701,620**	**270,328,180**	**859,592,382**	**828,585,853**	**2,073,999,144**
	–	**4,826,925,162**	**68,828,309**	**350,008,754**	**1,933,396,122**	**2,007,575,271**	**6,420,022,448**	**14,740,805,835**	**30,347,561,901**
	₱3,646,586,812	**₱4,861,205,416**	**₱305,018,296**	**₱359,102,894**	**₱2,027,004,733**	**₱2,196,268,625**	**₱7,152,152,716**	**₱14,750,813,990**	**₱35,298,153,482**

(Forward)

	Parent Company								
	December 31, 2018								
	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	**₱–**	**₱9,027,420,818**	**₱6,092,662,766**	**₱1,127,372,044**	**₱53,532,284**	**₱–**	**₱–**	**₱–**	**₱16,300,987,912**
Bonds payable	**–**	**–**	**–**	**–**	**3,043,125,000**	**–**	**–**	**–**	**3,043,125,000**
Accrued interest and other expenses	**–**	**103,720,874**	**-**	**-**	**–**	**–**	**–**	**–**	**103,720,874**
Accounts payable	**–**	**265,510,103**	**–**	**–**	**–**	**–**	**–**	**–**	**265,510,103**
Other liabilities	**90,391,828**	**19,108,247**	**–**	**–**	**–**	**–**	**–**	**–**	**109,500,075**
	₱90,391,828	**₱9,415,760,042**	**₱6,092,662,766**	**₱104,990,367**	**₱4,119,038,961**	**₱–**	**₱–**	**₱–**	**₱19,822,843,964**
Commitments	**₱410,000,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱410,000,000**

	Parent Company								
	December 31, 2017								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial Assets									
Loans and advances									
Cash and other cash items	₱2,233,603,832	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱2,233,603,832
Due from BSP	4,399,997,307	–	–	–	–	–	–	–	4,399,997,307
Interbank loans receivable	500,000,000	–	–	–	–	–	–	–	500,000,000
	7,133,601,139	–	–	–	–	–	–	–	7,133,601,139
Loans and receivables									
Loans and discounts									
Corporate lending	308,875,817	–	56,687,363	97,750,545	154,437,908	308,875,817	576,688,452	–	1,503,315,902
Others	–	5,407	43,934	21,920	420,978	1,723,504	4,961,458	8,221,639	15,398,840
	308,875,817	5,407	56,731,297	97,772,465	154,858,886	310,599,321	581,649,910	8,221,639	1,518,714,742
Unquoted commercial papers	–	8,975,895	–	8,975,895	17,951,790	35,903,580	538,855,370	–	610,662,530
Accrued interest receivable	–	–	182,887,958	–	–	–	–	–	182,887,958
Accounts receivable	–	–	187,210,460	–	–	–	–	–	187,210,460
Sales contract receivable	–	–	–	–	–	–	–	–	–
Dividends receivable	–	–	97,269	–	–	–	–	–	97,269
Other receivables	–	–	–	–	–	–	–	–	–
	308,875,817	8,981,302	426,926,984	106,748,360	172,810,676	346,502,901	1,120,505,280	8,221,639	2,499,572,959

(Forward)

	Parent Company								
	December 31, 2017								
	On Demand	Up to 1 Month	More than 1 Month	More than 3 Months	More than 6 Months	More than 1 Year	More than 2 Years	Beyond 5 Years	Total
Financial assets at FVTPL									
Government debt securities	₱–	₱1,670,508,377	₱–	₱–	₱–	₱–	₱–	₱–	₱1,670,508,377
Private debt securities	–	162,506,027	–	–	–	–	–	–	162,506,027
Equity Securities		308,766,495							308,766,495
AFS investments									
Government debt securities	–	1,395,960	40,416,205	90,269,526	132,081,692	1,137,787,383	2,164,875,610	5,102,902,184	8,669,728,560
Private debt securities	–	1,475	–	–	1,475	2,950	8,850	54,425	69,175
Quoted equity investments	–								
Unquoted equity investments	–	–	–	–	–	–	–	1,195,823,256	1,195,823,256
Held-to-maturity investments									
Government debt securities	-	10,625,000	1,873,875,520	2,350,216,127	217,663,838	965,327,676	2,100,769,057	10,046,741,882	17,565,219,100
Private debt securities	–	3,907,442	20,333,788	21,043,665	61,295,497	287,079,622	1,413,978,116	1,129,492,321	2,937,130,449
	-	2,157,710,775	1,934,625,513	2,461,529,319	395,031,899	2,218,546,426	5,357,475,906	17,319,753,132	31,844,672,970
	₱10,529,614,173	₱10,631,508,587	₱3,028,035,471	₱2,604,802,996	₱693,963,442	₱2,763,240,268	₱7,055,118,738	₱18,156,641,458	₱55,462,925,134
Financial Liabilities									
Bills payable	₱–	18,005,730,763	6,740,729,924	1,158,670,637	7,823,980	₱–	₱–	₱–	25,912,955,304
Bonds payable	–	–	–	–	–	3,043,125,000	–	–	3,043,125,000
Accrued interest and other expenses	–	80,607,818	–	–	–	–	–	–	80,607,818
Accounts payable	–	346,182,703	–	–	–	–	–	–	346,182,703
Other liabilities	–	90,666,163	–	–	–	–	–	–	90,666,163
	₱–	₱18,523,187,447	₱6,740,729,924	₱1,158,670,637	₱7,823,980	₱3,043,125,000	₱–	₱–	₱29,473,536,988
Commitments	₱410,000,000	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱410,000,000

Market Risk
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The Parent Company's market risk originates from its holdings of debt securities and equities.

The Parent Company manages market risk by segregating its statement of financial position into a trading book and a banking book. The management of this portfolio is assigned to the SMC, chaired by the President.

The RMD serves under the ROC and performs daily market risk analyses to ensure compliance with the company's policies and procedures. The methodologies used in managing the risk include the daily marking-to-market, monitoring of loss alerts and stop loss limits, profit alert and start sell limits, nominal position limits as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits.

Stress testing on the portfolio is also done on a daily basis to complement the VaR methodology. The stress testing results are reported to the President and Treasurer as well as to the Controller and the CRO and subsequently to the ROC and the BOD.

A summary of the VaR levels of the trading portfolio of the Parent Company appears below (amounts in millions):

		Bonds	
	Equities	**PHP**	**USD**
As of December 31, 2018			
December 28	₱–	₱7.58	₱–
Average	8.32	11.90	0.34
Highest	24.61	37.26	4.06
Lowest	1.45	4.40	1.31
As of December 31, 2017			
December 29	₱7.39	₱23.75	₱0.56
Average	3.43	23.81	5.35
Highest	7.91	97.03	13.32
Lowest	0.36	5.71	0.06

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, 2018 and 2017, 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 Company slots its interest rate sensitive assets or liabilities according to maturity or repricing date, whichever comes first. The Company has no non-maturing deposits. Interest rate risk in the banking book is measured through the Interest Rate Gap and EaR, measured and reported monthly.

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 for floating rate instruments and financial debt assets at FVTPL) and the Group's equity (through the impact on unrealized gain (loss) on FVOCI fixed rate debt securities).

	Consolidated December 31, 2018						
			Sensitivity of equity				
	Increase (Decrease) in basis points	**Sensitivity of net interest income and trading gains**	**0 up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
Currency							
PhP	**+10**	**(₱19,712,520)**	**₱–**	**₱–**	**(₱96,059)**	**(₱36,856)**	**(₱132,915)**
USD	**+10**		**(4,149)**	**–**	**(173,711)**	**–**	**(177,860)**
Currency							
PhP	**-10**	**19,745,436**	**–**	**–**	**96,422**	**37,165**	**133,587**
USD	**-10**		**4,149**	**–**	**174,146**	**–**	**178,295**

	Consolidated December 31, 2017						
			Sensitivity of equity				
	Increase (Decrease) in basis points	Sensitivity of net interest income and trading gains	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Currency							
PhP	+10	(₱28,273,050)	₱–	₱–	(₱8,330,758)	(₱26,383,241)	(₱34,713,999)
USD	+10	–	–	–	(29,939)	(3,567,202)	(3,597,141)
Currency							
PhP	-10	28,372,088	–	–	8,367,654	26,585,486	34,953,140
USD	-10	–	–	–	30,042	3,631,410	3,661,452

	Parent Company December 31, 2018						
			Sensitivity of equity				
	Increase (Decrease) in basis points	**Sensitivity of net interest income and trading gains**	**0 up to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
Currency							
PhP	**+10**	**(₱19,422,491)**	**(₱34,276)**	**(₱219,590)**	**(₱1,268,155)**	**(₱1,319,130)**	**(₱2,841,151)**
USD	**+10**		**–**	**–**	**–**	**–**	**–**
Currency							
PhP	**-10**	**19,436,390**	**34,292**	**219,874**	**1,271,722**	**1,329,163**	**2,855,051**
USD	**-10**		**–**	**–**	**–**	**–**	**–**

	Parent Company December 31, 2017						
			Sensitivity of equity				
	Increase (Decrease) in basis points	Sensitivity of net interest income and trading gains	0 up to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
Currency							
PhP	+10	(₱28,895,114)	₱–	₱–	(₱8,122,011)	(₱25,982,516)	(₱34,104,527)
USD	+10	–	–	–	–	(2,626,484)	(2,626,484)
Currency							
PhP	-10	28,981,081	–	–	8,157,944	26,181,162	34,339,106
USD	-10	–	–	–	–	2,671,067	2,671,067

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 10.0 is considered stressful enough for this purpose.

Market Risk Weighted Assets
The following shows the total market risk-weighted assets broken down by type of exposures

	Consolidated	
	2018	2017
Interest Rate Exposures	**₱411,751,238**	₱685,073,323
Foreign Exchange Exposures	**6,519,874**	28,951,038
Options	**–**	–
	₱418,271,112	₱714,024,361

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, 2018 and 2017:

	Consolidated	
	2018	
	US Dollar	**Euro**
Financial assets		
Loans and advances		
Cash and other cash items	**$2,128,306**	**€7,896**
Financial assets at FVTPL		
Government securities	**16,767,678**	–
Accrued interest receivable	**247,963**	–
	$19,143,947	**€7,896**
Financial liabilities		
Bills payable	**$2,802,243**	€–
IBCL Payable	**10,000,000**	–
Accrued interest payable	**34,798**	–
	$12,837,041	**€–**
Net assets in foreign currency	**$6,306,906**	**€–**

	Consolidated	
	2017	
	US Dollar	Euro
Financial assets		
Loans and advances		
Cash and other cash items	$202,017,043	€10,078,773
Financial assets at FVTPL		
Government securities	14,863,539	–
Accrued interest receivable	223,388	–
	$217,103,970	€ 10,078,773

	Consolidated	
Financial liabilities		
Bills payable	$6,437,012	€–
IBCL Payable	15,000,000	24,532
Accrued interest payable	32,505	–
	$21,469,517	€24,532
Net assets in foreign currency	$195,634,453	€10,054,241

	Parent Company	
	2018	
	US Dollar	**Euro**
Financial assets		
Loans and advances		
Cash and other cash items	**$1,430,085**	**€7,896**
FVOCI investments		
Government securities	**9,000,000**	**–**
Accrued interest receivable	**119,743**	**–**
	$10,549,828	**€7,896**
Financial liabilities		
Bills payable	**$2,802,243**	**€–**
IBCL Payable	**10,000,000**	**–**
Accrued interest payable	**34,798**	**–**
	$12,837,041	**€–**
Net assets in foreign currency	**($2,287,213)**	**€7,896**

	Parent Company	
	2017	
	US Dollar	Euro
Financial assets		
Loans and advances		
Cash and other cash items	$653,695	€10,078,773
AFS investments		
Government securities	11,187,854	–
Accrued interest receivable	127,470	–
	$11,969,019	€10,078,773
Financial liabilities		
Bills payable	$6,437,012	€–
IBCL Payable	15,000,000	24,532
Accrued interest payable	32,505	–
	$21,469,517	€24,532
Net assets in foreign currency	($9,500,498)	€10,054,241

The exchange rates used to convert the Group's US Dollar-denominated and Euro-denominated assets and liabilities into Philippine Peso follow:

	US Dollar-Philippine Peso	**Euro-Philippine Peso**
Exchange rate		
2018	**₱52.58 to US$1.0**	**₱60.09 to €1.0**
2017	₱49.93 to US$1.0	₱60.23 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, 2018 and 2017 (in millions):

	Consolidated and Parent Company			
	2018		2017	
Reasonable Possible Change	**Change in Income Before Tax**	**Change in Equity**	Change in Income Before Tax	Change in Equity
US Dollar				
1.0%	**0.07**	**–**	0.29	6.04
(1.0%)	**(0.07)**	**–**	(0.29)	(6.04)
Euro				
1.0%	**0.87**	**–**	2.20	–
(1.0%)	**(0.87)**	**–**	(2.20)	–

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 Income 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			
	2018		2017	
Changes in PSEi	**15.2%**	**(15.2%)**	9.8%	(9.8%)
Change on trading income under:				
Holding firm industry	**₱417,384,243**	**(₱417,384,243)**	₱265,765,463	(₱265,765,463)
Property industry	**240,085,732**	**(240,085,732)**	206,450,333	(206,450,333)
Financial industry	**217,608,961**	**(217,608,961)**	89,243,750	(89,243,750)
Services industry	**67,854,571**	**(67,854,571)**	79,136,454	(79,136,454)
Industrial industry	**45,693,070**	**(45,693,070)**	89,205,895	(89,205,895)
Mining and oil industry	**16,664,475**	**(16,664,475)**	3,794,146	(3,794,146)
Total	**₱1,005,291,052**	**(₱1,005,291,052)**	₱733,596,041	(₱733,596,041)
As a percentage of the Group's net trading gain for the year	**93.6%**	**(93.6%)**	38.2%	(38.2%)

	Parent Company	
	2017	
Changes in PSEi	9.8%	(9.8%)
Change on trading income under:		
Holding firm industry	₱11,416,525	(₱11,416,525)
Property industry	8,285,243	(8,285,243)
Financial industry	–	–
Services industry	4,971,168	(4,971,168)
Industrial industry	–	–
Mining and oil industry	1,115,679	(1,115,679)
Total	₱25,788,615	(₱25,788,615)
As a percentage of the Parent Company's net trading gain for the year	1.3%	(1.3%)

As of December 31, 2018, the Parent Company does not have equity investments measured at FVTPL.

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 FVOCI and AFS investments:

	Consolidated			
	2018		2017	
Changes in PSEi	**15.2%**	**(15.2%)**	9.8%	(9.8%)
Change on equity under:				
Financial industry	**₱38,978,108**	**(₱38,978,108)**	₱35,041,882	(₱35,041,882)
Industrial	**882,774**	**(882,774)**	17,489,113	(17,489,113)
Services industry	**–**	**–**	31,523,175	(31,523,175)
Mining and oil industry	**–**	**–**	12,634,926	(12,634,926)
Holding Company	**–**	**–**	5,416,276	(5,416,276)
Property industry	**–**	**–**	1,625,571	(1,625,571)
Total	**₱39,860,882**	**(₱39,860,882)**	₱103,730,943	(₱103,730,943)
As a percentage of the Group's net unrealized gain for the year	**27.6%**	**(27.6%)**	171.3%	(171.3%)

	Parent Company			
	2018		2017	
Changes in PSEi	**15.19%**	**(15.19%)**	9.8%	(9.8%)
Change on equity under:				
Financial industry	**₱30,133,623**	**(₱30,133,623)**	₱1,625,571	₱ (1,625,571)
Industrial	**–**	**–**	5,068,888	(5,068,888)
Services industry	**–**	**–**	17,487,231	(17,487,231)
Mining and oil industry	**–**	**–**	12,634,926	(12,634,926)
Holding Company	**–**	**–**	31,523,175	(31,523,175)
Property industry	**–**	**–**	35,041,882	(35,041,882)
Total	**₱30,133,623**	**(₱30,133,623)**	103,381,673	(103,381,673)
As a percentage of the Parent Company's net unrealized gain for the year	**19.3%**	**(19.3%)**	1,461.8%	(1,461.8%)

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

Derivative instruments - Fair values are estimated based on prices derived using acceptable valuation models. The model utilizes published underlying rates (e.g. interest rates and quoted price volatilities) and are implemented through validated calculation engines.
Loans and receivables - Fair values of loans are estimated using the discounted cash flow methodology, using Bloomberg's risk free rate plus estimated credit spread. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amount approximates fair value.

Investment properties - Fair value has been determined based on valuations made by independent appraisers. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the highest and best use of the properties at the time the valuations were made (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, 2018 and 2017 was assessed to be insignificant.

