Metrobank

February 1, 2018

Mr. Jose Valeriano B. Zuño III
OIC - Head, Disclosure Department
Philippine Stock Exchange, Inc.
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Dear Mr. Zuño:

We submit a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 and the corresponding Management Discussion and Analysis.

Very truly yours,

[redacted]

Marilou C. Bartolome
Senior Vice President/Controller

cc: Philippine Dealing Exchange Corp.
37/F, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
1226 Makati City, Philippines

COVER SHEET

2 0 5 7 3

SEC Registration Number

M E T R O P O L I T A N B A N K & T R U S T C O M P A N Y

(Company's Full Name)

Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila

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

MARILOU C. BARTOLOME

(Contact Person)

898-8805

(Company Telephone Number)

1 2	3 1
Month	*Day*

(Fiscal Year)

1 7 - C

(Form Type)

0 4	2 5
Month	*Day*

(Annual Meeting)

NONE

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Domestic	Foreign

3,068

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2 (C) THEREUNDER

1. February 1, 2018
Date of Report

2. SEC Identification Number 20573 3. BIR Tax Identification No. 000-477-863

4. METROPOLITAN BANK & TRUST COMPANY
Exact name of issuer as specified in its charter

5. Manila
Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
Industry Classification Code:

7. Metrobank Plaza, Sen. Gil Puyat Ave.,
Urdaneta Village, Makati City
Address of principal office

1200
Postal Code

8. (02) 898-8000
Issuer's telephone number, including area code

9. N.A.
Former name or former address, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Shares	3,180,172,786

11. Indicate the item numbers reported herein:

Item No. 9 – Other Events

Attached is a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 and the corresponding Management Discussion and Analysis.

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

METROPOLITAN BANK & TRUST COMPANY
Issuer

By:

[redacted]

MARILOU C. BARTOLOME
Senior Vice President/Controller

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Group’s statements of financial position and statements of income as of and for the three years in the period ended December 31, 2017 are presented below.

Statements of Financial Position
(Amounts in millions)

	December 31			Increase (Decrease) 2017 vs. 2016		Increase (Decrease) 2016 vs. 2015	
	2017	**2016**	**2015**	**Amount**	%	**Amount**	%
Assets							
Cash and Other Cash Items	₱27,631	₱26,553	₱32,536	₱1,078	4.06	(₱5,983)	**(18.39)**
Due from Bangko Sentral ng Pilipinas (BSP)	261,959	238,806	214,704	23,153	**9.70**	24,102	**11.23**
Due from Other Banks	31,291	44,315	36,864	(13,024)	**(29.39)**	7,451	**20.21**
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	45,475	91,646	36,118	(46,171)	**(50.38)**	55,528	**153.74**
Financial Assets at Fair Value Through Profit of Loss (FVPL)	43,887	37,214	48,856	6,673	**17.93**	(11,642)	**(23.83)**
Available-for-Sale (AFS) Investments	343,910	316,855	235,158	27,055	**8.54**	81,697	**34.74**
Held-to-Maturity (HTM) Investments	-	-	208,432	-	-	(208,432)	**(100.00)**
Loans and Receivables	1,265,469	1,060,868	887,202	204,601	**19.29**	173,666	**19.57**
Investments in Associates and a Joint Venture	5,764	5,350	5,272	414	**7.74**	78	1.48
Property and Equipment	22,362	21,995	21,670	367	1.67	325	1.50
Investment Properties	7,717	8,474	8,195	(757)	**(8.93)**	279	3.40
Deferred Tax Assets	9,161	8,855	8,427	306	3.46	428	**5.08**
Goodwill	5,200	5,200	5,202	-	0.00	(2)	(0.04)
Other Assets	10,466	9,878	12,056	588	**5.95**	(2,178)	**(18.07)**
Total Assets	₱2,080,292	₱1,876,009	₱1,760,692	₱204,283	**10.89**	₱115,317	**6.55**
Liabilities and Equity							
Liabilities							
Deposit Liabilities	₱1,527,962	₱1,389,302	₱1,257,970	₱138,660	**9.98**	₱131,332	**10.44**
Bills Payable and Securities Sold Under Repurchase Agreements	227,835	161,376	176,791	66,459	**41.18**	(15,415)	**(8.72)**
Derivative Liabilities	5,352	4,612	4,145	740	**16.05**	467	**11.27**
Manager’s Checks and Demand Drafts Outstanding	8,054	6,932	5,613	1,122	**16.19**	1,319	**23.50**
Income Taxes Payable	3,381	2,185	880	1,196	**54.74**	1,305	**148.30**
Accrued Interest and Other Expenses	6,973	7,067	8,187	(94)	(1.33)	(1,120)	**(13.68)**
Bonds Payable	2,910	11,498	11,516	(8,588)	**(74.69)**	(18)	(0.16)
Subordinated Debts	26,580	29,524	29,487	(2,944)	**(9.97)**	37	0.13
Deferred Tax Liabilities	277	312	451	(35)	**(11.22)**	(139)	**(30.82)**
Non-equity Non-controlling Interest	8,002	7,934	9,909	68	0.86	(1,975)	**(19.93)**
Other Liabilities	58,876	49,714	52,433	9,162	**18.43**	(2,719)	**(5.19)**
Total Liabilities	1,876,202	1,670,456	1,557,382	205,746	**12.32**	113,074	**7.26**
Equity							
Equity Attributable to Equity Holders of the Bank							
Common stock	₱63,603	₱63,603	₱63,603	₱-	-	₱-	-
Hybrid capital securities	-	-	6,351	-	-	(6,351)	**(100.00)**
Capital paid in excess of par value	42,139	42,139	42,139	-	-	-	-
Surplus reserves	1,810	1,653	1,506	157	**9.50**	147	**9.76**
Surplus	116,786	101,900	87,497	14,886	**14.61**	14,403	**16.46**
Treasury stock	(46)	(485)	(187)	439	**90.52**	(298)	**(159.36)**
Remeasurement losses on retirement plan	(4,025)	(4,007)	(3,530)	(18)	(0.45)	(477)	**(13.51)**
Net unrealized loss on AFS investments	(15,804)	(10,115)	(4,783)	(5,689)	**(56.24)**	(5,332)	**(111.48)**
Equity in other comprehensive income of associates	22	54	180	(32)	**(59.26)**	(126)	**(70.00)**
Translation adjustment and others	(2,530)	1,260	983	(3,790)	**(300.79)**	277	**28.18**
	201,955	**196,002**	**193,759**	**5,953**	**3.04**	**2,243**	**1.16**
Other equity reserve	(7,400)	-	-	(7,400)	-	-	-
Non-controlling Interest	9,535	9,551	9,551	(16)	(0.17)	-	-
Total Equity	204,090	205,553	203,310	(1,463)	(0.71)	2,243	1.10
Total Liabilities and Equity	₱2,080,292	₱1,876,009	₱1,760,692	₱204,283	**10.89**	₱115,317	**6.55**

Statements of Income

	December 31			Increase (Decrease) 2017 vs. 2016		Increase (Decrease) 2016 vs. 2015	
	2017	**2016**	**2015**	**Amount**	%	**Amount**	%
Interest Income	₱80,322	₱68,181	₱65,556	₱12,141	**17.81**	₱2,625	4.00
Interest and Finance Charges	18,916	15,235	16,582	3,681	**24.16**	(1,347)	**(8.12)**
Net Interest Income	61,406	52,946	48,974	8,460	**15.98**	3,972	**8.11**
Other Operating Income	22,147	25,666	18,764	(3,519)	**(13.71)**	6,902	**36.78**
Total Operating Income	83,553	78,612	67,738	4,941	**6.29**	10,874	**16.05**
Total Operating Expenses	54,982	51,935	42,267	3,047	**5.87**	9,668	**22.87**
Income Before Share in Net Income of Associates and a Joint Venture	28,571	26,677	25,471	1,894	**7.10**	1,206	4.73
Share in Net Income of Associates and a Joint Venture	689	261	409	428	**163.98**	(148)	**(36.19)**
Income Before Income Tax	29,260	26,938	25,880	2,322	**8.62**	1,058	4.09
Provision for Income Tax	7,990	6,622	5,237	1,368	**20.66**	1,385	**26.45**
Net Income	₱21,270	₱20,316	₱20,643	₱954	4.70	(₱327)	(1.58)
Attributable to:							
Equity holders of the Bank	₱18,223	₱18,086	₱18,625	₱137	0.76	(₱539)	(2.89)
Non-controlling interest	3,047	2,230	2,018	817	**36.64**	212	**10.51**
	₱21,270	₱20,316	₱20,643	₱954	4.70	(₱327)	(1.58)

Statements of Comprehensive Income

Net Income	₱21,270	₱20,316	₱20,643	₱954	4.70	(₱327)	(1.58)
Other Comprehensive Income for the Year, net of tax							
Items that may not be reclassified to profit or loss:							
Change in remeasurement loss on retirement plan	26	(489)	(1,178)	515	**105.32**	689	**58.49**
Items that may be reclassified to profit or loss:							
Change in net unrealized loss on AFS investments	(5,772)	(5,464)	(2,397)	(308)	**(5.64)**	(3,067)	**(127.95)**
Change in equity in other comprehensive income of associates	(32)	(127)	(80)	95	**74.80**	(47)	**(58.75)**
Translation adjustment and others	733	(1,076)	430	1,809	**168.12**	(1,506)	**(350.23)**
	(5,045)	(7,156)	(3,225)	2,111	**29.50**	(3,931)	**(121.89)**
Total Comprehensive Income for the Year	₱16,225	₱13,160	₱17,418	₱3,065	**23.29**	(₱4,258)	**(24.45)**
Attributable to:							
Equity holders of the Bank	₱13,365	₱12,428	₱15,504	₱937	**7.54**	(₱3,076)	**(19.84)**
Non-controlling Interest	2,860	732	1,914	2,128	**290.71**	(1,182)	**(61.76)**
	₱16,225	₱13,160	₱17,418	₱3,065	**23.29**	(₱4,258)	**(24.45)**

Key Performance Indicators

The performance of the Bank and its significant majority-owned subsidiaries are measured by the following key indicators:

Company Name	Performance Indicators				
	Book Value Per Share	**Basic/ Diluted Earnings Per Share**	**Return on Average Equity**	**Return on Average Assets**	**Net Interest Margin on Average Earning Assets**

For the Year 2017

Metrobank Group	₱64.98	₱5.73	9.16%	0.92%	3.75%
FMIC (a)	37.79	3.21	7.99%	2.19%	1.57%
PSBank	93.20	11.05	12.51%	1.26%	6.10%
MCC	13.65	5.11	46.25%	7.53%	14.26%

For the Year 2016

Metrobank Group	₱61.75	₱5.61	9.28%	0.99%	3.54%
FMIC (a)	42.45	1.74	3.78%	1.02%	1.40%
PSBank	83.69	10.20	12.48%	1.34%	6.18%
MCC	8.79	3.14	39.63%	7.38%	14.55%

(a) FMIC and Subsidiaries

A separate schedule showing financial soundness indicators of the Group as of December 31, 2017 and 2016 is presented in Exhibit “A” as an attachment to this report.

2017 Performance

Financial Position

As of December 31, 2017, the Metrobank Group posted a 10.89% growth in total assets from ₱1.88 trillion as of December 31, 2016 to ₱2.08 trillion. Total liabilities of the Group increased to ₱1.88 trillion from ₱1.67 trillion or 12.32%. Moreover, equity attributable to equity holders of the Parent Company increased by ₱5.95 billion or 3.04% from ₱196.00 billion to ₱201.96 billion due to net effect of the net income reported for the year ended December 31, 2017, higher translation adjustments, higher net unrealized loss on AFS investments driven by lower market prices, and declaration of cash dividend.

Due from BSP which represents 12.59% of the Group’s total assets increased by ₱23.15 billion or 9.70% due to the increase in demand deposits net of lower placements in term and overnight deposit facilities of the BSP. Due from Other Banks decreased by ₱13.02 billion or 29.39% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went down by ₱46.17 billion or 50.38% mainly due to lower balance of securities under resale agreement with BSP.

Financial Assets at FVPL which consist of held-for-trading (HFT) securities and derivative assets amounting to ₱37.52 billion and ₱6.37 billion, respectively, as of December 31, 2017 and ₱30.09 billion and ₱7.12 billion, respectively, as of December 31, 2016 increased by ₱6.67 billion or 17.93% coming from both corporate and government securities. AFS investments went up by ₱27.06 billion or 8.54% due to higher investments in treasury notes and bonds and corporate securities.

Loans and Receivables, representing 60.83% and 56.55% of the Group’s total assets as of December 31, 2017 and 2016, respectively, went up by ₱204.60 billion or 19.29% driven by the strong demand for loans from all segments. Consumer loans increased by 16.68% while commercial loans increased by 19.94%. Non-performing loans were still maintained at lower level with a ratio of 1.01% as of December 31, 2017. Investments in Associates and a Joint Venture went up by ₱0.41 billion or 7.74% due to the share in net income of associates during the year net of PSBank’s sale of its 10% ownership in SMFC. Investment Properties decreased by ₱0.76 billion or 8.93% due to continuous disposals of foreclosed real estate properties. A minimal increase of ₱0.59 billion or 5.95% was noted on other assets which consist of, among others, software costs, inter-office float items, creditable withholding tax and miscellaneous assets.

Deposit liabilities represent 82.09% and 83.17% of the consolidated total liabilities as of December 31, 2017 and 2016, respectively, wherein, low cost deposits represent 62.19% and 60.89% of the Group’s total deposits, respectively. The Group’s deposit level, sourced by the Bank, PSBank and MBCL reached ₱1.53 trillion as of December 31, 2017, an increase of ₱138.66 billion or 9.98% from ₱1.39 trillion as of December 31, 2016. The increment came from CASA by ₱104.14 billion or 12.31%, time deposits by ₱27.39 billion or 5.26% and from the issuances of LTNCDs by the Bank for ₱3.75 billion and by PSBank for ₱3.4 billion on July 20, 2017 and January 30, 2017, respectively.

Bills Payable and SSURA representing 12.24% and 9.66% of the Group’s total liabilities as of December 31, 2017 and 2016, respectively, went up by ₱66.46 billion or 41.18% due to higher balances of borrowings from BSP by ₱28.0 billion, local banks by ₱16.78 billion and foreign banks by ₱5.45 billion; deposits substitutes by ₱2.69 billion and SSURA by ₱13.54 billion. Derivative Liabilities which represent mark-to-market of foreign currency forwards, interest rate swaps, cross currency swaps and foreign currency options with negative fair value increased by ₱0.74 billion or 16.05%.

The increase of ₱1.12 billion or 16.19% in Manager’s Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income taxes payable increased by ₱1.20 billion or 54.74% representing additional corporate income tax due for the year. Bonds payable decreased by ₱8.59 billion or 74.69% due to the maturity of FMIC bonds with total face value of ₱9.0 billion in 2017. The early redemption of PSBank’s ₱3.0 billion Tier 2 Notes on February 21, 2017 accounted for the 9.97% decline in Subordinated Debts. Deferred tax liabilities decreased by ₱0.04 billion or 11.22%. Other Liabilities increased by ₱9.16 billion or 18.43% primarily due to the recognition of ₱14.80 billion liability on the agreed purchase of 40% stake in MCC. As discussed in Note 11 of the audited financial statements of the Group as presented in Exhibit B, on October 18, 2017, the Parent Company’s BOD approved and the Parent Company has entered into an agreement with its joint venture partner (the Seller). On December 28, 2017, the BSP approved the transaction and with this, the purchase of 20% is deemed completed and the acquisition cost for the remaining 20% is required to be recognized for accounting purposes. As a result, as of December 31, 2017, the Group recognized the ₱14.80 billion consideration as a liability. Other accounts affected by the said transaction were "translation adjustment and others" and "other equity reserves."

Results of Operations

Net income attributable to equity holders of the Bank amounted to ₱18.22 billion for the year 2017 compared with ₱18.09 billion net income for the year 2016.

Interest income improved by ₱12.14 billion or 17.81% resulting from higher interest income on loans and receivables and interbank loans and SPURA by ₱12.13 billion and ₱0.33 billion, respectively, driven by the loan growth net of lower interest income on trading and investment securities by ₱0.31 billion. Meanwhile, the increases in interest expense on deposit liabilities by ₱2.72 billion and on borrowings by ₱0.96 billion accounted for the increase of ₱3.68 billion or 24.16% in interest and finance charges. These resulted in ₱8.46 billion or 15.98% increase net interest income.

Other operating income of ₱22.15 billion decreased by ₱3.52 billion or 13.71% from ₱25.67 billion in 2016 on account of lower net trading and securities and foreign exchange gains by ₱4.71 billion or 55.01% due to disposals of HTM investments in 2016. On the other hand, increases were noted in fee-based income by ₱0.72 billion or 6.93%, profit from disposal of foreclosed properties of ₱0.34 billion or 46.86% and income from trust operations by ₱0.10 billion or 8.08%.

Total operating expenses were maintained at a reasonable level with ₱3.05 billion or 5.87% increase from ₱51.94 billion in 2016 to ₱54.98 billion in 2017 and 2.25% higher in provision for credit and impairment losses. Increases were also noted in compensation and fringe benefits by ₱1.84 billion or 10.04%, taxes and licenses by ₱0.58 billion or 9.72% and depreciation and amortization by ₱0.23 billion or 7.11%. Provision for income tax was also higher by ₱1.37 billion or 20.66% from ₱6.62 billion to ₱7.99 billion on account of higher provision for corporate income tax.

Share in net income of associates and a joint venture increased by ₱0.43 billion or 163.98% due to higher net income of certain associates while income attributable to non-controlling interest went up by ₱0.82 billion or 36.64% with noted improvement on the results of operations of certain majority-owned subsidiaries.

Total comprehensive income went up by ₱3.07 billion from ₱13.16 billion in 2016 to ₱16.23 billion in 2017. The variance was attributed to the higher net income of the Group and the ₱2.11 billion increase in other comprehensive income particularly on the movements in translation adjustments and in remeasurement loss on retirement plan. Total comprehensive income attributable to equity holders of the Bank went up to ₱13.37 billion from ₱12.43 billion in 2016.

Market share price was at ₱101.40 from ₱72.60 as of December 31, 2016 with a market capitalization of ₱322.47 billion as at December 31, 2017.

2016 Performance

Financial Position

As of December 31, 2016, the Metrobank Group posted a 6.55% growth in total assets from ₱1.76 trillion as of December 31, 2015 to ₱1.88 trillion. Total liabilities of the Group increased to ₱1.67 trillion from ₱1.56 trillion or 7.26%. Further, equity attributable to equity holders of the Parent Company increased by ₱2.24 billion or 1.16% due to the net effect of the net income reported during the year, higher net unrealized loss recognized on AFS investments, early redemption and coupon payment of HT1 capital securities in February 2016 and declaration of cash dividends.

Cash and Other Cash Items decreased by ₱5.98 billion or 18.39% due to the lower level of cash requirements of the Parent Company and PSBank. Due from BSP which represents 12.73% of the Group's total assets increased by ₱24.10 billion or 11.23% coming from the increase in the balances of demand deposits and placement in overnight deposit facility of the BSP. Due from Other Banks also increased by ₱7.45 billion or 20.21% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went up by ₱55.53 billion or 153.74%.

Financial Assets at FVPL consist of HFT securities and derivative assets amounting to ₱30.09 billion and ₱7.12 billion, respectively, as of December 31, 2016 and ₱42.91 billion and ₱5.94 billion, respectively, as of December 31, 2015. AFS investments went up by ₱81.70 billion or 34.74% due to various securities acquisitions and reclassification of the remaining balance of HTM investments in accordance with the existing tainting rule under the accounting standard net of disposals during the year. Movements in the AFS investments also resulted in higher treasury notes and bonds, private debt and government bond securities by ₱70.39 billion, ₱15.13 billion and ₱0.85 billion, respectively, and a decline in equity securities by ₱4.88 billion.

Loans and Receivables, representing 56.55% and 50.39% of the Group's total assets as of December 31, 2016 and 2015, respectively, went up by ₱173.67 billion or 19.57% driven by the strong demand for loans from all segments. Asset quality further improved with non-performing loans ratio of 0.94%.

Deferred Tax Assets increased by ₱0.43 billion or 5.08% due to movements on temporary tax differences specifically on retirement liabilities. Other Assets consist of, among others, software costs, inter-office float items, creditable withholding tax and miscellaneous assets. The decline of ₱2.18 billion or 18.07% was mainly due to lower inter-office float items offset by the increase in miscellaneous assets.

Deposit liabilities represent 83.17% and 80.77% of the consolidated total liabilities as of December 31, 2016 and 2015, respectively, wherein, low cost deposits represent 60.89% and 55.75% of the Group's total deposits, respectively. The Group's deposit level, sourced by the Bank, PSBank and MBCL reached ₱1.39 trillion as of December 31, 2016, an increase of ₱131.33 billion or 10.44% from ₱1.26 trillion as of December 31, 2015. The increment came from demand deposits by ₱64.48 billion or 27.56% and savings deposits by ₱80.10 billion or 17.13% net of the decline in time deposits by ₱21.89 billion. Moreover, in September 2016, the Bank issued LTNCD amounting to ₱8.65 billion.

Bills Payable and SSURA representing 9.66% and 11.35% of the Group's total liabilities as of December 31, 2016 and 2015, respectively, went down by ₱15.42 billion or 8.72% due to lower balances of borrowings from foreign banks by ₱7.04 billion, deposits substitutes by ₱0.26 billion and SSURA by ₱12.16 billion offset by the increase in borrowings from local banks by ₱4.04 billion. Derivative Liabilities which represent mark-to-market of foreign currency forwards, interest rate swaps, cross currency swaps and foreign currency options with negative fair value increased by ₱0.47 billion or 11.27%.

The increase of ₱1.32 billion or 23.50% in Manager's Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income taxes payable increased by ₱1.31 billion or 148.30% representing additional corporate income tax due for the year. Accrued interest and other expenses payable decreased by ₱1.12 billion or 13.68% due to payment of other bank expenses and decrease in accruals for interests on deposit liabilities and other borrowings. Non-equity Non-controlling Interest representing the portion of net income and net assets of the mutual fund subsidiaries of FMIC not attributed to the Group went down by ₱1.98 billion or 19.93% on account of the net decline in income of these mutual funds. Other Liabilities decreased by ₱2.72 billion or 5.19% primarily due to lower levels of bills purchased contra and marginal deposits offset by the higher balance of accounts payable.

Results of Operations

Net income attributable to equity holders of the Bank amounted to ₱18.09 billion for the year 2016 compared with ₱18.63 billion net income for the year 2015.

Interest income improved by ₱2.63 billion or 4.00% resulting from higher interest income on loans and receivables by ₱7.09 billion driven by the growth on loans net of lower interest income on trading and investment securities by ₱2.47 billion and interbank loans and SPURA by ₱2.09 billion. Meanwhile, the decreases in interest expense on deposit liabilities by ₱1.27 billion and bills payable and SSURA, subordinated debts and other borrowings by ₱0.08 billion accounted for the decline of ₱1.35 billion or 8.12% in interest and finance charges. These resulted in ₱3.97 billion or 8.11% increase net interest income.

Other operating income of ₱25.67 billion improved by ₱6.90 billion or 36.78% from ₱18.76 billion in 2015 due to higher net trading and securities and foreign exchange gains by ₱6.43 billion or 301.31%, fee-based income by ₱0.54 billion or 5.46%, income from trust operations by ₱0.11 billion or 9.45% and miscellaneous income by ₱0.68 billion or 35.28%. On the other hand, for the year 2016, the Group reported a lower profit from disposal of foreclosed properties of ₱0.73 billion compared with ₱1.29 billion in 2015.

Total operating expenses increased by ₱9.67 billion or 22.87% from ₱42.27 billion in 2015 to ₱51.94 billion in 2016 with higher provision for credit and impairment losses by ₱5.28 billion or 256.58% (primarily from the Bank, PSBank and MCC), compensation and fringe benefits by ₱2.36 billion or 14.74%, depreciation and amortization by ₱0.41 billion or 14.28%, occupancy and equipment-related expenses by ₱0.23 billion or 8.76% and miscellaneous expenses by ₱1.46 billion or 11.94% net of the decline in taxes and licenses by ₱0.16 billion or 2.61%. Provision for income tax was higher by ₱1.39 billion from ₱5.24 billion to ₱6.62 billion on account of higher provision for corporate income tax.

Share in net income of associates and a joint venture decreased by ₱0.15 billion or 36.19% due to lower net income of certain associates while income attributable to non-controlling interest went up by ₱0.21 billion or 10.51% with noted improvement on the results of operations of certain majority-owned subsidiaries.

Total comprehensive income went down by ₱4.26 billion from ₱17.42 billion in 2015 to ₱13.16 billion in 2016. The variance was attributed to the lower net income of the Group and the ₱3.93 billion decrease in other comprehensive income particularly on the movement in net unrealized loss on AFS investments. Total comprehensive income attributable to equity holders of the Bank went down to ₱12.43 billion from ₱15.50 billion in 2015.

Market share price was at ₱72.60 from ₱80.50 as of December 31, 2015 with a market capitalization of ₱230.88 billion as at December 31, 2016.

Exhibit A

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF DECEMBER 31, 2017 AND 2016

		2017	2016
a)	Liquidity Ratio	36.25%	40.27%
b)	Loans to Deposits Ratio	82.60%	76.25%
c)	Debt to Equity Ratio	929.02%	852.26%
d)	Asset to Equity Ratio	1030.08%	957.14%
e)	Return on Average Equity	9.16%	9.28%
f)	Return on Average Assets	0.92%	0.99%
g)	Net Interest Margin on Average Earning Assets	3.75%	3.54%
h)	Operating Efficiency Ratio	56.82%	56.73%
i)	Capital Adequacy Ratio	14.35%	15.45%
j)	Common Equity Tier 1 Ratio	11.79%	12.54%

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil Puyat Avenue
Urdaneta Village, Makati City
Metro Manila, Philippines

Report on the Consolidated and Parent Company Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 in accordance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks as described in Note 2 to the financial statements.

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

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 each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to 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

Loans and Receivables and Allowance for Credit Losses on Loans and Receivables

As of December 31, 2017, the Group and the Parent Company's loans and receivables represents 61% and 59% of the total assets of the Group and the Parent Company, respectively. We considered the loans and receivables as a key audit matter because of the significance of the account balance, high volume of transactions, and the incident that happened in 2017 as discussed in Note 30.

As of December 31, 2017, the allowance for credit losses on the loans and receivables of the Group and Parent Company amounted to ₱16.4 billion and ₱8.6 billion, respectively. The Group determines the allowance for credit losses on an individual basis for individually significant loans and receivables, and collectively for loans and receivables that are not individually significant and those individually significant loans and receivables but with no specific allowance for credit losses. The determination of the allowance for credit losses is a key area of judgment as it requires the management to make assumptions about various factors that include the financial condition of the counterparty, estimated future cash flows from the loans and receivables and estimated net selling prices of the collateral. The use of different assumptions and provisioning methodologies could produce significantly different estimates of allowance for credit losses. The disclosures in relation to the allowance for credit losses are included in Note 15 to the financial statements.

Audit response

We obtained an understanding of the Group's lending process and impairment calculation process and performed tests over relevant controls. We read the report of the investigation conducted by the Internal Audit Group (IAG) on the incident as discussed in Note 30. We considered the results of such investigation in our audit procedures. We performed confirmation procedures for loans and receivable accounts. For those accounts without confirmation replies, we performed loan review by examining the credit folders containing promissory notes, board resolutions of the borrowers, call memos and collateral documents; checking whether the signature of the borrowers and the use of proceeds of the loans were verified by the authorized personnel/department; and checking through the assistance of the IAG the crediting of the loan proceeds to the designated bank accounts of the borrowers, if applicable. For those loan accounts where the proceeds were disbursed through checks, we inspected whether the checks were issued in the borrower's name.