The following tables summarize the carrying amount and fair values of the financial assets, financial liabilities and non-financial assets, analyzed based on inputs to fair value:

	Consolidated				
	2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial assets					
Financial assets at FVTPL:					
Debt securities:					
Government	**₱2,255,951,080**	**₱2,255,951,080**	**₱–**	**₱–**	**₱2,255,951,080**
Private	**669,791,728**	**669,791,728**	**–**	**–**	**669,791,728**
Equity securities	**6,633,311,628**	**6,633,311,628**	**–**	**–**	**6,633,311,628**
Investment securities at FVOCI:					
Debt securities:					
Government	**3,847,805**	**3,847,805**	**–**	**–**	**3,847,805**
Private	**33,461,807**	**33,461,807**	**–**	**–**	**33,461,807**
Equity securities	**627,201,182**	**512,393,780**	**16,020,000**	**98,787,403**	**627,201,182**
	₱10,223,565,230	**₱10,108,757,828**	**₱16,020,000**	**₱98,787,403**	**₱10,223,565,230**
Assets and liabilities for which fair values are disclosed					
Financial assets at amortized cost					
Loans and receivables:					
Loans and discounts:					
Corporate lending	**₱460,025,660**	**₱–**	**₱–**	**₱502,486,758**	**₱502,486,758**
Others	**15,743,079**	**–**	**–**	**16,410,174**	**16,410,174**
Other receivables:					
Unquoted commercial papers	**632,454,383**	**–**	**–**	**635,169,728**	**635,169,728**
Investment securities					
Government	**15,065,013,301**	**13,098,155,819**	**–**	**–**	**13,098,155,819**
Private	**1,968,914,404**	**1,849,683,198**	**–**	**–**	**1,849,683,198**
	₱18,142,150,827	**₱14,947,839,017**	**₱–**	**₱1,154,066,660**	**₱16,101,905,677**
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Financial liabilities					
Bonds payable	**₱2,916,957,750**	**₱–**	**₱–**	**₱2,943,602,506**	**₱2,943,602,506**
Puttable instruments classified as financial liability at FVTPL	**6,779,145,036**	**–**	**6,779,145,036**	**–**	**₱6,779,145,036**
	₱9,696,102,786	**₱–**	**₱6,779,145,036**	**₱2,943,602,506**	**₱9,696,102,786**
Nonfinancial assets					
Investment properties	**₱205,902,887**	**₱–**	**₱–**	**₱660,127,500**	**₱660,127,500**

	Consolidated				
	2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVTPL:					
Debt securities:					
Government	₱2,523,918,273	₱2,523,918,273	₱–	₱–	₱2,523,918,273
Private	162,506,027	162,506,027	–	–	162,506,027
Equity securities	7,919,045,483	7,919,045,483	–	–	7,919,045,483
AFS investments:					
Debt securities:					
Government	6,671,128,827	6,671,128,827	–	–	6,671,128,827
Private	136,838,011	136,838,011	–	–	136,838,011
Equity securities	1,272,643,658	1,272,643,658	–	–	1,272,643,658
	₱18,686,080,279	₱18,686,080,279	₱–	₱–	₱18,686,080,279
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	₱1,338,730,014	₱–	₱–	₱1,454,009,316	₱1,454,009,316
Others	15,374,122	–	–	15,978,381	15,978,381
Other receivables:					
Unquoted commercial papers	834,250,000	–	–	877,068,372	877,068,372
HTM investments					
Government	12,014,477,230	11,690,207,111	–	–	11,690,207,111
Private	2,235,637,716	2,226,183,851	–	–	2,226,183,851
	₱16,438,469,082	₱13,916,390,962	₱15,978,381	₱2,347,056,069	₱16,263,447,031
Financial liabilities					
Bonds payable	₱2,909,949,893	₱–	₱–	₱2,992,249,000	₱2,992,249,000
Puttable instruments classified as financial liability at FVTPL	8,002,041,695	–	8,002,041,695	–	8,002,041,695
	₱10,911,991,588	₱–	₱8,002,041,695	₱2,992,249,000	₱10,994,290,695
Nonfinancial assets					
Investment properties	₱314,297,14	₱–	₱–	₱840,609,740	₱840,609,740

	Parent Company				
	2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial assets					
Financial assets at FVTPL:					
Debt securities:					
Government	**₱1,082,747,305**	**₱1,082,747,305**	**₱–**	**₱–**	**₱1,082,747,305**
Private	**404,046,890**	**404,046,890**	**–**	**–**	**404,046,890**
Investment securities at FVOCI:					
Equity securities	**505,352,683**	**390,545,280**	**16,020,000**	**98,787,403**	**505,352,683**
	₱1,992,146,878	**₱1,877,339,475**	**₱16,020,000**	**₱98,787,403**	**₱1,992,146,878**

	Parent Company				
	2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets and liabilities for which fair values are disclosed					
Financial assets at amortized cost					
Loans and receivables:					
Loans and discounts:					
Corporate lending	**₱460,025,660**	**₱–**	**₱–**	**₱502,486,758**	**₱460,025,660**
Others	**10,799,786**	**–**	**–**	**11,466,881**	**11,466,881**
Other receivables:					
Unquoted commercial papers	**482,500,000**	**–**	**–**	**485,172,721**	**485,172,721**
Investment securities:					
Government	**14,789,653,450**	**12,825,208,103**	**–**	**–**	**12,825,208,103**
Private	**1,685,630,261**	**1,557,390,339**	**–**	**–**	**1,557,390,339**
	₱17,428,609,157	**₱14,382,598,442**	**₱–**	**₱999,126,360**	**₱15,339,263,704**
Financial liabilities					
Bonds payable	**₱2,997,133,864**	**₱–**	**₱–**	**₱3,024,249,150**	**₱3,024,249,150**
Nonfinancial assets					
Investment properties	**₱205,902,887**	**₱–**	**₱–**	**₱660,127,500**	**₱660,127,500**

	Parent Company				
	2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial assets					
Financial assets at FVTPL:					
Debt securities:					
Government	₱1,670,508,377	₱1,670,508,376	₱–	₱–	₱1,670,508,376
Private	162,506,027	162,506,027	–	–	162,506,027
Equity securities	308,766,494	308,766,494	–	–	308,766,494
AFS investments:					
Debt securities:					
Government	6,663,352,431	6,663,352,431	–	–	6,663,352,431
Private	49,203	49,203	–	–	49,203
Equity securities	1,202,784,498	1,202,784,498	–	–	1,202,784,498
	₱10,007,967,030	₱10,007,967,029	₱–	₱–	₱10,007,967,029
Assets and liabilities for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	₱1,338,730,014	₱–	₱–	₱1,454,009,316	₱1,454,009,316
Others	9,933,018	–	–	10,537,277	10,537,277
Other receivables:					
Unquoted commercial papers	485,000,000	–	–	522,007,657	522,007,657
HTM investments					
Government	11,695,485,940	11,365,097,685	–	–	11,365,097,685
Private	1,686,022,414	1,679,392,731	–	–	1,679,392,731
	₱15,215,171,386	₱13,044,490,416	₱–	₱1,986,554,250	₱15,031,044,666
Financial liabilities					
Bonds payable	₱2,992,580,674	₱–	₱–	₱3,074,228,425	₱3,074,228,425
Nonfinancial assets					
Investment properties	₱314,297,147	₱–	₱–	₱840,609,740	₱840,609,740

As of December 31, 2018 and 2017, no transfers were made among the three levels in the fair value hierarchy. Financial assets measured ast fair value under level 3 consist of equity securities that were carried at cost under PAS 39 but are measured at fair value under PFRS 9.

Inputs used in estimating fair values of the equity securities measured at FVOCI under Level 3 include price-to-book ratio. The table below demonstrate the sensitivity of the Group's equity (through the change in the impact on the net unrealized gain/(loss) on the FVOCI equity securities) assuming a reasonable change in the price-to-book ratio:

	Consolidated and Parent Company
	2018
Reasonable Possible Change	**Change in Equity**
Price to book	
15.0%	**₱20,393,068**
(15.0%)	**(11,478,943)**

For financial assets and liabilities for which fair values are disclosed, inputs used in estimating fair values categorized under Level 3 include risk-free rates and applicable risk premium.

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, 2018 and 2017, 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.

- 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, 2018, 2017 and 2016:

	2018							
	Financial Markets	Investment Banking	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations								
Net interest income	₱ 176,242,084	₱–	₱126,880,828	₱–	₱50,716,382	₱353,839,294	₱–	₱353,839,294
Non-interest income (loss)	(44,631,947)	347,580,041	(136,548,774)	–	599,765,504	766,164,824	–	766,164,824
Total revenue	131,610,137	347,580,041	(9,667,946)	–	650,481,886	1,120,004,118	–	1,120,004,118
Intersegment income	14,804,508	–	4,747,296	–	191,445,406	210,997,210	(179,207,834)	31,789,376
Revenue - net of interest expense	146,414,645	347,580,041	(4,920,650)	–	841,927,292	1,331,001,328	(179,207,834)	1,151,793,494
Non-interest expense	189,350,758	25,397,301	236,533,163	–	1,084,973,049	1,536,254,271	(208,243,904)	1,328,010,367
Income before share in net income of subsidiaries, associates, income tax and net income attributable to non-controlling interests	(42,936,113)	322,182,740	(241,453,813)	–	(243,045,757)	(205,252,943)	29,036,070	(176,216,873)
Share in net income of associates	–	–	–	977,713,401	12,679,009	990,392,410	665,408	991,057,818
Provision for income tax	(198,740,794)	–	(66,742,233)	–	(46,446,907)	(311,929,934)	–	(311,929,934)
Net income attributable to non-controlling interest	–	–	–	–	122,254	122,254	–	122,254
Net income attributable to the Parent Company	**(₱241,676,907)**	**₱322,182,740**	**(₱308,196,046)**	**₱977,713,401**	**(₱276,691,401)**	**₱473,331,787**	**₱29,701,478**	**₱503,033,265**
Statement of Financial Position								
Total assets	₱23,088,481,573	₱–	₱9,847,452,119	₱6,540,053,476	8,104,667,299	47,580,654,467	(₱4,381,431,327)	₱43,119,223,140
Total liabilities	19,334,131,877	–	6,861,459,689	–	2,422,306,723	28,617,898,289	(312,543,341)	28,305,354,948
Other Segment Information								
Capital expenditures	–	–	–	–	73,034,282	73,034,282	–	73,034,282
Deferred tax assets	–	–	–	–	34,799,806	34,799,806	–	34,799,806
Depreciation and amortization	–	–	–	–	62,561,778	62,561,778	–	62,561,778
Provision for impairment and other probable losses	–	–	–	–	(47,624,794)	(47,624,794)	–	(47,624,794)

2017	Financial Markets	Investment Banking	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations								
Net interest income	₱356,630,860	₱–	₱130,405,196	₱–	₱37,982,318	₱525,018,374	₱–	₱525,018,374
Non-interest income	323,439,049	306,991,141	638,504,415	–	893,281785	2,162,216,390	–	2,161,301,630
Total revenue	680,069,909	306,991,141	768,909,611	–	931,264,103	2,687,234,764	–	2,686,320,004
Intersegment income	11,961,327	–	44,605,159	–	217,880,614	274,447,100	(844,017,904)	(569,570,804)
Revenue - net of interest expense	692,031,236	306,991,141	813,514,770	–	1,149,144,717	2,961,681,864	(844,017,904)	2,116,749,200
Non-interest expense	192,218,991	27,826,598	283,886,754	–	1,071,772,891	1,575,705,234	(206,586,204)	1,368,204,270
Income before share in net income of subsidiaries, associates, income tax and net income attributable to non-controlling interests	499,812,245	279,164,543	539,628,016	–	77,371,826	1,385,976,630	(637,431,700)	748,544,930
Share in net income of associates	–	–	–	825,870,768	4,003,368	829,874,136	–	829,874,136
Provision for income tax	(244,721,577)	–	(73,650,861)	–	(83,907,804)	(402,280,242)	15,687,301	(386,592,941)
Net income attributable to non-controlling interest	–	–	–	–	(16,880,852)	(16,880,852)	–	(16,880,852)
Net income attributable to the Parent Company	₱255,090,668	₱279,164,543	₱455,977,155	₱825,870,768	(₱19,413,462)	₱1,796,689,672	(₱621,744,399)	₱1,174,945,273
Statement of Financial Position								
Total assets	₱30,397,562,678	–	₱11,422,075,798	₱3,057,747,213	₱9,441,973,516	₱54,319,359,205	(₱722,215,079)	₱53,597,144,126
Total liabilities	28,989,173,755	–	159,686,025	–	2,780,475,131	31,929,334,911	7,571,251,868	39,500,586,779
Other Segment Information								
Capital expenditures	–	–	–	–	38,439,191	38,439,191	–	38,439,191
Deferred tax assets	–	–	–	–	50,269,782	50,269,782	–	50,269,782
Depreciation and amortization	–	–	–	–	80,716,045	80,716,045	–	80,706,045
Provision for impairment and other probable losses	–	–	–	–	641,688	641,688	–	1,610,058

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)	–	1,971,193,512	1,877,431,123	–	1,877,431,123
Total revenue	48,860,771	626,360,441	2,571,490	(196,543,327)	–	1,994,062,740	2,457,312,115	–	2,475,312,115
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)	–	2,231,796,784	2,734,632,999	(269,826,134)	2,464,806,865
Non-interest expense	154,360,257	43,001,227	1,134,740	(123,077,846)	–	1,789,767,531	1,865,185,909	(264,220,089)	1,600,965,820
Income (loss) before share in net income of subsidiaries, associates, income tax and net income attributable to non-controlling interests	(113,700,884)	583,359,214	15,075,831	(57,316,324)	–	442,029,253	869,447,090	(5,606,045)	863,841,045
Share in net income of associates	–	–	–	–	539,036,593	3,819,518	542,856,111	–	542,856,111
Provision for income tax	(291,174,090)	–	–	(82,267,170)	–	(242,429,022)	(615,870,282)	–	(615,870,282)
Net income attributable to non-controlling interest	–	–	–	–	–	(15,444,874)	(15,444,874)	–	(15,444,874)
Net income attributable to the Parent Company	(₱404,874,974)	₱583,359,214	₱15,075,831	(₱139,583,494)	₱539,036,593	₱187,974,875	₱780,988,045	(₱5,606,045)	₱775,382,000
Statement of Financial Position									
Total assets	₱36,406,189,227	₱–	₱–	₱11,157,820,160	₱2,822,126,176	₱6,369,022,142	₱56,755,157,705	(₱1,445,964,497)	₱55,309,193,209
Total liabilities	27,181,158,814	–	–	108,298,644	–	4,931,547,559	32,221,005,017	7,328,848,236	39,549,853,253
Other Segment Information									
Capital expenditures	–	–	–	–	–	38,433,641	38,433,641	–	38,433,641
Deferred tax assets	–	–	–	–	–	38,716,237	38,716,237	–	38,716,237
Depreciation and amortization	–	–	–	–	–	98,201,173	98,201,173	–	98,201,173
Provision for impairment and other probable losses	–	–	–	–	–	64,649,490	64,649,490	–	64,649,490

**In June 2016, the trust and other fiduciary business of the Group ceased its operations. The total income recognized by the Group from this segment amounted to ₱2.6 million is presented under 'Miscellaneous income'.*
***Includes gain from sale of AFS amounting to ₱875.7 million.*

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 on sale of assets', 'Trading and securities gain (loss)', 'Foreign exchange gain - net', 'Dividends' and 'Miscellaneous income'.

Non-interest expense consists of 'Taxes and licenses', 'Compensation and fringe benefits', 'Broker's commission', 'Rent, light and water', 'Depreciation and amortization', 'Representation and entertainment', '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, 2018, 2017 and 2016, the Group has a significant customer in its Financial Markets segment, which contributed ₱0.8 billion, ₱0.9 billion and ₱0.6 billion, respectively, to the consolidated revenue.

7. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Investment securities at				
FVTPL	**₱9,559,054,436**	₱10,605,469,783	**₱1,486,794,195**	₱2,141,780,898
FVOCI	**664,510,794**	–	**505,352,683**	–
Amortized cost	**17,033,927,705**	–	**16,475,283,711**	–
AFS investments	**–**	8,187,370,398	**–**	7,972,946,034
HTM investments	**–**	14,250,114,946	**–**	13,381,508,355
	₱27,257,492,935	₱33,042,955,127	**₱18,467,430,589**	₱23,496,235,287

FVTPL Investments

Financial assets at FVTPL consist of the following held-for-trading equity and debt securities and debt securities that failed the SPPI test:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Debt securities:				
Government	**₱2,255,951,080**	₱2,523,918,273	**₱1,082,747,305**	₱1,670,508,377
Private	**669,791,729**	162,506,027	**404,046,890**	162,506,027
	2,925,742,809	2,686,424,300	**1,486,794,195**	1,833,014,404
Equity securities	**6,633,311,627**	7,919,045,483	**–**	308,766,494
	₱9,559,054,436	₱10,605,469,783	**₱1,486,794,195**	₱2,141,780,898

Financial assets at FVTPL include fair value gain (loss) of (₱595.9 million), ₱826.3 million and (₱355.5 million) in 2018, 2017 and 2016, respectively, for the Group, and fair value loss of ₱21.7 million, ₱6.7 million and ₱10.2 million in 2018, 2017 and 2016, respectively, for the Parent Company.

Peso-denominated debt securities bear nominal annual interest rates ranging from 2.1% to 8.1%, 2.1% to 14.4% and 1.6% to 13.0% in 2018, 2017 and 2016, respectively, for the Group and the Parent Company. US dollar-denominated debt securities bear nominal annual interest rates ranging from 3.0% to 9.9%, from 3.7% to 7.4% and from 3.7% to 6.4% in 2018, 2017 and 2016, respectively, for the Group and the Parent Company.

Dividends earned from FVTPL equity securities amounted to ₱100.4 million, ₱128.7 million and ₱110.4 million in 2018, 2017 and 2016, respectively, for the Group, and ₱7.7 million, ₱1.3 million and ₱2.7 million in 2018, 2017 and 2016, respectively, for the Parent Company.

FVOCI and AFS Investments

Investment securities at FVOCI as of December 31, 2018 consist of the following:

	Consolidated	Parent Company
Investment securities at FVOCI		
Debt securities		
Government	**₱3,847,805**	**₱–**
Private	**33,461,807**	**–**
Equity securities		
Listed Equity		
The Philippine Stock Exchange, Inc.	**505,173,779**	**390,545,280**
Manila Electric Company	**7,220,000**	**–**
Non-listed Equity		
Bonifacio Land Corporation	**96,366,104**	**96,366,104**
Others	**2,421,299**	**2,421,299**
Club Shares	**16,020,000**	**16,020,000**
	₱664,510,794	**₱505,352,683**

Peso-denominated investment securities at FVOCI bear nominal annual interest rates ranging from 5.6% to 8.0% for the Group and 5.0% for the Parent Company. Foreign currency-denominated investment securities at FVOCI investments bear nominal annual interest rate of 2.8% in 2018 for the Group and the Parent Company. Dividends earned in 2018 from derecognized investment securities at FVOCI amounted to ₱17.0 million and ₱14.9 million for the Group and the Parent Company respectively.

The equity securities are irrevocably designated at FVOCI on the basis that they are not held for trading. These include listed equity securities and some non-listed equity securities which are strategic investments of the Group where they intend to generate income through dividends and club shares which the Group holds in order to use and enjoy the facilities and services of the club.

In 2018, as part of risk management, the Group disposed equity securities at FVOCI with total carrying value of ₱771.4 million which generated dividends of ₱14.9 million, and recognized loss in OCI reclassified to retained earnings amounting to ₱122.7 million. There are no dividends generated by outstanding equity securities at FVOCI as of December 31, 2018.

AFS investments as of December 31, 2017 consist of the following:

	Consolidated	Parent Company
Debt securities (Note 16)		
Government	₱6,671,128,827	₱6,663,352,431
Private	136,838,011	49,203
Equity securities		
Quoted	1,272,643,658	1,202,784,498
Unquoted	106,759,902	106,759,902
	₱8,187,370,398	₱7,972,946,034

Peso-denominated AFS investments bear nominal annual interest rates ranging from 2.9% to 6.1% and from 2.9% to 8.0% in 2017 and 2016, respectively, for the Group and from 2.9% to 6.1% and from 2.9% to 8.0% for the Parent Company. Foreign currency-denominated AFS investments bear nominal annual interest rate of from 3.7% to 6.4% in 2017 and 2016 for the Group and the Parent Company.

Unquoted equity securities under AFS investments 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.

Dividends earned from AFS equity securities amounted to ₱34.3 million and ₱23.8 million in, 2017 and 2016, respectively, for the Group, and ₱34.3 million and ₱23.8 million in 2017 and 2016, respectively, for the Parent Company.

The changes in the net unrealized gain (loss) on FVOCI of the Group and the Parent Company for 2018 follow:

	Equity Holders of the Parent Company	**Non-controlling interest and puttable instruments**	**Total**
Balance at January 1	**(₱339,746,149)**	**₱757,954**	**(₱338,988,555)**
Effect of adoption of PFRS 9 (Note 2)	**271,657,779**	**–**	**271,657,779**
Balance at January 1, as restated	**(68,088,370)**	**757,954**	**(67,330,416)**
Net fair value changes during the year on FVOCI investments, net of tax	**(302,239,812)**	**(737,292)**	**(302,977,104)**
Realized gain on sale of FVOCI debt securities	**(2,409,599)**	**(20,302)**	**(2,429,901)**
Realized loss on sale of FVOCI equity securities	**122,742,438**	**–**	**122,742,438**
Net change during the year	**(181,906,973)**	**(757,594)**	**(182,664,567)**
Balance at December 31	**(₱249,995,343)**	**₱–**	**(₱249,995,343)**

	Parent Company
Balance at January 1, as previously reported	**(₱399,108,078)**
Effect of adoption of PFRS 9 (Note 2)	**382,355,793**
Balance at January 1, as restated	**(16,752,285)**
Net fair value changes during the year on FVOCI investments, net of tax	**(254,241,575)**
Realized loss on sale of FVOCI equity investments	**122,742,438**
Realized gain on sale of FVOCI investments	**(2,594)**
Net change during the year	**(131,501,731)**
Balance at December 31	**(₱148,254,016)**

The changes in the net unrealized gain (loss) on AFS investments of the Group and Parent Company for 2017 and 2016 follow:

	2017		
	Equity Holders of the Parent Company	Non-controlling interest and puttable instruments	Total
Balance at January 1	(₱253,487,934)	(₱5,880,754)	(₱259,368,688)
Net fair value changes during the year on AFS investments, net of tax	54,836,120	2,395,751	57,231,871
Realized (gain) loss on sale of AFS investments	(141,094,335)	4,242,597	(136,851,738)
Net change during the year	(86,258,215)	6,638,348	(79,619,867)
Balance at December 31	(₱339,746,149)	₱757,594	(₱338,988,555)

	2016		
	Equity Holders of the Parent Company	Non-controlling interest and puttable instruments	Total
Balance at January 1	(₱18,529,720)	₱1,487,058	(₱17,042,662)
Net fair value changes during the year on AFS investments, net of tax	229,301,456	(7,367,783)	221,933,616
Realized loss (gain) 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)

	Parent Company	
	2017	2016
Balance at January 1	(₱302,850,991)	(₱73,000,219)
Net fair value changes during the year on AFS investments, net of tax	50,607,523)	232,967,692
Realized gain on sale of AFS investments	(146,864,610)	(462,818,464)
Net change during the year	(96,257,087)	(229,850,772)
Balance at December 31	(₱399,108,078)	(₱302,850,991)

<u>Investment Securities at Amortized Cost and HTM Investments</u>
Investment securities at amortized cost and held-to-maturity investments consist of the following:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Investment Securities at Amortized Cost				
Debt securities				
Government	**₱15,065,013,301**	₱–	**₱14,789,653,450**	₱–
Private	**1,968,914,404**	–	**1,685,630,261**	–
HTM Investments				
Debt securities				
Government	**–**	12,014,477,230	**–**	11,695,485,940
Private	**–**	2,235,637,716	**–**	1,686,022,414
	₱17,033,927,705	₱14,250,114,946	**₱16,475,283,711**	₱13,381,508,355

As of December 31, 2018 the unamortized premium related to investment securities at amortized cost amounted to ₱1.3 billion for the Group and the Parent Company. Effective interest rates on the amortized cost investment securities ranges from 3.0% to 7.4% for the Group and the Parent Company in 2018. Amortized cost investment securities bear nominal annual interest rates ranging from 2.1% to 8.3%.

As of December 31, 2017 the unamortized premium related to HTM investments amounted to ₱1.3 billion for the Group and the Parent Company. Effective interest rates on the HTM investments ranges from 2.9% to 3.1% for the Group and the Parent Company in 2017. HTM investments bear nominal annual interest rates ranging from 2.1% to 14.4%.

<u>Trading and Securities Gain (Loss)</u>
The composition of trading and securities gain (loss) follows:

	Consolidated		
	2018	2017	2016
Realized gain (loss) from sale of:			
HFT securities	**(₱477,924,313)**	₱1,096,659,590	(₱140,751,885)
AFS investments	**–**	136,851,739	464,259,642
FVOCI	**2,429,901**	–	–
	(475,494,412)	1,233,511,329	323,507,757

	Consolidated		
Changes in fair value of financial instruments at FVTPL:			
HFT securities	**(₱595,880,042)**	₱826,344,878	(₱355,543,773)
Derivative asset	**–**	(15,922)	(24,574,194)
	(595,880,042)	826,328,956	(380,117,967)
Gain (loss) from increase (decline) in NAV of puttable instruments (Note 17)	**684,779,934**	(1,260,736,685)	431,180,862
	(₱386,594,520)	₱799,103,600	₱374,570,652

	Parent Company		
	2018	2017	2016
Realized gain (loss) from sale of:			
HFT securities	**(₱156,333,321)**	₱129,484,976	(₱20,158,028)
AFS investments	**–**	146,864,610	462,818,464
FVOCI	**2,594**	–	–
	(156,330,727)	276,349,586	442,660,436
Changes in fair value of financial instruments at FVTPL:			
HFT securities	**(21,677,275)**	(6,688,970)	(10,156,864)
Derivative asset	**–**	(15,922)	(30,189,497)
	(21,677,275)	(6,704,892)	(40,346,361)
	(₱178,008,002)	₱269,644,694	₱402,314,075

8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Loans and discounts:				
Corporate lending	**₱488,113,063**	₱1,366,817,418	**₱488,113,063**	₱1,366,817,418
Others	**15,743,079**	15,374,122	**10,799,786**	9,933,018
	503,856,142	1,382,191,540	**498,912,849**	1,376,750,436
Unquoted commercial papers	**632,454,383**	834,250,000	**482,500,000**	485,000,000
Accounts receivable	**284,335,401**	570,806,753	**21,742,104**	182,887,958
Accrued interest receivable	**160,171,808**	199,200,326	**138,839,302**	187,210,460
Dividends receivable	**2,024,861**	4,448,584	**25,350,000**	97,269
Other receivables	**33,677,992**	136,620,519	**–**	–
	1,616,520,587	3,127,517,722	**1,167,344,255**	2,231,946,123
Allowance for credit losses (Note 13)	**(28,943,753)**	(103,278,250)	**(28,087,403)**	(72,282,442)
	₱1,587,576,834	₱3,024,239,472	**₱1,139,256,852**	₱2,159,663,681

The following table shows the breakdown of loans and receivables from related parties as of December 31, 2018 and 2017:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Loans and discounts:				
Others	**₱15,743,079**	₱15,374,122	**₱10,799,786**	₱9,933,018
Unquoted commercial papers	**149,954,383**	–	**–**	–
Accounts receivable	**9,712,496**	172,912,716	**15,053,047**	174,395,303
Accrued interest receivable	**3,023,832**	1,756,481	**–**	132,813
	₱178,433,790	₱190,043,319	**₱25,852,833**	₱184,461,134

As of December 31, 2018 and 2017, 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 rate of 10.8%, and from 7.5% to 10.8% in 2018 and 2017, respectively, for the Group and the Parent Company.

Interest income on loans and receivables follow:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Loans and receivables	**₱85,393,708**	₱197,986,340	₱241,538,670	**₱85,091,107**	₱178,041,850	₱223,016,827

Unquoted Commercial Papers
This account consists of various debt instruments issued by government-owned or controlled corporations and private corporations. As of December 31, 2018 and 2017, the nominal annual interest for these securities ranges from 7.0% to 7.4% and 3.5% to 7.4%, respectively, for the Group, and 7.4%, and from 5.9% to 8.9%, respectively, for the Parent Company.

In 2017, realized loss from sale of unquoted commercial papers amounted ₱1.3 million for the Group and ₱1.7 million for the Parent Company. No sale of unquoted commercial papers occurred in 2018 and 2016.

Accounts Receivable
As of December 31, 2018 and 2017, accounts receivable is comprised mainly of receivables from customers arising from brokerage services rendered by FMSBC and various advances of the Parent Company. This also includes fees and commissions of the Parent Company for services rendered.

Other Receivables
As of December 31, 2018 and 2017, other receivables mainly consists of receivables from clearing house amounting to nil and ₱105.5 million, respectively, which arise from selling transactions of FMSBC for the account of customers.

BSP Reporting
As of December 31, 2018 and 2017, 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.

As of December 31, 2018 and 2017, 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, 2018 and 2017 (amounts in thousands).

	Consolidated				Parent Company			
	2018		2017		**2018**		2017	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured loans:								
Chattel	**₱417,815**	**82.9**	₱476,570	34.5	**₱414,863**	**83.2**	₱472,943	34.3
Real estate	**78,272**	**15.6**	82,660	6.0	**78,272**	**15.6**	82,660	6.0
Shares of stock	**–**	**0.0**	816,000	59.0	**–**	**0.0**	816,000	59.3
	496,087	**98.5**	1,375,230	99.5	**493,135**	**98.8**	1,371,603	99.6
Unsecured loans	**7,769**	**1.5**	6,962	0.5	**5,778**	**1.2**	5,147	0.4
	₱503,856	**100.0**	₱1,382,192	100.0	**₱498,913**	**100.0**	₱1,376,750	100.0

As of December 31, 2018 and 2017, 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			
	2018		2017		**2018**		2017	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Financial intermediaries	**₱–**	**–**	₱816,000	59.0	**₱–**	**–**	₱816,000	59.3
Electricity, gas and water	**488,113**	**97.0**	550,817	39.9	**488,113**	**98.0**	550,817	40.0
Private households	**15,743**	**3.0**	15,375	1.1	**10,800**	**2.0**	9,933	0.7
	₱503,856	**100.0**	₱1,382,192	100.0	**₱498,913**	**100.0**	₱1,376,750	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							
	2018				2017			
	Leasehold Improvements	**Furniture, Fixtures and Equipment**	**Building**	**Total**	Leasehold Improvements	Furniture, Fixtures and Equipment	Building	Total
Cost								
Balance at beginning of year	**₱120,121,879**	**₱162,925,276**	**₱47,865,155**	**₱330,912,310**	₱144,714,069	₱222,322,027	₱4,711,631	₱371,747,727
Reclassification	**–**	**–**	**–**	**–**	–	–	32,005,240	32,005,240
Acquisitions	**10,485,416**	**34,231,361**	**4,366,592**	**49,083,369**	7,088,812	31,397,024	11,148,284	49,634,120
Disposals	**(1,561,746)**	**(15,355,340)**	**-**	**(16,917,086)**	(31,681,002)	(90,793,775)	–	(122,474,777)
Balance at end of year	**129,045,549**	**181,801,297**	**52,231,747**	**363,078,593**	120,121,879	162,925,276	47,865,155	330,912,310
Accumulated depreciation and amortization								
Balance at beginning of year	**99,288,092**	**108,043,416**	**28,226,528**	**235,558,036**	113,139,389	173,207,518	3,863,560	290,210,467
Reclassification	**–**	**–**	**–**	**–**	–	–	23,784,597	23,784,597
Depreciation and amortization	**10,464,304**	**23,093,961**	**2,887,501**	**36,445,766**	12,657,199	22,798,062	578,371	36,033,632
Disposals	**(1,561,718)**	**(13,559,589)**	**–**	**(15,121,309)**	(26,508,496)	(87,962,164)	–	(114,470,660)
Balance at end of year	**108,190,678**	**117,577,786**	**31,114,029**	**256,882,493**	99,288,092	108,043,416	28,226,528	235,558,036
Net book value at end of year	**₱20,854,871**	**₱64,223,511**	**₱21,117,718**	**₱106,196,100**	₱20,833,787	₱54,881,860	₱19,638,627	₱95,354,274

	Parent Company							
	2018				2017			
	Leasehold Improvements	**Furniture, Fixtures and Equipment**	**Building**	**Total**	Leasehold Improvements	Furniture, Fixtures and Equipment	Building	Total
Cost								
Balance at beginning of year	**₱81,789,574**	**₱96,737,162**	**₱42,965,064**	**₱221,491,800**	₱111,750,477	₱173,444,796	₱–	₱285,195,273
Reclassification	**-**	**-**	**-**		–	–	31,816,780	31,816,780
Acquisitions	**1,044,120**	**26,153,817**	**4,555,052**	**31,752,989**	1,720,100	13,825,142	11,148,284	26,693,526
Disposals	**-**	**(7,997,364)**	**-**	**(7,997,364)**	(31,681,003)	(90,532,776)	–	(122,213,779)
Balance at end of year	**82,833,694**	**114,893,615**	**47,520,116**	**245,247,425**	81,789,574	96,737,162	42,965,064	221,491,800
Accumulated depreciation and amortization								
Balance at beginning of year	**74,328,461**	**66,654,774**	**24,174,508**	**165,157,743**	94,000,113	139,910,629	–	233,910,742
Reclassification	**-**	**-**	**-**	**–**	–	–	23,784,597	23,784,597
Depreciation and amortization	**3,348,940**	**13,879,933**	**2,699,041**	**19,927,914**	6,836,846	14,619,775	389,911	21,846,532
Disposals	**-**	**(7,564,676)**	**-**	**(7,564,676)**	(26,508,498)	(87,875,630)	–	(114,384,128)
Balance at end of year	**77,677,401**	**72,970,031**	**26,873,549**	**177,520,981**	74,328,461	66,654,774	24,174,508	165,157,743
Net book value at end of year	**₱5,156,293**	**₱41,923,584**	**₱20,646,567**	**₱67,726,444**	₱7,461,113	₱30,082,388	₱18,790,556	₱56,334,056

As of December 31, 2018 and 2017, the cost of fully depreciated property and equipment that are still in use amounted to ₱144.3 million and ₱135.6 million, respectively, for the Group, and ₱113.5 million and ₱104.2 million, respectively, for the Parent Company.

In 2017, the Parent Company utilized for its own operations condominium units costing ₱31.8 million with accumulated depreciation of ₱23.8 million (Note 11).

The Group and the Parent Company recognized gain from sale of property and equipment amounting to ₱0.5 million, ₱0.7 million and ₱0.06 million in 2018, 2017 and 2016, respectively, booked under 'Gain on sale of assets' account in the statement of income.

10. Investments in Subsidiaries, Associates and Joint Venture

The consolidated financial statements of the Group include:

Subsidiaries	**Principal Activities**	**Country of Incorporation**	**Effective Percentage of Ownership 2018**	**2017**
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-	**94.6**	94.8
First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPEETFI)	Exchange Traded Fund	-do-	**45.0**	38.8
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-	**25.11**	23.9
First Metro Save and Learn Balanced Fund, Inc. (FMSALBF)	-do-	-do-	**21.31**	21.4
First Metro Save and Learn Fixed Income Fund (FMSLFIF)	-do-	-do-	**25.07**	20.4
One Wealthy Nation Fund, Inc.	-do-	-do-	**–**	57.9
Paradigm Global Growth Fund (PGGF)	-do-	-do-	**–**	70.0
First Metro Save and Learn Money Market Fund, Inc.	-do-	-do-	**64.5**	–
First Metro Save and Learn F.O.C.C.U.S. Dynamic Dividend Fund, Inc.	-do-	-do-	**40.0**	–

** Formerly First Metro Global Opportunity Fund*

The Group's percentage ownership in its investment in associates and joint venture follow:

	Effective Percentage of Ownership 2018	2017
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
Skyland Realty Development Corporation (SRDC)	**20.0**	20.0
Orix Metro Leasing and Finance Corp (OMLFC)	**20.0**	20.0
Dahon Realty Corporation	**20.0**	20.0
LCMC	**13.5**	13.5
Joint Venture:		
Aurora Towers, Inc. (ATI)	**–**	50.0

The principal place of business of these subsidiaries and associates is in Metro Manila.