For allowance for credit losses calculated on an individual basis, we tested the individual impairment assessment for individually significant impaired loans and receivables. We selected samples of impaired loans and obtained an understanding of the borrower's business and financial capacity. This was done by inquiring on the latest developments about the borrower and checking the payment history of the borrower including payments made subsequent to yearend. We tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses by assessing whether the forecasted cash flows are based on the latest developments about the borrower's financial condition and where applicable, agreeing the value of the collateral to the appraisal reports. We also checked the discount rate used and re-performed the impairment calculation. We also selected samples of not impaired significant loans and receivables and tested whether these are properly tagged as not impaired.

For allowance for credit losses calculated on a collective basis, we tested the underlying models and the inputs to those models, such as historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of loss rates and net flow rates to the Group's records and subsidiary ledgers, testing the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the allowance for credit losses.

Deferred Tax Assets

As of December 31, 2017, the deferred tax assets of the Group and the Parent Company amounted to ₱9.2 billion and ₱6.5 billion, respectively. The recognition of deferred tax assets was significant to our audit because it requires significant judgment and is based on assumptions such as availability of future taxable income and the timing of the reversal of the temporary differences that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company. The disclosures in relation to deferred income taxes are included in Note 28 of the financial statements.

Audit response

We involved our internal specialist in interpreting the tax regulations, testing the temporary differences identified by the Group and the applicable tax rate. We also re-performed the calculation of the deferred tax assets. We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of the Group and the industry.

<u>Applicable to the audit of the consolidated financial statements</u>

Investments in Associates and a Joint Venture

The Group assesses the impairment of its investments in associates and a joint venture whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. As of December 31, 2017, the Group has an investment in associate amounting to ₱2.2 billion where its fair value declined by 39% compared to the carrying value. The Group performed impairment testing using the investment's value-in-use (VIU). We considered the impairment testing of the Group's investment in this associate as a key audit matter as significant judgment and estimates are involved in the determination of the investment's VIU. The disclosures relating to investments in associates and a joint venture are included in Notes 3 and 11 to the financial statements.

Audit response

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

Goodwill

As of December 31, 2017, the Group has goodwill amounting to ₱5.2 billion as a result of various business acquisitions. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. The Group performed the impairment testing using the fair value less costs to sell (FVLCTS). The annual impairment test was significant to our audit because significant judgment and estimates are involved in the determination of the cash generating unit's (CGU's) FVLCTS. The CGU's assets include significant investments in unquoted equity shares. The key inputs used in the calculation of the FVLCTS of these unquoted shares are sensitive to estimates of future cash flows from business, discount rate and growth rate used to project the cash flows. The disclosures in relation to goodwill are included in Notes 3 and 11 to the financial statements.

Audit response

We involved our internal specialist to evaluate the assumptions and methodology used by the Group, in particular those relating to the forecasted cash flows from the unquoted shares, long term growth rates of the future cash flows and the discount rate used in determining the present value of the future cash flows. Our testing of the assumptions include comparing the growth rate of the future cash flows to the historical performance of the CGU and assessing whether the discount rate used in determining the FVLCTS represents current market assessment of risks associated with the CGU. We discussed with the Group's management the CGU's current business performance and prospects and how these were reflected in the Group's FVLCTS calculation. We also re-performed the calculation of the FVLCTS.

Other Information

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

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

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available 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 financial statements in accordance with the Philippine GAAP for banks and the parent company financial statements in accordance with PFRS, 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.

SGV
Building a better working world

Report on the Supplementary Information Required Under Revenue Regulations No. 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 No. 15-2010 in Note 37 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 the Parent Company. 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 Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 6621305, January 9, 2018, Makati City

January 30, 2018

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Millions)

	Consolidated		Parent Company	
	December 31			
	2017	2016	**2017**	2016
ASSETS				
Cash and Other Cash Items	**₱27,631**	₱26,553	**₱24,975**	₱23,470
Due from Bangko Sentral ng Pilipinas (Note 16)	**261,959**	238,806	**224,723**	203,781
Due from Other Banks	**31,291**	44,315	**19,286**	30,101
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 26)	**45,475**	91,646	**27,208**	73,094
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**43,887**	37,214	**32,272**	26,766
Available-for-Sale Investments (Note 8)	**343,910**	316,855	**270,445**	253,594
Loans and Receivables (Note 9)	**1,265,469**	1,060,868	**1,002,921**	844,198
Property and Equipment (Note 10)	**22,362**	21,995	**15,757**	15,506
Investments in Subsidiaries (Note 11)	**–**	–	**68,452**	56,627
Investments in Associates and a Joint Venture (Note 11)	**5,764**	5,350	**644**	615
Goodwill (Note 11)	**5,200**	5,200	**–**	–
Investment Properties (Note 12)	**7,717**	8,474	**3,013**	3,749
Deferred Tax Assets (Note 28)	**9,161**	8,855	**6,528**	6,439
Other Assets (Note 14)	**10,466**	9,878	**5,161**	5,275
	₱2,080,292	₱1,876,009	**₱1,701,385**	₱1,543,215
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
Demand	**₱344,708**	₱298,388	**₱314,542**	₱272,081
Savings	**605,508**	547,685	**576,807**	522,643
Time	**547,721**	520,329	**395,948**	388,063
Long-Term Negotiable Certificates	**30,025**	22,900	**26,650**	22,900
	1,527,962	1,389,302	**1,313,947**	1,205,687
Bills Payable and Securities Sold Under Repurchase Agreements (Notes 17 and 31)	**227,835**	161,376	**106,482**	68,865
Derivative Liabilities (Note 8)	**5,352**	4,612	**5,352**	4,547
Manager's Checks and Demand Drafts Outstanding	**8,054**	6,932	**5,840**	5,171
Income Taxes Payable	**3,381**	2,185	**2,077**	1,177
Accrued Interest and Other Expenses (Note 18)	**6,973**	7,067	**3,905**	4,646
Non-equity Non-controlling Interest (Note 21)	**8,002**	7,934	**–**	–
Bonds Payable (Notes 19 and 31)	**2,910**	11,498	**–**	–
Subordinated Debts (Note 20)	**26,580**	29,524	**22,437**	22,404
Deferred Tax Liabilities (Note 28)	**277**	312	**–**	–
Other Liabilities (Note 21)	**58,876**	49,714	**34,719**	34,716
	1,876,202	1,670,456	**1,494,759**	1,347,213

(Forward)

	Consolidated		Parent Company	
	December 31			
	2017	2016	**2017**	2016
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 23)	**₱63,603**	₱63,603	**₱63,603**	₱63,603
Capital paid in excess of par value (Note 23)	**42,139**	42,139	**42,139**	42,139
Surplus reserves (Note 24)	**1,810**	1,653	**1,810**	1,653
Surplus (Note 23)	**116,786**	101,900	**116,786**	101,900
Treasury stock (Notes 23 and 31)	**(46)**	(485)	**(46)**	(485)
Remeasurement losses on retirement plan (Notes 11 and 27)	**(4,025)**	(4,007)	**(4,025)**	(4,007)
Net unrealized loss on available-for-sale investments (Note 8)	**(15,804)**	(10,115)	**(15,804)**	(10,115)
Equity in other comprehensive income of investees (Note 11)	**22**	54	**22**	54
Translation adjustment and others (Note 11)	**(2,530)**	1,260	**2,141**	1,260
	201,955	196,002	**206,626**	196,002
Other Equity Reserves (Note 11)	**(7,400)**	–	–	–
Non-controlling Interest (Note 11)	**9,535**	9,551	–	–
	204,090	205,553	**206,626**	196,002
	₱2,080,292	₱1,876,009	**₱1,701,385**	₱1,543,215

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Millions, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	**2017**	2016	2015
INTEREST INCOME ON						
Loans and receivables (Note 9)	**₱63,391**	₱51,266	₱44,179	**₱35,072**	₱27,386	₱22,930
Trading and investment securities (Note 8)	**15,065**	15,371	17,838	**12,017**	12,745	15,282
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**1,231**	898	2,986	**606**	479	2,657
Deposits with banks and others	**635**	646	553	**316**	387	297
	80,322	68,181	65,556	**48,011**	40,997	41,166
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	**12,613**	9,888	11,159	**8,777**	6,811	8,476
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others (Notes 17, 19, 20 and 31)	**6,303**	5,347	5,423	**2,741**	1,979	2,019
	18,916	15,235	16,582	**11,518**	8,790	10,495
NET INTEREST INCOME	**61,406**	52,946	48,974	**36,493**	32,207	30,671
Service charges, fees and commissions (Note 31)	**11,045**	10,329	9,794	**4,171**	3,768	3,592
Foreign exchange gain - net (Note 31)	**4,257**	2,005	517	**4,101**	1,533	18
Leasing (Notes 12, 13 and 31)	**2,129**	2,001	1,970	**215**	220	244
Income from trust operations (Notes 24 and 31)	**1,377**	1,274	1,164	**1,351**	1,251	1,142
Profit from assets sold (Notes 12 and 13)	**1,075**	732	1,293	**639**	463	1,187
Trading and securities gain (loss) - net (Notes 8, 21 and 31)	**(402)**	6,563	1,618	**(1,079)**	6,154	1,604
Dividends	**182**	151	478	**19**	17	8
Miscellaneous (Note 25)	**2,484**	2,611	1,930	**446**	452	520
TOTAL OPERATING INCOME	**83,553**	78,612	67,738	**46,356**	46,065	38,986
Compensation and fringe benefits (Notes 27 and 31)	**20,218**	18,374	16,014	**13,526**	12,339	10,469
Provision for (reversal of) credit and impairment losses (Note 15)	**7,507**	7,342	2,059	**1,395**	1,174	(2,926)
Taxes and licenses (Note 28)	**6,580**	5,997	6,158	**3,701**	3,317	3,712
Depreciation and amortization (Notes 10, 12 and 14)	**3,524**	3,290	2,879	**1,585**	1,515	1,254
Occupancy and equipment-related cost (Note 13)	**2,929**	2,819	2,592	**1,730**	1,680	1,510
Amortization of software costs (Note 14)	**494**	474	381	**123**	141	160
Miscellaneous (Note 25)	**13,730**	13,639	12,184	**8,553**	8,881	7,716
TOTAL OPERATING EXPENSES	**54,982**	51,935	42,267	**30,613**	29,047	21,895
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE	**28,571**	26,677	25,471	**15,743**	17,018	17,091
SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE (Note 11)	**689**	261	409	**6,995**	4,958	4,740
INCOME BEFORE INCOME TAX	**29,260**	26,938	25,880	**22,738**	21,976	21,831
PROVISION FOR INCOME TAX (Note 28)	**7,990**	6,622	5,237	**4,515**	3,890	3,206
NET INCOME	**₱21,270**	₱20,316	₱20,643	**₱18,223**	₱18,086	₱18,625
Attributable to:						
Equity holders of the Parent Company (Note 32)	**₱18,223**	₱18,086	₱18,625			
Non-controlling Interest (Note 11)	**3,047**	2,230	2,018			
	₱21,270	₱20,316	₱20,643			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱5.73**	₱5.61	₱5.86			

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	**2017**	2016	2015
Net Income	**₱21,270**	₱20,316	₱20,643	**₱18,223**	₱18,086	₱18,625
Other Comprehensive Income for the Year, Net of Tax						
Items that may not be reclassified to profit or loss:						
Change in remeasurement loss on retirement plan (Notes 11 and 27)	**26**	(489)	(1,178)	**(18)**	(477)	(1,090)
Items that may be reclassified to profit or loss:						
Change in net unrealized loss on available-for-sale investments (Note 8)	**(5,772)**	(5,464)	(2,397)	**(5,689)**	(5,332)	(2,389)
Change in equity in other comprehensive income of investees (Note 11)	**(32)**	(127)	(80)	**(32)**	(126)	(80)
Translation adjustment and others (Note 11)	**733**	(1,076)	430	**881**	277	438
	(5,071)	(6,667)	(2,047)	**(4,840)**	(5,181)	(2,031)
Total Comprehensive Income for the Year	**₱16,225**	₱13,160	₱17,418	**₱13,365**	₱12,428	₱15,504
Attributable to:						
Equity holders of the Parent Company	**₱13,365**	₱12,428	₱15,504			
Non-controlling Interest	**2,860**	732	1,914			
	₱16,225	₱13,160	₱17,418			

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

	Consolidated													
	Equity Attributable to Equity Holders of the Parent Company													
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid In Excess of Par Value (Note 23)	Surplus Reserves (Note 24)	Surplus (Note 23)	Treasury Stock (Note 23)	Remeasurement Losses on Retirement Plan (Notes 11 and 27)	Net Unrealized Loss on Available-for-Sale Investments (Note 8)	Equity in Other Comprehensive Income of Investees (Note 11)	Translation Adjustment and Others (Note 11)	Total	Other Equity Reserve (Note 11)	Non-controlling Interest (Note 11)	Total Equity
Balance as at January 1, 2017	**₱63,603**	**₱–**	**₱42,139**	**₱1,653**	**₱101,900**	**(₱485)**	**(₱4,007)**	**(₱10,115)**	**₱54**	**₱1,260**	**₱196,002**	**₱–**	**₱9,551**	**₱205,553**
Total comprehensive income for the year	–	–	–	–	**18,223**	–	**(18)**	**(5,689)**	**(32)**	**881**	**13,365**	–	**2,860**	**16,225**
Transfer to surplus reserves	–	–	–	**157**	**(157)**	–	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	**(3,180)**	–	–	–	–	–	**(3,180)**	–	**(147)**	**(3,327)**
Disposal of Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	**455**	–	–	–	–	**455**	–	–	**455**
Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	**(16)**	–	–	–	–	**(16)**	–	–	**(16)**
Acquisition of non-controlling interest (Note 11)	–	–	–	–	–	–	–	–	–	**(4,671)**	**(4,671)**	**(7,400)**	**(2,729)**	**(14,800)**
Balance as at December 31, 2017	**₱63,603**	**₱–**	**₱42,139**	**₱1,810**	**₱116,786**	**(₱46)**	**(₱4,025)**	**(₱15,804)**	**₱22**	**(₱2,530)**	**₱201,955**	**(₱7,400)**	**₱9,535**	**₱204,090**
Balance as at January 1, 2016	₱63,603	₱6,351	₱42,139	₱1,506	₱87,497	(₱187)	(₱3,530)	(₱4,783)	₱180	₱983	₱193,759	₱–	₱9,551	₱203,310
Total comprehensive income for the year	–	–	–	–	18,086	–	(477)	(5,332)	(126)	277	12,428	–	732	13,160
Transfer to surplus reserves	–	–	–	147	(147)	–	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(3,180)	–	–	–	–	–	(3,180)	–	(732)	(3,912)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(267)	–	–	–	–	–	(267)	–	–	(267)
Redemption of hybrid capital securities	–	(6,351)	–	–	(89)	–	–	–	–	–	(6,440)	–	–	(6,440)
Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	(298)	–	–	–	–	(298)	–	–	(298)
Balance as at December 31, 2016	₱63,603	₱–	₱42,139	₱1,653	₱101,900	(₱485)	(₱4,007)	(₱10,115)	₱54	₱1,260	₱196,002	₱–	₱9,551	₱205,553
Balance as at January 1, 2015	₱54,896	₱6,351	₱19,312	₱1,371	₱72,258	(₱30)	(₱2,440)	(₱2,394)	₱260	₱545	₱150,129	₱–	₱8,656	₱158,785
Total comprehensive income for the year	–	–	–	–	18,625	–	(1,090)	(2,389)	(80)	438	15,504	–	1,914	17,418
Transfer to surplus reserves	–	–	–	135	(135)	–	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,745)	–	–	–	–	–	(2,745)	–	(1,019)	(3,764)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(506)	–	–	–	–	–	(506)	–	–	(506)
Issuance of shares of stock	8,707	–	22,827	–	–	–	–	–	–	–	31,534	–	–	31,534
Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	(157)	–	–	–	–	(157)	–	–	(157)
Balance as at December 31, 2015	₱63,603	₱6,351	₱42,139	₱1,506	₱87,497	(₱187)	(₱3,530)	(₱4,783)	₱180	₱983	₱193,759	₱–	₱9,551	₱203,310

	Parent Company										
	Common Stock (Note 23)	**Hybrid Capital Securities** (Note 23)	**Capital Paid In Excess of Par Value** (Note 23)	**Surplus Reserves** (Note 24)	**Surplus** (Note 23)	**Treasury Stock** (Note 23)	**Remeasurement Losses on Retirement Plan** (Notes 11 and 27)	**Net Unrealized Loss on Available-for-Sale Investments** (Note 8)	**Equity in Other Comprehensive Income of Investee Companies** (Note 11)	**Translation Adjustment and Others** (Note 11)	**Total Equity**
Balance as at January 1, 2017	**₱63,603**	**₱–**	**₱42,139**	**₱1,653**	**₱101,900**	**(₱485)**	**(₱4,007)**	**(₱10,115)**	**₱54**	**₱1,260**	**₱196,002**
Total comprehensive income for the year	□	□	□	□	**18,223**	□	**(18)**	**(5,689)**	**(32)**	**881**	**13,365**
Transfer to surplus reserves	□	□	□	**157**	**(157)**	□	□	□	□	□	□
Cash dividends	□	□	□	□	**(3,180)**	□	□	□	□	□	**(3,180)**
Disposal of Parent Company shares held by mutual fund subsidiaries	□	□	□	□	□	**455**	□	□	□	□	**455**
Parent Company shares held by mutual fund subsidiaries	□	□	□	□	□	**(16)**	□	□	□	□	**(16)**
Balance as at December 31, 2017	**₱63,603**	**₱□**	**₱42,139**	**₱1,810**	**₱116,786**	**(₱46)**	**(₱4,025)**	**(₱15,804)**	**₱22**	**₱2,141**	**₱206,626**
Balance as at January 1, 2016	₱63,603	₱6,351	₱42,139	₱1,506	₱87,497	(₱187)	(₱3,530)	(₱4,783)	₱180	₱983	₱193,759
Total comprehensive income for the year	–	–	–	–	18,086	–	(477)	(5,332)	(126)	277	12,428
Transfer to surplus reserves	–	–	–	147	(147)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(3,180)	–	–	–	–	–	(3,180)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(267)	–	–	–	–	–	(267)
Redemption of hybrid capital securities	–	(6,351)	–	–	(89)	–	–	–	–	–	(6,440)
Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	(298)	–	–	–	–	(298)
Balance as at December 31, 2016	₱63,603	₱–	₱42,139	₱1,653	₱101,900	(₱485)	(₱4,007)	(₱10,115)	₱54	₱1,260	₱196,002
Balance as at January 1, 2015	₱54,896	₱6,351	₱19,312	₱1,371	₱72,258	(₱30)	(₱2,440)	(₱2,394)	₱260	₱545	₱150,129
Total comprehensive income for the year	–	–	–	–	18,625	–	(1,090)	(2,389)	(80)	438	15,504
Transfer to surplus reserves	–	–	–	135	(135)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,745)	–	–	–	–	–	(2,745)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(506)	–	–	–	–	–	(506)
Issuance of shares of stock	8,707	–	22,827	–	–	–	–	–	–	–	31,534
Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	(157)	–	–	–	–	(157)
Balance as at December 31, 2015	₱63,603	₱6,351	₱42,139	₱1,506	₱87,497	(₱187)	(₱3,530)	(₱4,783)	₱180	₱983	₱193,759

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	**2017**	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱29,260**	₱26,938	₱25,880	**₱22,738**	₱21,976	₱21,831
Adjustments for:						
Provision for (reversal of) credit and impairment losses (Note 15)	**7,507**	7,342	2,059	**1,395**	1,174	(2,926)
Trading and securities gain on available-for-sale investments (Note 8)	**(641)**	(5,144)	(1,430)	**(554)**	(4,693)	(1,301)
Depreciation and amortization (Notes 10, 12 and 14)	**3,524**	3,290	2,879	**1,585**	1,515	1,254
Share in net income of subsidiaries, associates and a joint venture (Note 11)	**(689)**	(261)	(409)	**(6,995)**	(4,958)	(4,740)
Profit from assets sold (Notes 10 and 12)	**(1,075)**	(732)	(1,293)	**(639)**	(463)	(1,187)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	**(1,075)**	(834)	(713)	**(26)**	(24)	(21)
Amortization of software costs (Note 14)	**494**	474	381	**123**	141	160
Amortization of discount on subordinated debts and bonds payable	**66**	20	45	**33**	31	29
Unrealized market valuation loss (gain) on financial assets and liabilities at FVPL	**1,652**	(778)	(1,828)	**1,652**	(802)	(1,847)
Dividends	**(182)**	(151)	(478)	**(19)**	(17)	(8)
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	**(7,497)**	12,820	(19)	**(6,327)**	8,981	(1,814)
Loans and receivables	**(213,951)**	(182,710)	(129,897)	**(161,020)**	(149,598)	(98,690)
Other assets	**55**	2,004	(4,371)	**794**	1,603	(3,824)
Increase (decrease) in:						
Deposit liabilities	**138,660**	131,332	73,516	**108,260**	99,302	55,957
Bills payable - deposit substitutes	**2,425**	(263)	13,718	**–**	–	–
Manager's checks and demand drafts outstanding	**1,122**	1,319	960	**669**	907	865
Accrued interest and other expenses	**(94)**	(1,120)	(1,687)	**(741)**	(1,125)	(1,743)
Non-equity non-controlling interest	**68**	(1,975)	(215)	**–**	–	–
Other liabilities	**(5,704)**	(3,894)	617	**(7,317)**	(2,649)	(12)
Net cash used in operations	**(46,075)**	(12,323)	(22,285)	**(46,389)**	(28,699)	(38,017)
Dividends received	**182**	151	478	**19**	17	8
Income taxes paid	**(7,053)**	(5,884)	(7,150)	**(3,704)**	(3,168)	(4,508)
Net cash used in operating activities	**(52,946)**	(18,056)	(28,957)	**(50,074)**	(31,850)	(42,517)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(108,623)**	(388,626)	(170,783)	**(89,874)**	(374,158)	(98,137)
Held-to-maturity investments	**–**	–	(79,513)	**–**	–	(65,196)
Property and equipment (Note 10)	**(3,556)**	(3,512)	(3,840)	**(1,826)**	(1,640)	(1,819)
Investments in subsidiaries and associates (Note 11)	**(235)**	–	–	**–**	(1,611)	(30)
Proceeds from sale of:						
Available-for-sale investments	**77,175**	508,014	140,573	**67,936**	494,106	74,888
Held-to-maturity investments (Note 8)	**–**	4,745	–	**–**	4,745	–
Property and equipment (Note 10)	**165**	331	472	**85**	147	287
Investments in subsidiaries and associates (Note 11)	**190**	–	–	**–**		–
Investment properties (Note 12)	**3,031**	2,275	4,090	**1,407**	1,083	3,167
Cash dividends from investees (Note 11)	**288**	23	7	**3,655**	1,847	1,824

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	**2017**	2016	2015
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements (Note 26)	**₱3,039**	(₱11,192)	₱3,065	**(₱322)**	(₱5,221)	₱5,228
Proceeds from maturity of held-to-maturity investments	**–**	1,221	157	**–**	1,221	157
Net cash provided by (used in) investing activities	**(28,526)**	113,279	(105,772)	**(18,939)**	120,519	(79,631)
CASH FLOWS FROM FINANCING ACTIVITIES (Note 26)						
Settlements of bills payable	**(2,808,869)**	(983,550)	(1,275,001)	**(2,458,936)**	(983,551)	(776,422)
Availments of bills payable and securities sold under repurchase agreement	**2,872,903**	968,398	1,297,675	**2,496,553**	963,776	802,717
Repayments of subordinated debts (Note 20)	**(3,000)**	–	–	**–**	–	–
Maturity of bonds payable (Note 19)	**(8,599)**	–	–	**–**	–	–
Proceeds from issuance of shares of stock (Note 23)	**–**	–	31,534	**–**	–	31,534
Cash dividends paid (Note 23)	**(3,327)**	(3,160)	(3,764)	**(3,180)**	(3,180)	(2,745)
Coupon payment of hybrid capital securities (Note 23)	**–**	(267)	(506)	**–**	(267)	(506)
Redemption of hybrid capital securities (Note 23)	**–**	(6,440)	–	**–**	(6,440)	–
Proceeds from disposal of Parent Company shares by mutual fund subsidiaries (Note 31)	**455**	–	–	**–**	–	–
Acquisition of Parent Company shares by a mutual fund subsidiary (Note 23)	**(16)**	(298)	(157)	**–**	–	–
Net cash provided by (used in) financing activities	**49,547**	(25,317)	49,781	**34,437**	(29,662)	54,578
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(31,925)**	69,906	(84,948)	**(34,576)**	59,007	(67,570)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**26,553**	32,536	34,943	**23,470**	28,570	30,733
Due from Bangko Sentral ng Pilipinas	**238,806**	214,704	215,253	**203,781**	185,484	174,259
Due from other banks	**44,315**	36,864	38,200	**30,101**	26,213	25,583
Interbank loans receivable and securities purchased under resale agreements (Note 26)	**75,868**	31,532	112,188	**65,450**	23,528	100,790
	385,542	315,636	400,584	**322,802**	263,795	331,365
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**27,631**	26,553	32,536	**24,975**	23,470	28,570
Due from Bangko Sentral ng Pilipinas	**261,959**	238,806	214,704	**224,723**	203,781	185,484
Due from other banks	**31,291**	44,315	36,864	**19,286**	30,101	26,213
Interbank loans receivable and securities purchased under resale agreements (Note 26)	**32,736**	75,868	31,532	**19,242**	65,450	23,528
	₱353,617	₱385,542	₱315,636	**₱288,226**	₱322,802	₱263,795

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	**2017**	2016	2015
Interest paid	**₱18,347**	₱15,569	₱16,616	**₱11,391**	₱9,102	₱10,440
Interest received	**79,549**	69,370	64,663	**47,253**	42,232	40,936

See accompanying Notes to Financial Statements.

1. Corporate Information

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines on April 6, 1962. The Securities and Exchange Commission (SEC) approved the renewal of its Certification of Incorporation until April 6, 2057 on November 19, 2007.

The Parent Company's shares were listed with the Philippine Stock Exchange, Inc. (PSE) on February 26, 1981, as approved by the SEC in November 1980. It has a universal banking license granted by the Bangko Sentral ng Pilipinas (BSP) on August 21, 1981.

The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 2,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies. As a bank, the Parent Company, which is the ultimate parent of the Group, provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila, Philippines.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value.

The financial statements of the Parent Company and Philippine Savings Bank (PSBank) include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

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 respective functional currencies of the subsidiaries are presented under Basis of Consolidation. The financial statements are presented in PHP, and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

Statement of Compliance
The financial statements of the Group have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks. As discussed in Note 8, in 2011, First Metro Investment Corporation (FMIC), a majority-owned subsidiary of the Parent Company, participated in a bond exchange transaction under the liability management exercise of the Philippine Government. The SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investments under Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement,* while the BSP also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of

preparation of the financial statements of the availing entities shall not be Philippine Financial Reporting Standards (PFRS) but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the PFRS. Except for the aforementioned exemption which is applied starting 2011, the financial statements of the Group have been prepared in compliance with the PFRS.