The movements in 'Investment in subsidiaries, associates and joint ventures' account follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Acquisition cost				
Balance at beginning of year	**₱3,089,227,118**	₱2,853,606,081	**₱5,674,891,564**	₱5,544,751,411
Additions	**–**	235,621,037	**291,501,074**	543,816,764
Disposals	**(18,408,000)**	–	**(18,408,000)**	(413,676,611)
	3,070,819,118	3,089,227,118	**5,947,984,638**	5,674,891,564
Accumulated equity in net earnings				
Balance at beginning of year, as previously reported	**2,978,457,334**	2,430,377,631	**4,180,018,684**	3,367,003,888
Effect of adoption of PFRS 9	**–**	–	**106,787,490**	–
Balance at beginning of year, as restated	**2,978,457,334**	2,430,377,631	**4,286,806,174**	3,367,003,888
Equity share in net earnings	**991,057,818**	829,874,136	**768,882,629**	1,310,702,034
Cash dividends	**(452,162,280)**	(281,794,433)	**(543,712,280)**	(302,797,321)
Disposals	**18,407,999**	–	**18,407,999**	(194,889,917)
Balance at end of year	**3,535,760,871**	2,978,457,334	**4,530,384,522**	4,180,018,684
Equity in net unrealized gain on FVOCI and AFS investments				
Balance at beginning of year, as previously reported	**31,323,013**	64,521,249	**90,684,942**	113,884,306
Effect of adoption of PFRS 9	**–**	**–**	**(106,787,490)**	**–**
Balance at beginning of year, as restated	**31,323,013**	64,251,249	**(16,102,548)**	113,884,306
Equity share in changes in fair value of FVOCI investments	**(249,698,930)**	–	**(302,764,637)**	–
Equity share in changes in fair value of AFS investments	**–**	(33,198,236)	**–**	(23,199,364)
Balance at end of year	**(218,375,917)**	31,323,013	**(318,867,243)**	90,684,942
Equity in translation adjustment				
Balance at beginning of year	**–**	–	**20,821,281**	22,254,825
Share in changes in translation adjustment	**–**	–	**11,924,633**	(1,433,544)
Balance at end of year	**–**	–	**32,745,914**	20,821,281
Equity in remeasurement of insurance reserves				
Balance at beginning of year	**(211,684,566)**	(308,373,426)	**(211,684,566)**	(308,373,426)
Share in changes in remeasurement of insurance reserves	**418,164,316**	96,688,860	**418,164,316**	96,688,860
Balance at end of year	**206,479,750**	(211,684,566)	**206,479,750**	(211,684,566)
Equity in remeasurement of retirement benefits				
Balance at beginning of year	**(40,089,053)**	(25,848,204)	**(37,598,731)**	(25,153,358)
Share in changes in remeasurement of retirement liability	**28,211,201**	(14,240,849)	**33,332,303**	(12,445,373)
Balance at end of year	**(11,877,852)**	(40,089,053)	**(4,266,428)**	(37,598,731)
	₱6,582,805,970	₱5,847,233,845	**₱10,394,461,153**	₱9,717,133,174

The carrying values of the Group's and the Parent Company's investments in investee companies are shown below:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Carrying value:				
Subsidiaries:				
FMSALEF	₱–	₱–	**₱977,589,170**	₱1,136,497,468
PBC	–	–	**316,602,210**	328,409,896
FMPEETFI	–	–	**644,792,591**	472,603,334
FMSALBF	–	–	**337,570,005**	365,202,744
FMSLFIF	–	–	**385,010,214**	399,519,751
FMSLDBF	–	–	**245,492,202**	234,731,667
FMSBC	–	–	**435,587,114**	475,888,438
FMAFEF	–	–	**167,977,414**	160,025,620
SPI	–	–	**66,676,324**	64,509,146
FEI	–	–	**12,698,987**	12,730,009
FAMI	–	–	**216,219,454**	216,661,683
Resiliency	**₱–**	₱–	**₱2,533,784**	₱2,608,468
PVDC	–	–	**42,990,495**	29,925,998
FMIBC	–	–	**2,667,713**	2,856,282
	–	–	**3,854,407,677**	3,902,170,504
Associates:				
LCMC	**2,107,247,069**	2,246,530,452	**2,107,247,069**	2,246,530,452
PALIC	**2,603,461,125**	1,961,107,039	**2,603,461,125**	1,961,107,039
OMLFC	**1,630,237,363**	1,399,159,279	**1,630,237,363**	1,399,159,279
CIRC	**199,107,917**	208,165,897	**199,107,917**	208,165,897
FMIIC	–	–	–	–
TSI	**42,752,494**	32,271,175	–	–
SRDC	**1**	1	**1**	1
Dahon Realty Corporation	**1**	1	**1**	1
	6,582,805,970	5,847,233,844	**6,540,053,476**	5,814,962,669
Joint Venture:				
ATI	–	1	–	1
	₱6,582,805,970	₱5,847,233,845	**₱10,398,461,153**	₱9,717,133,174

Acquisition of New Subsidiaries by FAMI
In 2018, two (2) new mutual funds were incorporated, First Metro Save and Learn F.O.C.C.U.S. Dynamic Dividend Fund, Inc. and First Metro Save and Learn Money Market Fund, Inc., wherein FAMI invested 40% and 64.5% interest respectively. Total consideration for these acquisitions amounted to ₱103.0 million.

Redemption of FAMI's Subsidiaries
In December 2018, FAMI dispose its holdings in One Wealthy Nation Fund (OWN) and Paradigm Global Growth Fund at a redemption price of ₱22.2 million and ₱ 20.9 million respectively with carrying amount of ₱22.38million and ₱26.29 million, respectively

Acquisition of One Wealthy Nation Fund, Inc. by FAMI
In December 2017, FAMI acquired 57.9% interest in One Wealthy Nation Fund, Inc., a mutual fund company, for ₱34.0 million, which was disposed in December 2018 as discussed in the previous paragraph.

Investment in LCMC
In July 2015, the Parent Company entered into a collaboration agreement with another investor to jointly vote their 18.6% ownership in LCMC. As such, the Parent Company's 14.3% investment in LCMC was reclassified from 'AFS investment' to an equity investment in an associate presented under 'Investments in subsidiaries, associates and joint venture'. The Group and the Parent Company recognized investment in associate amounting to ₱2.3 billion at the date of reclassification.

On July 17, 2017, LCMC's Board of Directors approved a 1:4.685 Stock Rights Offering (SRO) of its outstanding shares at a price of ₱0.15 per share. Ex-date and record date were then set to be on October 30, 2017 and November 6, 2017, respectively. FMIC availed of this offering which entitled them into an additional 1.57 billion shares payable on 2 installment terms. Even with the Parent Company's participation in the SRO, the Group's direct ownership in LCMC still dropped to 13.45% due to a private placement of 3.35 billion shares that was listed on October 25, 2017.

As of December 31, 2018 and 2017, the Group's direct ownership in LCMC is 14.3%.

As of December 31, 2018, the fair value of the Group's and the Parent Company's investment in LCMC amounted to ₱1.0 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 of the management covering a five-year period, which include forecast on production volume and capital expenditures, among others. For the assumptions on gold and copper price, exchange rate and long-term growth rate, the Group used the available economic, industry and market data. Further, the Group used the associate's weighted average cost of capital (WACC) as the discount rate for the VIU calculation. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

Investment in FMIIC

On August 11, 2016, FMIIC executed the buy-back of its outstanding shares held by the Group and the Parent Company with a carrying value amounting to ₱216.2 million (after the accumulated equity in net earnings or losses and adjustment on dividends) at a consideration of ₱287.4 million which resulted in a gain of ₱71.2 million for the Group and Parent Company, and is included under 'Miscellaneous income' (Note 23).

The following tables present the financial information of significant associates with classified statements of financial position as of and for the years ended December 31, 2018, 2017, and 2016 (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 Income	Total Comprehensive Income	Share in net earnings for the year
2018	**CIRC**	**₱876,556**	**₱1,413,805**	**₱650,948**	**₱774,906**	**₱199,108**	**₱325,398**	**₱319,746**	**₱5,652**	**₱–**	**₱5,652**	**₱2,142**
	LCMC	**1,265,190**	**8,488,969**	**1,534,153**	**1,532,699**	**2,107,247**	**2,107,871**	**2,794,993**	**(687,122)**	**–**	**(687,122)**	**(110,791)**
2017	CIRC	896,541	1,377,633	950,440	719,002	208,166	347,078	347,479	(401)	–	(401)	(139)
	LCMC	1,223,299	8,357,176	1,307,077	1,656,828	2,246,530	1,559,200	2,276,927	(717,727)	–	(717,727)	(107,416)
2016	CIRC	1,012,244	1,455,158	887,392	709,164	201,332	297,599	293,388	3,063	–	3,063	1,064
	LCMC	868,884	8,090,976	1,289,572	1,746,434	2,134,048	1,431,928	2,082,947	(623,830)	–	(623,830)	(89,377)

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, 2018, 2017, and 2016 (amounts in thousands):

		Statement of Financial Position			Statement of Income			
Year	**Name of Company**	**Total Assets**	**Total Liabilities (As restated)**	**Carrying amount of the investment (As restated)**	**Gross Income**	**Operating Income (Loss) (As restated)**	**Net Income (Loss) (As restated)**	**Share in net earnings (As restated)**
2018	**PALIC**	**₱126,794,141**	**₱117,559,487**	**₱2,603,461**	**₱14,119,726**	**₱4,309,630**	**₱3,084,099**	**₱869,099**
	OMLFC	**55,627,160**	**47,398,087**	**1,630,237**	**7,111,870**	**1,719,722**	**1,229,942**	**245,988**
2017	PALIC	122,854,874	115,759,335	2,010,163	14,639,181	3,203,567	2,433,843	685,857
	OMLFC	47,756,739	40,680,246	1,399,159	5,748,010	1,807,409	1,278,540	255,708
2016	PALIC	97,299,890	91,440,038	1,652,427	10,087,661	1,783,468	1,129,719	318,355
	OMLFC	36,797,923	30,977,976	1,146,429	4,708,418	1,564,913	1,091,543	218,309

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 FVTPL**	**Receivables-net of allowance for credit losses**	**Investment in unit-linked funds**	**Equipment for lease**
2018	**PALIC**	**₱4,391,500**	**₱12,743,907**	**₱1,509,205**	**₱3,944,605**	**₱55,625**	**₱725,937**
	OMLFC	**610,026**	**1,113**	–	**44,925,564**	–	**2,672,584**
2017	PALIC	4,617,161	11,692,703	1,445,046	3,747,504	62,065	521,916
	OMLFC	477,348	926	–	36,383,266	–	2,754,242
2016	PALIC	4,103,683	11,414,488	867,848	2,500,878	48,812	397,353
	OMLFC	468,882	905	–	27,593,205	–	2,497,615

The Group received dividends from PALIC amounting to ₱449.5 million and ₱281.8 million in 2018 and 2017, respectively.

Aggregate financial information of associates and joint venture that are not individually significant follows:

	2018	2017
Associates		
Statements of Financial Position		
Total assets	₱270,755,314	₱231,064,657
Total liabilities	111,081,853	108,787,240
Statements of Income		
Gross income	121,233,786	67,594,162
Operating income	61,397,256	67,594,162
Net income	61,395,857	14,577,090
Joint Venture		
Statements of Financial Position		
Total assets	–	12,237,172
Total liabilities	–	79,927,221
Statements of Income		
Gross income	–	1,223
Operating income	–	1,223
Net loss	–	(1,564,080)

Investment in ATI

On January 30, 2018, the Parent Company sold its 18,408 shares of ATI which resulted in ₱20.7 million gain recorded under 'Gain on sale of assets' account in the statements of income for the Group and Parent Company.

FAMI is deemed to have a non-controlling interest that is material to the Group. The proportion of equity interest held by the non-controlling interest is 30.0% as of December 31, 2018 and 2017. The accumulated balance of the non-controlling interest in FAMI as of December 31, 2018 and 2017 amounted to ₱92.2 million and ₱100.6 million, respectively. Profit allocated to non-controlling interest in 2018 and 2017 amounted to ₱0.1 million and ₱16.8 million, respectively.

The following table presents the financial information of FAMI as of and for the years ended December 31, 2018 and 2017 (amounts in thousands):

	2018	2017
Statement of Financial Position		
Cash and other cash items	**₱164,745**	₱131,789
Financial assets at FVTPL	–	54,748
AFS investments	–	40,717
HTM investments	**48,867**	–
Loans and receivables	**16,221**	20,851
Other assets	**124,793**	144,734
Other liabilities	**66,980**	74,498
Non-controlling interests	**92,221**	100,634
Statement of Income		
Gross income	**161,668**	232,567
Operating income	**153,875**	81,513
Net income	**444**	56,270
Net income attributable to non-controlling interests	**–**	16,881
Total comprehensive income	**–**	59,399
Statement of Cash Flows		
Net cash provided by operating activities	**18,034**	30,041
Net cash used in investing activities	**5,596**	8,184
Net cash provided by (used in) financing activities	**27,000**	(30,004)
Net increase in cash and cash equivalents	**(14,561)**	8,221
Cash and other cash items at beginning of year	**82,843**	74,621
Cash and other cash items at end of year	**68,281**	82,843

Material ownership interest of shareholders outside the Group in mutual fund subsidiaries that issue equity instruments redeemable by the holders at the net asset value per unit of the mutual funds are classified as 'Puttable instruments of mutual fund subsidiaries classified as liability' (Note 17). Movement in the accumulated balances due to changes in the net asset value per unit of the mutual funds are recognized as trading and securities gain in the statements of income.

Investment in PALIC

PALIC applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts* issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2021.

The assessment for whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities.

The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date after March 31, 2015 and before April 1, 2016. Applying the requirements, PALIC performed the predominance assessment using the statement of financial position as of December 31, 2015 and concluded that it qualified for the temporary exemption from PFRS 9. Since December 31, 2015, there has been no change in the activities of the Group that requires reassessment of the use of the temporary exemption.

Fair value disclosures
The table below presents an analysis of the fair value of classes of financial assets of PALIC as of December 31, 2018, as well as the corresponding change in fair value for the year then ended. In the table, the carrying amounts of cash and cash equivalents and short-term receivables have been used as a reasonable approximation to fair value. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and
- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Financial assets at FVTPL				
Debt securities	**₱–**	**₱–**	**₱312,803,591**	**(₱421,066,584)**
Equity securities	**–**	**–**	**1,196,401,114**	**485,248,532**
AFS financial assets				
Equity securities	**–**	**–**	**362,750,126**	**118,181,839**
Debt securities	**12,381,157,156**	**934,059,732**	**–**	**–**
Loans and receivables				
Cash and cash equivalents	**4,735,625,003**	**–**	**–**	**–**
Receivables	**647,508,776**	**–**	**–**	**–**
	₱17,910,896,361	**₱934,059,732**	**₱1,725,349,305**	**₱198,411,811**

Credit risk disclosures
The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel of PALIC. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

		Credit Rating				
	Total	AAA	AA/A	BBB	BB/B	Unrated
AFS financial assets						
Debt securities	**₱12,381,157,156**	**₱–**	**₱–**	**₱12,371,246,284**	**₱–**	**₱9,910,872**
HTM financial assets	**–**	**–**	**–**	**–**	**–**	**–**
Loans and receivables						
Cash and cash equivalents	**4,735,625,003**	**–**	**–**	**4,724,188,093**	**10,483,719**	**953,191**
Receivables	**647,508,776**	**–**	**–**	**–**	**–**	**647,508,776**
	₱17,910,896,361	**₱–**	**₱–**	**₱17,095,434,377**	**₱157,089,145**	**₱658,372,839**

The following table provides information on the fair value and carrying amount under PAS 39 for those SPPI assets that do not have low credit risk as determined by PALIC. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

	Fair value	Carrying amount
Financial assets at FVTPL		
Debt securities	**₱146,605,426**	**₱146,605,426**
AFS financial assets		
Debt securities	**12,381,157,156**	**12,381,157,156**
Loans and receivables		
Cash and cash equivalents	**4,735,625,003**	**4,735,625,003**
Receivables	**647,508,776**	**647,508,776**
	₱17,910,896,361	**₱17,910,896,361**

Limitation on dividend declaration of subsidiaries and associates
PALIC
Section 195 of the Insurance Code provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and
- a sum sufficient to pay all net lossess reported or in the course of settlement and all liabilities for expenses and taxes

As of December 31, 2018 and 2017, the Parent Company has no share on commitments and contingencies of its associates and joint venture.

As of December 31, 2018 and 2017, there were no guarantees or other requirements entered into by the subsidiaries of the Parent Company that may restrict dividends and other capital distributions to be paid, or loans and advances to be made or repaid to or from other entities within the Group.

11. Investment Properties

The composition of and movements in this account for the Group and the Parent Company follow:

	Consolidated and Parent Company					
	2018			2017		
	Land	Building/land improvements/ condominium for sale/lease	Total	Land	Building/land improvements/ condominium for sale/lease	Total
Cost						
Balances at beginning of year	₱318,287,938	₱69,938,232	₱388,226,170	₱319,769,938	₱116,196,276	₱435,966,214
Reclassification	–	–	–	–	(31,816,780)	(31,816,780)
Disposals	(106,766,182)	(4,588,000)	(111,354,182)	(1,482,000)	(14,441,264)	(15,923,264)
Balances at end of year	211,521,756	65,350,232	276,871,988	318,287,938	69,938,232	388,226,170
Accumulated depreciation						
Balances at beginning of year	–	47,071,601	47,071,601	–	78,340,923	78,340,923
Depreciation	–	1,628,077	1,628,077	–	3,115,595	3,115,595
Reclassification	–	–	–	–	(23,784,597)	(23,784,597)
Disposal	–	(4,587,999)	(4,579,999)	–	(10,600,320)	(10,600,320)
Balances at end of year	–	44,111,679	44,111,679	–	47,071,601	47,071,601
Allowance for impairment losses (Note 13)	(26,857,422)	–	(26,857,422)	(26,857,422)	–	(26,857,422)
Net book value at end of year	₱184,664,334	₱21,238,553	₱205,902,887	₱291,430,516	₱22,866,631	₱314,297,147

The aggregate fair value of investment properties as of December 31, 2018 and 2017 amounted to ₱660.1 million and ₱840.6 million, respectively, for the Group and Parent Company (Note 5).

In 2018, 2017 and 2016, the Group and the Parent Company recognized gain (loss) from the disposal of investment properties amounting to ₱353.2 million, ₱32.4 million and (₱0.02 million), respectively, booked under 'Gain on sale of assets' accounts in the statements of income.

Rental income from investment properties in 2018, 2017 and 2016 amounted to ₱2.1 million, ₱4.6 million and ₱11.3 million respectively, for the Group and Parent Company (Note 23).

Reclassification to 'Property and equipment' resulted from owner occupation of condominium units by the Parent Company in 2017 (Note 9).

Direct operating expenses on investment properties that generated rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to nil, ₱0.9 million and ₱3.5 million in 2018, 2017 and 2016, respectively. Direct operating expenses on investment properties that did not generate rental income during the period and are included under 'Miscellaneous expenses' in the statements of income amounted to ₱3.7 million, ₱3.7 million and ₱4.1 million in 2018, 2017 and 2016, respectively.

12. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Creditable withholding tax	₱493,309,796	₱444,651,506	₱390,681,153	₱340,783,061
Escrow account	238,503,265	240,526,977	238,503,265	240,526,977
Prepaid expenses	49,914,057	48,697,027	37,046,789	34,046,829
Software licenses	45,979,348	46,721,440	38,282,506	34,413,237
Retirement asset (Note 22)	43,526,197	79,768,607	39,952,469	74,299,995
Other investments	25,766,880	25,789,380	25,766,880	25,789,380
Tax credit certificates	4,130,234	5,230,784	4,130,234	5,230,784
Goodwill	–	445,000	–	–
Miscellaneous (Note 27)	98,189,126	110,225,401	12,078,237	13,009,447
	₱999,318,903	₱1,002,056,122	₱786,441,533	₱768,099,710

Movements in software licenses follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Cost				
Balance at beginning of year	₱264,995,047	₱245,748,413	₱225,804,739	₱213,216,500
Additions	23,734,953	19,246,634	23,745,531	12,588,239
Balance at end of year	288,730,000	264,995,047	249,550,270	225,804,739
Accumulated amortization				
Balance at beginning of year	218,273,607	176,706,789	191,391,502	154,785,889
Amortization (Note 25)	24,477,045	41,566,818	19,876,262	36,605,613
Balance at end of year	242,750,652	218,273,607	211,267,764	191,391,502
Net book value at end of year	₱45,979,348	₱46,721,440	₱38,282,506	₱34,413,237

Creditable withholding taxes arise from income such as service charges, fees and commissions, interest income and rental income, in which customers are required to withhold taxes.

In July 2017, the Parent Company deposited ₱318.1 million in escrow, pertaining to unclaimed money balances of customers. As of December 31, 2018 and 2017, the balance in the escrow fund amounted to ₱238.5 million and ₱240.5 million.

Prepaid expenses consist of prepaid taxes (i.e., real estate tax, documentary stamp tax) and other prepaid expenses (i.e., licenses, insurance and membership fees).

Miscellaneous assets include unused office supplies and rental and other deposits.

13. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Balance at beginning of year				
Loans and receivables	**₱103,278,250**	₱103,020,053	**₱72,282,442**	₱72,282,442
Investment properties	**26,857,422**	27,110,922	**26,857,422**	27,110,922
Other assets	**8,446,506**	8,446,506	**8,446,506**	8,446,506
	138,582,178	138,577,481	**107,586,370**	107,839,870
Provision for (recovery from) impairment and credit losses	**(24,504,500)**	4,697	**–**	(253,500)
Others – loans and receivables	**(49,829,997)**	–	**(44,195,039)**	–
	(74,334,497)	4,697	**(44,195,039)**	(253,500)
Balance at end of year				
Loans and receivables (Note 8)	**28,943,753**	103,278,250	**28,087,403**	72,282,442
Investment properties (Note 11)	**26,857,422**	26,857,422	**26,857,422**	26,857,422
Other assets	**8,446,506**	8,446,506	**8,446,506**	8,446,506
	₱64,247,681	₱138,582,178	**₱63,391,331**	₱107,586,370

Below is the breakdown of the provision for (recovery from) impairment and credit losses, including provision (reversal of provision) for other probable losses recognized in the statements of income.

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Provision for (recovery from) impairment and credit losses						
Loans and receivables	**(₱24,504,500)**	₱258,197	(₱1,798,081)	**₱–**	₱–	(₱625,080)
Investment in associates	**–**	–	(28,075,229)	**–**	–	(28,075,229)
Investment properties	**–**	(253,500)	(1,970,150)	**–**	(253,500)	(1,970,150)
Other assets	**–**	–	–	**–**	–	–
	(24,504,500)	4,697	(31,843,460)	**–**	(253,500)	(30,670,459)
Provision (reversal of provisions) for other probable losses	**(23,120,294)**	1,605,361	96,492,950	**(23,083,496)**	1,863,558	96,526,672
	(₱47,624,794)	₱1,610,058	₱64,649,490	**(₱23,083,496)**	₱1,610,058	₱65,856,213

With the foregoing level of allowance for impairment and 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 non-collection or nonrealization of receivables and other risk assets.

In 2018, all financial assets of the Group is Stage 1 and there were no transfers between stages during the year.

A reconciliation of the allowance for credit losses on loans and receivables by class follows:

	Consolidated		
	2018		
	Corporate lending	**Accounts receivable**	**Total**
At January 1, 2018	**₱28,087,403**	**₱75,190,847**	**₱103,278,250**
Provision for (recovery from) credit losses	**–**	**(24,504,500)**	**(24,504,500)**
Others – loans and receivables	**–**	**(49,828,997)**	**(49,828,997)**
At December 31, 2018	**₱28,087,403**	**₱856,350**	**₱28,943,753**

	Parent Company		
	2018		
	Corporate lending	**Accounts receivable**	**Total**
At January 1, 2018	**₱28,087,403**	**₱44,195,039**	**₱72,282,442**
Others – loans and receivables	**–**	**44,195,039**	**(44,195,039)**
	₱28,087,403	**₱44,195,039**	**₱28,087,403**

	Consolidated		
	2017		
	Corporate lending	Accounts receivable	Total
At January 1, 2017	₱28,091,653	₱74,928,400	₱103,020,053
Provision for (recovery from) credit losses	(4,250)	262,447	258,197
At December 31, 2017	₱28,087,403	₱75,190,847	₱103,278,250
Individual impairment	₱–	₱75,190,847	₱75,190,847
Collective impairment	28,087,403	–	28,087,403
	₱28,087,403	₱75,190,847	₱103,278,250
Gross amount of loans and receivables individually determined to be impaired	₱–	₱75,190,847	₱75,190,847

	Parent Company		
	2017		
	Corporate lending	Accounts receivable	Total
At January 1, 2017	₱28,091,653	₱44,190,789	₱72,282,442
Provision for (recovery from) credit losses	(4,250)	4,250	–
At December 31, 2017	₱28,087,403	₱44,195,039	₱72,282,442
Individual impairment	₱–	₱44,195,039	₱44,195,039
Collective impairment	28,087,403	–	28,087,403
	₱28,087,403	₱44,195,039	₱72,282,442
Gross amount of loans and receivables individually determined to be impaired	₱–	₱44,195,039	₱44,195,039

In 2018, all financial assets of the Group is Stage 1 and there were no transfers between stages during the year.

Movements in the allowance for impairment losses on investments in associates, investment properties and other assets in 2018 is nil and in 2017 as follows:

	Consolidated and Parent Company			
	Investments in associates	Investment properties	Other assets	Total
At January 1, 2017	₱–	₱27,110,922	₱8,446,506	₱35,557,428
Recovery from credit losses	–	(253,500)	–	(253,500)
At December 31, 2017	₱–	₱26,857,422	₱8,446,506	₱35,303,928

14. **Bills Payable**

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Deposit substitutes:				
Promissory notes issued	**₱14,196,502,558**	₱18,633,399,029	**₱14,196,502,558**	₱18,830,684,664
Repurchase Agreement	**–**	1,832,343,520	**–**	1,832,343,520
Overnight Borrowing – BSP	**1,500,000,000**	3,000,000,000	**1,500,000,000**	3,000,000,000
Borrowings from other banks (Note 27)	**525,800,000**	748,950,000	**525,800,000**	748,950,000
Interbank call loans	**–**	1,500,000,000	**–**	1,500,000,000
	₱16,222,302,558	₱25,714,692,549	**₱16,222,302,558**	₱25,911,978,184

Deposit substitutes have maturities of 15-365 days. Peso-denominated deposit substitutes bear annual interest rates ranging from 0.1% to 6.8% in 2018, from 0.1% to 3.3% in 2017 and from 0.1% to 2.9% in 2016. US dollar-denominated deposit substitutes bear annual interest rates ranging from 0.6% to 1.8%, from 0.6% to 1.6% and from 0.8% to 1.4% in 2018, 2017 and 2016, respectively.

Borrowings from other banks represent US dollar-, Euro- and peso-denominated loans. Outstanding borrowings from other banks denominated in US dollar amounted to ₱525.8 million and ₱749.0 million as of December 31, 2018 and 2017, respectively, bearing annual interest rates ranging from 2.4% to 3.5%, from 1.7% to 2.5% and from 1.5% to 1.9% in 2018, 2017 and 2016 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:

	2018		2017	
	Pledged securities	**Borrowings From other banks**	Pledged securities	Borrowings From other Banks
Investment securities at amortized cost (Notes 7 and 31)	**₱740,157,898**	**₱525,800,000**	₱–	₱–
HTM investments (Notes 7 and 31)	**–**	**–**	845,000,000	748,950,000

Interbank call loans are short-term borrowings that have terms of 1-5 days and bear annual interests ranging from 2.5% to 5.0% and from 2.5% to 3.5% in 2018 and 2017, respectively.

Interest expense on bills payable of the Group and the Parent Company follow (Note 21):

	Consolidated		
	2018	2017	2016
Deposit substitutes:			
Promissory notes issued	**₱499,794,988**	₱364,274,912	₱330,777,682
Repurchase agreements	**356,289**	3,848,296	–
Interbank call loans	**70,390,859**	10,317,569	42,188
Borrowings from other banks	**17,949,077**	20,637,513	17,048,665
Overnight Borrowing - BSP	**1,458,333**	1,652,778	–
	₱589,949,546	₱400,731,068	₱347,868,535

	Parent Company		
	2018	2017	2016
Deposit substitutes:			
Promissory notes issued	**₱500,246,231**	₱364,943,659	₱331,457,042
Repurchase agreements	**356,289**	3,848,296	–
Interbank call loans	**70,390,859**	10,317,569	42,188
Borrowings from other banks	**17,949,077**	20,610,181	16,220,448
Overnight- BSP	**1,458,333**	1,652,778	–
	₱590,400,789	₱401,372,483	₱347,719,678

The Parent Company's deposit substitutes are subject to reserve requirement of 18.0%. As of December 31, 2018 and 2017, the Parent Company's available reserves on these deposits as reported to the BSP amounted to ₱3.5 billion and ₱4.4 billion, respectively, booked under 'Due from BSP' account in the statements of financial position.

As of December 31, 2018 and 2017, 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	
	2018	2017	**2018**	2017
Financial liabilities:				
Accrued interest payable	**₱87,607,028**	₱64,772,708	**₱87,821,695**	₱65,375,542
Accrued other expenses payable	**25,667,079**	30,011,801	**8,780,432**	9,179,469
Accrued fees payable	**22,306,354**	22,380,162	**5,885,131**	5,990,758
Accrued rent payable	**2,109,459**	2,797,221	**1,233,616**	1,233,616
	137,689,920	119,961,892	**103,720,874**	81,779,385
Nonfinancial liabilities:				
Accrued taxes and licenses	**12,503,982**	15,248,731	**12,477,774**	15,232,276
Retirement liability (Note 22)	**2,992,247**	12,355,465	**–**	–
	15,496,229	27,604,196	**12,477,774**	15,232,276
	₱153,186,149	₱147,566,088	**₱116,198,648**	₱97,011,661

The following table shows the breakdown of accrued taxes, interest and other expenses to related parties as of December 31, 2018 and 2017 for the Group and the Parent Company:

	2018	2017
Accrued interest payable	**₱2,227,843**	₱1,679,274
Accrued other expenses payable	**1,477,825**	6,870,714
	₱3,705,668	₱8,549,989

16. Bonds Payable

Details of this account follow:

	Consolidated	
	2018	2017
Bonds payable	**₱2,920,000,000**	₱2,920,000,000
Unamortized deferred finance charges	**(3,042,250)**	(10,050,107)
	₱2,916,957,750	₱2,909,949,893

	Parent Company	
	2018	2017
Bonds payable	**₱3,000,000,000**	₱3,000,000,000
Unamortized deferred finance charges	**(2,866,136)**	(7,419,326)
	₱2,997,133,864	₱2,992,580,674

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 boLhynds have a tenor of five years and three months at an interest rate of 5.50% which matured on November 10, 2017 (Five Year Bonds), and
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, 2018 and 2017, the carrying amount of the government securities assigned as collateral for the ₱3.0 billion and ₱7.0 billion bonds, respectively, follows:

	2018	2017
Investment securities at amortized cost (Note 7)	**₱3,897,483,308**	₱–
AFS investments (Note 7)	**–**	858,291,779
HTM investments (Note 7)	**–**	2,599,602,264
	₱3,897,483,308	₱3,457,894,043

As of December 31, 2018 and 2017, the Parent Company had complied with the terms of the issue.

In 2018, 2017 and 2016, the amount of interest expense recognized on the Bonds amounted to ₱172.8 million, ₱357.7 million and ₱380.5 million, respectively, for the Group, and ₱177.1 million, ₱372.6 million and ₱404.3 million, respectively, for the Parent Company, which includes amortization of premium and deferred finance charges amounting to ₱7.0 million, ₱14.9 million and ₱10.5 million, respectively, for the Group and ₱4.6 million, ₱11.4 million and ₱9.5 million, respectively, for the Parent Company.

Fixed Rate Corporate Bonds Due 2017
On November 25, 2011, the Parent Company issued fixed rate corporate bonds (the Bonds) amounting to ₱5.0 billion with fixed interest rate of 5.7% per annum computed based on 30/360 days, payable every quarter starting February 25, 2012. These bonds have matured last February 25, 2017.

In 2017 and 2016, the amount of interest expense recognized on the Bonds amounted to ₱42.2 million and ₱280.8 million, respectively, for the Group, and ₱42.2 million and ₱282.5 million, respectively, for the Parent Company, net of amortization of premium and deferred finance charges amounting to ₱0.3 million and ₱1.9 million, respectively, for the Group, and ₱0.4 million and ₱1.3 million, respectively, for the Parent Company.

The Parent Company's bonds payable are subject to reserve requirement of 6.0%.

As of December 31, 2018 and 2017, the Parent Company's available reserves on the bonds payable amounted to ₱180.0 million booked under 'Due from BSP' account in the statements of financial position.

As of December 31, 2018 and 2017, the Parent Company is in compliance with the regulations on reserve requirements.

17. Puttable Instruments of Mutual Fund Subsidiaries Classified as Liability and Other Liabilities

The Parent Company has mutual fund subsidiaries that issue shares of stock that are redeemable by the holders at the net asset value per unit of the mutual funds. 'Puttable instruments of mutual fund subsidiaries classified as liability' carried at fair value through profit or loss represents the ownership interest of other shareholders outside the Group in these mutual fund subsidiaries. As of December 31, 2018 and 2017, the balances amounted to ₱6,735.2 million and ₱8,002.0 million, respectively. The changes in the net asset value per unit of the puttable instruments recognized in 'Trading and securities gain (loss)' in the statement of income amounted to ₱684.8 million, (₱1,260.7 million) and ₱431.2 million in 2018, 2017 and 2016, respectively.

Other liabilities consist of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial liabilities:				
Dividends payable	**₱90,391,828**	₱90,666,163	**₱90,391,828**	₱90,666,163
Payables for securities purchased	**–**	74,327,656	**–**	–
Premiums payable	**907,714**	814,837	**511,279**	461,985
Subscriptions payable	**–**	–	**9,375,000**	9,375,000
Miscellaneous	**45,179,781**	63,259,788	**32,764,839**	62,945,977
	136,479,323	229,068,444	**133,042,946**	163,449,125
Nonfinancial liabilities:				
Withholding taxes payable	**₱28,127,190**	₱25,999,065	**₱22,821,640**	₱18,984,754
Other deferred credits	**4,270,833**	4,270,834	**4,270,833**	4,270,833
Miscellaneous	**186,579,826**	211,028,681	**146,058,748**	122,811,508
	218,977,849	241,298,580	**173,150,748**	146,067,095
	₱355,457,172	₱470,367,024	**₱306,193,694**	₱309,516,220

Miscellaneous liabilities consist of provisions for other probable losses and other government related payables.

18. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Group and of the Parent Company by expected maturity and settlement dates as of December 31, 2018 and 2017:

	Consolidated			Parent Company		
	2018			2018		
	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	**₱2,935,131,821**	**₱–**	**₱2,935,131,821**	**₱156,588,928**	**₱–**	**₱156,588,928**
Due from BSP	**3,489,997,884**	**–**	**3,489,997,884**	**3,489,997,884**	**–**	**3,489,997,884**
Investment securities at						
FVTPL	**9,559,054,436**	**–**	**9,559,054,436**	**1,486,794,195**	**–**	**1,486,794,195**
FVOCI	**–**	**664,510,794**	**664,510,794**	**–**	**505,352,683**	**505,352,683**
Amortized cost	**1,545,443,714**	**15,488,483,991**	**17,033,927,705**	**1,435,868,565**	**15,039,415,146**	**16,475,283,711**
Loans and receivables - at gross (Note 8)	**542,914,417**	**1,073,606,170**	**1,616,520,587**	**248,964,164**	**918,380,091**	**1,167,344,255**
	18,072,542,272	**17,226,600,955**	**35,299,143,227**	**6,818,213,736**	**16,463,147,920**	**23,281,361,656**
Nonfinancial Assets						
Property and equipment	**–**	**106,196,100**	**106,196,100**	**–**	**67,726,444**	**67,726,444**
Investments in subsidiaries, associates and joint venture - at gross of allowance for impairment (Note 10)	**–**	**6,582,805,970**	**6,582,805,970**	**–**	**10,394,461,153**	**10,394,461,153**
Investment properties - at gross of allowance for impairment (Note 11)	**–**	**232,760,309**	**232,760,309**	**–**	**232,760,309**	**232,760,309**
Deferred tax assets	**–**	**34,799,806**	**34,799,806**	**–**	**10,613,537**	**10,613,537**
Other assets	**551,670,359**	**456,095,050**	**1,007,765,409**	**436,174,448**	**358,713,591**	**794,888,039**
	551,670,359	**7,412,657,235**	**7,964,327,594**	**436,174,448**	**11,064,275,034**	**11,500,449,482**
Allowance for impairment and credit losses (Note 13)	**–**	**(64,247,681)**	**(64,247,681)**	**–**	**(63,391,331)**	**(63,391,331)**
	₱18,624,212,631	**₱24,575,010,509**	**₱43,199,223,140**	**₱7,254,388,184**	**₱27,464,031,623**	**₱34,718,419,807**
Financial Liabilities						
Bills payable	**₱16,222,302,558**	**₱–**	**₱16,222,302,558**	**₱16,222,302,558**	**₱–**	**₱16,222,302,558**
Accounts payable	**1,858,785,376**	**–**	**1,858,785,376**	**265,510,103**	**–**	**265,510,103**
Accrued interest and other expenses payable (Note 15)	**137,689,920**	**–**	**137,689,920**	**103,720,874**	**–**	**103,720,874**
Bonds payable	**2,916,957,750**	**–**	**2,916,957,750**	**2,997,133,864**	**–**	**2,997,133,864**
Puttable instruments of mutual fund subsidiaries classified as liability (Note 17)	**6,779,145,036**	**–**	**6,779,145,036**	**–**	**–**	**–**
Other liabilities (Note 17)	**104,535,544**	**–**	**104,535,544**	**100,278,107**	**–**	**100,278,107**
	28,019,416,184	**–**	**28,019,416,184**	**19,688,945,506**	**–**	**19,688,945,506**
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	**12,503,982**	**2,992,247**	**15,496,229**	**12,477,774**	**–**	**12,477,774**
Income taxes payable	**14,342,538**	**–**	**14,342,538**	**8,397,014**	**–**	**8,397,014**
Deferred tax liabilities	**–**	**5,178,369**	**5,178,369**	**–**	**–**	**–**
Other liabilities (Note 17)	**250,921,628**	**–**	**250,921,628**	**205,915,587**	**–**	**205,915,587**
	277,768,148	**8,170,616**	**285,938,764**	**226,790,375**	**–**	**226,790,375**
	₱28,297,184,332	**₱8,170,616**	**₱28,305,354,948**	**₱19,915,735,881**	**₱–**	**₱19,915,735,881**