The financial statements of the Parent Company have been prepared in compliance with the PFRS.

Presentation of Financial Statements
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company in 2017 and 2016 (Note 11):

Subsidiary	Principal Place of Business and Country of Incorporation	Effective Percentage of Ownership	Functional Currency
Financial Markets:			
Domestic:			
FMIC and Subsidiaries	Philippines	99.25	PHP
PSBank	Philippines	82.68	PHP
Metrobank Card Corporation (A Finance Company) (MCC) (60% in 2016)	Philippines	80.00*	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	Philippines	59.85	PHP
Foreign:			
Metropolitan Bank (China) Ltd. (MBCL)	China	100.00	Chinese Yuan
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)	The Bahamas	100.00	USD
First Metro International Investment Company Limited (FMIIC) and Subsidiary	Hong Kong	100.00	Hong Kong Dollar (HKD)
Remittances:			
Metro Remittance (Hong Kong) Limited (MRHL)	Hong Kong	100.00	HKD
Metro Remittance (Singapore) Pte. Ltd. (MRSPL)	Singapore	100.00	Singapore Dollar
Metro Remittance (UK) Limited (MR UK)	United Kingdom	100.00	Great Britain Pound
Metro Remittance (USA), Inc. (MR USA)	United States of America (USA)	100.00	USD
Metro Remittance Center, Inc. (MRCI)	USA	100.00	USD
Metro Remittance (Japan) Co. Ltd. (MR Japan)	Japan	100.00	Japanese Yen
Metro Remittance (Italia), S.p.A. (MR Italia)**	Italy	100.00	Euro
Real Estate:			
Circa 2000 Homes, Inc. (Circa)**	Philippines	100.00	PHP
Others:			
Philbancor Venture Capital Corporation (PVCC)**	Philippines	60.00	PHP
MBTC Technology, Inc. (MTI)***	Philippines	100.00	PHP

* Inclusive of the 20% interest acquired in December 2017 (Note 11)
** In process of dissolution
*** In process of liquidation

On August 17, 2017, the New York State Department of Financial Services has approved the merger of MR USA and MRCI with MR USA being the surviving entity. On December 22, 2017, MR USA and MRCI have executed a Certificate of Merger and an Agreement and Plan of Merger. Said certification and agreement were filed with the Secretary of State's Offices in Delaware and in California on December 22 and December 27, 2017, respectively. Both Secretary of State's Offices has accepted and annotated such certification/agreement of merger.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation (Note 31). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where 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. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income and consolidated statements of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

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

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest;(c) derecognizes the related other comprehensive income recorded in equity and recycles the same to statement of income or retained earnings; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in statement of income; and (g) reclassifies the Parent Company's share of components' gains (losses) previously recognized in other comprehensive income (OCI) to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Entity with Significant Influence over the Group

GT Capital Holdings, Inc. (GT Capital) holds 36.09% and 26.47% interests in the Parent Company as of December 31, 2017 and 2016, respectively (Note 31).

Other Equity Reserves

Other equity reserves represents the charge to equity for an obligation of the Group to purchase their own equity instruments for cash which gives rise to a financial liability even if the obligation to purchase is conditional on the counterparty exercising a right to sell.

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets of the funds not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests are accounted for as equity transactions.

Non-equity Non-controlling Interest
The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated.

Non-equity non-controlling interest represents the portion of net assets of the consolidated funds not attributed, directly or indirectly, to the Parent Company and is presented separately in the liability section in the consolidated statement of financial position. This liability is accounted for at FVPL and measured using net asset value per unit with changes recognized in 'Trading and securities gain (loss) - net' in the consolidated statement of income.

Changes in Accounting Policies and Disclosures
The Group applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2017, the accounting policies adopted are consistent with those of previous financial year.

Amendments
PFRS 12, *Disclosure of Interests in Other Entities – Clarification on the disclosure requirements on the investments in other entities.*
The amendments clarify that the disclosure requirements apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale. The amendment is applied retrospectively.

PAS 7, *Disclosure Initiative*
This requires entities to provide disclosure about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes such as foreign exchange gains and losses. The Group has provided the required information in Note 26 to the financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

PAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses – Clarification on the accounting for deferred tax assets on debt instruments measured at fair value.*
This requires entities to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Entities should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than carrying amount.

Significant Accounting Policies

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

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

FCDU, foreign branches and subsidiaries
As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the PHP) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDS weighted average rate (PDSWAR) for the year. Exchange differences arising on translation are taken to statement of comprehensive income under 'Translation adjustment and others'. Upon disposal of a foreign entity or when the Parent Company ceases to have control over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Group measures certain financial instruments, such as derivatives, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

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 (i.e., an exit price). 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.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid - ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

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

For assets and liabilities not listed in an active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets and liabilities at FVPL, and for non-recurring measurement, such as investment properties.

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

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

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</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 marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. 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 FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL 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.

'Day 1' difference
Where the transaction price in a non-active market is different with 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 market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the 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' difference amount.

Derivatives recorded at FVPL
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps (IRS), call options, non-deliverable forwards (NDF) and other interest rate derivatives. These 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 gain (loss) - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge accounting
For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Translation adjustment and others' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

Hedge effectiveness testing
To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80.00% to 125.00%. Any hedge ineffectiveness is recognized in the statement of income.

Embedded derivatives
The Group has certain derivatives that are embedded in host financial (such as structured notes and debt instruments) and non-financial (such as lease and service agreements) contracts. These embedded derivatives include interest rate derivatives in debt instruments which include structured notes and foreign currency derivatives in debt instruments and lease agreements.

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 FVPL, 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.

Financial assets or financial liabilities held for trading
Financial assets or financial liabilities held for trading 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 (loss) - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' respectively, while dividend income is recorded in 'Dividends' when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

AFS investments
AFS investments include debt and equity instruments. Equity investments classified under AFS investments are those which are neither classified as held-for-trading (HFT) nor designated at FVPL. Debt securities are those that do not qualify to be classified as HTM investments or loans and receivables, are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

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. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are included in the statement of comprehensive income as 'Changes in 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) - net' in the statement of income. Gains and losses on disposal are determined using the average cost method.

Interest earned on holding AFS investments are reported as 'Interest income' using the effective interest rate (EIR) method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Dividends' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for (reversal of) credit and impairment losses' in the statement of income.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified to AFS investments and the Group would be prohibited from classifying any financial asset under HTM category during the current year and two succeeding years thereafter unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

After initial measurement, these investments 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 the HTM investments are derecognized or 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 (reversal of) credit and impairment losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized in the statement of income.

The Group follows Philippine GAAP for banks in accounting for its HTM investments in the consolidated financial statements. Under Philippine GAAP for banks, the gain on exchange on FMIC's participation in the domestic bond exchange was deferred and amortized over the term of new bonds (see Statement of Compliance discussion).

Loans and receivables
This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements (SPURA)' and 'Loans and receivables'. These are 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 'other financial assets held for trading', designated as AFS investments or 'financial assets designated at FVPL'.

Loans and receivables include purchases made by MCC's cardholders which are collected on installments and are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned discount, shown as a deduction from 'Loans and receivables'.

This also includes ORIX Metro's lease contracts receivable and notes receivable financed which are stated at the outstanding balance, reduced by unearned lease income and unearned finance income, respectively.

After initial measurement, 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivables', are subsequently measured at amortized cost using the EIR 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 (reversal of) credit and impairment losses' in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable' or other appropriate financial liability 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 own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at FVPL, are subsequently measured at amortized cost using the EIR 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.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, 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 of 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 of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in case of a written put option to an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, 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.

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 securities sold under repurchase agreements (SSURA) included in 'Bills Payable and SSURA' and is considered as a loan 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 EIR method.

Impairment of Financial Assets
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. 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost such as loans and receivables, due from other banks, 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.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through 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. Financial assets, 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 period, 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 (reversal of) credit and impairment losses' in the statements of income. If the Group determines that no objective evidence of 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. Those characteristics are 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 a 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 as 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.

The Group also uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-day past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a percentage ('net flow rate') of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 day past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the net flow rates determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS investments
In case of quoted 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 case of unquoted equity investments classified as 'AFS investments', the amount of the impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

In 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 subsequently, the fair value of a debt instrument increased 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.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for (reversal of) credit and impairment losses' in the statement of income.

Revenue Recognition
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. 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 trading transactions. The following specific recognition criteria must also be met before revenue is recognized:

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

Once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

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

Leasing income - Finance lease
The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of equipment at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

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

Trading and securities gain (loss) - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and gains and losses from disposal of financial assets held for trading, AFS and HTM investments.

Rental income
Rental income arising on 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 'Leasing'.

Discounts earned and awards revenue on credit cards
Discounts are taken up as income, presented under 'Service charges, fees and commissions', upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when Group is acting as an acquirer. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments. This account also includes interchange income from transactions processed by other acquirers through VISA Inc. (Visa) and MasterCard Incorporated (MasterCard) and service fee from cash advance transactions of cardholders.

MCC operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of MCC. The points can then be redeemed for free products subject to a minimum number of points being obtained. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Income on direct financing leases and receivables financed
Income on loans and receivables financed with short-term maturities is recorded in 'Interest income' and is recognized using the EIR method. Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR method.

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

Gain on sale of non-current asset held for sale
The gain or loss arising from the sale of non-current asset held for sale is included in profit or loss when the item is derecognized. The gain or loss arising from the derecognition of non-current asset held for sale is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Revenue on sale of residential and commercial units is recognized only upon completion of the project. Payments received before completions are included under 'Miscellaneous liabilities'.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. 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. Building under construction (BUC) is stated at cost and includes cost of construction and other direct costs. BUC is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements. The range of estimated useful lives of property and equipment follows:

Buildings	25 to 50 years
Furniture, fixtures and equipment	2 to 5 years
Leasehold improvements	5 to 20 years

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

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

Investments in Subsidiaries, Associates and a Joint Venture (JV)

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. 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 vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights.

Investment in associates

Associates pertain to all entities over which the Group and the Parent Company have 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. Investment in associates is accounted for under the equity method of accounting.

Investment in a JV

A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. 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. Investment in a JV is accounted for under the equity method of accounting. The Group's investment in a JV represents the 30% (40% in 2016) interest of PSBank in Sumisho Motor Finance Corporation (SMFC) (Note 11).

Upon loss of significant influence over the associate or joint control over the JV, the Group and the Parent Company measure and recognize any retained investment at its fair value. Any difference between the carrying amount of the associate or JV 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.

Under the equity method, investments in associates and a JV are carried in the statement of financial position at cost plus post-acquisition changes in the Group's and Parent Company's share of the net assets of the associate or JV less any impairment in value. Post-acquisition changes in the share of net assets of the associate or a JV include the share in the: (a) income or losses; and (b) unrealized gain or loss on investment securities, remeasurement of retirement plans and others. Dividends received are treated as a reduction in the carrying values of the investments. Goodwill relating to the associate and a JV is included in the carrying value of the investment and is not amortized. When the Group and Parent Company increase its ownership interest in an associate or a JV that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate or JV and the existing interest in the associate or JV is not remeasured. The share in an associate or a JV's post-acquisition profits or losses is recognized in the statement of income as 'Share in net income of subsidiaries, associates and a joint venture' while its share of post-acquisition movements in the associate or JV's equity reserves is recognized directly in the statement of comprehensive income. When the share of losses in an associate or a JV equals or exceeds its interest in the associate or JV, including any other unsecured receivables, the Group and the Parent Company do not recognize further losses, unless it incurred obligations or made payments on behalf of the associate or JV which is recognized as miscellaneous liabilities. Profits and losses resulting from transactions between the Group or the Parent Company and an associate or JV are eliminated to the extent of the Group or the Parent Company's interest in the associate or JV.

Investments in subsidiaries in the separate financial statements are accounted for under the equity method similarly as investments in associates and JV. Equity in other comprehensive income of subsidiaries and changes therein are included in remeasurement losses on retirement plan, net unrealized loss on AFS investments and translation adjustments and others as appropriate together with the Parent Company in the separate statement of financial position and statement of comprehensive income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure; b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c.) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

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 under 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties based on appraisal reports but not to exceed 50 years for buildings and condominium units.

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 ending 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.

Interest in Joint Operations

The Group is a party to joint operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the joint operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of units by the joint operations. The assets contributed to the joint operations are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale (Note 14).

Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be 5 years.

Subordinated Notes
Subordinated notes issued by Special Purpose Vehicles (SPV) (presented as 'Investment in SPVs' under 'Other assets') are stated at amortized cost reduced by an allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flow expected to be received as payment for the subordinated notes.

Intangible Assets
Software costs
Software costs (presented under 'Other assets') are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over three to five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred. Software costs are carried at cost less accumulated amortization.

Exchange trading right
Exchange trading right (included in 'Miscellaneous assets' presented under 'Other assets') is a result of the PSE conversion plan to preserve access of FMIC's subsidiary to the trading facilities and continue transacting business in the PSE. The exchange trading right has an indefinite useful life as there is no foreseeable limit to the period over which this asset is expected to generate net cash inflows. It is carried at the amount allocated from the original cost to the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less any allowance for impairment losses. FMIC's subsidiary does not intend to sell the exchange trading right in the near future.

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 a JV, 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 Non-financial Assets).

Customized System Development Cost
Customized system development cost consists of payments for customization of various banking systems. This account will be reclassified to appropriate accounts upon completion and will be depreciated and amortized from the time the asset is ready for its intended use (Note 14).

Impairment of Non-financial Assets
Property and equipment, investments in subsidiaries, associates and a JV, investment properties, chattel mortgage properties, and intangible assets with finite useful lives
At each statement of financial position date, the Group assesses whether there is any indication that its non-financial 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 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 of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit 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 to operations in the year in which it arises.

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 and amortization, 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 life.

Intangible assets and customized system development cost not yet available for use
Intangible assets with indefinite useful lives such as exchange trading right and customized system development cost not yet available for use are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate.

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.

<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 a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension 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 gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Residual Value of Leased Assets and Deposits on Lease Contracts
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the 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'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to 'Interest expense'.

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 risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rental payables are recognized as expense in the year in which they are incurred.

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables'. 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 year in which they are earned.

Retirement Cost
The Group has a non-contributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (DBO) at the end of the reporting period reduced by the fair value of plan assets (if any), 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. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- 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 profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries. Net interest on the net defined benefit liability or asset is the change during the year 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 government 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 in profit or loss. Retirement expense is presented 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 other comprehensive income 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). If the fair value of the plan assets is higher than the present value of the DBO, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a DBO is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

Equity
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. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed stocks.

Surplus represents accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'Capital paid in excess of par value'. Voting rights related to treasury stocks are nullified and no dividends are allocated. When the stocks are retired, the Common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to capital paid in excess of par value at the time the stocks were issued and to surplus for the remaining balance (Note 11).

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'.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources 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 taxes
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 taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred taxes
Deferred tax is provided on 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, except:
a. 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 profit nor taxable profit or loss.
b. In respect of taxable temporary differences associated with investments in subsidiaries, 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 income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:
a. Where the deferred tax asset relating to the deductible temporary difference 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 profit nor taxable profit or loss.
b. 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 profit 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 future taxable profit will be available to allow all or part of the deferred income tax asset 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 income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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.

Current tax and deferred tax relating to items recognized directly in equity are recognized in other 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 set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

<u>Earnings Per Share</u>
Basic earnings per share 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. The Group does not have dilutive potential common shares.

<u>Dividends on Common Shares</u>
Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the Board of Directors (BOD) of the Parent Company while stock dividends are deducted from equity when approved by BOD and shareholders of the Parent Company. Dividends declared during the year but are paid or issued after the statement of financial position date are dealt with as a subsequent event.

<u>Coupon Payment on Hybrid Capital Securities</u>
Coupon payment on hybrid capital securities (HT1 Capital) is treated as dividend for financial reporting purposes, rather than interest expense and deducted from equity when due, after the approval by the BOD of the Parent Company and the BSP.

<u>Debt Issue Costs</u>
Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method.

Unamortized debt issuance costs are included in the related carrying amount of the debt instrument in the statement of financial position.

<u>Capital Securities Issuance Costs</u>
Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity.

<u>Events after the Statement of Financial Position Date</u>
Post year-end events that provide additional information about the Group's 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.

<u>Segment Reporting</u>
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 business segments is presented in Note 6.

<u>Fiduciary Activities</u>
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, PSBank and FMIC act in a fiduciary capacity such as nominee, trustee or agent.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of the Group's financial statements are listed below. The listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

<u>*Effective beginning on or after January 1, 2018*</u>

Amendments

PAS 40, *Investment Property*
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property mets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the change in use.

PAS 28, *Investment in Associate and Joint Venture - Measuring an associate or joint venture at fair value*
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. Further if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interest in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for

all three amendments and if other criteria are met. Early application of the amendments is permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

New Standards

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

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

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

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

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

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

Staging assessment
For non-credit-impaired financial instruments:

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

For credit-impaired financial instruments:

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

Definition of "default" and "cure"
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate 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 for a consecutive period of 90 days and has exhibited a satisfactory track record.

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

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

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

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

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

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

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

Forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all

characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

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

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

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

Philippine Interpretations

Philippine Interpretation IFRIC 22, *Foreign Currency Transaction and Advance Consideration*
Philippine Interpretation IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Intepretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or payed at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

<u>*Effective beginning on or after January 1, 2019*</u>

New Standards

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities

in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

Amendments

Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
Philippine Interpretation IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 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.

The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. *Consolidation of subsidiaries*
The determination whether the Group has control over an investee company requires significant judgment. The Group considers that the following criteria are all met, including: (a) an investor has the power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's return.

   In accordance with PFRS 10, the Group included the accounts of First Metro Save and Learn Balance Fund, Inc. (FMSALBF), First Metro Save and Learn Equity Fund, Inc. (FMSALEF), First Metro Save and Learn Fixed Income Fund (FMSLFIF), and First Metro Philippine Equity Traded Fund, Inc. (FMPETF) collectively the "Funds", in its consolidated financial statements. The Group re-assessed the control conclusion for these Funds. Although the ownership is less than half of the voting power of these investees, the Group has control due to its power to direct the relevant activities of the Funds through First Metro Asset Management Inc. (FAMI), a subsidiary of FMIC, which acts as the fund manager of the Funds. Further, the Group has the exposure to variable returns from its investments and its ability to use its power over the Funds to affect their returns.

b. *Existence of significant influence over an associate with less than 20.00% ownership*
As discussed in Note 11, there are instances that an investor exercises significant influence even if its ownership is less than 20.00%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation in 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; (e) joint voting agreement with other investors; or (f) provision of essential technical information.

c. *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (Note 5).

d. *Leases*
Operating lease
Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Group as lessee
The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance lease
The Group has determined, based on an evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset, lease term is for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee), that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

e. *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (Note 30).

Estimates

a. *Credit losses of loans and receivables*

The Group reviews its loan portfolios and receivables 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 9. In 2017, 2016 and 2015, provision for (reversal of) credit losses on loans and receivables amounted to ₱8.0 billion, ₱7.3 billion and ₱2.1 billion, respectively, for the Group and ₱1.8 billion, ₱1.2 billion and (₱2.9 billion), respectively, for the Parent Company (Note 15).

b. *Impairment of AFS equity securities*

The Group determines that AFS equity securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged', greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2017 and 2016, allowance for impairment losses on AFS equity securities amounted to ₱293.5 million and ₱294.3 million, respectively, for the Group and ₱159.6 million and ₱160.3 million, respectively, for the Parent Company. As of December 31, 2017 and 2016, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱1.8 billion and ₱0.8 billion, respectively, for the Group and ₱404.0 million and ₱388.2 million, respectively, for the Parent Company (Notes 8 and 15).

c. *Recognition of deferred income taxes*

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences 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 together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 28.

d. *Present value of retirement liability*
The cost of defined retirement 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 complexities involved in the valuation and 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 the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 27.

e. *Impairment of non-financial assets*
Property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs and chattel mortgage properties
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:
a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends.

The Group uses the higher of fair value less costs to sell and VIU in determining recoverable amount. As of December 31, 2017 and 2016, there has been a significant and prolonged decline in the fair value of an associate. The recoverable amount of the investment in the associate has been determined based on a VIU calculation. 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) long-term growth rates. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

The carrying values of the property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs and chattel mortgage properties of the Group and the Parent Company are disclosed in Notes 10, 11, 12 and 14, respectively.

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 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. The Group uses the higher of fair value less costs to sell (FVLCTS) and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount. The fair value of the CGU is determined using the discounted cash flow method for unquoted equity securities and liabilities at the appropriate market rate, while appraisal reports were used for non-financial assets and liabilities. Fair values of listed debt and equity securities are based on their quoted market prices. In applying the discounted cash flow method, the Group used weighted average cost of capital or cost of equity, as appropriate, to discount the future cash flows from the business. Average growth rate was derived based on the historical or industry data as applicable.

In 2017 and 2016, the applicable pre-tax discount rates applied to cash flow projections are 7.18% and 14.67%, respectively. In 2017 and 2016, the growth rate applied to cash flows is 3% and 4%, respectively. Key assumptions in VIU and FVLCTs calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

As of December 31, 2017 and 2016, the Group's goodwill amounted to ₱5.2 billion (Note 11).

4. Financial Risk and Capital Management

Introduction

The Group has exposure to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

Risk management framework

The BOD has overall responsibility for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Supporting the BOD in this function are certain Board-level committees such as Risk Oversight Committee (ROC), Audit Committee (AC) and senior management committees through the Executive Committee, Asset and Liability Committee (ALCO) and Policy Committee, among others.

The ROC, which is composed primarily of independent members of the BOD, is responsible for overseeing the Parent Company's risk infrastructure, the adequacy and relevance of risk policies, and the compliance to defined risk appetite and levels of exposure. The ROC is assisted in this responsibility by the Risk Management Group (RSK). RSK undertakes the implementation and execution of the Parent Company's Risk Management framework which involves the identification, assessment, control, monitoring and reporting of risks.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management processes but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group. Risk management policies adopted by the subsidiaries and affiliates are aligned with the Parent Company's risk policies. To further promote compliance with PFRS and Basel III, the Parent Company created a Risk Management Coordinating Council composed of the risk officers of the Parent Company and its financial institution subsidiaries.

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, related groups of borrowers, for market segmentation, and industry concentrations, and by monitoring exposures in relation to such limits. The same is true for treasury-related activities. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by IAG and Risk Management Group (RSK).

Management of credit risk
The Group 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 enter into either market-traded or over-the-counter derivatives, 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 obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to the risk profile. The risk grading system is 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; and
- Monitoring compliance with approved exposure limits.

Borrowers, counterparties or group of related accounts across the Group are aggregated and managed by the Parent Company's Institutional Banking Sector as the "Control Unit". Group Limits for conglomerates are set-up and approved to guide subsidiaries and affiliates of the Group. Consolidated exposures are regularly reported to senior management and the ROC.

The ICRRS contains the following:

a. Borrower Risk Rating (BRR) - 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 when it falls due. The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower based on audited financial statements as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually.	40.00%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.00%
Management Quality	Refers to the management's ability to run the company successfully.	30.00%

b. Facility Risk Factor (FRF) - 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 - combination of BRR and FRF.

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

An analysis of the maximum credit risk exposure relating to on balance sheet assets is shown below:

	Consolidated							
	2017				2016			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
Interbank loans receivable and SPURA	**₱2,890**	**₱1,497**	**₱1,497**	**₱1,393**	₱46,831	₱56,672	₱46,795	₱36
Loans and receivables - net								
Receivables from customers								
Commercial loans	**355,965**	**770,343**	**280,367**	**75,598**	300,464	562,590	226,245	74,219
Residential mortgage loans	**98,852**	**201,224**	**98,691**	**161**	91,641	196,090	91,545	96
Auto loans	**115,839**	**205,210**	**115,243**	**596**	96,527	154,850	96,070	457
Trade loans	**39,946**	**41,921**	**38,223**	**1,723**	27,987	31,188	27,171	816
Others	**688**	**679**	**642**	**46**	1,239	1,040	993	246
	611,290	**1,219,377**	**533,166**	**78,124**	517,858	945,758	442,024	75,834
Accounts receivable	**1**	**1**	**1**	**–**	–	–	–	–
Accrued interest receivable	**3,112**	**4,805**	**2,902**	**210**	2,794	4,045	2,567	227
Sales contract receivable	**89**	**364**	**89**	**–**	156	462	156	–
	614,492	**1,224,547**	**536,158**	**78,334**	520,808	950,265	444,747	76,061
Total	**₱617,382**	**₱1,226,044**	**₱537,655**	**₱79,727**	₱567,639	₱1,006,937	₱491,542	₱76,097

	Parent Company							
	2017				2016			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
Interbank loans receivable and SPURA	**₱1,635**	**₱2,013**	**₱1,635**	**₱–**	₱41,387	₱51,515	₱41,351	₱36
Loans and receivables – net								
Receivables from customers								
Commercial loans	**244,514**	**655,998**	**217,393**	**27,121**	194,437	464,089	172,050	22,387
Residential mortgage loans	**52,890**	**111,478**	**52,729**	**161**	48,247	109,954	48,151	96
Auto loans	**33,524**	**78,135**	**32,950**	**574**	28,452	63,964	27,995	457
Trade loans	**39,895**	**41,870**	**38,172**	**1,723**	27,987	31,188	27,171	816
Others	**673**	**673**	**637**	**36**	1,217	1,020	983	234
	371,496	**888,154**	**341,881**	**29,615**	300,340	670,215	276,350	23,990
Accrued interest receivable	**1,371**	**1,161**	**1,161**	**210**	1,179	955	952	227
Sales contract receivable	**16**	**60**	**16**	**–**	29	83	29	–
	372,883	**889,375**	**343,058**	**29,825**	301,548	671,253	277,331	24,217
Total	**₱374,518**	**₱891,388**	**₱344,698**	**₱29,825**	₱342,935	₱722,768	₱318,682	₱24,253

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2017 and 2016.

The following tables show the effect of rights of set-off associated with the recognized financial assets and financial liabilities.

				Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) offsetting criteria		
Financial assets recognized by type	**Gross Carrying Amounts (before offsetting)**	**Gross Amounts Offset in Accordance with the Offsetting Criteria**	**Net Amount Presented in Statement of Financial Position**	**Financial Instruments**	**Fair Value of Financial Collateral**	**Net Exposure**
Consolidated						
2017						
Derivative assets	**₱164,806**	**₱158,611**	**₱6,195**	**₱919**	**₱□**	**₱5,276**
SPURA	**1,616**	□	**1,616**	□	**1,616**	□
	₱166,422	**₱158,611**	**₱7,811**	**₱919**	**₱1,616**	**₱5,276**
2016						
Derivative assets	₱111,574	₱104,613	₱6,961	₱259	₱–	₱6,702
SPURA	46,831	–	46,831	–	46,795	36
	₱158,405	₱104,613	₱53,792	₱259	₱46,795	₱6,738

(Forward)

Financial assets recognized by type	Gross Carrying Amounts (before offsetting)	Gross Amounts Offset in Accordance with the Offsetting Criteria	Net Amount Presented in Statement of Financial Position	Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) offsetting criteria: Financial Instruments	Fair Value of Financial Collateral	Net Exposure
Parent Company						
2017						
Derivative assets	**₱162,083**	**₱155,961**	**₱6,122**	**₱919**	**₱–**	**₱5,203**
SPURA	**–**	**–**	**–**	**–**	**–**	**–**
	₱162,083	**₱155,961**	**₱6,122**	**₱919**	**₱–**	**₱5,203**
2016						
Derivative assets	₱111,054	₱104,093	₱6,961	₱259	₱–	₱6,702
SPURA	40,642	–	40,642	–	40,606	36
	₱151,696	₱104,093	₱47,603	₱259	₱40,606	₱6,738
Financial liabilities recognized by type						
Consolidated						
2017						
Derivative liabilities	**₱161,538**	**₱156,211**	**₱5,327**	**₱919**	**₱–**	**₱4,408**
SSURA	**64,575**	**–**	**64,575**	**–**	**64,288**	**287**
	₱226,113	**₱156,211**	**₱69,902**	**₱919**	**₱64,288**	**₱4,695**
2016						
Derivative liabilities	₱99,767	₱95,184	₱4,583	₱259	₱–	₱4,324
SSURA	51,031	–	51,031	–	50,882	149
	₱150,798	₱95,184	₱55,614	₱259	₱50,882	₱4,473
Parent Company						
2017						
Derivative liabilities	**₱161,538**	**₱156,211**	**₱5,327**	**₱919**	**₱–**	**₱4,408**
SSURA	**61,249**	**–**	**61,249**	**–**	**61,249**	**–**
	₱222,787	**₱156,211**	**₱66,576**	**₱919**	**₱61,249**	**₱4,408**
2016						
Derivative liabilities	₱97,103	₱92,586	₱4,517	₱259	₱–	₱4,258
SSURA	47,174	–	47,174	–	47,025	149
	₱144,277	₱92,586	₱51,691	₱259	₱47,025	₱4,407

Excessive risk concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentrations of credit risk at the reporting date based on carrying amount is shown below:

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
2017					
Concentration by Industry					
Financial and insurance activities	**₱92,645**	**₱338,725**	**₱90,052**	**₱173,921**	**₱695,343**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**238,644**	**–**	**2,705**	**198**	**241,547**
Manufacturing	**194,439**	**–**	**2,596**	**17,209**	**214,244**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**203,582**	**–**	**868**	**24,862**	**229,312**
Real estate activities	**205,574**	**–**	**5,169**	**818**	**211,561**
Transportation and storage, information and communication	**102,282**	**–**	**1,714**	**982**	**104,978**

(Forward)

	Consolidated				
	Loans and Receivables	**Loans and Advances to Banks***	**Trading and Investment Securities****	**Others*****	**Total**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**₱89,061**	**₱–**	**₱6,353**	**₱1,259**	**₱96,673**
Construction	**52,411**	**–**	**677**	**15,110**	**68,198**
Accommodation and food service activities	**28,645**	**–**	**2**	**49**	**28,696**
Agricultural, forestry and fishing	**29,476**	**–**	**4**	**580**	**30,060**
Others****	**40,624**	**–**	**277,952**	**6,018**	**324,594**
	1,277,383	**338,725**	**388,092**	**241,006**	**2,245,206**
Less allowance for credit losses	**16,407**	**–**	**295**	**9,614**	**26,316**
	₱1,260,976	**₱338,725**	**₱387,797**	**₱231,392**	**₱2,218,890**
Concentration by Location					
Philippines	**₱1,247,661**	**₱265,587**	**₱328,406**	**₱238,847**	**2,080,501**
Asia	**29,583**	**62,115**	**32,141**	**2,068**	**125,907**
USA	**50**	**6,021**	**12,183**	**91**	**18,345**
Europe	**54**	**4,740**	**9,878**	**–**	**14,672**
Others	**35**	**262**	**5,484**	**–**	**5,781**
	1,277,383	**338,725**	**388,092**	**241,006**	**2,245,206**
Less allowance for credit losses	**16,407**	**–**	**295**	**9,614**	**26,316**
	₱1,260,976	**₱338,725**	**₱387,797**	**₱231,392**	**₱2,218,890**
2016					
Concentration by Industry					
Financial and insurance activities	₱66,128	₱374,774	₱47,304	₱144,562	₱632,768
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	205,048	–	4,013	149	209,210
Manufacturing	186,674	–	1,424	17,385	205,483
Wholesale and retail trade, repair of motor vehicles, motorcycles	175,143	–	722	22,877	198,742
Real estate activities	158,834	–	6,930	518	166,282
Transportation and storage, information and communication	89,947	–	513	2,992	93,452
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	81,158	–	2,009	1,228	84,395
Construction	34,969	–	169	12,571	47,709
Accommodation and food service activities	21,143	–	101	8	21,252
Agricultural, forestry and fishing	19,744	–	6	503	20,253
Others****	31,759	–	291,172	10,060	332,991
	1,070,547	374,774	354,363	212,853	2,012,537
Less allowance for credit losses	14,426	7	294	10,036	24,763
	₱1,056,121	₱374,767	₱354,069	₱202,817	₱1,987,774
Concentration by Location					
Philippines	₱1,047,160	₱282,327	₱299,720	₱209,940	₱1,839,147
Asia	22,844	67,640	25,471	2,789	118,744
USA	478	10,610	20,111	124	31,323
Europe	43	13,597	5,969	–	19,609
Others	22	600	3,092	–	3,714
	1,070,547	374,774	354,363	212,853	2,012,537
Less allowance for credit losses	14,426	7	294	10,036	24,763
	₱1,056,121	₱374,767	₱354,069	₱202,817	₱1,987,774

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
2017					
Concentration by Industry					
Financial and insurance activities	**₱87,854**	**₱271,217**	**₱40,325**	**₱13,756**	**₱413,152**
Manufacturing	**189,967**	**–**	**1,691**	**17,209**	**208,867**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**189,915**	**–**	**206**	**24,862**	**214,983**
Real estate activities	**162,660**	**–**	**1,311**	**782**	**164,753**
Transportation and storage, information and communication	**90,064**	**–**	**1,035**	**982**	**92,081**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**86,081**	**–**	**2,705**	**198**	**88,984**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**85,673**	**–**	**5,514**	**1,258**	**92,445**
Construction	**40,979**	**–**	**8**	**15,054**	**56,041**
Accommodation and food service activities	**28,093**	**–**	**2**	**49**	**28,144**
Agricultural, forestry and fishing	**25,486**	**–**	**4**	**580**	**26,070**
Others****	**20,245**	**–**	**250,076**	**4,880**	**275,201**
	1,007,017	**271,217**	**302,877**	**79,610**	**1,660,721**
Less allowance for credit losses	**8,589**	**–**	**160**	**9,614**	**18,363**
	₱998,428	**₱271,217**	**₱302,717**	**₱69,996**	**₱1,642,358**
Concentration by Location					
Philippines	**₱997,421**	**₱226,512**	**₱249,629**	**₱77,486**	**₱1,551,048**
Asia	**9,157**	**34,087**	**25,896**	**2,034**	**71,174**
USA	**341**	**5,738**	**11,993**	**90**	**18,162**
Europe	**62**	**4,618**	**9,878**	**–**	**14,558**
Others	**36**	**262**	**5,481**	**–**	**5,779**
	1,007,017	**271,217**	**302,877**	**79,610**	**1,660,721**
Less allowance for credit losses	**8,589**	**–**	**160**	**9,614**	**18,363**
	₱998,428	**₱271,217**	**₱302,717**	**₱69,996**	**₱1,642,358**
2016					
Concentration by Industry					
Financial and insurance activities	₱65,975	₱306,976	₱34,141	₱11,483	₱418,575
Manufacturing	181,466	–	434	17,385	199,285
Wholesale and retail trade, repair of motor vehicles, motorcycles	158,300	–	58	22,877	181,235
Real estate activities	118,195	–	3,602	507	122,304
Transportation and storage, information and communication	81,919	–	306	2,992	85,217
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	77,084	–	4,013	149	81,246
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	78,141	–	513	1,228	79,882
Construction	27,123	–	4	12,515	39,642
Accommodation and food service activities	20,819	–	34	8	20,861
Agricultural, forestry and fishing	15,961	–	6	503	16,470
Others****	21,165	–	237,409	8,986	267,560
	846,148	306,976	280,520	78,633	1,512,277
Less allowance for credit losses	6,697	–	160	10,036	16,893
	₱839,451	₱306,976	₱280,360	₱68,597	₱1,495,384

(Forwarrd)

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
Concentration by Location					
Philippines	₱839,453	₱240,691	₱229,322	₱75,749	₱1,385,215
Asia	5,928	41,765	22,301	2,762	72,756
USA	690	10,370	19,836	122	31,018
Europe	56	13,552	5,969	–	19,577
Others	21	598	3,092	–	3,711
	846,148	306,976	280,520	78,633	1,512,277
Less allowance for credit losses	6,697	–	160	10,036	16,893
	₱839,451	₱306,976	₱280,360	₱68,597	₱1,495,384

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.
**** Includes government-issued debt securities.

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

Loans and receivables
The credit quality is generally monitored using the 10-grade ICRRS which is integrated in the credit process particularly in provision for credit losses. Probability of default (PD) models are used in parallel to the ICRRS. The models are assessed and recalibrated as needed. Validation of the individual borrower's risk rating is performed by the Credit Group to maintain accurate and consistent risk ratings across the credit portfolio. The credit quality with the corresponding ICRRS Grade and description of commercial loans follows:

<u>High Grade</u>
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and with high degree of stability, substance and diversity. Borrower has access to raise substantial amounts of funds through public market at any time; very strong debt service capacity and has conservative balance sheet ratios. Track record in profit terms is very good. Borrower exhibits highest quality under virtually all economic conditions.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Have a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative. Concerned multinationals or local corporations are well capitalized.

<u>Standard Grade</u>
3 - Good
This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Access is however limited to favorable economic and/or market conditions. While probability of default is quite low, it bears characteristics of some degree of stability and substance. However, susceptibility to cyclical changes and more concentration of business risk, by product or market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.

4 - Satisfactory
A ‘satisfactory’ rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater. Volatility of earnings and overall performance: normally has limited access to public markets. Borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. Combination of reasonable sound asset and cash flow protection: debt service capacity is adequate. Reported profits in the past year and is expected to report a profit in the current year.

5 - Acceptable
An ‘acceptable’ rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. Risk is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Substandard Grade
6 - Watchlist
This rating is given to a borrower that belongs to an unfavorable industry or has company-specific risk factors which represent a concern. Operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance. Borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Borrower which incurs net losses and has salient financial weaknesses, reflected on statements specifically in profitability. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

7 - Especially Mentioned
This rating is given to a borrower that exhibits potential weaknesses that deserve management’s close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus, increase credit risk to the Bank.

Impaired
8 - Substandard
These are loans or portions, thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the Bank unless given closer supervision. Borrower has well-defined weaknesses or weaknesses that jeopardize loan liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

9 - Doubtful
This rating is given to a nonperforming borrower whose loans or portions thereof have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

The credit quality of consumer loan applicants are currently evaluated using PD models.

For booked consumer loans, the description of credit quality is as follows:

High Grade
Good credit rating
This rating is given to a good repeat client with very satisfactory track record of its loan repayment (paid at least 50.00%) and whose account did not turn past due during the entire term of the loan.

Standard Grade
Good
A good rating is given to accounts which did not turn past due for 90 days and over.

Limited
This rating is given to borrowers who have average track record on loan repayment (paid less than 50.00%) and whose account did not turn past due for 90 days and over.

Substandard Grade
Poor
A poor rating is given to accounts who reached 90 days past due regardless of the number of times and the number of months past due.

Poor litigation
This rating is given to accounts that were past due for 180 days and over and are currently being handled by lawyers.

Impaired
Poor repossessed
This rating is given to accounts whose collaterals were repossessed.

Poor written-off
This rating is given to accounts that were recommended for write-off.

Trading and investment securities
In ensuring quality investment portfolio, the Parent Company uses the credit risk rating from the published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies. Presented here is Moody's rating - equivalent S&P rating and other rating agencies applies:

Credit Quality	**External Rating**								
High grade	Aaa	Aa1	Aa2	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2				
Substandard grade	B3	Caa1	Caa2	Caa3	Ca	C			
Impaired	D								

The following table shows the credit quality of financial assets:

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
2017					
Neither past due nor impaired	**₱1,243,084**	**₱338,725**	**₱387,713**	**₱231,392**	**₱2,200,914**
Past due but not individually impaired	**19,963**	**–**	**–**	**–**	**19,963**
Impaired	**14,336**	**–**	**379**	**9,614**	**24,329**
Gross	**1,277,383**	**338,725**	**388,092**	**241,006**	**2,245,206**
Less allowance for credit losses	**16,407**	**–**	**295**	**9,614**	**26,316**
Net	**₱1,260,976**	**₱338,725**	**₱387,797**	**₱231,392**	**₱2,218,890**
2016					
Neither past due nor impaired	₱1,041,641	₱374,774	₱353,994	₱202,817	₱1,973,226
Past due but not individually impaired	18,018	–	–	–	18,018
Impaired	10,888	–	369	10,036	21,293
Gross	1,070,547	374,774	354,363	212,853	2,012,537
Less allowance for credit losses	14,426	7	294	10,036	24,763
Net	₱1,056,121	₱374,767	₱354,069	₱202,817	₱1,987,774

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
2017					
Neither past due nor impaired	**₱996,138**	**₱271,217**	**₱302,634**	**₱69,996**	**₱1,639,985**
Past due but not individually impaired	**553**	**–**	**–**	**–**	**553**
Impaired	**10,326**	**–**	**243**	**9,614**	**20,183**
Gross	**1,007,017**	**271,217**	**302,877**	**79,610**	**1,660,721**
Less allowance for credit losses	**8,589**	**–**	**160**	**9,614**	**18,363**
Net	**₱998,428**	**₱271,217**	**₱302,717**	**₱69,996**	**₱1,642,358**
2016					
Neither past due nor impaired	₱838,712	₱306,976	₱280,285	₱68,597	₱1,494,570
Past due but not individually impaired	410	–	–	–	410
Impaired	7,026	–	235	10,036	17,297
Gross	846,148	306,976	280,520	78,633	1,512,277
Less allowance for credit losses	6,697	–	160	10,036	16,893
Net	₱839,451	₱306,976	₱280,360	₱68,597	₱1,495,384

* Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA.
** Comprised of Financial assets at FVPL, AFS investments and HTM investments.
*** Comprised of applicable accounts under Other assets, financial guarantees and loan commitments and other credit related liabilities.

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):

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2017					
Loans and advances to banks					
Due from BSP	**₱261,959**	**₱–**	**₱–**	**₱–**	**261,959**
Due from other banks	**27,892**	**2,111**	**–**	**1,288**	**31,291**
Interbank loans receivable and SPURA	**41,965**	**1,842**	**–**	**1,668**	**45,475**
	331,816	**3,953**	**–**	**2,956**	**338,725**
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	**4,661**	**649**	**–**	**–**	**5,310**
Private	**6,856**	**544**	**–**	**2,160**	**9,560**
Treasury bills	**1,401**	**–**	**–**	**–**	**1,401**

(Forward)

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Treasury notes and bonds	**₱13,383**	**₱–**	**₱–**	**₱–**	**₱13,383**
BSP	**2**	**–**	**–**	**–**	**2**
Equity securities - quoted	**5,286**	**2,576**	**–**	**–**	**7,862**
Derivative assets	**1,613**	**205**	**–**	**4,551**	**6,369**
	33,202	**3,974**	**–**	**6,711**	**43,887**
AFS investments					
Debt securities					
Government	**33,859**	**1,455**	**–**	**3,498**	**38,812**
Private	**50,980**	**2,720**	**–**	**54**	**53,754**
Treasury bills	**115**	**–**	**–**	**–**	**115**
Treasury notes and bonds	**249,380**	**–**	**–**	**51**	**249,431**
Subtotal	**334,334**	**4,175**	**–**	**3,603**	**342,112**
Equity securities					
Quoted	**689**	**590**	**–**	**261**	**1,540**
Unquoted	**–**	**99**	**–**	**75**	**174**
Subtotal	**689**	**689**	**–**	**336**	**1,714**
	335,023	**4,864**	**–**	**3,939**	**343,826**
Loans and receivables					
Receivables from customers					
Commercial loans	**275,149**	**524,599**	**106,762**	**–**	**906,510**
Residential mortgage loans	**41,600**	**50,450**	**1,169**	**–**	**93,219**
Auto loans	**73,895**	**30,551**	**43**	**–**	**104,489**
Trade loans	**5,932**	**33,203**	**1,873**	**–**	**41,008**
Others	**72,853**	**10,577**	**119**	**330**	**83,879**
	469,429	**649,380**	**109,966**	**330**	**1,229,105**
Unquoted debt securities	**121**	**713**	**–**	**32**	**866**
Accrued interest receivable	**4,985**	**2,455**	**318**	**126**	**7,884**
Accounts receivable	**1,998**	**208**	**107**	**2,536**	**4,849**
Sales contract receivable	**87**	**–**	**–**	**16**	**103**
Other receivables	**4**	**1**	**–**	**272**	**277**
	476,624	**652,757**	**110,391**	**3,312**	**1,243,084**
Others	**5**	**26**	**–**	**231,361**	**231,392**
	₱1,176,603	**₱665,695**	**₱110,391**	**₱248,225**	**₱2,200,914**
2016					
Loans and advances to banks					
Due from BSP	₱238,806	₱–	₱–	₱–	₱238,806
Due from other banks	40,436	2,450	–	1,436	44,322
Interbank loans receivable and SPURA	82,232	3,254	–	6,160	91,646
	361,474	5,704	–	7,596	374,774
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	3,966	44	–	–	4,010
Private	2,895	400	–	2,034	5,329
Treasury bills	903	–	–	–	903
Treasury notes and bonds	13,346	–	–	–	13,346
Equity securities - quoted	₱4,197	₱2,227	₱58	₱20	₱6,502
Derivative assets	673	90	–	6,361	7,124
	25,980	2,761	58	8,415	37,214
AFS investments					
Debt securities					
Government	36,204	1,689	49	3,613	41,555
Private	29,886	9,917	–	3,429	43,232
Treasury bills	199	–	–	–	199
Treasury notes and bonds	230,981	106	–	–	231,087
Subtotal	297,270	11,712	49	7,042	316,073
Equity securities					
Quoted	141	64	–	309	514
Unquoted	–	117	–	76	193
Subtotal	141	181	–	385	707
	297,411	11,893	49	7,427	316,780

(Forward)

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and receivables					
Receivables from customers					
Commercial loans	₱231,787	₱446,905	₱62,094	₱–	₱740,786
Residential mortgage loans	6,486	78,604	1,470	–	86,560
Auto loans	56,584	26,258	5,299	–	88,141
Trade loans	34,264	–	12	–	34,276
Others	69,329	11,452	230	85	81,096
	398,450	563,219	69,105	85	1,030,859
Unquoted debt securities	–	810	–	119	929
Accrued interest receivable	4,288	2,435	167	179	7,069
Accounts receivable	677	19	–	1,837	2,533
Sales contract receivable	13	121	–	29	163
Other receivables	1	–	–	87	88
	403,429	566,604	69,272	2,336	1,041,641
Others	132,901	26	–	69,890	202,817
	₱1,221,195	₱586,988	₱69,379	₱95,664	₱1,973,226

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2017					
Loans and advances to banks					
Due from BSP	**₱224,723**	**₱–**	**₱–**	**₱–**	**₱224,723**
Due from other banks	**19,237**	**30**	**–**	**19**	**19,286**
Interbank loans receivable and SPURA	**25,539**	**–**	**–**	**1,669**	**27,208**
	269,499	**30**	**–**	**1,688**	**271,217**
Financial assets at FVPL					
HFT debt securities					
Government	**4,661**	**579**	**–**	**–**	**5,240**
Private	**6,113**	**512**	**–**	**2,073**	**8,698**
Treasury bills	**1,156**	**–**	**–**	**–**	**1,156**
Treasury notes and bonds	**10,881**	**–**	**–**	**–**	**10,881**
BSP	**2**	**–**	**–**	**–**	**2**
Derivative assets	**1,611**	**132**	**–**	**4,552**	**6,295**
	24,424	**1,223**	**–**	**6,625**	**32,272**
AFS investments					
Debt securities					
Government	**16,310**	**776**	**–**	**3,497**	**20,583**
Private	**35,519**	**494**	**–**	**52**	**36,065**
Treasury notes and bonds	**213,393**	**–**	**–**	**–**	**213,393**
Subtotal	**265,222**	**1,270**	**–**	**3,549**	**270,041**
Equity securities					
Quoted	**5**	**–**	**–**	**255**	**260**
Unquoted	**–**	**–**	**–**	**61**	**61**
Subtotal	**5**	**–**	**–**	**316**	**321**
	265,227	**1,270**	**–**	**3,865**	**270,362**
Loans and receivables					
Receivables from customers					
Commercial loans	**261,376**	**479,810**	**106,545**	**–**	**847,731**
Residential mortgage loans	**1,799**	**49,758**	**1,038**	**–**	**52,595**
Auto loans	**3,387**	**30,327**	**23**	**–**	**33,737**
Trade loans	**5,932**	**33,153**	**1,873**	**–**	**40,958**
Others	**12,324**	**407**	**62**	**–**	**12,793**
	284,818	**593,455**	**109,541**	**–**	**987,814**
Unquoted debt securities	**–**	**–**	**–**	**26**	**26**
Accrued interest receivable	**3,722**	**1,731**	**313**	**126**	**5,892**
Accounts receivable	**–**	**–**	**–**	**2,382**	**2,382**
Sales contract receivable	**–**	**–**	**–**	**16**	**16**
Other receivables	**–**	**–**	**–**	**8**	**8**
	288,540	**595,186**	**109,854**	**2,558**	**996,138**
Others	**–**	**–**	**–**	**69,996**	**69,996**
	₱847,690	**₱597,709**	**₱109,854**	**₱84,732**	**₱1,639,985**

(Forward)

	Parent Company				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
2016					
Loans and advances to banks					
Due from BSP	₱203,781	₱–	₱–	₱–	₱203,781
Due from other banks	29,918	108	–	75	30,101
Interbank loans receivable and SPURA	66,934	–	–	6,160	73,094
	300,633	108	–	6,235	306,976
Financial assets at FVPL					
HFT debt securities					
Government	2,543	13	–	–	2,556
Private	2,315	330	–	1,934	4,579
Treasury bills	166	–	–	–	166
Treasury notes and bonds	12,342	–	–	–	12,342
Derivative assets	673	89	–	6,361	7,123
	18,039	432	–	8,295	26,766
AFS investments					
Debt securities					
Government	16,412	1,213	49	3,613	21,287
Private	24,499	4,605	–	3,429	32,533
Treasury notes and bonds	199,386	–	–	–	199,386
Subtotal	240,297	5,818	49	7,042	253,206
Equity securities					
Quoted	7	–	–	245	252
Unquoted	–	–	–	61	61
Subtotal	7	–	–	306	313
	240,304	5,818	49	7,348	253,519
Loans and receivables					
Receivables from customers					
Commercial loans	231,809	403,189	61,895	–	696,893
Residential mortgage loans	1,602	45,365	1,012	–	47,979
Auto loans	2,397	26,252	16	–	28,665
Trade loans	34,264	–	12	–	34,276
Others	20,366	339	137	–	20,842
	290,438	475,145	63,072	–	828,655
Unquoted debt securities	–	–	–	113	113
Accrued interest receivable	3,347	1,484	125	176	5,132
Accounts receivable	–	–	–	1,766	1,766
Sales contract receivable	–	–	–	29	29
Other receivables	–	–	–	3,017	3,017
	293,785	476,629	63,197	5,101	838,712
Others	–	–	–	68,597	68,597
	₱852,761	₱482,987	₱63,246	₱95,576	₱1,494,570

Notes:
1. *Accounts are presented gross of allowance for credit losses but net of unearned interest and discount.*
2. *For classification by grade, refer to Risk Rating Table for Investments (based on Moody's Rating Scale) as guide.*

Breakdown of restructured receivables from customers by class are shown below:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Commercial loans	**₱2,897**	₱1,463	**₱2,869**	₱1,432
Residential mortgage loans	**153**	177	**23**	21
Auto loans	**32**	19	**–**	–
Others	**195**	76	**–**	–
	₱3,277	₱1,735	**₱2,892**	₱1,453

Aging analysis of past due but not individually impaired loans and receivables is shown below:

	Consolidated					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2017						
Receivables from customers						
Commercial loans	**₱139**	**₱12**	**₱22**	**₱34**	**₱134**	**₱341**
Residential mortgage loans	**2,891**	**1,010**	**344**	**306**	**657**	**5,208**
Auto loans	**5,461**	**2,435**	**1,176**	**1,293**	**1,394**	**11,759**
Trade loans	**–**	**–**	**–**	**–**	**7**	**7**
Others	**125**	**840**	**649**	**45**	**326**	**1,985**
Receivables from customers - net of unearned discounts and capitalized interest	**8,616**	**4,297**	**2,191**	**1,678**	**2,518**	**19,300**
Accrued interest receivable	**107**	**58**	**34**	**42**	**59**	**300**
Accounts receivable	**5**	**8**	**10**	**312**	**7**	**342**
Sales contract receivable	**3**	**4**	**–**	**3**	**11**	**21**
	₱8,731	**₱4,367**	**₱2,235**	**₱2,035**	**₱2,595**	**₱19,963**
2016						
Receivables from customers						
Commercial loans	₱59	₱60	₱47	₱11	₱61	₱238
Residential mortgage loans	2,881	984	304	156	274	4,599
Auto loans	5,000	2,346	1,078	1,147	1,158	10,729
Trade loans	3	11	8	–	–	22
Others	125	686	538	53	405	1,807
Receivables from customers - net of unearned discounts and capitalized interest	8,068	4,087	1,975	1,367	1,898	17,395
Accrued interest receivable	97	54	31	38	53	273
Accounts receivable	9	5	7	290	8	319
Sales contract receivable	8	3	5	2	13	31
	₱8,182	₱4,149	₱2,018	₱1,697	₱1,972	₱18,018

	Parent Company					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2017						
Receivables from customers						
Commercial loans	**₱–**	**₱–**	**₱7**	**₱28**	**₱126**	**₱161**
Residential mortgage loans	**–**	**–**	**–**	**2**	**232**	**234**
Auto loans	**–**	**–**	**–**	**1**	**145**	**146**
Trade loans	**–**	**–**	**–**	**–**	**7**	**7**
Receivables from customers - net of unearned discounts and capitalized interest	**–**	**–**	**7**	**31**	**510**	**548**
Accrued interest receivable	**–**	**–**	**–**	**–**	**4**	**4**
Sales contract receivable	**–**	**–**	**–**	**–**	**1**	**1**
	₱–	**₱–**	**₱7**	**₱31**	**₱515**	**₱553**
2016						
Receivables from customers						
Commercial loans	₱–	₱–	₱1	₱8	₱50	₱59
Residential mortgage loans	–	–	–	–	224	224
Auto loans	–	–	–	–	98	98
Trade loans	3	11	8	–	–	22
Receivables from customers - net of unearned discounts and capitalized interest	3	11	9	8	372	403
Accrued interest receivable	–	–	–	–	3	3
Sales contract receivable	–	–	–	–	4	4
	₱3	₱11	₱9	₱8	₱379	₱410

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 collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2017 and 2016.

Liquidity Risk
Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due.

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

Specifically for the Parent Company, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Parent Company manages its liquidity risk by holding sufficient liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is repriced on a regular basis. Deposits with banks are made on a short-term basis.

In the Parent Company, the Treasury Group estimates its cash flow needs based on its actual contractual obligations under normal and extraordinary circumstances. RSK generates Maximum Cumulative Outflow (MCO) reports on a daily basis to estimate the Bank's short- and long-term funding needs under business-as-usual conditions. The expected cash flows of the Bank's assets, liabilities, and derivatives are aggregated into maturity groupings, and the net cash flow from each grouping determines the liquidity gaps. On a quarterly basis, scenario analysis is performed to determine the impact of stress events on the MCO report.