	Consolidated			Parent Company		
	2017			2017		
	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	₱5,320,741,050	₱–	₱5,320,741,050	₱2,233,603,832	₱–	₱2,233,603,832
Due from BSP	4,399,997,307	–	4,399,997,307	4,399,997,307	–	4,399,997,307
Interbank loans receivable	500,000,000	–	500,000,000	500,000,000	–	500,000,000
Investment securities at FVTPL	10,605,469,783	–	10,605,469,783	2,141,780,898	–	2,141,780,898
AFS	–	8,187,370,398	8,187,370,398	–	7,972,946,034	7,972,946,034
HTM investments	3,965,337,936	10,284,777,010	14,250,114,946	3,940,418,443	9,441,089,912	13,381,508,355
Loans and receivables - at gross (Note 8)	1,060,693,569	2,066,824,153	3,127,517,722	370,858,763	1,861,087,360	2,231,946,123
	25,852,239,645	20,538,971,561	46,391,211,206	13,586,659,243	19,275,123,306	32,861,782,549
Nonfinancial Assets						
Property and equipment	–	95,354,274	95,354,274	–	56,334,056	56,334,056
Investments in subsidiaries, associates and joint venture - at gross of allowance for impairment (Note 10)	–	5,847,233,845	5,847,233,845	–	9,717,133,174	9,717,133,174
Investment properties - at gross of allowance for impairment (Note 11)	–	341,154,569	341,154,569	–	341,154,569	341,154,569
Deferred tax assets	–	50,269,782	50,269,782	–	24,694,682	24,694,682
Other assets	493,348,533	517,154,095	1,010,502,628	374,829,890	401,716,326	776,546,216
	493,348,533	6,851,166,565	7,344,515,098	374,829,890	10,541,032,807	10,915,862,697
Allowance for impairment and credit losses (Note 13)	–	(138,582,178)	(138,582,178)	–	(107,586,370)	(107,586,370)
	₱26,345,588,178	₱27,251,555,948	₱53,597,144,126	₱13,961,489,133	₱29,708,569,743	₱43,670,058,876
Financial Liabilities						
Bills payable	₱25,714,692,549	₱–	₱25,714,692,549	₱25,911,978,184	₱–	₱25,911,978,184
Accounts payable	2,195,069,559	–	2,195,069,559	346,182,703	–	346,182,703
Accrued interest and other expenses payable (Note 15)	119,961,892	–	119,961,892	81,779,385	–	81,779,385
Bonds payable	–	2,909,949,893	2,909,949,893	–	2,992,580,674	2,992,580,674
Puttable instruments of mutual fund subsidiaries classified as liability (Note 17)	8,002,041,695	–	8,002,041,695	–	–	–
Other liabilities (Note 17)	229,068,444	–	229,068,444	163,449,125	–	163,449,125
	36,260,834,139	2,909,949,893	39,170,784,032	26,503,389,397	2,992,580,674	29,495,970,071
Nonfinancial Liabilities						
Accrued taxes and other expenses payable (Note 15)	15,248,731	12,355,465	27,604,196	15,232,276	–	15,232,276
Income taxes payable	60,699,885	–	60,699,885	16,865,628	–	16,865,628
Deferred tax liabilities	–	200,086	200,086	–	–	–
Other liabilities (Note 17)	241,298,580	–	241,298,580	146,067,095	–	146,067,095
	317,247,196	12,555,551	329,802,747	178,164,999	–	178,164,999
	₱36,578,081,335	₱2,922,505,444	₱39,500,586,779	₱26,281,554,396	₱2,996,851,507	₱29,674,135,070

19. Equity

Details of the Parent Company's capital stock as of December 31, 2018 and 2017 follow:

	2018		2017	
	Shares	**Amount**	Shares	Amount
Common stock - ₱10 par value				
Authorized - 800,000,000 shares				
Issued - 420,869,240 shares				
Issued and paid-up capital	**420,869,240**	**₱4,208,692,400**	420,869,240	₱4,208,692,400
Less: treasury shares	**48,338,904**	**2,659,550,871**	48,334,224	2,659,374,435
Total issued and outstanding at end of year	**372,530,336**	**₱1,549,141,529**	372,535,016	₱1,549,317,965

As of December 31, 2018 and 2017, there are 1,381 shareholders of the Parent Company's common shares.

Acquisition of Treasury Shares

In 2018, 2017 and 2016, the Parent Company bought back 4,680, 9,716 and 36,420, respectively, of its own shares for a total cost of ₱0.2 million, ₱0.9 million and ₱3.2 million, respectively.

Dividend Declaration

Details of the Parent Company's dividend distribution follow:

	Dividend			
Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
May 25, 2017	₱7.65	₱2,849,965,777	June 9, 2017	June 23, 2017
December 19, 2016	₱8.06	₱3,002,710,540	December 29, 2016	January 12, 2017

Details of FAMI's dividend distribution follow:

	Dividend			
Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
December 12, 2018	₱18.00	₱27,000,000	December 14, 2018	December 21, 2018

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, 2018 and 2017, respectively, follow (amounts in millions):

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
CET 1 capital	**₱17,306.2**	₱16,659.4	**₱17,306.2**	₱16,659.4
Less: Required deductions	**13,067.7**	13,855.5	**13,499.1**	14,150.1
Net Tier 1 capital	**4,238.5**	2,803.9	**3,807.1**	2,509.3
Tier 2 capital	**41.6**	57.6	**32.9**	56.3
Total qualifying capital	**4,280.1**	2,861.5	**3,840.0**	2,565.6
Credit risk-weighted assets	**4,146.8**	6,642.5	**3,272.4**	5,629.9
Market risk-weighted assets	**418.3**	714.0	**438.6**	689.2
Operational risk-weighted assets	**2,476.2**	2,625.1	**2,020.2**	2,223.4
Total risk-weighted assets	**₱7,041.3**	₱9,981.6	**₱5,731.2**	₱8,542.5
CET 1 ratio*	**60.2%**	28.1%	**66.4%**	29.4%
*Capital conservation buffer	**54.2%**	22.1%	**60.4%**	23.4%
Tier 1 capital ratio	**60.2%**	28.1%	**66.4%**	29.4%
Total capital ratio	**60.8%**	28.7%	**67.0%**	30.0%

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, 2018 and 2017, the Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products.

Standardized credit risk weights were used in the credit assessment of asset exposures. Credit risk rating assessments from Moodys, Fitch and PhilRatings are applied for cash on hand, while assessment from PhilRatings are applied for the investment exposures. The eligible credit risk mitigants are investments with guarantees from the Government.

Operational RWA are computed using the Basic Indicator Approach.

The Group and its individual regulated operations have complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that the appropriate level and quality of capital is maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory edicts. The Group follows the Metrobank Group's ICAAP framework and submits the result of its assessment to the Ultimate Parent Company. The BSP requires submission of ICAAP documents on a group-wide basis every January 31. The Group, through the Ultimate Parent Company, has complied with the requirement.

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

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following the BSP guidelines.

In the consolidated financial statements, a portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates amounting to ₱4.5 billion and ₱4.2 billion as of December 31, 2018 and 2017, 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 ₱6.3 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		
	2018	2017	2016	**2018**	2017	2016
Amortized Cost	**₱828,119,180**	₱–	₱–	**₱799,419,816**	₱–	₱–
Financial assets at FVTPL	**138,768,940**	115,555,986	127,898,001	**55,817,656**	77,717,258	84,923,521
Loans and receivables	**85,393,708**	197,986,340	241,538,670	**85,091,107**	178,041,850	223,016,827
Deposits with banks	**68,556,848**	37,088,074	46,306,127	**62,884**	200,521	94,928
IBLR and SPURA	**4,058,232**	46,461,156	106,982,383	**4,058,232**	46,461,156	106,982,383
FVOCI	**3,543,431**	–	–	**–**	–	–
Due from BSP	**78,416**	13,931,805	102,719,791	**78,416**	13,931,805	102,719,791
HTM investments	**–**	682,788,434	762,183,240	**–**	650,826,799	744,382,122
AFS investments	**–**	231,883,025	219,456,065	**–**	207,479,989	185,333,147
	₱1,122,518,755	₱1,325,694,820	₱1,607,084,277	**₱944,528,114**	₱1,174,659,378	₱1,447,452,719

21. Interest Expense

This account consists of interest expense on:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Deposit substitutes (Note 14):						
Promissory notes issued	**₱499,794,988**	₱364,274,912	₱330,777,682	**₱500,246,231**	₱364,943,659	₱331,457,042
Repurchase agreements	**356,289**	3,848,296	–	**356,289**	3,848,296	–
Bonds payable (Note 16)	**172,757,137**	399,945,378	661,334,750	**177,053,190**	414,756,950	686,774,317
Interbank call loans (Note 14)	**70,390,859**	10,317,569	42,188	**70,390,859**	10,317,569	42,188
Borrowings from other banks (Note 14)	**17,949,077**	20,637,513	17,048,665	**17,949,077**	20,610,181	16,220,448
Borrowings from BSP	**1,458,333**	1,652,778	–	**1,458,333**	1,652,778	–
Others	**5,972,778**	–	–	**5,760,938**	–	–
	₱768,679,461	₱800,676,446	₱1,009,203,285	**₱773,214,917**	₱816,129,433	₱1,034,493,995

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, 2018				
	Actuarial Assumptions				
	Retirement Age	**Average Remaining Working Life**	**Turnover Rate**	**Salary Rate Increase**	**Discount Rate**
Parent Company	**55**	**7**	**10.4%**	**5.0%**	**7.2%**
FMSBC	**55**	**7**	**12.4%**	**5.0%**	**7.3%**
FAMI	**55**	**7**	**14.6%**	**5.0%**	**7.3%**

	December 31, 2017				
	Actuarial Assumptions				
	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	55	7	10.7%	5.0%	5.6%
FMSBC	55	7	9.1%	5.0%	5.7%
FAMI	55	9	9.8%	5.0%	5.8%

	December 31, 2016				
	Actuarial Assumptions				
	Retirement Age	Average Remaining Working Life	Turnover Rate	Salary Rate Increase	Discount Rate
Parent Company	55	9	7.6%	5.0%	5.1%
FMSBC	55	10	2.6%	5.0%	5.3%
FAMI	55	9	9.8%	5.0%	5.5%

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, 2018	**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, 2018**
Present value of defined benefit obligation	**₱252,572,155**	**₱28,421,020**	**₱313,668**	**₱13,292,594**	**₱42,027,282**	**(₱17,548,698)**	**₱–**	**(₱3,971,987)**	**(₱22,916,036)**	**(₱502,589)**	**(₱27,390,612)**	**(₱5,317,979)**	**₱244,342,148**
Fair value of plan assets	**(320,194,421)**	**–**	**–**	**(17,277,014)**	**(17,277,014)**	**21,757,871**	**37,470,162**	**–**	**–**	**–**	**37,470,162**	**(6,632,696)**	**(284,876,098)**
Net pension asset	**(₱67,622,266)**	**₱28,421,020**	**₱313,668**	**(₱3,984,420)**	**₱24,750,268**	**₱4,209,173**	**₱37,470,162**	**(₱3,971,987)**	**(₱22,916,036)**	**(₱502,589)**	**₱10,079,550**	**(₱11,950,675)**	**(₱40,533,950)**

**The Parent Company and FAMI are in a net pension asset position amounting to ₱40.0 million and ₱3.5 million, respectively and presented under 'Other Assets' (Note 12). FMSBC is in a net liability position amounting to ₱3.0 million and presented under 'Accrued Taxes, Interest and Other Expenses' (Note 15).*

	Parent Company												
		Net benefit cost					**Remeasurements in other comprehensive income**						
	January 1, 2018	**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, 2018**
Present value of defined benefit obligation	**₱195,065,284**	**₱21,641,744**	**₱10,737,340**	**₱–**	**₱32,379,084**	**(₱2,532,685)**	**₱–**	**₱2,759,256**	**(₱18,808,952)**	**₱1,327,377**	**(₱ 14,722,319)**	**₱–**	**₱210,189,364**
Fair value of plan assets	**(269,365,279)**	**–**	**(14,913,000)**	**–**	**(14,913,000)**	**2,532,685**	**31,603,761**	**–**	**–**	**–**	**31,603,761**	**–**	**(250,141,833)**
Net pension asset (Note 12)	**(₱74,299,995)**	**₱21,641,744**	**(₱4,175,660)**	**₱–**	**₱17,466,084**	**₱–**	**₱31,603,761**	**₱2,759,256**	**(₱18,808,952)**	**₱1,327,377**	**₱16,881,442**	**₱–**	**(₱39,952,469)**

Consolidated

	January 1, 2017	Net benefit cost: Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Remeasurements in other comprehensive income: 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, 2017
Present value of defined benefit obligation	₱275,980,807	₱37,260,251	₱700,664	₱13,518,023	₱51,478,938	(₱20,662,912)	₱–	(₱36,685,839)	(₱8,125,586)	(₱9,413,253)	(₱54,224,678)	₱–	₱252,572,155
Fair value of plan assets	(306,526,436)	–	–	(15,236,030)	(15,236,030)	₱20,662,912	(7,331,219)	–	–	–	(7,331,219)	(11,763,648)	(320,194,421)
Net pension asset	(₱30,545,629)	₱37,260,251	₱700,664	(₱1,718,007)	₱36,242,908	₱–	(₱7,331,219)	(₱36,685,839)	(₱8,125,586))	(₱9,413,253)	(₱61,555,897)	(₱11,763,648)	(₱67,622,266)

The Parent Company and FAMI are in a net pension asset position amounting to ₱40.0 million and ₱3.6 million, respectively and presented under 'Other Assets' (Note 12). FMSBC is in a net liability position amounting to ₱3.0 million and presented under 'Accrued Taxes, Interest and Other Expenses' (Note 15).

Parent Company

	January 1, 2017	Net benefit cost: Current service cost	Net interest	Acquired/ transferred obligation	Subtotal	Benefits paid	Remeasurements in other comprehensive income: 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, 2017
Present value of defined benefit obligation	₱226,533,320	₱30,922,469	₱10,951,681	₱–	₱41,874,150	(₱19,554,112)	₱–	(₱37,819,609)	(₱6,663,355)	(₱9,305,110)	(₱53,788,074)	₱–	₱195,065,284
Fair value of plan assets	(266,341,033)	–	(12,985,855)	–	(12,985,855)	(19,554,112)	(4,476,030)	–	–	–	(4,476,030)	(5,116,473)	(269,365,279)
Net pension asset (Note 12)	(₱39,807,713)	₱30,922,469	(₱2,034,174)	₱–	₱28,888,295	₱–	(₱4,476,030)	(₱37,819,609)	(₱6,663,355)	(₱9,305,110)	(₱58,264,104)	(₱5,116,473)	(₱74,299,995)

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair values of plan assets by each class as at the end of the reporting periods are as follows:

	Consolidated 2018	2017
Cash and cash equivalents	**₱13,350,484**	₱15,930,793
Equity instruments		
Services	**9,500,000**	10,854,098
Industrial	**148,425**	5,560,300
Holding firms	**–**	79,407,861
Real estate	**–**	8,489,147
Others	**–**	8,393,040
Debt instruments		
Government securities	**130,517,206**	139,451,379
Below AAA and not rated private debt securities	**32,212,549**	34,407,112
Investment in mutual funds/UITF	**89,398,239**	16,247,972
Loans and receivables		
Interest and other receivables	**2,385,600**	1,876,026
Other assets	**7,718,720**	3,460
	285,231,223	320,621,188
Less: Accrued trust fee payable	**355,125**	424,508
Other payables	**–**	2,259
Fair value of plan assets	**₱284,876,098**	₱320,194,421

	Parent Company 2018	2017
Cash and cash equivalents	**₱9,710,446**	₱9,503,929
Equity instruments		
Holding firms	**–**	79,407,861
Services	**9,500,000**	10,830,000
Industrial	**148,425**	2,324,858
Real estate	**–**	1,151,000
Others	**–**	2,023,703
Debt instruments		
Government securities	**123,131,312**	123,143,046
Below AAA and not rated private debt securities	**29,313,957**	31,382,155
Investment in mutual funds/UITF	**75,337,390**	8,417,476
Loans and receivables		
Interest and other receivables	**2,300,154**	1,678,143
Other assets	**986,241**	3,460
	250,427,925	269,865,631
Less: Accrued trust fee payable	**284,567**	498,093
Other payables	**1,525**	2,259
Fair value of plan assets	**₱250,141,833**	₱269,365,279

As of December 31, 2018 and 2017, equity securities included in the plan assets include shares from the Ultimate Parent Company and other related parties amounting to ₱80.9 million and ₱88.9 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, 2018			
	Consolidated		Parent Company	
	Possible fluctuations	**Increase (decrease)**	**Possible fluctuations**	**Increase (decrease)**
Discount rates	**+1.0%**	**(₱13,113,194)**	**+1.0%**	**(₱10,786,580)**
	-1.0%	**14,521,884**	**-1.0%**	**11,905,665**
Turnover rate	**+2.0%**	**(3,571,657)**	**+2.0%**	**(2,798,758)**
	-2.0%	**3,850,185**	**-2.0%**	**3,016,736**
Future salary increase rate	**+1.0%**	**16,319,155**	**+1.0%**	**13,423,684**
	-1.0%	**(14,958,241)**	**-1.0%**	**(12,347,691)**

The Group and the Parent Company expect to contribute ₱22.1 million and ₱16.0 million, respectively, to its defined benefit pension plan in 2019.