The Group's financial institution subsidiaries (excluding insurance companies) prepare their respective MCO reports. These are reported to the Parent Company's ROC monthly.

Financial assets
Analysis of debt securities a FVPinto maturity groupings is based on the expected date on which these assets will be realized. For other financial assets, the analysis into maturity groupings 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 groupings are 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 summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

	Consolidated						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2017							
Financial Assets							
Cash and other cash items	₱27,631	₱–	₱–	₱–	₱–	₱–	₱27,631
Due from BSP	261,959	–	–	–	–	–	261,959
Due from other banks	27,691	1,793	1,643	160	12	–	31,299
Interbank loans receivable and SPURA	800	27,897	9,992	3,624	2,759	427	45,499
Financial assets at FVPL							
HFT investments	306	10,779	25,356	–	384	–	36,825
Derivative assets*							
Trading:							
Receive	–	29,365	27,836	9,286	3,167	2,793	72,447
Pay	–	(28,687)	(21,755)	(8,921)	(2,944)	(2,760)	(65,067)
	–	678	6,081	365	223	33	7,380
AFS investments	–	1,842	8,467	8,134	6,196	436,881	461,520
Loans and receivables							
Receivables from customers	40,003	192,955	180,877	120,582	82,487	885,197	1,502,101
Unquoted debt securities	–	9	126	40	27	1,524	1,726
Accrued interest receivable	6,693	245	20	33	75	1,730	8,796
Accounts receivable	6,827	981	17	9	1,198	22	9,054
Sales contract receivable	10	2	3	5	11	131	162
Other receivables	147	131	–	–	–	–	278
Other assets							
Residual value of leased assets	36	30	54	80	137	717	1,054
Returned checks and other cash items	10	–	285	–	–	–	295
Miscellaneous	191	–	–	–	–	5	196
	₱372,304	₱237,342	₱232,921	₱133,032	₱93,509	₱1,326,667	₱2,395,775
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱344,708	₱–	₱–	₱–	₱–	₱–	₱344,708
Savings	605,508	–	–	–	–	–	605,508
Time	–	253,185	172,830	43,711	52,555	29,931	552,212
LTNCD	–	30	104	258	517	33,575	34,484
	950,216	253,215	172,934	43,969	53,072	63,506	1,536,912
Bills payable and SSURA	–	131,248	29,844	11,775	24,294	33,617	230,778
Manager's checks and demand drafts outstanding	8,054	–	–	–	–	–	8,054
Accrued interest payable	275	580	887	103	75	146	2,066
Accrued other expenses	3,445	238	1	1	–	–	3,685
Bonds payable	–	–	–	–	–	3,043	3,043
Subordinated debt	–	–	301	360	1,675	27,732	30,068
Non-equity non-controlling interest	8,002	–	–	–	–	–	8,002
Other liabilities							
Bills purchased - contra	12,333	–	–	–	–	–	12,333
Accounts payable	6,625	9,124	–	–	330	4	16,083
Marginal deposits	–	–	3,229	–	–	–	3,229
Outstanding acceptances	–	980	347	138	265	11	1,741
Deposits on lease contracts	3	38	74	94	273	990	1,472
Notes payable	–	–	–	–	–	–	–
Dividends payable	91	–	–	–	–	–	91
Miscellaneous	7	7,400	–	–	7,401	–	14,808
	989,051	402,823	207,617	56,440	87,385	129,049	1,872,365
Derivative liabilities*							
Trading:							
Pay	₱–	₱52,874	₱26,252	₱9,196	₱3,132	₱105	₱91,559
Receive	–	(51,556)	(25,614)	(9,049)	(2,970)	(35)	(89,224)
	–	1,318	638	147	162	70	2,335
Loan commitments and financial guarantees	168,041	7,518	18,323	13,721	15,397	5,859	228,859
	₱1,157,092	₱411,659	₱226,578	₱70,308	₱102,944	₱134,978	₱2,103,559

(Forward)

	Consolidated						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2016							
Financial Assets							
Cash and other cash items	₱26,553	₱–	₱–	₱–	₱–	₱–	₱26,553
Due from BSP	230,106	8,702	–	–	–	–	238,808
Due from other banks	40,028	2,811	1,275	210	7	–	44,331
Interbank loans receivable and SPURA	461	65,247	20,339	4,241	988	422	91,698
Financial assets at FVPL							
HFT investments	99	1,102	30,237	–	–	–	31,438
Derivative assets*							
Trading:							
Receive	–	20,880	8,314	4,230	1,767	4,702	39,893
Pay	–	(20,624)	(8,222)	(4,018)	(1,609)	(3,923)	(38,396)
	–	256	92	212	158	779	1,497
AFS investments	–	3,715	10,430	6,792	10,426	436,569	467,932
Loans and receivables							
Receivables from customers	15,936	192,477	141,479	95,558	63,998	761,472	1,270,920
Unquoted debt securities	–	7	3	11	28	1,751	1,800
Accrued interest receivable	7,120	276	462	48	46	71	8,023
Accounts receivable	3,571	461	55	14	479	22	4,602
Sales contract receivable	13	11	5	7	13	201	250
Other receivables	9	80	–	–	–	–	89
Other assets							
Residual value of leased assets	25	31	41	70	158	678	1,003
Returned checks and other cash items	10	–	105	–	–	–	115
Miscellaneous	12	4	1	5	14	155	191
	₱323,943	₱275,180	₱204,524	₱107,168	₱76,315	₱1,202,120	₱2,189,250
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱298,388	₱–	₱–	₱–	₱–	₱–	₱298,388
Savings	547,685	–	–	–	–	–	547,685
Time	–	277,499	153,653	28,455	27,357	37,709	524,673
LTNCD	–	22	104	222	444	26,503	27,295
	846,073	277,521	153,757	28,677	27,801	64,212	1,398,041
Bills payable and SSURA	–	79,223	30,987	13,724	6,225	32,941	163,100
Manager's checks and demand drafts outstanding	6,932	–	–	–	–	–	6,932
Accrued interest payable	233	215	573	66	222	188	1,497
Accrued other expenses	4,139	90	86	–	5	–	4,320
Bonds payable	–	–	4,994	79	4,017	3,046	12,136
Subordinated debt	–	–	3,344	403	592	31,035	35,374
Non-equity non-controlling interest	7,934	–	–	–	–	–	7,934
Other liabilities							
Bills purchased - contra	20,479	–	–	–	–	–	20,479
Accounts payable	3,227	9,279	–	73	159	–	12,738
Marginal deposits	–	–	3,697	–	–	–	3,697
Outstanding acceptances	–	451	386	214	381	8	1,440
Deposits on lease contracts	–	47	57	99	285	887	1,375
Notes payable	–	–	–	–	–	133	133
Dividends payable	–	84	–	–	–	–	84
Miscellaneous	6	1	–	–	–	–	7
	889,023	366,911	197,881	43,335	39,687	132,450	1,669,287
Derivative liabilities*							
Trading:							
Pay	–	35,587	16,965	8,024	4,150	8,468	73,194
Receive	–	(35,266)	(16,682)	(7,467)	(4,082)	(8,298)	(71,795)
	–	321	283	557	68	170	1,399
Loan commitments and financial guarantees	142,810	6,566	20,801	11,983	13,617	5,225	201,002
	₱1,031,833	₱373,798	₱218,965	₱55,875	₱53,372	₱137,845	₱1,871,688

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2017							
Financial Assets							
Cash and other cash items	₱24,975	₱–	₱–	₱–	₱–	₱–	₱24,975
Due from BSP	224,723	–	–	–	–	–	224,723
Due from other banks	14,602	3,048	1,643	–	–	–	19,293
Interbank loans receivable and SPURA	–	18,250	3,371	3,624	1,990	–	27,235
Financial assets at FVPL							
HFT investments	–	–	25,271	–	–	–	25,271
Derivative assets*							
Trading:							
Receive	–	29,365	25,113	9,286	3,167	2,793	69,724
Pay	–	(28,687)	(24,405)	(8,921)	(2,944)	(2,760)	(67,717)
	–	678	708	365	223	33	2,007
AFS investments	–	600	5,580	3,669	4,191	348,263	362,303
Loans and receivables							
Receivables from customers	3,287	186,045	168,660	101,479	42,025	642,687	1,144,183
Unquoted debt securities	–	–	–	–	–	685	685
Accrued interest receivable	6,458	–	–	–	–	–	6,458
Accounts receivable	5,677	–	–	–	–	–	5,677
Sales contract receivable	4	1	2	3	5	7	22
Other receivables	9	–	–	–	–	–	9
Other assets							
Returned checks and other cash items	–	–	284	–	–	–	284
	₱279,735	₱208,622	₱205,519	₱109,140	₱48,434	₱991,675	₱1,843,125
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱314,542	₱–	₱–	₱–	₱–	₱–	₱314,542
Savings	576,807	–	–	–	–	–	576,807
Time	–	238,319	122,331	22,678	10,861	2,605	396,794
LTNCD	–	30	104	258	517	30,200	31,109
	891,349	238,349	122,435	22,936	11,378	32,805	1,319,252
Bills payable and SSURA	–	82,065	7,009	–	5,089	13,617	107,780
Manager's checks and demand drafts outstanding	5,840	–	–	–	–	–	5,840
Accrued interest payable	–	309	330	76	64	144	923
Accrued other expenses	1,778	–	–	–	–	–	1,778
Subordinated debt	–	–	241	300	386	23,742	24,669
Other liabilities							
Bills purchased - contra	12,323	–	–	–	–	–	12,323
Accounts payable	–	7,488	–	–	–	–	7,488
Outstanding acceptances	–	980	347	138	265	11	1,741
Marginal deposits	–	–	682	–	–	–	682
Miscellaneous	–	7,400	–	–	–	–	7,400
	911,290	336,591	131,044	23,450	17,182	70,319	1,489,876
Derivative liabilities*							
Trading:							
Pay	–	52,874	26,252	9,196	3,132	105	91,559
Receive	–	(51,556)	(25,614)	(9,049)	(2,970)	(35)	(89,224)
	–	1,318	638	147	162	70	2,335
Loan commitments and financial guarantees	7,984	7,518	18,316	13,704	15,340	5,859	68,721
	₱919,274	₱345,427	₱149,998	₱37,301	₱32,684	₱76,248	₱1,560,932
2016							
Financial Assets							
Cash and other cash items	₱23,470	₱–	₱–	₱–	₱–	₱–	₱23,470
Due from BSP	195,081	8,702	–	–	–	–	203,783
Due from other banks	26,150	2,729	1,229	–	–	–	30,108
Interbank loans receivable and SPURA	461	55,030	14,083	2,602	988	–	73,164
Financial assets at FVPL							
HFT investments	–	–	19,892	–	–	–	19,892
Derivative assets*							
Trading:							
Receive	–	20,880	7,794	4,230	1,767	4,702	39,373
Pay	–	(20,624)	(7,703)	(4,018)	(1,609)	(3,923)	(37,877)
	–	256	91	212	158	779	1,496

(Forward)

	Parent Company						
	On demand	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Beyond 1 year**	**Total**
AFS investments	₱–	₱3,157	₱6,658	₱5,339	₱7,623	₱354,299	₱377,076
Loans and receivables							
Receivables from customers	1,580	171,642	130,892	79,569	32,122	547,456	963,261
Unquoted debt securities	–	–	–	–	–	781	781
Accrued interest receivable	5,700	–	–	–	–	–	5,700
Accounts receivable	3,250	–	–	–	–	–	3,250
Sales contract receivable	8	2	3	4	8	13	38
Other receivables	9	3,010	–	–	–	–	3,019
Other assets							
Returned checks and other cash items	–	–	105	–	–	–	105
	₱255,709	₱244,528	₱172,953	₱87,726	₱40,899	₱903,328	₱1,705,143
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱272,081	₱–	₱–	₱–	₱–	₱–	₱272,081
Savings	522,643	–	–	–	–	–	522,643
Time	–	251,326	97,531	20,687	8,664	10,610	388,818
LTNCD	–	22	104	222	444	26,503	27,295
	794,724	251,348	97,635	20,909	9,108	37,113	1,210,837
Bills payable and SSURA	–	48,993	9,996	–	–	10,635	69,624
Manager's checks and demand drafts outstanding	5,171	–	–	–	–	–	5,171
Accrued interest payable	–	107	266	20	217	186	796
Accrued other expenses	2,607	–	–	–	–	–	2,607
Subordinated debt	–	–	241	300	386	24,943	25,870
Other liabilities							
Bills purchased - contra	20,415	–	–	–	–	–	20,415
Accounts payable	–	6,780	–	–	–	–	6,780
Outstanding acceptances	–	451	386	214	381	8	1,440
Marginal deposits	–	–	245	–	–	–	245
	822,917	307,679	108,769	21,443	10,092	72,885	1,343,785
Derivative liabilities*							
Trading:							
Pay	–	35,587	14,367	8,024	4,150	8,468	70,596
Receive	–	(35,266)	(14,018)	(7,467)	(4,082)	(8,298)	(69,131)
	–	321	349	557	68	170	1,465
Loan commitments and financial guarantees	9,910	6,566	20,794	11,964	13,560	5,225	68,019
	₱832,827	₱314,566	₱129,912	₱33,964	₱23,720	₱78,280	₱1,413,269

*Does not include derivatives embedded in financial and non-financial contracts.

Market Risk

Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, and other market factors. The Parent Company's market risk originates from its holdings in foreign currencies, debt securities and derivatives transactions. The Parent Company manages market risk by segregating its statement of financial position into a trading book and a banking book. ALCO, chaired by the Parent Company's Chairman is the senior review and decision-making body for the management of all related market risks. The Parent Company enforces a set of risk limits to properly monitor and manage the market risks. The risk limits are approved by the BOD. The RSK serves under the ROC and performs daily market risk analyses to ensure compliance with the Parent Company's policies. The Treasury Group manages asset/liability risks arising from both banking book and trading operations in financial markets.

Similarly, the subsidiaries of the Parent Company independently quantify and manage their respective market risk exposures. Each institution has its respective risk management system and processes in place.

As part of its oversight function, the Parent Company regularly coordinates with subsidiaries to monitor their compliance to their respective risk tolerances and ensure consistency of risk management practices. Risk aggregation and consolidation of exposures provide senior management with a group-wide market risk profile perspective such as Group Trading Value-at-Risk (VaR) and Earnings-at-Risk (EaR).

Similarly, the subsidiaries of the Parent Company independently quantify and manage their respective market risk exposures. Each institution has its respective risk management system and processes in place.

As part of its oversight function, the Parent Company regularly coordinates with subsidiaries to monitor their compliance to their respective risk tolerances and ensure consistency of risk management practices. Risk aggregation and consolidation of exposures provide senior management with a group-wide market risk profile perspective such as Group Trading VaR and EaR.

Market risk - trading book
In measuring the potential loss in its trading portfolio, the Group uses Value-at-Risk (VaR) as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. The Parent Company measures and monitors the VaR daily and this value is compared against the set VaR limit.

VaR methodology assumptions and parameters
The Parent Company is using 260-day Historical Simulation Method to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the specified historical period. In calculating VaR, the Parent Company uses a 99.00% confidence level and a one-day holding period. This means that, statistically, within a one-day horizon, the trading losses will exceed VaR in 1 out of 100 trading days.

Like any other model, the Historical Simulation Method has its own limitations. To wit, it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is verified through a daily back testing analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily back testing analysis is reported to the ALCO and ROC monthly.

A summary of the VaR levels of the trading portfolio of the Parent Company appears below:

	Rates and FX	Fixed Income	FX Options
As of December 31, 2017			
December 29	**₱96.03**	**₱128.98**	**₱12.68**
Average	**147.86**	**216.65**	**6.19**
Highest	**468.60**	**431.25**	**20.99**
Lowest	**50.06**	**83.28**	**0.44**
As of December 31, 2016			
December 29	117.06	121.97	0.85
Average	114.91	132.37	7.51
Highest	213.84	363.99	27.72
Lowest	51.49	41.13	0.09

Rates and Foreign Exchange (FX) VaR is the correlated VaR of the following products: FX spot, outright forward, NDF, FX swaps, IRS and cross currency swaps. The Fixed Income VaR is the correlated VaR of these products: peso and foreign currency bonds, bond forwards and credit default swaps (CDS).

Each subsidiary performs daily mark-to-market valuation and VaR calculations for their trading book exposures. Risk exposures are bounded by a system of risk limits and monitoring tools to effectively manage these risks.

The table below summarizes the VaR levels of FMIC and PSBank:

	FMIC			PSBank		
		Bonds		Bonds		
	EQUITIES	PHP	USD	PHP	USD	FX
As of December 31, 2017						
December 29	**₱23.747**	**₱0.557**	**USD7.289**	**₱8.644**	**USD–**	**₱1.140**
Average	**23.789**	**5.361**	**3.432**	**9.328**	**9.108**	**0.883**
Highest	**97.026**	**13.315**	**7.909**	**30.309**	**39.341**	**1.302**
Lowest	**5.664**	**0.056**	**0.358**	**0.003**	**0.466**	**0.175**
As of December 31, 2016						
December 29	–	13.681	0.004	0.004	9.817	0.176
Average	7.685	45.604	0.068	15.643	8.912	0.753
Highest	15.359	166.834	0.194	45.741	24.889	1.249
Lowest	0.432	2.207	–	0.003	–	0.018

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures and by doing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if an actual loss goes beyond what is deemed to be tolerable to the bank, even before the VaR limit is hit.

Stress testing is performed by the Parent Company on a quarterly basis, PSBank on monthly basis and FMIC on a daily basis to complement the VaR methodology. The stress testing results of the Parent Company are reported to the ALCO and subsequently to the ROC and the BOD.

Market risk - banking book
The Parent Bank and Subsidiaries have in place their risk management system and processes to independently quantify and manage their respective market risks in the banking book.

The Group uses tools or metrics such as Earnings-at-Risk (EaR) and Sensitivity analysis to quantify interest rate risk for banking book or accrual portfolios, Earnings-at-Risk (EaR) measures the decline on the Bank's potential net interest earnings as a result of a change in the level or volatility of interest rates. It is a tool used to evaluate the sensitivity of the accrual portfolio to a change in interest rates in the adverse direction over the next twelve (12) months. The Parent Bank generates and monitors its EaR exposure on a daily basis. On the other hand, the subsidiaries generate their respective EaR reports at least on a monthly basis.

EaR methodology assumptions and parameters

EaR is obtained by multiplying the repricing gap for each predefined time bucket by the corresponding change (volatility) in the interest rate and by the time over which the repricing gap is in effect.

The repricing gap is a method that distributes rate-sensitive assets, liabilities, and off-balance sheet positions into predefined time bands, according to their maturity date (if fixed rate) or repricing date (if floating rate). For rate-sensitive positions that lack definitive repricing dates or maturity dates (e.g. demand and savings deposit accounts), the Parent Company uses expert judgment, past experience or behavioral patterns to determine the appropriate time band distribution.

The change in interest rate is calculated using historical simulation. It is computed as the 99th percentile rank change in rates if the gap is negative (liability-sensitive) or the 1st percentile rank change in rates if the gap is positive (asset-sensitive).

The table below shows the earnings-at-risk profile of the Parent Company and certain subsidiaries as of December 31, 2017 and 2016:

	Parent Company	**FMIC**	**PSBank**	**MCC**	**ORIX Metro**	**Total**
2017	**(₱7,196.49)**	**(₱410.00)**	**(₱781.20)**	**(₱82.19)**	**(₱2.38)**	**(₱8,472.26)**
2016	(5,395.68)	(509.00)	(1,095.07)	(53.07)	(2.61)	(7,055.43)

Foreign currency risk
Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table sets forth, for the year indicated, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity:

	Consolidated						**Parent Company**					
	2017			2016			**2017**			2016		
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity	**Change in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+1.00%	37.13	7.51	+1.00%	(19.79)	(2.33)	+1.00%	36.43	0.44	+1.00%	(23.19)	(4.16)
EUR	+1.00%	31.31	0.00	+1.00%	11.72	0.00	+1.00%	29.11	0.00	+1.00%	11.58	0.00
JPY	+1.00%	(11.53)	0.00	+1.00%	(14.22)	0.00	+1.00%	(11.53)	0.00	+1.00%	(14.22)	0.00
GBP	+1.00%	18.46	0.00	+1.00%	8.04	0.00	+1.00%	18.46	0.00	+1.00%	8.04	0.00
Others	+1.00%	(1.83)	0.00	+1.00%	31.54	0.00	+1.00%	(1.83)	0.00	+1.00%	31.54	0.00
USD	-1.00%	(37.13)	(7.51)	-1.00%	19.79	2.33	-1.00%	(36.43)	(0.44)	-1.00%	23.19	4.16
EUR	-1.00%	(31.31)	0.00	-1.00%	(11.72)	0.00	-1.00%	(29.11)	0.00	-1.00%	(11.58)	0.00
JPY	-1.00%	11.53	0.00	-1.00%	14.22	0.00	-1.00%	11.53	0.00	-1.00%	14.22	0.00
GBP	-1.00%	(18.46)	0.00	-1.00%	(8.04)	0.00	-1.00%	(18.46)	0.00	-1.00%	(8.04)	0.00
Others	-1.00%	1.83	0.00	-1.00%	(31.54)	0.00	-1.00%	1.83	0.00	-1.00%	(31.54)	0.00

Information relating to Parent Company's currency derivatives is included in Note 8. As of December 31, 2017 and 2016, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱4.5 billion and ₱5.8 billion, respectively (sold), and ₱10.8 billion and ₱5.5 billion, respectively (bought).

The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit and loss.

Capital Management
The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and 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 and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the compliance with regulatory requirements and ratios is based on the amount of the "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

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%; capital conservation buffer of 2.50% comprised of CET1 capital and Total Capital Adequacy Ratio (CAR) at 10.00%. These ratios shall be maintained at all times.

Further, Basel III 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 and 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.

The details of CAR, as reported to the BSP, as of December 31, 2017 and 2016 based on Basel III follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Tier 1 capital	**₱207,096**	₱195,947	**₱196,170**	₱187,400
CET1 Capital	**207,096**	195,947	**196,170**	187,400
Less: Required deductions	**26,824**	32,583	**69,006**	73,598
Net Tier 1 Capital	**180,272**	163,364	**127,164**	113,802
Tier 2 capital	**39,013**	37,895	**31,449**	30,707
Total Qualifying Capital	**₱219,285**	₱201,259	**₱158,613**	₱144,509

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Credit Risk-Weighted Assets	**₱1,299,292**	₱1,142,977	**₱1,014,289**	₱908,484
Market Risk-Weighted Assets	**65,540**	27,159	**52,410**	26,846
Operational Risk-Weighted Assets	**163,790**	132,702	**107,484**	80,756
Total Risk-Weighted Assets	**1,528,622**	1,302,838	**1,174,183**	1,016,086
CET1 Ratio*	**11.79%**	12.54%	**10.83%**	11.20%
Tier 1 capital ratio	**11.79%**	12.54%	**10.83%**	11.20%
Total capital ratio	**14.35%**	15.45%	**13.51%**	14.22%

** of which capital conservation buffer in 2017 and 2016 is 5.79% and 6.54%, respectively, for the Group and 4.83% and 5.20%, respectively, for the Parent Company.*

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, additional paid-in capital, retained earnings including current year profit, retained earnings reserves, other comprehensive income (net unrealized gains or losses on AFS securities, cumulative foreign currency translation and remeasurement of net defined benefit liability/asset) and non-controlling interest less required deductions such as unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and related interests (DOSRI), unsecured loans, other credit accomodations and guarantees granted to subsidiaries, deferred income tax, goodwill, other intangible assets, defined benefit pension fund assets and investments in equity. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision.

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 (MB) of the BSP.

As of December 31, 2017 and 2016, the Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products.

Credit risk mitigants on risk-weighted assets were based on collateralized transactions (margin deposits and hold-out on deposits) as well as guarantees by the Philippine National Government and those guarantors and exposures with highest credit rating.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by S&P, Moody's, Fitch and PhilRatings on exposures to Sovereigns, Multilateral Development Banks, Banks, Local Government Units, Government Corporations, and Corporates.

Operational RWA are computed using the Basic Indicator Approach. As discussed in Note 30, as of December 31, 2017, this includes the additional operational risk as required by the MB which shall be subject to its periodic review.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

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, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are 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 deadline for submission of ICAAP documents is on March 31 each year.

On October 29, 2014, the BSP issued Circular No. 856 covering the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks that will be identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement shall be phased-in starting January 1, 2017, with full compliance on January 1, 2019.

On October 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Leverage Ratio framework in accordance with the Basel III standards which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. Monitoring period has been set every quarter starting December 31, 2014 until December 31, 2016 but extended until December 31, 2017 per BSP Circular No. 943 issued on January 26, 2017.

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.

Further, on March 10, 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on Liquidity Coverage Ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should be no lower than 100.00%. Compliance with the LCR minimum requirement will commence on January 1, 2018 with the prescribed minimum initially set at 90.00% for 2018 and 100.00% required minimum level on January 1, 2019.

5. **Fair Value Measurement**

Financial Instruments

The methods and assumptions used by the Group in estimating the fair value of financial instruments are:

Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA - Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

Trading and investment securities - Fair values of debt securities (financial assets at FVPL and AFS investments) and equity investments are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models. The models utilize published underlying rates (e.g. interest rates, FX rates, CDS rates, FX volatilities and spot and forward FX rates) and are implemented through validated calculation engines.

Loans and receivables - Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

Liabilities - 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, if any. The carrying amount of demand and savings deposit liabilities and other short-term liabilities approximate fair value considering that these are either due and demandable or with short-term maturities.

Non-financial Assets
Investment properties - Fair value of investment properties is determined based on valuations performed by independent and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restrictions, building coverage and floor area ratio restrictions, among others. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amounts and fair values of the financial assets and liabilities, analyzed among those whose fair value is based on:

- Quoted market prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

	2017				
	Consolidated				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	**₱5,310**	**₱5,310**	**₱–**	**₱–**	**₱5,310**
Private	**9,560**	**8,884**	**676**	–	**9,560**
Treasury bills	**1,401**	**1,401**	–	–	**1,401**
Treasury notes and bonds	**13,383**	**13,383**	–	–	**13,383**
BSP	**2**	**2**	–	–	**2**
	29,656	**28,980**	**676**	–	**29,656**
Equity securities					
Quoted	**7,862**	**7,862**	–	–	**7,862**

(Forward)

	2017				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Derivative assets					
Currency forwards	₱1,671	₱□	₱1,671	₱□	₱1,671
Interest rate swaps	635	□	635	□	635
Cross currency swaps	3,889	□	3,889	□	3,889
Put option	161	□	161	□	161
Call option	12	□	12	□	12
Embedded derivatives in non-financial contract	1	□	1	□	1
	6,369	□	6,369	□	6,369
	43,887	36,842	7,045	□	43,887
AFS investments					
Debt securities					
Government	38,812	34,659	4,153	□	38,812
Private	53,754	47,641	6,113	□	53,754
Treasury bills	115	115	□	□	115
Treasury notes and bonds	249,431	249,431	□	□	249,431
BSP	□	□	□	□	□
	342,112	331,846	10,266	□	342,112
Equity securities					
Quoted	1,625	1,625	□	□	1,625
	343,736	333,471	10,265	□	343,736
	₱387,624	₱370,313	₱17,311	₱□	₱387,624
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables - net					
Receivables from customers					
Commercial loans	₱905,640	₱□	₱□	₱894,297	₱894,297
Residential mortgage loans	98,855	□	□	99,183	99,183
Auto loans	116,207	□	□	140,184	140,184
Trade loans	40,874	□	□	40,874	40,874
Others	84,943	□	□	84,486	84,486
	1,246,519	□	□	1,259,024	1,259,024
Unquoted debt securities	866	□	□	915	915
Sales contract receivable	91	□	□	125	125
	1,247,476	□	□	1,260,064	1,260,064
Other Assets					
Residual value of leased assets	1,054	□	□	997	997
Miscellaneous	180	□	□	289	289
	1,234	□	□	1,286	1,286
	1,248,710	□	□	1,261,350	1,261,350
Non-Financial Assets					
Investment properties	7,717	□	□	12,185	12,185
	₱1,256,427	₱□	₱□	₱1,273,535	₱1,273,535
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱2,067	₱□	₱2,067	₱□	₱2,067
Bond forwards	□	□	□	□	□
Interest rate swaps	501	□	501	□	501
Cross currency swaps	2,759	□	2,759	□	2,759
Put option	1	□	1	□	1
Call option	24	□	24	□	24
Non-equity non-controlling interest	8,002	–	8,002	–	8,002
	₱13,354	₱□	₱13,354	₱□	₱13,354

(Forward)

	2017				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱547,721	₱□	₱□	₱547,991	₱547,991
LTNCD	30,025	28,740	□	□	28,740
Bills payable and SSURA	227,835	□	□	227,276	227,276
Bonds payable	2,910	□	□	2,992	2,992
Subordinated debt	26,580	22,254	□	3,557	25,811
Other liabilities					
Deposits on lease contracts	1,472	□	□	1,302	1,302
	₱836,543	₱50,994	₱□	₱783,118	₱834,112

	2017				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱5,240	₱5,240	₱–	₱–	₱5,240
Private	8,698	8,698	–	–	8,698
Treasury bills	1,156	1,156	–	–	1,156
Treasury notes and bonds	10,881	10,881	–	–	10,881
BSP	2	2	–	–	2
	25,977	25,977	–	–	25,977
Derivative assets					
Currency forwards	1,597	–	1,597	–	1,597
Interest rate swaps	635	–	635	–	635
Cross currency swaps	3,889	–	3,889	–	3,889
Put option	161	–	161	–	161
Call option	12	–	12	–	12
Embedded derivatives in non-financial contract	1	–	1	–	1
	6,295	–	6,295	–	6,295
	32,272	25,977	6,295	–	32,272
AFS investments					
Debt securities					
Government	20,583	16,932	3,651	–	20,583
Private	36,065	35,515	550	–	36,065
Treasury notes and bonds	213,393	213,393	–	–	213,393
	270,041	265,840	4,201		270,041
Equity securities				–	
Quoted	343	343	–	–	343
	270,384	266,183	4,201	–	270,384
	₱302,656	₱292,160	₱10,496	₱–	₱302,656
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables - net					
Receivables from customers					
Commercial loans	₱849,789	₱–	₱–	₱836,175	₱836,175
Residential mortgage loans	52,893	–	–	53,339	53,339
Auto loans	33,882	–	–	34,247	34,247
Trade loans	40,824	–	–	40,824	40,824
Others	12,757	–	–	12,757	12,757
	990,145	–	–	977,342	977,342
Unquoted debt securities	26	–	–	26	26
Sales contract receivable	18	–	–	18	18
	990,189	–	–	977,386	977,386
Non-Financial Assets					
Investment properties	3,013	–	–	6,235	6,235
	₱993,202	₱–	₱–	₱983,621	₱983,621

(Forwarrd)

	2017				
	Parent Company				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	**₱2,067**	**₱–**	**₱2,067**	**₱–**	**₱2,067**
Bond forwards	**-**	**–**	**–**	**–**	**-**
Interest rate swaps	**501**	**–**	**501**	**–**	**501**
Cross currency swaps	**2,759**	**–**	**2,759**	**–**	**2,759**
Put option	**1**	**–**	**1**	**–**	**1**
Call option	**24**	**–**	**24**	**–**	**24**
	₱5,352	**₱–**	**₱5,352**	**₱–**	**₱5,352**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	**₱395,948**	**₱–**	**₱–**	**₱395,948**	**₱395,948**
LTNCD	**26,650**	**25,608**	**–**	**–**	**25,608**
	422,598	**25,608**	**–**	**395,948**	**421,556**
Bills payable and SSURA	**106,482**	**–**	**–**	**106,534**	**106,534**
Subordinated debt	**22,437**	**22,254**	**–**	**–**	**22,254**
	₱551,517	**₱47,862**	**₱–**	**₱502,482**	**₱550,344**

	2016				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱4,010	₱4,010	₱–	₱–	₱4,010
Private	5,329	5,255	74	–	5,329
Treasury bills	903	903	–	–	903
Treasury notes and bonds	13,346	13,346	–	–	13,346
	23,588	23,514	74	–	23,588
Equity securities					
Quoted	6,502	6,502	–	–	6,502
Derivative assets					
Currency forwards	785	–	785	–	785
Interest rate swaps	740	–	740	–	740
Cross currency swaps	5,436	–	5,436	–	5,436
Put option	158	–	158	–	158
Call option	3	–	3	–	3
Embedded derivatives in non-financial contract	2	–	2	–	2
	7,124	–	7,124	–	7,124
	37,214	30,016	7,198	–	37,214
AFS investments					
Debt securities					
Government	41,555	34,298	7,257	–	41,555
Private	43,232	42,654	578	–	43,232
Treasury bills	199	199	–	–	199
Treasury notes and bonds	231,087	231,087	–	–	231,087
	316,073	308,238	7,835	–	316,073
Equity securities					
Quoted	589	589	–	–	589
	316,662	308,827	7,835	–	316,662
	₱353,876	₱338,843	₱15,033	₱–	₱353,876

(Forward)

	2016				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables - net					
Receivables from customers					
Commercial loans	₱740,486	₱–	₱–	₱741,445	₱741,445
Residential mortgage loans	91,497	–	–	92,169	92,169
Auto loans	96,844	–	–	113,022	113,022
Trade loans	34,474	–	–	34,474	34,474
Others	81,797	–	–	81,542	81,542
	1,045,098	–	–	1,062,652	1,062,652
Unquoted debt securities	929	–	–	1,001	1,001
Sales contract receivable	160	–	–	198	198
	1,046,187	–	–	1,063,851	1,063,851
Other Assets					
Residual value of leased assets	1,003	–	–	960	960
Miscellaneous	180	–	–	289	289
	1,183	–	–	1,249	1,249
	1,047,370	–	–	1,065,100	1,065,100
Non-Financial Assets					
Investment properties	8,474	–	–	13,429	13,429
	₱1,055,844	₱–	₱–	₱1,078,529	₱1,078,529
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱1,291	₱–	₱1,291	₱–	₱1,291
Bond forwards	27	–	27	–	27
Interest rate swaps	539	–	539	–	539
Cross currency swaps	2,752	–	2,752	–	2,752
Call option	3	–	3	–	3
Non-equity non-controlling interest	7,934	–	7,934	–	7,034
	₱12,546	₱–	₱12,546	₱–	₱12,546
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱520,329	₱–	₱–	₱523,919	₱523,919
LTNCD	22,900	21,896	–	–	21,896
Bills payable and SSURA	161,376	–	–	164,593	164,593
Bonds payable	11,498	–	–	11,756	11,756
Subordinated debt	29,524	22,378	–	6,754	29,132
Other liabilities					
Deposits on lease contracts	1,375	–	–	1,233	1,233
	₱747,002	₱44,274	₱–	₱708,255	₱752,529

	2016				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱2,556	₱2,556	₱–	₱–	₱2,556
Private	4,579	4,579	–	–	4,579
Treasury bills	166	166	–	–	166
Treasury notes and bonds	12,342	12,342	–	–	12,342
	19,643	19,643	–	–	19,643

(Forwarrd)

	2016				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Derivative assets					
Currency forwards	₱785	₱–	₱785	₱–	₱785
Interest rate swaps	739	–	739	–	739
Cross currency swaps	5,436	–	5,436	–	5,436
Put option	158	–	158	–	158
Call option	3	–	3	–	3
Embedded derivatives in non-financial contract	2	–	2	–	2
	7,123	–	7,123	–	7,123
	26,766	19,643	7,123	–	26,766
AFS investments					
Debt securities					
Government	21,287	17,550	3,737	–	21,287
Private	32,533	31,980	553	–	32,533
Treasury notes and bonds	199,386	199,386	–	–	199,386
	253,206	248,916	4,290	–	253,206
Equity securities					
Quoted	327	327	–	–	327
	253,533	249,243	4,290	–	253,533
	₱280,299	₱268,886	₱11,413	₱–	₱280,299
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables - net					
Receivables from customers					
Commercial loans	₱697,221	₱–	₱–	₱696,087	₱696,087
Residential mortgage loans	48,102	–	–	48,369	48,369
Auto loans	28,763	–	–	28,879	28,879
Trade loans	34,474	–	–	34,474	34,474
Others	20,844	–	–	20,844	20,844
	829,404	–	–	828,653	828,653
Unquoted debt securities	113	–	–	113	113
Sales contract receivable	33	–	–	33	33
	829,550	–	–	828,799	828,799
Non-Financial Assets					
Investment properties	3,749	–	–	6,901	6,901
	₱833,299	₱–	₱–	₱835,700	₱835,700
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱1,226	₱–	₱1,226	₱–	₱1,226
Bond forwards	27	–	27	–	27
Interest rate swaps	539	–	539	–	539
Cross currency swaps	2,752	–	2,752	–	2,752
Call option	3	–	3	–	3
	₱4,547	₱–	₱4,547	₱–	₱4,547
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱388,063	₱–	₱–	₱388,063	₱388,063
LTNCD	22,900	21,896	–	–	21,896
	410,963	21,896	–	388,063	409,959
Bills payable and SSURA	68,865	–	–	68,709	68,709
Subordinated debt	22,404	22,378	–	–	22,378
	₱502,232	₱44,274	₱–	₱456,772	₱501,046

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Instruments included in Level 3 include those for which there is currently no active market. There were no transfers between levels of the fair value hierarchy in 2017 and 2016.

6. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with segment representing a strategic business unit. Operating segments are reported in accordance with internal reporting to the Senior Management who is responsible for allocating resources to the segments and assessing its performance. The Group's business segments follow:

- Consumer Banking - principally providing consumer type loans and support for effective sourcing and generation of consumer business;
- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions; and providing advisory services primarily aimed to create wealth to individuals and institutions;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking;
- Branch Banking - principally handling branch deposits and providing loans and other loan related businesses for domestic middle market clients; and
- Others - principally handling other services including but not limited to remittances, leasing, account financing, and other support services. Other operations of the Group comprise the operations and financial control groups.

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 either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities:

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2017							
Results of Operations							
Net interest income (expense)							
Third party	**₱15,528**	**₱29,594**	**₱–**	**₱10,900**	**₱2,491**	**₱2,893**	**₱61,406**
Intersegment	**(267)**	**(11,914)**	**–**	**(1,240)**	**16,036**	**(2,615)**	**–**
Net interest income after intersegment transactions	**15,261**	**17,680**	**–**	**9,660**	**18,527**	**278**	**61,406**
Non-interest income	**6,827**	**871**	**307**	**2,252**	**3,935**	**7,955**	**22,147**
Revenue - net of interest expense	**22,088**	**18,551**	**307**	**11,912**	**22,462**	**8,233**	**83,553**
Non-interest expense	**12,784**	**5,521**	**28**	**1,587**	**20,818**	**14,244**	**54,982**

(Forward)

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Income (loss) before share in net income of subsidiaries, associates and a JV	**₱9,304**	**₱13,030**	**₱279**	**₱10,325**	**₱1,644**	**(₱6,011)**	**₱28,571**
Share in net income of subsidiaries, associates and a JV	**–**	**72**	**–**	**–**	**–**	**617**	**689**
Provision for income tax	**(2,192)**	**(306)**	**–**	**(2,686)**	**(6)**	**(2,800)**	**(7,990)**
Non-controlling interest in net income of consolidated subsidiaries	**–**	**–**	**–**	**–**	**–**	**(3,047)**	**(3,047)**
Net income (loss)	**₱7,112**	**₱12,796**	**₱279**	**₱7,639**	**₱1,638**	**(₱11,241)**	**₱18,223**
Statement of Financial Position							
Total assets	**₱199,070**	**₱948,654**	**₱–**	**₱428,021**	**₱146,941**	**₱357,606**	**₱2,080,292**
Total liabilities	**₱73,918**	**₱915,469**	**₱–**	**₱462,108**	**₱241,208**	**₱183,499**	**₱1,876,202**
Other Segment Information							
Capital expenditures	**₱884**	**₱91**	**₱–**	**₱130**	**₱110**	**₱3,319**	**₱4,534**
Depreciation and amortization	**₱583**	**₱137**	**₱–**	**₱19**	**₱1,271**	**₱2,008**	**₱4,018**
Provision for credit and impairment losses	**₱5,667**	**₱1,882**	**₱–**	**(₱426)**	**₱202**	**₱182**	**₱7,507**
2016							
Results of Operations							
Net interest income (expense)							
Third party	₱14,020	₱22,689	₱–	₱12,342	₱1,726	₱2,169	₱52,946
Intersegment	(254)	(8,977)	–	(4,109)	15,123	(1,783)	–
Net interest income after intersegment transactions	13,766	13,712	–	8,233	16,849	386	52,946
Non-interest income	5,660	630	643	6,806	3,532	8,395	25,666
Revenue - net of interest expense	19,426	14,342	643	15,039	20,381	8,781	78,612
Non-interest expense	13,576	2,980	44	1,748	18,581	15,006	51,935
Income (loss) before share in net income of subsidiaries, associates and a JV	5,850	11,362	599	13,291	1,800	(6,225)	26,677
Share in net income of subsidiaries, associates and a JV	–	30	–	–	–	231	261
Provision for income tax	(1,358)	(303)	–	(2,903)	(40)	(2,018)	(6,622)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(2,230)	(2,230)
Net income (loss)	₱4,492	₱11,089	₱599	₱10,388	₱1,760	(₱10,242)	₱18,086
Statement of Financial Position							
Total assets	₱166,374	₱788,813	₱–	₱466,711	₱144,026	₱310,085	₱1,876,009
Total liabilities	₱63,000	₱760,320	₱–	₱480,348	₱227,514	₱139,274	₱1,670,456
Other Segment Information							
Capital expenditures	₱1,000	₱58	₱–	₱130	₱95	₱3,045	₱4,328
Depreciation and amortization	₱499	₱170	₱–	₱12	₱1,249	₱1,834	₱3,764
Provision for credit and impairment losses	₱7,009	(₱233)	₱–	₱–	(₱603)	₱1,169	₱7,342
2015							
Results of Operations							
Net interest income (expense)							
Third party	₱10,287	₱19,170	₱5	₱16,617	₱1,027	₱1,868	₱48,974
Intersegment	(242)	(7,607)	–	(6,054)	15,633	(1,730)	–
Net interest income after intersegment transactions	10,045	11,563	5	10,563	16,660	138	48,974
Non-interest income	4,976	570	682	1,181	3,818	7,537	18,764
Revenue - net of interest expense	15,021	12,133	687	11,744	20,478	7,675	67,738
Non-interest expense	9,184	2,656	(42)	1,612	19,073	9,784	42,267
Income (loss) before share in net income of subsidiaries, associates and a JV	5,837	9,477	729	10,132	1,405	(2,109)	25,471
Share in net income of subsidiaries, associates and a JV	–	20	–	–	–	389	409
Provision for income etax	(1,153)	(233)	–	(3,817)	217	(251)	(5,237)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(2,018)	(2,018)
Net income (loss)	₱4,684	₱9,264	₱729	₱6,315	₱1,622	(₱3,989)	₱18,625
Statement of Financial Position							
Total assets	₱143,962	₱636,495	₱–	₱538,974	₱138,110	₱303,151	₱1,760,692
Total liabilities	₱52,912	₱602,773	₱–	₱551,573	₱213,643	₱136,481	₱1,557,382
Other Segment Information							
Capital expenditures	₱681	₱78	₱–	₱136	₱163	₱3,597	₱4,655
Depreciation and amortization	₱284	₱164	₱–	₱10	₱1,159	₱1,643	₱3,260
Provision for credit and impairment losses	₱3,913	₱94	(₱91)	₱3	₱1,017	(₱2,877)	₱2,059

Non-interest income consists of service charges, fees and commissions, profit from assets sold, trading and securities gain (loss) - net, foreign exchange gain - net, income from trust operations, leasing, dividends and miscellaneous income. Non-interest expense consists of compensation and fringe benefits, taxes and licenses, provision for (reversal of) credit and impairment losses, depreciation and amortization, occupancy and equipment-related cost, amortization of software costs, and miscellaneous expense.

Geographical Information
The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2).

The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
2017					
Interest income	**₱78,302**	**₱1,980**	**₱40**	**₱–**	**₱80,322**
Interest expense	**18,079**	**827**	**10**	**–**	**18,916**
Net interest income	**60,223**	**1,153**	**30**	**–**	**61,406**
Non-interest income	**20,768**	**819**	**505**	**55**	**22,147**
Provision for credit and impairment losses	**7,388**	**119**	**–**	**–**	**7,507**
Total external net operating income	**₱73,603**	**₱1,853**	**₱535**	**₱55**	**₱76,046**
Non-current assets	**₱32,233**	**₱652**	**₱10**	**₱5**	**₱32,900**
2016					
Interest income	₱66,653	₱1,490	₱38	₱–	₱68,181
Interest expense	14,463	766	6	–	15,235
Net interest income	52,190	724	32	–	52,946
Non-interest income	23,908	1,012	669	77	25,666
Provision for credit and impairment losses	7,257	85	–	–	7,342
Total external net operating income	₱68,841	₱1,651	₱701	₱77	₱71,270
Non-current assets	₱32,543	₱603	₱13	₱5	₱33,164
2015					
Interest income	₱64,225	₱1,297	₱34	₱–	₱65,556
Interest expense	16,035	541	6	–	16,582
Net interest income	48,190	756	28	–	48,974
Non-interest income	17,137	1,117	454	56	18,764
Provision for credit and impairment losses	1,985	72	2	–	2,059
Total external net operating income	₱63,342	₱1,801	₱480	₱56	₱65,679
Non-current assets	₱31,847	₱644	₱19	₱6	₱32,516

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, software costs and assets held under joint operations.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		**Parent Company**	
	2017	2016	**2017**	2016
Interbank loans receivable (Note 31)	**₱43,859**	₱44,815	**₱27,208**	₱32,452
SPURA	**1,616**	46,831	–	40,642
	₱45,475	₱91,646	**₱27,208**	₱73,094

The outstanding balance of SPURA represents overnight placements with the BSP where the underlying securities cannot be sold or repledged to parties other than the BSP.

In 2017, 2016 and 2015, the interest rates of the interbank loans receivables range from 0.0% to 3.5%, 0.0% to 2.9%, and 0.01% to 2.2%, respectively, for the Group and Parent Company.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Financial assets at FVPL	**₱43,887**	₱37,214	**₱32,272**	₱26,766
AFS investments (Note 29)	**343,910**	316,855	**270,445**	253,594
	₱387,797	₱354,069	**₱302,717**	₱280,360

Financial assets at FVPL consist of the following:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
HFT investments				
Debt securities				
Government (Note 17)	**₱5,310**	₱4,010	**₱5,240**	₱2,556
Private	**9,560**	5,329	**8,698**	4,579
Treasury bills (Note 17)	**1,401**	903	**1,156**	166
Treasury notes and bonds (Note 17)	**13,383**	13,346	**10,881**	12,342
BSP	**2**	–	**2**	–
	29,656	23,588	**25,977**	19,643
Equity securities - quoted	**7,862**	6,502	**–**	–
	37,518	30,090	**25,977**	19,643
Derivative assets	**6,369**	7,124	**6,295**	7,123
	₱43,887	₱37,214	**₱32,272**	₱26,766

Derivative Financial Instruments

The following are fair values of derivative financial instruments of the Parent Company recorded as derivative assets/liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2017 and 2016 and are not indicative of either market risk or credit risk.

	Assets	**Liabilities**	**Notional Amount**	**Average Forward Rate (in every USD 1)**
December 31, 2017				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	**₱107**	**₱1,885**	**USD 2,257**	**₱50.8007**
CNY	**0**	**0**	**CNY 20**	**CNY 0.1530**
EUR	**27**	**–**	**EUR 32**	**EUR 1.1832**
GBP	**10**	**–**	**GBP 22**	**GBP 1.3408**
THB	**0**	**–**	**THB 28**	**THB 0.0304**
KRW	**6**	**–**	**KRW 5,468**	**KRW 0.0009**
TWD	**–**	**38**	**TWD 2,513**	**TWD 0.0334**
JPY	**0**	**54**	**JPY 11,178**	**JPY 0.0090**
SGD	**0**	**–**	**SGD 1**	**SGD 0.7471**
NZD	**1**	**–**	**NZD 1**	**NZD 0.7471**

(Forward)

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
SOLD:				
USD	**₱1,358**	**₱28**	**USD 1,705**	**₱50.9803**
CNY	**0**	**27**	**CNY 360**	**CNY 0.1518**
CAD	**–**	**1**	**CAD 2**	**CAD 0.7901**
JPY	**85**	**7**	**JPY 15,575**	**JPY 0.0090**
EUR	**1**	**4**	**EUR 3**	**EUR 1.2045**
MXN	**–**	**0**	**MXN 1**	**MXN 0.0504**
THB	**1**	**0**	**THB 81**	**THB 0.0307**
KRW	**–**	**6**	**KRW 5,454**	**KRW 0.0009**
CHF	**–**	**3**	**CHF 6**	**CHF 1.0128**
AUD	**–**	**13**	**AUD 21**	**AUD 0.7679**
HKD	**0**	**–**	**HKD 43**	**HKD 0.1280**
NZD	**–**	**0**	**NZD 1**	**NZD 0.7090**
SGD	**–**	**1**	**SGD 10**	**SGD 0.7451**
Put option purchased warrants	**158**	**–**	**USD 645**	
Interest rate swaps – PHP	**98**	**196**	**₱35,583**	
Interest rate swaps – FX	**538**	**305**	**USD 1,895**	
Cross currency swaps – PHP	**244**	**2,605**	**₱34,058**	
Cross currency swaps – FX	**3,501**	**154**	**USD 1,014**	
Cross currency swaps – EUR	**144**	**–**	**EUR 46**	
Over-the-counter FX options	**15**	**25**	**USD 171**	
Embedded derivatives in non-financial contract*	**1**	**–**	**USD 0**	
	₱6,295	**₱5,352**		
December 31, 2016				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱573	₱127	USD 977	₱49.3105
CNY	–	2	CNY 563	CNY 0.1422
EUR	–	8	EUR 2	EUR 1.1234
TWD	39	–	TWD 1,551	TWD 0.0316
HKD	0	–	HKD 40	HKD 0.1288
SOLD:				
USD	96	1,076	USD 1,199	₱49.1999
CNY	58	0	CNY 303	CNY 0.1455
GBP	0	–	GBP 0	GBP 1.2518
JPY	10	13	JPY 3,670	JPY 0.0086
EUR	8	–	EUR 4	EUR 1.0614
MXN	–	0	MXN 1	MXN 0.0481
THB	0	–	THB 9	THB 0.0279
SGD	0	0	SGD 4	SGD 0.6902
CHF	0	0	CHF 6	CHF 0.9742
TRY	0	–	TRY 0	TRY 0.2841
AUD	1	–	AUD 14	AUD 0.7223
HKD	–	0	HKD 55	HKD 0.1289
ZAR	0	–	ZAR 2	ZAR 0.0728
Put option purchased warrants	157	–	USD 645	
Interest rate swaps – PHP	141	126	₱35,700	
Interest rate swaps – FX	598	413	USD 2,123	
Cross currency swaps – PHP	40	2,752	₱16,903	
Cross currency swaps – FX	5,383	0	USD 1,099	
Cross currency swaps – EUR	13	–	EUR 4	
Over-the-counter FX options	4	3	USD 461	
Bond forwards	–	27	USD 90	
Embedded derivatives in non-financial contract*	2	–	USD 0	
	₱7,123	₱4,547		

*Non-financial host contracts include foreign currency derivatives with average notional amounts of USD1,579 and USD1,532 per month as of December 31, 2017 and 2016, respectively (with maturities until 2021).

The Group’s derivative assets include embedded call option in a financial contract amounting to nil and ₱15.9 thousand as of December 31, 2017 and 2016, respectively, and swaps amounting to ₱0.5 million as of December 31, 2017 and 2016.

AFS investments consist of the following:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Debt securities:				
Government (Notes 17 and 19)	**₱38,812**	₱41,555	**₱20,583**	₱21,287
Private	**53,754**	43,232	**36,065**	32,533
Treasury bills	**115**	199	**-**	–
Treasury notes and bonds (Note 17)	**249,431**	231,087	**213,393**	199,386
	342,112	316,073	**270,041**	253,206
Equity securities:				
Quoted (Note 11)	**1,707**	671	**423**	406
Unquoted	**386**	405	**141**	142
	2,093	1,076	**564**	548
	344,205	317,149	**270,605**	253,754
Less allowance for impairment losses (Note 15)	**295**	294	**160**	160
	₱343,910	₱316,855	**₱270,445**	₱253,594

The movements in net unrealized losses, including share in net unrealized losses of subsidiaries (Note 11), presented under equity in the statements of financial position are as follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Balance at the beginning of year	**₱10,247**	₱4,783	**₱10,115**	₱4,783
Unrealized loss recognized in other comprehensive income	**5,126**	315	**5,130**	634
Amounts realized in profit or loss	**641**	5,144	**554**	4,693
	16,014	10,242	**15,799**	10,110
Tax (Note 28)	**5**	5	**5**	5
Balance at end of year	**₱16,019***	₱10,247*	**₱15,804**	₱10,115

*Includes share of non-controlling interest amounting to ₱215.0 million and ₱132.5 million as of December 31, 2017 and 2016, respectively

As of December 31, 2017 and 2016, AFS investments include floating and fixed rate private notes with total carrying value of USD11.1 million (with peso equivalent of ₱550.2 million and ₱553.3 million, respectively) which are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation (FDIC) and the Office of the Controller of the Currency (OCC) in New York.

AFS investments also include US Treasury notes with carrying value of USD1.0 million (with peso equivalent of ₱51.0 million and ₱59.4 million as of December 31, 2017 and 2016, respectively) which are pledged by MR USA to the State Treasury Office pursuant to the California Financial Code and in accordance with the requirements of the California Department of Business Oversight relative to its license as a transmitter of money.

In 2016, the Parent Company partially disposed and reclassified the remaining HTM investments to AFS investments in accordance with the existing tainting rule under PAS 39. Total trading gains on disposal of certain HTM investments including portion of the reclassified portfolio amounted to USD86.7 million (peso equivalent of ₱4.1 billion) and included under 'Trading and securities gain (loss) - net' in 2016. Further, the entire HTM investments portfolio of the subsidiaries was reclassified to AFS investments and carried at fair value. As of December 31, 2017 and 2016, the market value of the remaining reclassified investments amounted to ₱167.7 billion and ₱201.2 billion, respectively, for the Group, and ₱133.1 billion and ₱160.8 billion, respectively, for the Parent Company, with net unrealized loss amounting to ₱11.3 billion and ₱5.5 billion, respectively, for the Group, and ₱9.9 billion and ₱4.8 billion, respectively, for the Parent Company included in 'Net unrealized loss on available-for-sale investments'.