The average duration of the defined benefit retirement liability at the end of the reporting period ranges from 10.1 years to 15.9 years for the Group and 10.1 years for the Parent Company.

23. Miscellaneous Income (Loss)

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Miscellaneous income						
Sales load and redemption fees	**₱3,276,447**	₱3,090,899	₱3,923,736	**₱–**	₱–	₱–
Rental income (Note 24)	**2,149,543**	4,638,480	11,305,804	**2,149,543**	4,638,480	11,305,804
Trust fee income	**–**	–	2,571,490	**–**	–	16,210,570
Gain on return of investments (Note 10)	**–**	–	71,151,471	**–**	–	71,151,471
Others	**75,790,887**	33,024,038	367,627,828	**56,322,217**	10,456,224	365,924,147
	81,216,877	40,753,417	456,580,329	**58,471,760**	15,094,704	464,591,992
Miscellaneous loss						
Loss from sale/redemption of unquoted commercial papers (Note 8)	**–**	(1,330,274)	**–**	**–**	(1,660,140)	–
	–	(1,330,274)	–	**–**	(1,660,140)	–
	₱81,216,877	₱39,423,143	₱456,580,329	**₱58,471,760**	₱13,434,564	₱464,591,992

In 2018, Others include break funding charges amounting to ₱53.7 million from the pretermination of certain loan with the Parent Company, and income from previous years' contributions to Clearing and Trade Guarantee Fund (CTGF) amounting to ₱11.73 million. On March 13, 2018, the Securities and Exchange Commission (SEC) resolved to approve the Securities Clearing Corporation of the Philippines (SCCP)'s proposal to make the clearing members' contributions to CTGF refundable to clearing members upon cessation of their business and/or termination of their membership with SCCP, under certain conditions. Accordingly, FMSBC recognized as other assets and other income the CTGF contributions paid in prior years.

Others include training contract penalty and reversal of long outstanding account payables totaling ₱6.4 million in 2017, and taxes reimbursed by GT Capital amounting to ₱361.5 million related to the sale of investment in Global Business Power Corporation in 2016.

24. Leases

Operating Lease Commitments - Group as Lessee

The Subsidiaries lease the premises they occupy. Lease contracts are for periods ranging from two to five years and are renewable upon mutual agreement of parties. Annual lease payments are generally fixed. The Parent Company also leased its premises until it transferred to its own office unit in October 2017. In 2018, 2017 and 2016, rent expense recognized under 'Rent, light and water' in the statements of income amounted to ₱53.1 million, ₱59.7 million and ₱71.5 million, respectively, for the Group, and ₱31.6 million, ₱39.4 million and ₱52.9 million, respectively, for the Parent Company.

Future minimum rentals payable under non-cancellable operating leases of the Group as of December 31, 2018 and 2017 follow:

	2018	2017
Within one year	**₱42,548,835**	₱16,684,670
After one year but not more than five years	**91,436,383**	–
	₱133,985,218	₱16,684,670

25. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Professional fees	**₱70,333,074**	₱77,427,362	₱80,133,929	**₱45,509,655**	₱39,356,513	₱32,797,833
Advertising	**58,690,691**	42,610,292	18,572,553	**3,562,698**	5,629,747	3,739,159
Communication	**35,236,985**	34,416,129	40,484,909	**26,730,244**	28,072,939	28,548,953
Online trading fees	**30,509,888**	28,420,327	22,379,092	**–**	–	–
Transfer and exchange fees	**28,113,398**	39,870,007	36,534,967	**4,438,610**	10,434,035	13,272,430
Information technology expenses	**27,231,973**	20,550,762	16,133,238	**19,196,402**	13,393,637	12,253,491
Amortization of software cost (Note 12)	**24,487,935**	41,566,818	53,030,265	**19,876,262**	36,605,613	47,400,275
Insurance	**21,905,890**	18,210,656	16,897,766	**13,801,541**	11,896,156	11,681,485
Security, messengerial and janitorial	**17,375,865**	18,383,812	19,975,660	**12,350,932**	12,033,405	13,096,370
Transportation and travel	**16,127,220**	15,334,896	12,217,778	**7,115,399**	8,013,560	7,078,521
Referral and service fees	**16,662,179**	16,399,652	1,428,930	**–**	–	–
Supervision fees	**13,720,897**	13,393,637	17,969,779	**13,720,897**	13,393,637	17,969,779
Research and other technical cost	**12,600,302**	8,908,420	9,960,945	**1,760,000**	1,600,000	1,760,000
Membership dues	**8,954,666**	9,642,958	10,165,003	**7,400,457**	8,464,742	8,856,872
Fuel and lubricants	**7,013,532**	5,536,864	5,612,208	**7,013,532**	5,536,864	5,612,208
Repairs and maintenance	**6,138,044**	5,003,419	5,864,031	**3,478,003**	3,199,100	5,041,635
Stationery and supplies used	**5,185,711**	4,983,479	5,056,731	**1,523,113**	1,347,769	2,750,798
Bank service charges and other service fees	**4,592,518**	5,350,013	17,693,324	**1,548,210**	2,224,668	2,241,431
Custodianship, collateral agent, and maintenance fees	**4,567,293**	5,857,784	4,179,725	**1,271,308**	2,953,934	4,179,725
Litigation/asset-acquired expenses	**971,042**	712,586	813,976	**971,042**	712,586	813,976
Donations	**255,000**	300,000	230,000	**255,000**	300,000	230,000
Periodical and magazine subscriptions	**218,075**	240,383	227,802	**170,111**	174,182	194,771
Others	**32,228,826**	69,754,254	49,499,321	**21,112,821**	29,162,181	38,936,778
	₱443,121,004	₱482,874,510	₱445,061,932	**₱212,806,237**	₱234,783,693	₱258,456,490

Others consist mostly of expenses for company sponsorships, corporate social responsibility initiatives, corporate giveaways, maintenance and administrative costs.

26. Income and Other Taxes

The provision for income tax consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Current						
Final tax	**₱273,544,896**	₱325,956,231	₱625,912,685	**₱197,768,435**	₱244,721,577	₱541,106,616
Corporate	**16,602,695**	65,122,220	193,651,340	**8,499,319**	32,528,660	153,163,624
	290,147,591	391,078,451	819,564,025	**206,267,754**	277,250,237	694,270,240
Deferred	**21,782,343**	(4,485,510)	(203,693,743)	**19,145,578**	(4,034,621)	(202,327,433)
	₱311,929,934	₱386,592,941	₱615,870,282	**₱225,413,332**	₱273,215,616	₱491,942,807

Provision for (benefit from) deferred tax recognized in other comprehensive income (loss) follow:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Unrealized loss on FVOCI debt investments	**(₱2,049,559)**	₱–	₱–	**₱–**	₱–	₱–
Unrealized gain (loss) on AFS debt investments	**–**	3,353,231	₱5,150,335	**–**	₱11,249	(₱1,012,102)
Remeasurements of retirement liability	**3,383,643**	(18,975,548)	(2,537,973)	**5,064,433**	(17,479,231)	(101,518)
	₱1,334,084	(₱15,622,317)	₱2,612,362	**₱5,064,433**	(₱17,467,982)	(₱1,113,620)

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST).

Income taxes include regular corporate income tax (RCIT), as discussed below, as well as final withholding taxes paid at the rates of 20.0% of gross interest income from peso-denominated debt instruments and other deposit substitutes, 7.5% of gross interest income from foreign currency deposits in a depository bank under the expanded foreign currency deposit system and a final tax (5.0% for the first ₱100,000 and 10.0% on any amount in excess of ₱100,000) imposed upon the net capital gains realized during the taxable year from the disposition of shares of stock in a domestic corporation not traded in the stock exchange.

The RCIT rate shall be 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. The regulations also provide for an MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's and Parent Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

The components of the net deferred tax assets follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Deferred tax assets on:				
Unamortized past service cost	**₱17,772,444**	₱20,548,676	**₱14,378,824**	₱17,165,789
Allowance for impairment losses	**8,057,227**	29,741,959	**8,057,227**	29,741,960
Accrued expenses	**5,935,052**	3,867,063	**–**	–
Retirement liability	**3,706,639**	3,706,639	**–**	–
Unrealized foreign exchange loss	**–**	1,522,460	**–**	–
Unrealized loss on HFT investments	**163,226**	76,932	**163,226**	76,932
Others	**15,687,301**	15,780,951	**–**	–
	51,321,889	75,244,680	**22,599,277**	46,984,681
Deferred tax liabilities on:				
Retirement asset	**16,186,654**	22,289,999	**11,985,740**	22,289,999
Unrealized gain on AFS debt investments	**335,429**	335,429	**–**	–
Rent receivable	**–**	1,889,485	**–**	–
Unrealized gain on HFT investments	**–**	459,985	**–**	–
	16,522,083	24,974,898	**11,985,740**	22,289,999
	₱34,799,806	₱50,269,782	**₱10,613,537**	₱24,694,682

The components of the net deferred tax liabilities follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Deferred tax liabilities on:				
Unrealized foreign exchange gain	**₱5,178,369**	₱200,086	**₱–**	₱–

The Parent Company and certain subsidiaries did not set up deferred tax assets on the following:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Temporary differences on:				
NOLCO	**₱805,360,965**	₱852,126,496	**₱24,236,309**	₱–
Carryforward benefits of MCIT	**8,403,808**	8,287	**8,397,014**	–
Allowance for impairment losses	**463,677**	–	–	–
	₱814,228,450	₱852,134,783	**₱32,633,323**	₱–

The Group believes that it is not probable that these temporary differences will be realized before the three-year expiration.

As of December 31, 2018 and 2017, deferred tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries and associates, and the related equity in translation adjustment since such amounts are not taxable.

Details of NOLCO for the Group as of December 31, 2018 are as follows:

		Consolidated			
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2015	₱315,746,711	₱–	₱315,746,711	₱–	2018
2016	300,704,986	–	–	300,704,986	2019
2017	235,674,799	–	–	235,674,799	2020
2018	268,981,180	–	–	268,981,180	2021
	₱1,121,107,676	₱–	₱315,746,711	₱805,360,965	

Parent Company					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2018	₱24,236,309	₱–	₱–	₱24,236,309	2021

Details of MCIT for the Group as of December 31, 2018 are as follows:

Consolidated					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2015	₱2,753	₱–	₱2,753	₱–	2018
2016	2,702	–	–	2,702	2019
2017	2,832	–	–	2,832	2020
2018	8,398,274	–	–	8,398,274	2021
	₱8,406,561	₱–	₱2,753	₱8,403,808	

Parent Company					
Inception Year	Amount	Used	Expired	Balance	Expiry Year
2018	₱8,397,014	₱–	₱–	₱8,397,014	2021

A reconciliation between the statutory income tax and effective income tax follows:

	Consolidated			**Parent Company**		
	2018	2017	2016	**2018**	2017	2016
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	**(9.4)**	(26.2)	(23.2)	**(1.2)**	(13.2)	(18.7)
Equity in net earnings of subsidiaries and associates	**(36.5)**	(15.8)	(11.6)	**(31.7)**	(17.1)	(12.8)
Non-deductible expenses	**54.9**	28.5	51.9	**31.7**	23.9	45.5
Unrecognized deferred tax assets	**(0.7)**	8.0	(3.3)	**2.2**	(4.7)	(5.2)
Effective income tax rate	**38.3%**	24.5%	43.8%	**30.9%**	18.9%	38.8%

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, 2018 and 2017:

	2018	2017
Total outstanding DOSRI loans	**₱9,907,937**	₱9,183,753
Percent of DOSRI loans to total loans	**2.0%**	1.0%
Percent of unsecured DOSRI loans to total DOSRI	**49.3%**	47.9%
Percent of past due DOSRI loans to total DOSRI	**0.0%**	0.0%
Percent of non-performing 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 ₱0.8 million, ₱1.1 million and ₱1.9 million in 2018, 2017 and 2016, respectively.

The Group and the Parent Company settles their related party transactions in cash.

The following table provides the total amounts of transactions that have been entered into with related parties for the relevant financial year:

	Consolidated 2018						
	Deposits	**Withdrawals**	**Sale of securities**	**Purchase of securities**	**Availments of term loans**	**Issuance of promissory notes**	**Borrowings**
Ultimate Parent Company	**₱362,991,339,024**	**₱365,188,209,934**	**₱3,183,742,182**	**₱2,968,714,297**	**₱4,040,000,000**	**₱–**	**₱42,735,449,550**
Subsidiaries	**–**	**–**	**243,171,601**	**52,544,224**	**–**	**243,863,715**	**–**
Associates	**465,070,633**	**1,024,461,082**	**1,369,790,346**	**50,163,399**	**9,580,000,000**	**–**	**–**
Affiliates	**2,987,639,176**	**2,941,829,777**	**97,644,499**	**–**	**2,470,000,000**	**1,150,453,333**	**123,130,000,000**
	₱366,444,048,833	**₱369,154,500,793**	**₱4,894,348,628**	**₱3,071,421,920**	**₱16,090,000,000**	**₱1,394,317,048**	**₱165,865,449,550**

	Consolidated 2017						
	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱459,574,207,706	₱458,274,246,152	₱6,992,528,614	₱5,048,757,857	₱89,265,000,000	₱–	₱798,319,000
Subsidiaries	–	–	2,825,176,764	3,328,446,404	–	617,808,069	–
Associates	1,458,410,301	901,785,185	535,703,290	477,843,460	1,500,000,000	180,075,736	–
Affiliates	22,356,322,467	22,001,971,486	2,944,598,842	1,343,431,760	5,050,000,000	5,961,389,407	–
	₱483,388,940,474	₱481,178,002,823	₱13,298,007,510	₱10,198,479,481	₱95,815,000,000	₱6,759,273,212	₱798,319,000

	Parent Company 2018						
	Deposits	**Withdrawals**	**Sale of securities**	**Purchase of securities**	**Availments of term loans**	**Issuance of promissory notes**	**Borrowings**
Ultimate Parent Company	**₱168,090,492,986**	**₱169,853,578,546**	**₱3,183,742,182**	**₱2,968,714,297**	**₱4,040,000,000**	**₱–**	**₱42,735,449,550**
Subsidiaries	**–**	**–**	**243,171,601**	**52,544,224**	**–**	**243,863,715**	**–**
Associates	**–**	**–**	**1,369,790,346**	**50,163,399**	**9,480,000,000**	**–**	**–**
Affiliates	**–**	**–**	**97,644,499**	**–**	**2,420,000,000**	**1,150,453,333**	**123,130,000,000**
	₱168,090,492,986	**₱169,853,578,546**	**₱4,894,348,628**	**₱3,071,421,920**	**₱15,940,000,000**	**₱1,394,317,048**	**₱165,865,449,550**

	Parent Company 2017						
	Deposits	Withdrawals	Sale of securities	Purchase of securities	Availments of term loans	Issuance of promissory notes	Borrowings
Ultimate Parent Company	₱228,659,164,142	₱226,928,365,474	₱6,578,080,720	₱5,035,258,539	₱89,265,000,000	₱–	₱798,319,000
Subsidiaries	–	–	2,825,176,764	3,328,446,404	–	617,808,069	–
Associates	–	–	535,703,290	477,843,460	–	–	–
Affiliates	–	–	2,163,585,704	984,247,885	4,750,000,000	5,961,389,407	–
	₱228,659,164,142	₱226,928,365,474	₱12,102,546,478	₱9,825,796,288	₱94,015,000,000	₱6,579,197,476	₱798,319,000

The following are the balances of the Group's related party transactions as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 (amounts in thousands):

	As of and for the year ended December 31, 2018		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Ultimate Parent Company			
Cash and other items		**₱378,745**	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%
Investment securities at FVTPL		**66,784**	Investments in the Ultimate Parent Company's shares of stock
Loans and receivables		**1,662**	Various receivables arising from financial advisory fees, reimbursements and order placements, non-interest bearing rent receivable and accrued interest receivable from time deposit
Other assets		**238,633**	Escrow account
Bills payable		**525,800**	Short-term borrowings in foreign currency with interest ranging from 3.4% to 3.5%, unsecured and are settled in cash
Accounts payable and other liabilities		**1,805**	Mostly consist of accrued interest payable from Interbank loans payable in foreign currency and internal audit fees
Interest income	**₱2,765**		From interbank loans, savings, current and time deposits
Service charges, fees commissions	**275,830**		Underwriting and issue management fees
Dividend income	**589**		Dividends from stocks investments
Trading and securities loss	**(11,525)**		Realized and unrealized loss from investments in debt and equity securities
Interest expense	**22,108**		Interest expense from interbank borrowings
Rent, light and water	**416**		Rent and utilities expense
Miscellaneous expense	**10,619**		Internal audit fee for the current year, stock and transfer agency fee
Associates			
Loans and receivable		**101,021**	Loan and related accrued interest receivable with interest of 7.0% and term of 1.5 years
Other assets		**552**	Various prepaid expenses
Accounts payable and other liabilities		**1,004**	Various accounts payable for utilities
Interest income	**5,113**		From loans
Service charges, fees and commissions	**10,484**		Arranger's fee
Trading and securities gain	**(99)**		Realized gain from sale of investments in debt
Miscellaneous expense	**2,992**		Travelling and insurance expense

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2018		
Other Related Parties			
Cash and other cash items		**₱280,197**	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 6.3% per annum
Investment securities at FVTPL		**361,960**	Investments in shares of stocks of other related parties
Investment securities at Amortized Cost		**15,306**	Investments in private bonds issued by other related parties with interest rates ranging from 4.4% to 6.3%
Loans and receivables		**60,007**	Includes receivables from arranger and management fee, rent receivables and accrued interest receivable from loans; Fringe benefit loans to employees with terms ranging from 1.0 to 15.0 years and interest rates ranging from 8.0% to 10.0%; Loans with term of 1.5 years and interest rate of 7%
Other assets		**12,372**	Rent deposits
Bills payable		**550,453**	Promissory notes issued with an average term of 26 days and average interest rate of 4.8%
Accounts payable and other liabilities		**6,512**	Rent payable, accounts payable and accrued interest payable from bills payable
Interest income	**₱10,219**		Interest income from investment in debt securities, short-term placements, savings and time deposits and fringe benefit loans
Service charges, fees and commissions	**18,040**		Arranger fees
Dividend income	**1,824**		Dividends from stocks investments
Trading and securities gain	**10,908**		Realized and unrealized gain on investments in debt and equity securities
Interest expense	**18,380**		From interbank borrowings, short-term bills payable
Rent, light and water	**37,330**		Rental payments for office premises
Miscellaneous expense	**3,350**		Insurance expense and membership dues
Key Management Personnel			
Loans and discounts		**5,156**	Fringe benefit loans with terms ranging from 3.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Interest income	**763**		Interest income from fringe benefit loans
Miscellaneous expense	**9,923**		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, 2017		
Ultimate Parent Company			
Cash and other items		₱2,412,235	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 FVTPL		54,959	Investments in the Ultimate Parent Company's shares of stock
Loans and receivables		139,434	Various receivables arising from financial advisory fees, reimbursements and order placements, non-interest bearing rent receivable and accrued interest receivable from time deposit
Other assets		240,527	Escrow account
Bills payable		748,950	Short-term borrowings in foreign currency with interest ranging from 1.5% to 1.9%, unsecured and are settled in cash