Bond Exchange Transaction

In July 2011, the Department of Finance and the Bureau of Treasury (BTr) embarked on a Liability Management exercise through the exchange of eligible fixed income government bonds for a new 10-year bonds (due 2022) or 20-year bonds (due 2031) wherein the proceeds of a simultaneous issuance of additional new 20-year bonds were used to buy back Eligible bonds via Tender Offer. Given the existing tainting rule on HTM investment under PAS 39, the SEC granted an exemptive relief from the tainting rule subject to, among others, (a) proper disclosures to the SEC; (b) Day 1 profit or loss shall not be recognized and any unrealized gains or losses shall be amortized over the term of the new benchmark bonds; (c) basis of preparation of the financial statements shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the PFRS; and (d) appropriate clearance shall be obtained from the BSP. In October 2011, the BSP through Circular 738 issued exemption from tainting provision for prudential reporting on certain securities booked under HTM category which are covered by an offer and accepted tender offer pursuant to liability management transactions of the Republic of the Philippines (ROP), among others.

In July 2011, given its nature of business, FMIC participated in the domestic bond exchange covering its ₱3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings (from maturity date of December 16, 2020 to July 19, 2031) and benefit from the higher yields (from 5.875% to 8.00%). FMIC has complied with the disclosure and other requirements of the SEC as follows: total HTM investments portfolio of FMIC before and after the exchange remain the same while the gain on exchange of ₱14.5 million is deferred and amortized over the term of the new bonds; and as disclosed in Note 2, the related financial statements of the Group have been prepared in accordance with Philippine GAAP for banks.

Reporting under PFRS

As of December 31, 2015, had the Group accounted for the transaction under PFRS, the entire HTM investments portfolio of the Group covered by the tainting period under the bond exchange, with amortized cost of ₱35.9 billion would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱3.8 billion being recognized in other comprehensive income with the disposal and reclassification of HTM investments to AFS investments in 2016. The 2011 bond exchange transaction has no impact in the Group's financial statements as of December 31, 2017 and 2016.

Interest income on trading and investment securities consists of:

	Consolidated			**Parent Company**		
	2017	2016	2015	**2017**	2016	2015
AFS investments	**₱13,480**	₱6,875	₱7,473	**₱10,655**	₱5,634	₱6,481
Financial assets at FVPL	**1,585**	1,110	1,740	**1,362**	853	1,299
HTM investments	–	7,386	8,625	□	6,258	7,502
	₱15,065	₱15,371	₱17,838	**₱12,017**	₱12,745	₱15,282

In 2017, 2016 and 2015, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.10% to 11.63%, 0.29% to 11.63% and 0.31% to 11.63%, respectively, for the Group and the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 1.63% to 15.00%, 1.63% to 14.38% and 1.63% to 14.38%, respectively, for the Group and from 1.63% to 15.00%, 1.63% to 13.75% and 2.13% to 13.75%, respectively, for the Parent Company.

Trading and securities gain (loss) - net consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
HFT investments	**₱1,915**	(₱718)	(₱1,261)	**₱73**	(₱260)	(₱824)
Derivative assets/liabilities - net	**(1,706)**	682	1,113	**(1,706)**	707	1,127
AFS investments	**641**	5,144	1,430	**554**	4,693	1,301
HTM investments	**–**	1,014	–	**–**	1,014	–
	850	6,122	1,282	**(₱1,079)**	₱6,154	₱1,604
Income (loss) attributable to non-equity non-controlling interests (Note 21)	**(1,252)**	441	336			
	(₱402)	₱6,563	₱1,618			

Trading gains on AFS investments represent realized gains/losses previously reported in other comprehensive income.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Receivables from customers (Note 31):				
Commercial loans	**₱914,367**	₱747,885	**₱853,729**	₱700,916
Auto loans	**118,166**	98,883	**53,144**	28,765
Residential mortgage loans	**99,738**	92,431	**33,883**	48,531
Trade loans	**41,120**	34,745	**41,070**	34,745
Others	**88,724**	85,454	**12,834**	20,883
	1,262,115	1,059,398	**994,660**	833,840
Less unearned discounts and capitalized interest	**4,239**	3,076	**219**	195
	1,257,876	1,056,322	**994,441**	833,645
Unquoted debt securities:				
Government	**2**	85	**3**	85
Private	**1,250**	1,230	**409**	413
	1,252	1,315	**412**	498
Accrued interest receivable (Note 31)	**8,795**	8,023	**6,458**	5,700
Accounts receivable (Notes 30 and 31)	**13,547**	9,349	**10,170**	7,997
Sales contract receivable	**127**	196	**20**	36
Other receivables (Note 31)	**278**	89	**9**	3,019
	1,281,876	1,075,294	**1,011,510**	850,895
Less allowance for credit losses (Note 15)	**16,407**	14,426	**8,589**	6,697
	₱1,265,469	₱1,060,868	**₱1,002,921**	₱844,198

Receivables from customers consist of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Loans and discounts	**₱1,209,737**	₱1,008,148	**₱942,165**	₱782,229
Less unearned discounts and capitalized interest	**4,239**	3,076	**219**	195
	1,205,498	1,005,072	**941,946**	782,034
Customers' liabilities under letters of credit (LC)/trust receipts	**40,048**	31,068	**39,998**	31,068
Bills purchased (Note 21)	**12,330**	20,182	**12,497**	20,543
	₱1,257,876	₱1,056,322	**₱994,441**	₱833,645

Receivables from customers - others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱60.8 billion, ₱6.0 billion and ₱5.8 billion, respectively, as of December 31, 2017 and ₱50.6 billion, ₱5.4 billion and ₱5.3 billion, respectively, as of December 31, 2016.

As of December 31, 2017 and 2016, other receivables include dividends receivable of ₱4.4 million and ₱32.5 million, respectively, for the Group and nil and ₱30.0 million, respectively, for the Parent Company (Note 31).

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Receivables from customers	**₱46,984**	₱38,053	₱32,366	**₱33,612**	₱26,165	₱21,588
Receivables from cardholders	**11,550**	9,339	8,272	–	–	–
Lease contract receivables	**3,299**	2,493	1,947	–	–	–
Customer liabilities under LC/trust receipts	**979**	769	833	**979**	769	833
Restructured loans	**77**	115	194	**66**	81	139
Unquoted debt securities and others	**502**	497	567	**415**	371	370
	₱63,391	₱51,266	₱44,179	**₱35,072**	₱27,386	₱22,930

Interest income on unquoted debt securities and others include interest accreted on impaired receivables in accordance with PAS 39 and interest income on sales contract receivable.

As of December 31, 2017 and 2016, 83.15% and 83.00% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. In 2017 and 2016, the remaining peso receivables from customers earn annual fixed interest rates ranging from 3.00% to 42.00% and from 2.91% to 42.00%, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 2.05% to 36.00% and from 1.42% to 36.00%, respectively.

BSP Reporting

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

	Consolidated				Parent Company			
	2017		2016		**2017**		2016	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Other securities	**₱242,383**	**19.21**	₱187,823	17.73	**₱242,384**	**24.37**	₱187,823	22.53
Chattel	**150,451**	**11.92**	121,797	11.50	**32,841**	**3.30**	27,670	3.32
Real estate	**99,636**	**7.89**	96,763	9.13	**67,301**	**6.77**	65,018	7.80
Deposit hold-out	**25,294**	**2.00**	20,993	1.98	**24,513**	**2.46**	18,489	2.22
Equity securities	**18,146**	**1.44**	12,170	1.15	**5,033**	**0.51**	2,224	0.27
Others	**8,696**	**0.69**	7,994	0.75	**537**	**0.05**	351	0.04
	544,606	**43.15**	447,540	42.24	**372,609**	**37.46**	301,575	36.18
Unsecured	**717,509**	**56.85**	611,858	57.76	**622,051**	**62.54**	532,265	63.82
	₱1,262,115	**100.00**	₱1,059,398	100.00	**₱994,660**	**100.00**	₱833,840	100.00

Information on the concentration of credit as to industry of receivables from customers, gross of unearned discount and capitalized interest, follows:

	Consolidated				Parent Company			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	₱233,184	18.48	₱201,832	19.05	₱82,763	8.32	₱75,283	9.03
Wholesale and retail trade, repair of motor vehicles, motorcycles	214,041	16.96	175,713	16.59	189,444	19.05	158,076	18.96
Real estate activities	204,870	16.23	157,803	14.90	162,037	16.29	117,557	14.10
Manufacturing	193,693	15.35	186,228	17.58	189,255	19.03	180,861	21.69
Transportation and storage, information and communication	96,988	7.68	90,308	8.52	89,510	9.00	81,468	9.77
Financial and insurance activities	87,879	6.96	62,949	5.94	84,874	8.53	61,003	7.32
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	87,674	6.95	79,639	7.52	84,509	8.50	77,155	9.25
Construction	53,200	4.21	35,395	3.34	40,937	4.11	27,095	3.25
Agricultural, forestry and fishing	30,122	2.39	19,974	1.88	25,439	2.56	15,931	1.91
Accommodation and food service activities	28,399	2.25	21,106	1.99	28,030	2.82	20,786	2.49
Others	32,065	2.54	28,451	2.69	17,862	1.79	18,625	2.23
	₱1,262,115	100.00	₱1,059,398	100.00	₱994,660	100.00	₱833,840	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks.

Non-performing loans (NPLs) included in the total loan portfolio of the Group and the Parent Company, as reported to the BSP, are presented below in compliance with BSP Circular No. 772:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Gross NPLs	₱12,716	₱9,953	₱6,020	₱3,683
Less allowance for credit losses	8,641	8,764	4,643	4,668
	₱4,075	₱1,189	₱1,377	(₱985)

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts 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 rules and regulations. This shall apply 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 (3) 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 10.00% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	Total
2017						
Cost						
Balance at beginning of year	**₱5,888**	**₱9,031**	**₱19,527**	**₱4,030**	**₱4,809**	**₱43,285**
Additions	**20**	**40**	**2,677**	**126**	**693**	**3,556**
Disposals	**–**	**–**	**(1,326)**	**–**	**–**	**(1,326)**
Reclassification/others	**–**	**576**	**(61)**	**153**	**(656)**	**12**
Balance at end of year	**5,908**	**9,647**	**20,817**	**4,309**	**4,846**	**45,527**
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**4,771**	**13,847**	**2,646**	**–**	**21,264**
Depreciation and amortization	**–**	**469**	**2,305**	**395**	**–**	**3,169**
Disposals	**–**	**–**	**(1,165)**	**–**	**–**	**(1,165)**
Reclassification/others	**–**	**24**	**(120)**	**(31)**	**–**	**(127)**
Balance at end of year	**–**	**5,264**	**14,867**	**3,010**	**–**	**23,141**
Allowance for impairment losses (Note 15)	**–**	**24**	**–**	**–**	**–**	**24**
Net book value at end of year	**₱5,908**	**₱4,359**	**₱5,950**	**₱1,299**	**₱4,846**	**₱22,362**
2016						
Cost						
Balance at beginning of year	₱5,896	₱8,436	₱18,490	₱3,809	₱4,692	₱41,323
Additions	7	145	2,475	100	785	3,512
Disposals	(15)	–	(1,421)	(10)	–	(1,446)
Reclassification/others	–	450	(17)	131	(668)	(104)
Balance at end of year	5,888	9,031	19,527	4,030	4,809	43,285
Accumulated depreciation and amortization						
Balance at beginning of year	–	4,332	12,957	2,338	–	19,627
Depreciation and amortization	–	442	2,150	396	–	2,988
Disposals	–	–	(1,276)	(3)	–	(1,279)
Reclassification/others	–	(3)	16	(85)	–	(72)
Balance at end of year	–	4,771	13,847	2,646	–	21,264
Allowance for impairment losses (Note 15)	–	24	2	–	–	26
Net book value at end of year	₱5,888	₱4,236	₱5,678	₱1,384	₱4,809	₱21,995

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	Total
2017						
Cost						
Balance at beginning of year	**₱4,445**	**₱7,395**	**₱10,323**	**₱2,450**	**₱4,809**	**₱29,422**
Additions	**20**	**26**	**1,085**	**2**	**693**	**1,826**
Disposals	**–**	**–**	**(472)**	**–**	**–**	**(472)**
Reclassification/others	**–**	**534**	**(81)**	**175**	**(656)**	**(28)**
Balance at end of year	**4,465**	**7,955**	**10,855**	**2,627**	**4,846**	**30,748**
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**4,171**	**8,228**	**1,493**	**–**	**13,892**
Depreciation and amortization	**–**	**412**	**871**	**244**	**–**	**1,527**
Disposals	**–**	**–**	**(447)**	**–**	**–**	**(447)**
Reclassification/others	**–**	**(4)**	**10**	**(11)**	**–**	**(5)**
Balance at end of year	**–**	**4,579**	**8,662**	**1,726**	**–**	**14,967**
Allowance for impairment losses (Note 15)	**–**	**24**	**–**	**–**	**–**	**24**
Net book value at end of year	**₱4,465**	**₱3,352**	**₱2,193**	**₱901**	**₱4,846**	**₱15,757**
2016						
Cost						
Balance at beginning of year	₱4,453	₱6,888	₱10,437	₱2,260	₱4,692	₱28,730
Additions	7	60	783	5	785	1,640
Disposals	(15)	–	(898)	–	–	(913)
Reclassification/others	–	447	1	185	(668)	(35)
Balance at end of year	4,445	7,395	10,323	2,450	4,809	29,422
Accumulated depreciation and amortization						
Balance at beginning of year	₱–	₱3,784	₱8,253	₱1,279	₱–	₱13,316
Depreciation and amortization	–	389	798	252	–	1,439
Disposals	–	–	(836)	–	–	(836)
Reclassification/others	–	(2)	13	(38)	–	(27)
Balance at end of year	–	4,171	8,228	1,493	–	13,892
Allowance for impairment losses (Note 15)	–	24	–	–	–	24
Net book value at end of year	₱4,445	₱3,200	₱2,095	₱957	₱4,809	₱15,506

Building under construction pertains to bank premises yet to be completed and used by the Parent Company. This includes cost of properties amounting to ₱4.5 billion, consisting of commercial and office spaces located at Bonifacio Global City, Taguig City, purchased from Bonifacio Landmark Realty and Development Corp. (BLRDC), a jointly controlled entity of GT Capital through Federal Land, Inc. (FLI), a related party (Note 31).

As of December 31, 2017 and 2016, the cost of fully depreciated property and equipment still in use amounted to ₱8.0 billion and ₱7.7 billion, respectively, for the Group and ₱5.7 billion for the Parent Company.

11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consist of:

	2017	2016
Acquisition cost		
FMIC	**₱11,751**	₱11,751
MBCL	**10,079**	10,079
MCC	**7,614**	214
PSBank	**5,237**	5,237
Circa	**837**	837
ORIX Metro	**265**	265
MTI	**200**	200
MR USA	**158**	158
MRCI	**131**	131
MR Japan	**102**	102
MR Italia	**66**	66
MR UK	**31**	31
MRHL	**26**	26
MRSPL	**17**	17
FMIIC	**12**	12
Metrobank Bahamas	**8**	8
PVCC	**5**	5
	36,539	29,139
Accumulated equity in net income:		
Balance at beginning of year	**28,731**	28,611
Share in net income	**6,957**	4,922
Dividends	**(3,649)**	(4,802)
Balance at end of year	**32,039**	28,731
Equity in net unrealized loss on AFS investments	**(1,764)**	(1,689)
Equity in net unrealized gain on remeasurement of retirement plan and translation adjustment and others	**1,517**	222
Excess of share in net losses of subsidiaries over cost included in Miscellaneous liabilities (Note 21)	**121**	224
Carrying value		
FMIC	**18,409**	20,040
MBCL	**12,221**	11,425

(Forward)

	2017	2016
MCC	**₱15,533**	₱5,272
PSBank	**18,172**	16,264
Circa	**187**	–
ORIX Metro	**2,832**	2,328
MTI	**14**	14
MR USA	**55**	61
MRCI	**–**	–
MR Japan	**63**	56
MR Italia	**–**	–
MR UK	**53**	47
MRHL	**159**	163
MRSPL	**162**	277
FMIIC	**232**	237
Metrobank Bahamas	**355**	438
PVCC	**5**	5
	₱68,452	₱56,627

The following subsidiaries have material non-controlling interests as of December 31, 2017 and 2016:

	Country of Incorporation and Principal Place of Business	Principal Activities	Effective Ownership of Non-Controlling Interest	
			2017	2016
ORIX Metro	Philippines	Leasing, Financing	**40.15%**	40.15%
PSBank	Philippines	Banking	**17.32%**	17.32%
MCC	Philippines	Credit Card Services	**20.00%***	40.00%

*net of 20.00% interest acquired by the Group in December 2017.

The following table presents financial information of subsidiaries with material non-controlling interests as of December 31, 2017 and 2016.

	2017			2016		
	PSBank	**MCC**	**ORIX Metro**	PSBank	MCC	ORIX Metro
Statement of Financial Position						
Total assets	**₱223,324**	**₱75,414**	**₱47,757**	₱196,886	₱61,446	₱36,798
Total liabilities	**200,931**	**61,770**	**40,676**	176,779	52,659	30,977
Non-controlling interest	**3,772**	**2,729**	**2,853**	3,496	3,515	2,347
Statement of Income						
Gross income	**17,354**	**17,019**	**5,723**	15,304	14,017	4,697
Operating income	**13,889**	**15,369**	**4,763**	12,494	12,647	4,018
Net income	**2,654**	**5,108**	**1,279**	2,451	3,143	1,092
Net income attributable to NCI	**460**	**2,043**	**767**	519	1,257	438
Total comprehensive income	**2,209**	**1,260**	**5,156**	1,652	3,089	1,090
Statement of Cash Flows						
Net cash provided by (used in) operating activities	**16,776**	**3,539**	**(6,428)**	(23,449)	6,432	915
Net cash provided by (used in) investing activities	**(6,123)**	**72**	**(1,128)**	25,229	(693)	(1,476)
Net cash provided by (used in) financing activities	**(11,298)**	**(171)**	**9,271**	885	(4,843)	1,519
Net increase (decrease) in cash and cash equivalents	**(645)**	**3,440**	**1,715**	2,665	896	958
Cash and cash equivalents at beginning of year	**21,858**	**9,617**	**5,385**	19,453	8,677	4,427
Cash and cash equivalents at end of year	**21,213**	**13,057**	**7,100**	22,118	9,573	5,385

On October 18, 2017, the Parent Company's BOD approved and the Parent Company has entered into an agreement with its JV partner ANZ Funds Pty. Ltd. (ANZ) to:

a. purchase 20% of MCC for a consideration of ₱7.4 billion upon the approval of the BSP of the transaction, and
b. grant ANZ the option to sell the remaining 20% of MCC to the Parent Company at the same consideration of ₱7.4 billion ("Put Option") which can be exercised at any time within the period beginning July 10, 2018 until September 2018 ("Option Exercise Period"). If in the ordinary course of business, MCC pays dividend to the stockholders during the Option Exercise Period, ANZ will exercise the Put Option by serving an exercise notice ("Exercise Notice") to the Parent Company within ten (10) banking days of receiving that dividend ("Dividend Exercise Period"). If ANZ fails to serve an Exercise Notice by the end of the Dividend Exercise Period, the Put Option is deemed exercised by ANZ on the end of the Dividend Exercise Period.

On December 28, 2017, the BSP approved the acquisition of 40% of MCC (Note 35). With this BSP approval, the purchase of the 20% stake in MCC is deemed completed for accounting purposes. In the parent company financial statements as of December 31, 2017, the Parent Company recognized the increase in its investment in MCC for ₱7.4 billion and the related liability (Note 21). In the consolidated financial statements as of December 31, 2017, the Group recognized equity reserves (included in "Translation adjustment and others") for the difference between the acquisition price and the acquired NCI of ₱2.7 billion.

In the 2017 parent company financial statements, the Put Option on the remaining 20% interest in MCC is a derivative with changes in value being recognized in profit or loss. As of December 31, 2017, the fair value of the Put Option is not material to the financial statements.

In the consolidated financial statements, the Put Option on the 20% remaining interest in MCC is an obligation for the Group to purchase their own equity instruments for cash which gives rise to a financial liability and is reclassified from equity even if the obligation to acquire is conditional on ANZ exercising a right to sell. The Group recognized the consideration for the remaining 20% interest in MCC amounting to ₱7.4 billion as a liability and charged it to "Other equity reserves" under Equity in the consolidated financial statements (Note 21).

On August 11, 2016, FMIIC executed the buy-back of the outstanding shares, out of its capital, held by FMIC and Metrobank Bahamas, representing their respective 20.00% and 26.74%, at approximately HKD1.59 per share or a total consideration of HKD111.4 million. Before the execution of said transaction, FMIIC was 53.26% owned by the Parent Company, 20.00% by FMIC and 26.74% by Metrobank Bahamas (Note 2).

On July 29, 2016, the Parent Company purchased 16,093,618 shares of PSBank (11,492,811 shares from FMIC and its subsidiaries and 4,600,807 shares from PSBank Retirement Fund - Note 31) at a price of ₱100 per share or a total amount of ₱1.6 billion thereby increasing its ownership in PSBank from 75.98% to 82.68% (Note 2). This additional investment was approved by the BSP on May 31, 2016.

Investments in associates and a JV consist of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Acquisition cost:				
Lepanto Consolidated Mining Company (LCMC) (14.22% effectively owned)	**₱2,527**	₱2,292		
SMFC (24.80% owned in 2017 and 33.07% owned in 2016)*	**610**	800		
Northpine Land, Inc. (NLI) (20.00% owned)	**232**	232	**₱232**	₱232
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	**180**	180	**180**	180
Taal Land Inc. (TLI) (35.00% owned)	**178**	178	**178**	178
Cathay International Resources Corporation (CIRC) (32.74% owned in 2017 and 32.09% owned in 2016)	**175**	175		
Philippine AXA Life Insurance Corporation (PALIC) (27.96% owned)	**172**	172		
Others	**33**	33		
	4,107	4,062	**590**	590
Accumulated equity in net income:				
Balance at beginning of year	**1,309**	1,103	**98**	117
Share in net income	**689**	261	**38**	36
Dividends	**(288)**	(55)	**(6)**	(55)
Balance at end of year	**1,710**	1,309	**130**	98
Equity in other comprehensive income	**22**	54	**(1)**	2
Allowance for impairment losses (Note 15)	**(75)**	(75)	**(75)**	(75)
Carrying value				
LCMC	**2,246**	2,134		
SMFC	**608**	720		
NLI	**402**	376	**402**	376
SMBC Metro	**226**	223	**226**	223
TLI	**16**	16	**16**	16
CIRC	**208**	202		
PALIC	**2,026**	1,653		
Others	**32**	26		
	₱5,764	₱5,350	**₱644**	₱615

* Represents investment in a JV of the Group and effective ownership interest of the Parent Company through PSBank.

As of December 31, 2017 and 2016, carrying amount of goodwill of the Group amounted to ₱5.2 billion, respectively.

Investment of FMIC in LCMC
FMIC owns 14.33% in LCMC and did not avail of its entitlement on LCMC stock rights offering to its stockholders as disclosed by LCMC with the PSE on October 31, 2014. With this strategic decision, the Group has lost its significant influence and reclassified its investment in LCMC to AFS investments without any gain or loss, carried at fair market value of ₱1.6 billion as of December 31, 2014. Starting in July 2015, FMIC has the ability to exercise significant influence through a 5-year agreement with Philex Mining Corporation to jointly vote their 18.6% ownership. As such, FMIC reclassified its ownership in LCMC from AFS investment to equity investment in associate without any gain or loss.

On February 14, 2017, LCMC disclosed to the PSE that LCMC received a suspension order from the Department of Energy and Natural Resources Secretary on its mining operation under Mineral Production Sharing Agreement No. 001-90-CAR and is given not more than three months from receipt to implement the appropriate mitigating measures. On the same date it received the suspension order, LCMC immediately filed a Notice of Appeal with the Office of the President wherein pursuant to the Administrative Order No. 22, Series of 2011. Such filing will stay the execution of the Order, allowing LCMC to continue its operations. A letter from the Office of the President dated April 7, 2017 confirmed, that in view of the timely filing of LCMC's Notice of Appeal, the execution of the suspension order dated February 8, 2017 is deemed automatically stayed.

On July 17, 2017, the BOD of LCMC approved to offer its stockholders the pre-emptive right to subscribe to one share for every 4.685 shares held. FMIC fully subscribed to such stock rights offer and still maintained its 14.33% ownership in LCMC.

As of December 31, 2017 and 2016, LCMC-A shares are trading at ₱0.151 per share and ₱0.196 per share, respectively, while LCMC-B shares are trading at ₱0.153 per share and ₱0.2 per share.

Investment of PSBank in SMFC
In August 2017, PSBank sold its 10% ownership in SMFC to GT Capital for ₱189.96 million or ₱94.98 per share as approved by its BOD on July 27, 2017. The amount was based on an independent valuation report which was subjected to a third party fairness opinion. After the sale, PSBank maintains a 30% ownership in SMFC (Note 31).

Investment in SMBC Metro
On October 7, 2016, the BOD and stockholders of SMBC Metro in separate meetings approved the shortening of its corporate term until December 31, 2017 through an amendment of its Articles of Incorporation (AOI). On the same date, the BOD approved the closing of its business operations effective December 31, 2016. The amended AOI of SMBC Metro and its application for withdrawal of its secondary license as an Investment House was approved by the SEC on November 25, 2016 and January 31, 2017, respectively.