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2017		
Accounts payable and other liabilities		₱75,040	Includes ceded fees, advance lease deposits, accrued interest payable from Interbank loans payable in foreign currency, retainer's fee and internal audit fees
Interest income	₱13,544		From interbank loans, savings, current and time deposits
Service charges, fees commissions	142,942		Broker's commissions, contractual and other financial advisory services
Dividend income	3,022		Dividends from stocks investments
Trading and securities gain	55,775		Realized and unrealized gain from investments in debt and equity securities
Interest expense	22,309		Interest expense from interbank borrowings
Rent, light and water	983		Rent and utilities expense
Miscellaneous expense	17,848		Internal audit fee for the current year, stock and transfer agency fee
Joint Venture/Associates			
Cash and other items		607,156	Short-term money market placements with interest ranging from 2.6% to 4.6%
Interbank loans receivable		500,000	Short-term Interbank loans receivable with interest of 3.19%
Loans and receivables		44,778	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Accounts payable and other liabilities		56,495	Payable arising out of trading transactions in behalf of customers; non-interest bearing; secured by shares of stocks; insurance expense
Interest income	2,819		From interbank loans receivable
Service charges, fees and commissions	3,726		Management fees; broker's commissions
Trading and securities gain	439		Realized gain from sale of investments in debt
Rental income	2,147		Rental income from sublease agreement
Miscellaneous expense	2,079		Insurance expense
Other Related Parties			
Cash and other cash items		1,401,977	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 2.2% per annum
Financial assets at FVTPL		155,555	Investments in shares of stocks of other related parties
AFS investments		152,380	Investments in equity securities and debt securities issued by other related parties; Debt securities includes investments in preferred shares with interest rate of 4.6%
HTM investments		30,452	Investments in private bonds issued by other related parties with interest rates ranging from 4.7% to 5.6%
Loans and receivables		39,079	Includes receivables from financial advisory fee and management fee, rent receivables and accrued interest receivable from time deposits; Fringe benefit loans to employees with terms ranging from 1.9 to 15.0 years and interest rates ranging from 8.0% to 10.0%;
Other assets		18,315	Rent deposits
Accounts payable and other liabilities		9,647	Payable to customer, rent payable and accrued interest payable from bills payable
Interest income	35,039		Interest income from investment in debt securities, short-term placements, savings and time deposits and fringe benefit loans
Service charges, fees and commissions	26,045		Financial advisory and arranger fees

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2017		
Dividend income	₱2,845		Dividends from stocks investments
Trading and securities gain	16,256		Realized and unrealized gain on investments in debt and equity securities
Gain on sale of assets	32,035		Gain on sale of investment properties
Rent income	398		Rent income from condominium units
Interest expense	12,912		From interbank borrowings, short-term bills payable
Rent, light and water	43,961		Rental payments for office premises
Miscellaneous expense	1,914		Insurance expense and membership dues
Key Management Personnel			
Loans and discounts		₱3,033	Fringe benefit loans with terms ranging from 5.0 years to 15.0 years and interest rates ranging from 8.0% to 10.0%
Interest income	416		Interest income from fringe benefit loans
Miscellaneous expense	12,498		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, 2016		
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 FVTPL		434,178	Investments in the Ultimate Parent Company's share of stock
Loans and receivables		428	Various receivables arising from reimbursements and order placements, non-interest bearing rent receivable and accrued interest receivable from time deposit
Bills payable		745,800	Short-term borrowings in foreign currency with interest ranging from 1.5% to 1.9%, unsecured and are settled in cash
Accounts payable and other liabilities		5,967	Includes ceded fees, advance lease deposits, accrued interest payable from Interbank loans payable in foreign currency, retainer's fee and internal audit fees
Interest income	₱41,448		From interbank loans, savings, current and time deposits
Service charges, fees commissions	1,725		Broker's commissions, contractual and other services
Dividend income	3,897		Dividends from stocks investments
Trading and securities gain	205,600		Realized and unrealized gain from investments in debt and equity securities. Includes gain from sale of Philippine Savings Bank shares classified as AFS at a gain of ₱212.6 million
Interest expense	10,268		Interest expense from interbank borrowings
Rent, light and water	1,106		Rent and utilities expense
Miscellaneous expense	13,861		Internal audit fee for the current year, stock and transfer agency fee
Joint Venture/Associates			
Loans and receivables		44,270	Includes various advances with Aurora Towers; fully provided with allowance for impairment and credit losses
Accounts payable and other liabilities		14,450	Payable arising out of trading transactions in behalf of customers; non-interest bearing; secured by shares of stocks and insurance expense
Service charges, fees	2,096		Management fees; broker's commissions

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2016		
commission			
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
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 FVTPL		496,945	Investments in shares of stocks of and debt securities issued by other related parties; debt securities includes investments in private bonds with net yield of 4.7%
AFS investments		151,169	Investments in shares of stocks of and debt securities issued by other related parties; debt securities includes investments in private bonds with net yield ranging from 4.9% to 5.9%
HTM investments		29,441	Investments in private bonds issued by other related parties with net yield of 6.0%
Loans and discounts		15,988	Fringe benefit loans to employees with terms ranging from 1.9 years to 15.0 years and interest rates ranging from 3.0% to 12.0%
Receivables		2,026	Management fee, rent receivables and accrued interest receivable from time deposits and time loans

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2016		
Other assets		₱5,946	Rent deposits
Accounts payable and other liabilities		6,799	Rent payable to customers and accrued interest payable from bills payable
Interest income	₱42,550		Interest income from investment in private bonds, unquoted commercial papers, interbank loans, short-term placements, savings and time deposits and fringe benefit loans
Service charges, fees commission	460,191		Advisory and underwriting fees from GT Capital
Dividend income	17,583		Dividends from stocks investments
Trading and securities loss	39,329		Realized and unrealized gain on investments in debt and equity securities
Rent income	1,051		Rent income from condominium units
Miscellaneous income	361,534		Income related to sale of Global Business Power equity shares to GT Capital
Interest expense	10,684		From interbank borrowings, short-term bills payable
Rent, light and water	55,914		Rental payments for office premises
Taxes and licenses	112,169		Taxes related to sale of equity securities to GT Capital
Miscellaneous expense	938		Insurance expense and membership dues
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

The Group and the Parent Company granted credit lines to related parties (Note 29). As of December 31, 2018 and 2017, undrawn commitments/facilities is nil for the Group and the Parent Company.

Terms of Transactions with other related parties

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group and the Parent Company's retirement plans are being managed by the Ultimate Parent Company's Trust Banking Group. The total carrying amount and fair value of the retirement plan as of December 31, 2018 and 2017 amounted to ₱284.9 million and ₱320.2 million for the Group and the Parent Company, respectively. The details of the assets of the fund as of December 31, 2018 and 2017 are disclosed in Note 22. The Group's retirement funds may hold or trade its related parties' shares or securities.

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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018:

		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
Counterparty		**2018**	2017	**2018**	2017	2016
Metrobank	Cash and other cash items	**₱13,350,484**	₱16,735,427	**₱–**	₱–	₱–
	Equity investments	**–**	1,250,363	**–**	–	–
	Accrued interest receivable	**2,385,600**	20,680	**–**	–	–
	Accrued trust fee payable	**353,602**	519,316	**–**	–	–
	Interest income	**387,014**	455,984	**387,060**	455,984	56,404
	Trust fee expense	**1,854,557**	2,068,984	**1,854,557**	2,068,984	1,904,659
GT Capital	Equity investments	**7,512,600**	–	**–**	–	–
FMSLBF	Investment in mutual funds	**1,001,844**	8,286,000	**–**	–	–
FMSALEF	Investment in mutual funds	**80,883,794**	1,006,478	**–**	–	–
FMPEETFI	Equity investments	**131,476**	87,653,327	**–**	–	–
MBTC-UITF	Investment in UITF	**–**	131,476	**–**	–	–

The president of the Parent Company exercises the voting rights for their equity shares in its subsidiaries and Metrobank.

<u>*Compensation of key management personnel*</u>

The compensation of key management personnel are as follows:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Short-term employee benefits	**₱257,915,612**	₱231,442,062	₱216,160,711	**₱208,279,793**	₱185,234,917	₱182,236,312
Post-employment benefits	**12,435,049**	20,439,273	19,273,659	**9,151,522**	17,222,858	16,665,537
	₱270,350,661	₱251,881,335	₱235,434,370	**₱217,431,315**	₱202,457,775	₱198,901,849

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, 2018 and 2017 that have been eliminated at the consolidated level (amounts in thousands):

	As of and for the year ended December 31, 2018		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Loans and receivables		**₱6,309**	Management/advisory fees and advances for various expenses
Bills payable		**3,014**	Promissory notes issued with term of 41 days and interest rate of 5.2%
Bonds payable		**80,176**	Amortized cost of bonds payable with term of 5 years and interest rate of 5.7%
Accounts payable and other liabilities		**228**	Accrued interest payable on bills and bond payable
Miscellaneous liabilities		**9,375**	Subscriptions payable
Trading and securities gain	**₱154**		Realized trading gain from sale of various debt securities to subsidiaries
Service charges, fees and commissions	**22,545**		Management fees and advisory fees for services rendered to subsidiaries
Interest expense	**4,460**		Interest expense from bonds payable and promissory notes issues with interest rate of 5.7% and 1.1% to 5.2%, respectively
Broker's commission	**3,832**		Broker's commission on stock trading transactions

(Forward)

	As of and for the year ended December 31, 2017		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Loans and receivables		₱1,580	Receivables from sale of securities and management/advisory fees and advances for various expenses
Bills payable		197,286	Promissory notes issued with term of 30 days and interest ranging from1.3% to 3.3%
Bonds payable		80,494	Amortized cost of bonds payable with term of 5 years and interest rate of 5.7%
Accounts payable		5,419	Payable arising out of trading transactions in behalf of customers and accrued interest payable on bond payable
Miscellaneous liabilities		9,375	Subscriptions payable
Trading and securities gain	₱590		Realized trading gain from sale of various debt securities to subsidiaries
Service charges, fees and commissions	20,443		Management fees and advisory fees for services rendered to subsidiaries
Interest expense	15,462		Interest expense from bonds payable and promissory notes issues with interest ranging from 5.5% to 5.7% and 1.3% to 3.3%, respectively
Broker's commission	8,145		Broker's commission on stock trading transactions
Miscellaneous expense	5,000		Research fee

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and for the year ended December 31, 2016		
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		2,870	Payable arising out of trading transactions in behalf of customers and 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

Investment in debt securities of the Parent Company
The subsidiaries had investments in debt securities of the Parent Company amounting to ₱80.2 million and ₱80.4 million as of December 31, 2018 and 2017, respectively, which are eliminated and classified as treasury bonds in the consolidated financial statements of the Group.

Management fees
The Parent Company and its subsidiaries executed a management contract for a monthly fee. Management fee represents payments for services rendered by seconded employees from the Parent Company such as accounting, taxation, financial control, legal and related services, administrative services and government reportorial requirements.

Management fee charged by the Parent Company to the subsidiaries amounted to ₱6.8 million and ₱2.9 million in 2018 and 2017, respectively.

Related party transaction are generally settled in cash.

28. 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 for 2018 and 2017:

Stand-by letter of credit	₱410,000,000
Others	750,000
	₱410,750,000

Contingencies
In the normal course of business, the Group is involved in various contingencies which, in the opinion of the management, will not have a material effect on the Group's consolidated financial statements.

29. Financial Performance

The following basic ratios measure the financial performance of the Parent Company:

	2018	2017	2016
Return on average equity	**3.5%**	7.9%	3.8%
Return on average assets	**1.1**	2.6	1.2
Net interest margin over average earning assets	**0.8**	1.3	1.2

30. Earnings Per Share

EPS are computed as follows:

	Consolidated		
	2018	2017	2016
a. Net income attributable to equity holders of the Parent Company	**₱503,033,265**	₱1,174,945,273	₱775,382,000
b. Weighted average number of common shares	**372,530,336**	372,535,016	372,544,732
c. Basic/Diluted EPS (a/b)	**₱1.4**	₱3.2	₱2.1

As of December 31, 2018, 2017 and 2016, there are no potential shares that have a dilutive effect on the basic EPS of the Parent Company.

31. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

The effects to the Group and the Parent Company of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2018

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	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
			[a-b]			[c-d]
Loans and receivable - net (Notes 4, 8 and 13): Loans and discounts: Corporate lending	**₱460,025,660**	**₱–**	**₱460,025,660**	**₱–**	**₱931,488,207**	**₱–**

December 31, 2017

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
			[a-b]			[c-d]
Securities purchased under resale agreements	₱500,000,000	₱–	₱500,000,000	₱–	₱500,000,000	₱–
Loans and receivable - net (Notes 4 and 8): Loans and discounts: Corporate lending	1,338,730,015	–	1,338,730,015	–	4,214,836,462	–
Total	₱1,838,730,015	₱–	₱1,838,730,015	₱–	₱4,714,836,462	₱–

Financial liabilities

December 31, 2018

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	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
			[a-b]			[c-d]
Bills payable (Note 14): Borrowings from other banks	**₱525,800,000**	**₱–**	**₱525,800,000**	**₱–**	**₱600,068,075**	**₱–**
Overnight Borrowing – BSP	**1,500,000,000**		**1,500,000,000**	**–**	**3,667,345,202**	**–**
Bonds payable (Note 16)	**2,916,957,750**	**–**	**2,916,957,750**	**–**	**3,438,168,565**	**–**
Total	**₱4,942,757,750**	**₱–**	**₱4,942,757,750**	**₱–**	**₱7,705,581,842**	**₱–**

December 31, 2017

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
			[a-b]			[c-d]
Bills payable (Note 14): Borrowings from other banks	₱2,248,950,000	₱–	₱2,248,950,000	₱–	₱845,000,000	₱1,403,950,000
Bonds payable (Note 16)	2,909,949,893	–	2,909,949,893	–	3,514,719,915	–
Total	₱5,158,899,893	₱–	₱5,158,899,893	₱–	₱4,359,719,915	₱–

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.

32. Notes to Statements of Cash Flows

The table below provides for the changes in liabilities arising from financing activities of the Group and Parent Company:

Consolidated

	January 1, 2018	Cash flows	Foreign exchange movement	Others	December 31, 2018
Bills payable	**₱25,714,692,549**	**(₱9,740,271,203)**	**₱50,595,577**	**₱–**	**₱16,222,302,558**
Bonds payable (Note 16)	**2,909,949,893**	**–**	**–**	**7,007,857**	**2,916,957,750**
Dividends payable	**90,666,163**	**(274,335)**	**–**	**–**	**90,391,828**
Total liabilities from financing activities	**₱28,715,308,605**	**(₱9,740,545,538)**	**₱50,595,577**	**₱7,007,857**	**₱19,229,652,136**

Consolidated

	January 1, 2017	Cash flows	Foreign exchange movement	Others	December 31, 2017
Bills payable	₱15,043,282,889	₱10,660,583,645	₱10,826,015	₱–	₱25,714,692,549
Bonds payable (Note 16)	11,498,497,579	(8,599,408,744)	–	10,861,058	2,909,949,893
Dividends payable	3,064,192,676	(5,823,492,290)	–	2,849,965,777	90,666,163
Total liabilities from financing activities	₱29,605,973,144	(₱3,762,317,389)	₱10,826,015	₱2,860,826,835	₱28,715,308,605

Parent Company

	January 1, 2018	Cash flows	Foreign exchange movement	Others	December 31, 2018
Bills payable	**₱25,911,978,184**	**(₱9,740,271,203)**	**₱50,595,577**	**₱–**	**₱16,222,302,558**
Bonds payable (Note 16)	**2,992,580,674**	**–**	**–**	**4,553,190**	**2,997,133,864**
Dividends payable	**90,666,163**	**(274,335)**	**–**	**–**	**90,391,828**
Total liabilities from financing activities	**₱28,995,225,021**	**(₱9,740,545,538)**	**₱50,595,577**	**₱4,553,190**	**₱19,309,828,250**

Parent Company					
	January 1, 2017	Cash flows	Foreign exchange movement	Others	December 31, 2017
Bills payable	₱25,911,978,184	(₱9,740,271,203)	₱10,826,015	₱–	₱25,911,978,184
Bonds payable (Note 16)	2,992,580,674	–	–	10,861,058	2,992,580,674
Dividends payable	90,666,163	(274,335)	–	2,849,965,777	90,666,163
Total liabilities from financing activities	₱28,995,225,021	(₱9,740,545,538)	₱10,826,015	₱2,860,826,835	₱28,995,225,021

Others represent amortization of bonds issuance cost and dividend declaration.

33. Approval of the Financial Statements

The accompanying financial statements were authorized for issue by the Parent Company's BOD on February 14, 2019.

34. Supplementary Information Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR 21-2002. RR 15-2010 provides that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes for the year:

GRT and DST

Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the Parent Company consist principally of GRT and DST.

Taxes and Licenses

This includes all other taxes, DST, local tax, fringe benefit tax including licenses and permit fees:

DST	₱119,505,865
GRT	110,095,829
Local taxes	1,255,539
Real estate tax	242,759
Fringe benefit tax	171,961
Licenses, fees and others	4,487,638
	₱235,759,591

Details of total remittances and balances as of December 31, 2018 are as follows:

	Total Remittances	Balance as of December 31
Final withholding taxes on deposit substitute borrowings	₱129,156,741	₱15,963,621
Withholding taxes on compensation and benefits	84,806,398	5,311,316
Expanded withholding taxes	13,370,154	1,531,494
Final withholding value added tax	1,221,327	15,209
	₱228,554,620	₱22,821,640