The following tables present financial information of significant associates and a JV as of and for the years ended:

	Statement of Financial Position		Statement of Income and Other Comprehensive Income				
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	Other Comprehensive Income	Total Comprehensive Income
December 31, 2017							
PALIC	**₱122,855**	**₱115,579**	**₱14,639**	**₱3,204**	**₱2,434**	**₱–**	**₱2,434**
LCMC	**9,932**	**3,648**	**1,378**	**(646)**	**(645)**	**–**	**(645)**
NLI	**3,170**	**1,271**	**429**	**132**	**155**	**3**	**158**
SMFC	**3,534**	**1,510**	**829**	**243**	**205**	**1**	**206**
CIRC	**2,274**	**1,669**	**336**	**145**	**(0)**	**–**	**(0)**
SMBC Metro	**677**	**–**	**42**	**–**	**20**	**(14)**	**6**
TLI	**49**	**–**	**1**	**1**	**1**	**–**	**1**
December 31, 2016							
PALIC	₱97,300	₱91,440	₱10,088	₱1,783	₱1,130	(₱123)	₱1,007
LCMC	8,960	3,036	1,432	(651)	(624)	–	(624)
NLI	2,895	1,152	306	90	94	3	97
SMFC	2,607	789	597	111	86	3	89
CIRC	2,467	1,597	291	4	3	–	3
SMBC Metro	772	104	102	61	51	(16)	35
TLI	48	0	1	1	1	–	1

Major assets of significant associates and a JV include the following:

	2017	2016
PALIC		
Cash and cash equivalents	**₱4,617**	₱4,104
Loans and receivables - net	**966**	2,501
Financial assets at FVPL	**1,383**	819
AFS investments	**11,693**	11,414
Investment in unit-linked funds	**62**	49
Property and equipment	**522**	397
LCMC		
Inventories	**453**	290
Investments and advances	**961**	961
Mine exploration cost	**249**	755
Property, plant and equipment - net	**6,522**	5,758

(Forward)

	2017	2016
CIRC		
Cash and cash equivalents	**₱121**	₱56
Receivables - net	**358**	257
Property, plant and equipment - net	**1,360**	–
Condominium units for sale/inventories	**326**	–
Investment properties - net	**–**	615
NLI		
Cash and cash equivalents	**160**	240
Real estate properties	**1,819**	1,901
Receivables - net	**959**	737
SMFC		
Cash and cash equivalents	**97**	57
Receivables - net	**3,305**	2,416
SMBC Metro		
Cash and cash equivalents	**502**	495
AFS investments	**1**	66
Receivables - net	**168**	145
TLI		
Cash and cash equivalents	**49**	48

Dividends declared by investee companies of the Parent Company follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2017					
Subsidiaries					
Cash Dividend					
FMIC	May 25, 2017	₱7.65	₱2,850	June 9, 2017	June 23, 2017
PSBank	January 24, 2017	0.75	180	February 10, 2017	February 24, 2017
PSBank	April 24, 2017	0.75	180	May 10, 2017	May 24, 2017
PSBank	July 27, 2017	0.75	180	August 11, 2017	August 29, 2017
PSBank	October 26, 2017	0.75	180	November 14, 2017	November 24, 2017
Metrobank Bahamas	October 26, 2017	USD 0.30	USD 1.5	October 31, 2017	December 21, 2017
MRSPL	December 21, 2017	SGD 8.00	SGD 4	December 21, 2017	December 21, 2017
Stock Dividend					
ORIX Metro	October 25, 2017	₱100.00	₱719	October 25, 2017	January 31, 2018
Associates					
Cash Dividend					
NLI	March 16, 2017	2.85	33	December 31, 2016	March 21, 2017
2016					
Subsidiaries					
Cash Dividend					
FMIC	December 19, 2016	₱8.06	₱3,003	December 29, 2016	January 12, 2017
MCC	August 8, 2016	1.40	1,400	August 7, 2016	August 10, 2016
PSBank	January 19, 2016	0.75	180	February 1, 2016	February 19, 2016
PSBank	April 26, 2016	0.75	180	May 11, 2016	May 26, 2016
PSBank	July 22, 2016	0.75	180	August 8, 2016	August 22, 2016
PSBank	October 21, 2016	0.75	180	November 9, 2016	November 21, 2016
Metrobank Bahamas	August 26, 2016	USD 1.64	USD 8	April 27, 2016	December 15, 2016
Stock Dividend					
ORIX Metro	March 30, 2016	₱100.00	₱625	September 30, 2015	May 31, 2016
ORIX Metro	October 26, 2016	100.00	599	October 26, 2016	January 31, 2017
Associates					
Cash Dividend					
NLI	April 1, 2016	3.07	21	December 31, 2015	April 1, 2016
NLI	April 1, 2016	3.50	16	December 31, 2015	April 1, 2016
SMBC Metro	August 12, 2016	10.00	60	August 12, 2016	September 19, 2016
SMBC Metro	December 14, 2016	16.67	100	December 14, 2016	January 17, 2017

Dividends declared by significant investee companies of FMIC follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2017					
Subsidiaries					
Cash Dividend					
FAMI	August 18, 2017	₱27.59	₱30	August 31, 2017	September 15, 2017
Stock Dividend					
FAMI	August 18, 2017	100.00	41	August 31, 2017	November 20, 2017
Associates					
Cash Dividend					
PALIC	November 24, 2017	100.00	1,000	November 24, 2017	December 15, 2017
Stock Dividend					
ORIX Metro	October 25, 2017	100.00	719	October 25, 2017	January 31, 2018
2016					
Subsidiaries					
Cash Dividend					
FAMI	December 6, 2016	₱13.80	₱15	December 15, 2016	December 29, 2016
Associates					
Stock Dividend					
ORIX Metro	March 30, 2016	100.00	625	September 30, 2015	May 31, 2016
ORIX Metro	October 26, 2016	100.00	599	October 26, 2016	January 31, 2017

In accordance with BSP Circular No. 888 dated October 9, 2015, BSP's approval on every dividend declaration is no longer required.

12. **Investment Properties**

This account consists of foreclosed real estate properties and investments in real estate:

	Consolidated					
	2017			2016		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱6,712**	**₱5,059**	**₱11,771**	₱6,859	₱4,798	₱11,657
Additions	**360**	**767**	**1,127**	941	869	1,810
Disposals	**(1,357)**	**(975)**	**(2,332)**	(1,053)	(613)	(1,666)
Reclassification/others	**282**	**(274)**	**8**	(35)	5	(30)
Balance at end of year	**5,997**	**4,577**	**10,574**	6,712	5,059	11,771
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**1,492**	**1,492**	–	1,508	1,508
Depreciation and amortization	**–**	**147**	**147**	–	157	157
Disposals	**–**	**(439)**	**(439)**	–	(168)	(168)
Reclassification/others	**–**	**(26)**	**(26)**	–	(5)	(5)
Balance at end of year	**–**	**1,174**	**1,174**	–	1,492	1,492
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,642**	**163**	**1,805**	1,800	154	1,954
Provision for (reversal of) impairment loss	**(32)**	**–**	**(32)**	(1)	84	83
Disposals	**(53)**	**(17)**	**(70)**	(144)	(74)	(218)
Reclassification/others	**(67)**	**47**	**(20)**	(13)	(1)	(14)
Balance at end of year	**1,490**	**193**	**1,683**	1,642	163	1,805
Net book value at end of year	**₱4,507**	**₱3,210**	**₱7,717**	₱5,070	₱3,404	₱8,474

	Parent Company					
	2017			2016		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱4,043**	**₱2,015**	**₱6,058**	₱4,457	₱2,214	₱6,671
Additions	**77**	**146**	**223**	246	156	402
Disposals	**(803)**	**(544)**	**(1,347)**	(669)	(318)	(987)
Reclassification/others	**–**	**–**	**–**	9	(37)	(28)
Balance at end of year	**3,317**	**1,617**	**4,934**	4,043	2,015	6,058
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**1,044**	**1,044**	–	1,111	1,111
Depreciation and amortization	**–**	**47**	**47**	–	67	67
Disposals	**–**	**(365)**	**(365)**	–	(129)	(129)
Reclassification/others	**–**	**–**	**–**	–	(5)	(5)
Balance at end of year	**–**	**726**	**726**	–	1,044	1,044
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,209**	**56**	**1,265**	1,366	62	1,428
Disposals	**(53)**	**(17)**	**(70)**	(144)	(5)	(149)
Reclassification/others	**(13)**	**13**	**–**	(13)	(1)	(14)
Balance at end of year	**1,143**	**52**	**1,195**	1,209	56	1,265
Net book value at end of year	**₱2,174**	**₱839**	**₱3,013**	₱2,834	₱915	₱3,749

As of December 31, 2017 and 2016, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱1.2 billion and ₱537.8 million, respectively, for the Group and ₱206.6 million and ₱338.0 million, respectively, for the Parent Company.

As of December 31, 2017 and 2016, aggregate market value of investment properties amounted to ₱12.2 billion and ₱13.4 billion, respectively, for the Group and ₱6.2 billion and ₱6.9 billion, respectively, for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱7.6 billion and ₱9.2 billion, respectively, for the Group and ₱6.1 billion and ₱6.9 billion, respectively, for the Parent Company. Information about the fair value measurement of investment properties are also presented in Note 5.

Rental income on investment properties (included in 'Leasing income' in the statements of income) in 2017, 2016 and 2015 amounted to ₱59.9 million, ₱69.8 million and ₱88.2 million, respectively, for the Group and ₱1.4 million, ₱4.4 million and ₱22.5 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2017, 2016 and 2015 amounted to ₱1.0 million, ₱4.7 million and ₱6.1 million, respectively, for the Group and ₱1.0 million, ₱1.1 million and ₱1.0 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2017, 2016 and 2015 amounted to ₱219.4 million, ₱128.4 million and ₱205.3 million, respectively, for the Group and ₱66.9 million, ₱91.3 million and ₱113.8 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statements of income) in 2017, 2016 and 2015 amounted to ₱960.0 million, ₱613.4 million and ₱1.0 billion, respectively, for the Group and ₱497.0 million, ₱345.6 million and ₱1.0 billion, respectively, for the Parent Company (Note 31).

13. Long-term Leases

The Parent Company leases the premises occupied by some of its branches (40.40% and 40.34% of the branch sites as of December 31, 2017 and 2016, respectively, are Parent Company-owned). Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%. As of December 31, 2017 and 2016, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2017, 2016 and 2015 amounted to ₱2.2 billion, ₱2.2 billion and ₱1.9 billion, respectively, for the Group and ₱1.2 billion, ₱1.2 billion and ₱1.0 billion, respectively, for the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱1,277**	₱1,077	**₱584**	₱602
After one year but not more than five years	**3,042**	2,997	**1,531**	1,693
More than five years	**666**	951	**205**	343
	₱4,985	₱5,025	**₱2,320**	₱2,638

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and ROPA and finance lease agreements over various items of machinery and equipment which are non-cancelable and have remaining non-cancelable lease terms between 1 and 20 years. In 2017, 2016 and 2015, leasing income amounted to ₱2.0 billion for the Group and ₱215.2 million, ₱220.5 million and ₱244.4 million, respectively, for the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱1,958**	₱1,721	**₱106**	₱81
After one year but not more than five years	**2,404**	2,228	**145**	61
More than five years	**3**	6	**3**	6
	₱4,365	₱3,955	**₱254**	₱148

14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Investment in SPV	**₱8,857**	₱8,857	**₱8,857**	₱8,857
Software costs - net	**1,747**	1,640	**572**	560
Interoffice float items	**1,698**	2,330	**1,752**	2,346
Customized system development cost	**1,504**	634	**1,504**	634
Creditable withholding tax	**1,459**	1,316	**927**	814
Residual value of leased assets	**1,054**	1,003	–	–
Chattel properties acquired in foreclosure - net	**815**	687	**33**	28
Prepaid expenses	**536**	600	**153**	118

(Forward)

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Documentary and postage stamps on hand	**₱334**	₱373	**₱231**	₱330
Returned checks and other cash items	**295**	115	**284**	105
Assets held under joint operations	**259**	368	**259**	368
Retirement asset*	**99**	63	**19**	17
Miscellaneous	**2,101**	2,606	**846**	1,798
	20,758	20,592	**15,437**	15,975
Less allowance for impairment losses (Note 15)	**10,292**	10,714	**10,276**	10,700
	₱10,466	₱9,878	**₱5,161**	₱5,275

* *Pertains to retirement asset of a foreign branch and a subsidiary.*

Investment in SPVs represents subordinated notes issued by Cameron Granville 3 Asset Management, Inc. and LNC 3 Asset Management, Inc. with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the non-performing assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. As of December 31, 2017 and 2016, the estimated fair value of the subordinated notes, which is the present value of the estimated cash flows from such notes (derived from the sale of the underlying collaterals of the NPAs, net of the payment to senior notes by the SPV) amounted to nil, after deducting allowance for impairment losses of ₱8.8 billion.

Movements in software costs account follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Cost				
Balance at beginning of year	**₱4,125**	₱3,710	**₱1,773**	₱2,133
Additions	**978**	816	**144**	40
Others	**(450)**	(401)	**8**	(400)
Balance at end of year	**4,653**	4,125	**1,925**	1,773
Accumulated amortization				
Balance at beginning of year	**2,485**	1,978	**1,213**	1,041
Amortization	**494**	474	**123**	141
Others	**(73)**	33	**17**	31
Balance at end of year	**2,906**	2,485	**1,353**	1,213
Net book value at end of year	**₱1,747**	₱1,640	**₱572**	₱560

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Cost				
Balance at beginning of year	**₱821**	₱639	**₱51**	₱40
Additions	**2,742**	2,044	**24**	20
Disposals/others	**(2,584)**	(1,862)	**(14)**	(8)
Balance at end of year	**979**	821	**61**	52
Accumulated depreciation and amortization				
Balance at beginning of year	**125**	110	**21**	15
Depreciation and amortization	**208**	145	**11**	9
Disposals/others	**(178)**	(130)	**(7)**	(3)
Balance at end of year	**155**	125	**25**	21
Allowance for impairment losses (Note 15)				
Balance at beginning of year	**9**	11	**3**	3
Provision for impairment loss	**2**	1	**–**	–
Disposals	**(2)**	(3)	**–**	–
Balance at end of year	**9**	9	**3**	3
Net book value at end of year	**₱815**	₱687	**₱33**	₱28

Assets held under joint operations are parcels of land and former branch sites of the Parent Company which were contributed to separate joint operations with FLI and Federal Land Orix Corporation (Notes 26 and 31). These are carried at costs which are lower than the net realizable values.

Miscellaneous account in 2016 includes a receivable from a third party of ₱425.7 million pertaining to the final tax withheld on Poverty Eradication and Alleviation Certificates (PEACe) bonds which matured on October 18, 2011. On April 11, 2017, the Parent Company received Retail Treasury Bonds (RTB) classified as AFS investments representing settlement of the case on the 20% final tax withheld (FWT) on the PEACe bonds (Note 30).

15. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	Consolidated		Parent Company	
	December 31			
	2017	2016	**2017**	2016
Balance at beginning of year:				
Due from other banks	**₱7**	₱8	**₱–**	₱–
Interbank loans receivable (Note 7)	□	3	**–**	–
AFS investments (Note 8)				
Debt securities				
Government	□	6	**–**	–
Private	□	□	□	□
Equity securities				
Quoted	**82**	269	**79**	79
Unquoted	**212**	213	**81**	81
Loans and receivables (Note 9)	**14,426**	12,902	**6,697**	5,572
Investments in associates (Note 11)	**75**	75	**75**	75
Property and equipment (Note 10)	**26**	26	**24**	24
Investment properties (Note 12)	**1,805**	1,954	**1,265**	1,428
Other assets* (Note 14)	**10,723**	10,784	**10,703**	10,734
	27,356	26,240	**18,924**	17,993
Provisions for credit and impairment losses	**7,507**	7,342	**1,395**	1,174
Accounts written off/others	**(6,078)**	(6,226)	**3**	(243)

(Forward)

	Consolidated		Parent Company	
	December 31			
	2017	2016	**2017**	2016
Balance at end of year:				
Due from other banks	**₱□**	₱7	**₱–**	₱–
Interbank loans receivable (Note 7)	**□**	–	**–**	–
AFS investments (Note 8)				
Debt securities				
Government	**□**	–	**–**	–
Private	**1**	□	**□**	□
Equity securities				
Quoted	**82**	82	**80**	79
Unquoted	**212**	212	**80**	81
Loans and receivables (Note 9)	**16,407**	14,426	**8,589**	6,697
Investments in associates (Note 11)	**75**	75	**75**	75
Property and equipment (Note 10)	**24**	26	**24**	24
Investment properties (Note 12)	**1,683**	1,805	**1,195**	1,265
Other assets* (Note 14)	**10,301**	10,723	**10,279**	10,703
	₱28,785	₱27,356	**₱20,322**	₱18,924

* Allowance for credit and impairment losses of other assets include allowance on investments in SPVs, chattel mortgage properties and miscellaneous assets.

Below is the breakdown of provision for (reversal of) credit and impairment losses:

	Consolidated			Parent Company		
	December 31					
	2017	2016	2015	**2017**	2016	2015
Due from other banks	**(₱7)**	(₱1)	₱2	**₱–**	₱–	₱–
Interbank loans receivable	**–**	(3)	(1)	**–**	–	–
AFS investments	**1**	(5)	2	**–**	–	–
Loans and receivables	**7,969**	7,295	2,091	**1,821**	1,174	(2,926)
Investments in associates and joint venture	**–**	(28)	–	**–**	–	–
Investment properties	**(32)**	83	(37)	**–**	–	–
Chattel properties acquired in foreclosure	**2**	1	2	**–**	–	–
Other assets	**(426)**	–	–	**(426)**	–	–
	₱7,507	₱7,342	₱2,059	**₱1,395**	₱1,174	(₱2,926)

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the non-collection or non-realization of its receivables and other risk assets.

A reconciliation of the allowance for credit losses by class of loans and receivables is as follows:

	Consolidated							
	Commercial Loans	**Residential Mortgage Loans**	**Auto Loans**	**Trade Loans**	**Others**	**Subtotal**	**Other Receivables***	**Total**
Balance at January 1, 2017	**₱5,281**	**₱934**	**₱2,026**	**₱270**	**₱2,713**	**₱11,224**	**₱3,202**	**₱14,426**
Provisions during the year	**165**	**127**	**1,951**	**□**	**3,884**	**6,127**	**1,842**	**7,969**
Accounts written off/others	**83**	**(180)**	**(2,019)**	**(24)**	**(3,855)**	**(5,995)**	**7**	**(5,988)**
Balance at December 31, 2017	**₱5,529**	**₱881**	**₱1,958**	**₱246**	**₱2,742**	**₱11,356**	**₱5,051**	**₱16,407**
Individual impairment	**₱4,009**	**₱471**	**₱□**	**₱99**	**₱189**	**₱4,768**	**₱3,161**	**₱7,929**
Collective impairment	**1,520**	**410**	**1,958**	**147**	**2,553**	**6,588**	**1,890**	**8,478**
	₱5,529	**₱881**	**₱1,958**	**₱246**	**₱2,742**	**₱11,356**	**₱5,051**	**₱16,407**
Gross amount of loans individually determined to be impaired	**₱7,288**	**₱679**	**₱–**	**₱104**	**₱1,618**	**₱9,689**	**₱4,647**	**₱14,336**

(Forward)

	Consolidated							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade Loans	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2016	₱5,014	₱999	₱788	₱274	₱2,522	₱9,597	₱3,305	₱12,902
Provisions (reversals) during the year	427	(66)	3,046	–	4,044	7,451	(156)	7,295
Accounts written off/others	(160)	1	(1,808)	(4)	(3,853)	(5,824)	53	(5,771)
Balance at December 31, 2016	₱5,281	₱934	₱2,026	₱270	₱2,713	₱11,224	₱3,202	₱14,426
Individual impairment	₱3,682	₱728	₱–	₱253	₱131	₱4,794	₱2,692	₱7,486
Collective impairment	1,599	206	2,026	17	2,582	6,430	510	6,940
	₱5,281	₱934	₱2,026	₱270	₱2,713	₱11,224	₱3,202	₱14,426
Gross amount of loans individually determined to be impaired	₱4,748	₱1,265	₱–	₱446	₱1,608	₱8,067	₱2,821	₱10,888

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade Loans	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2017	**₱3,502**	**₱428**	**₱1**	**₱271**	**₱39**	**₱4,241**	**₱2,456**	**₱6,697**
Provisions during the year	**66**	**–**	**–**	**–**	**–**	**66**	**1,755**	**1,821**
Accounts written off/others	**155**	**(179)**	**–**	**(25)**	**38**	**(11)**	**82**	**71**
Balance at December 31, 2017	**₱3,723**	**₱249**	**₱1**	**₱246**	**₱77**	**₱4,296**	**₱4,293**	**₱8,589**
Individual impairment	**₱3,546**	**₱247**	**₱1**	**₱99**	**₱36**	**₱3,928**	**₱2,857**	**₱6,785**
Collective impairment	**177**	**2**	**–**	**147**	**41**	**368**	**1,436**	**1,804**
	₱3,723	**₱249**	**₱1**	**₱246**	**₱77**	**₱4,296**	**₱4,293**	**₱8,589**
Gross amount of loans individually determined to be impaired	**₱5,620**	**₱314**	**₱–**	**₱104**	**₱41**	**₱6,079**	**₱4,247**	**₱10,326**
Balance at January 1, 2016	₱2,483	₱428	₱9	₱274	₱39	₱3,233	₱2,339	₱5,572
Provisions during the year	1,165	–	–	–	–	1,165	9	1,174
Accounts written off/others	(146)	–	(8)	(3)	–	(157)	108	(49)
Balance at December 31, 2016	₱3,502	₱428	₱1	₱271	₱39	₱4,241	₱2,456	₱6,697
Individual impairment	₱3,093	₱269	₱–	₱254	₱39	₱3,655	₱2,350	₱6,005
Collective impairment	409	159	1	17	–	586	106	692
	₱3,502	₱428	₱1	₱271	₱39	₱4,241	₱2,456	₱6,697
Gross amount of loans individually determined to be impaired	₱3,772	₱328	₱–	₱447	₱41	₱4,588	₱2,438	₱7,026

* Allowance for credit losses on other receivables include allowance on unquoted debt securities, accounts receivables, accrued interest receivable, sales contract receivable and deficiency judgment receivable.

Movements in the allowance for impairment losses on AFS investments and other assets follow:

	Consolidated				Parent Company			
	AFS Investments				AFS Investments			
	Debt Securities	Equity Securities	Other Assets**	Total	Debt Securities	Equity Securities	Other Assets**	Total
Balance at January 1, 2017	**₱–**	**₱294**	**₱10,723**	**₱11,017**	**₱–**	**₱160**	**₱10,703**	**₱10,863**
Provisions for (reversals of) impairment losses	**1**	**–**	**(424)**	**(423)**	**–**	**–**	**(426)**	**(426)**
Reclassifications/reversals/others	**–**	**–**	**2**	**2**	**–**	**–**	**2**	**2**
Balance at December 31, 2017	**₱1**	**₱294**	**₱10,301**	**₱10,596**	**₱-**	**₱160**	**₱10,279**	**₱10,439**
Balance at January 1, 2016	₱6	₱482	₱10,784	₱11,272	₱–	₱160	₱10,734	₱10,894
Provisions for (reversals of) impairment losses	(5)	–	1	(4)	–	–	–	–
Reclassifications/reversals/others	(1)	(188)	(62)	(251)	–	–	(31)	(31)
Balance at December 31, 2016	₱–	₱294	₱10,723	₱11,017	₱–	₱160	₱10,703	₱10,863

** Allowance for impairment losses of other assets include allowance on investments in SPVs, chattel mortgage properties and miscellaneous assets.

16. **Deposit Liabilities**

Long-Term Negotiable Certificates of Deposit (LTNCD)
On September 18, 2014, the BSP approved the issuance of the Parent Company of up to ₱20.0 billion LTNCD. The subsequent amendment on the issuance was also approved by the BSP on October 14, 2014. The Parent Company issued the first tranche amounting to ₱8.0 billion on October 24, 2014 at a rate of 4.00% per annum, payable quarterly, with a tenor of 5.5 years and maturing on April 24, 2020 while the second tranche amounting to ₱6.25 billion was issued on November 21, 2014 with a rate of 4.25% per annum, payable quarterly, with a tenor of 7 years and maturing on November 22, 2021. The minimum investment size for the LTNCD is ₱50,000 with increments of ₱50,000 thereafter.

Further, on August 12, 2016, the BSP authorized the Parent Company to issue up to ₱20.0 billion LTNCD in one or multiple tranches issued over a period of one year. The Parent Company issued the first tranche amounting to ₱8.65 billion on September 19, 2016 at a rate of 3.50% per annum, payable quarterly, with a tenor of 7 years and maturing on September 19, 2023. The second tranche amounting to ₱3.75 billion was issued on July 20, 2017 with interest rate of 3.875% per annum, payable quarterly, with a tenor of 7 years and maturing on July 20, 2024. Subject to BSP Rules, the Parent Company has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest. The minimum investment size for the LTNCD is ₱50,000 with increments of ₱50,000 thereafter for the first tranche and ₱10,000 with increments of ₱10,000 thereafter for the second tranche.

On December 8, 2016, the BSP authorized PSBank to issue LTNCDs up to ₱10.0 billion through one or more tranches over a period of one year. On January 30, 2017, PSBank issued the first tranche of LTNCDs amounting to ₱3.4 billion due April 30, 2022 with interest rate of 3.50% per annum payable quarterly.

Of the total interest-bearing deposit liabilities of the Group as of December 31, 2017 and 2016, 35.32% and 35.59%, respectively, are subject to periodic interest repricing. In 2017, 2016 and 2015, the remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.59%, while the remaining foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 3.80%, from 0.00% to 2.75%, and from 0.00% to 2.75%, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Demand	**₱840**	₱661	₱529	**₱617**	₱495	₱378
Savings	**1,315**	1,167	999	**1,178**	1,050	906
Time	**9,389**	7,389	9,050	**6,029**	4,595	6,611
LTNCD	**1,069**	671	581	**953**	671	581
	₱12,613	₱9,888	₱11,159	**₱8,777**	₱6,811	₱8,476

Reserve Requirement
Non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to required reserves equivalent to 20.00% while non-FCDU deposit liabilities of PSBank are subject to required reserves equivalent to 8.00%. The required reserves can be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP and any government securities which are previously used as compliance until they mature. The Parent Company, PSBank, FMIC, MCC and ORIX Metro were in compliance with such regulations as of December 31, 2017 and 2016.

The total liquidity and statutory reserves (under Due from BSP account), as reported to the BSP, are as follows:

	2017	2016
Parent Company	**₱224,723**	₱195,081
PSBank	**13,915**	12,034
MCC	**10,948**	8,891
Orix Metro	**6,623**	4,916
FMIC	**4,400**	4,191
	₱260,609	₱225,113

17. **Bills Payable and Securities Sold Under Repurchase Agreements**

This account consists of borrowings from:

	Consolidated		**Parent Company**	
	2017	2016	**2017**	2016
Deposit substitutes	**₱68,177**	₱65,489	**₱–**	₱–
SSURA	**64,575**	51,031	**61,249**	47,174
Local banks	**49,668**	32,891	**9,431**	9,770
BSP	**28,000**	–	**25,000**	–
Foreign banks	**17,415**	11,965	**10,802**	11,921
	₱227,835	₱161,376	**₱106,482**	₱68,865

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Deposit substitutes pertain to borrowings from the public of FMIC, ORIX Metro and MCC.

The following are the carrying values of government debt securities (Note 8) pledged and transferred under SSURA transactions of the Group and the Parent Company:

	Consolidated				**Parent Company**			
	2017		2016		**2017**		2016	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA	**Transferred Securities**	**SSURA**	Transferred Securities	SSURA
HFT investments	**₱–**	**₱–**	₱8,576	₱8,376	**₱–**	**₱–**	₱8,576	₱8,376
AFS investments	**85,003**	**64,575**	51,863	42,655	**81,899**	**61,249**	47,378	38,798
	₱85,003	**₱64,575**	₱60,439	₱51,031	**₱81,899**	**₱61,249**	₱55,954	₱47,174

The Group's peso borrowings are subject to annual fixed interest rates ranging from 0.06% to 6.45%, from 0.06% to 6.34% and from 0.06% to 6.21% in 2017, 2016 and 2015, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.05% to 3.76%, from 0.32% to 3.25% and from 0.19% to 4.65% in 2017, 2016 and 2015, respectively.

Interest expense on bills payable (included in the 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' in the statements of income) in 2017, 2016 and 2015 amounted to ₱4.1 billion, ₱2.8 billion and ₱2.9 billion, respectively, for the Group and ₱1.3 billion, ₱593.4 million and ₱662.2 million, respectively, for the Parent Company.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Accrued interest (Note 31)	**₱2,066**	₱1,497	**₱923**	₱796
Accrued other expenses	**4,907**	5,570	**2,982**	3,850
	₱6,973	₱7,067	**₱3,905**	₱4,646

Accrued other expenses include accruals for compensation and fringe benefits, rentals, percentage and other taxes, professional fees, advertising and information technology expenses and other expenses.

19. Bonds Payable

This account represents scripless fixed rate corporation bonds issued by FMIC as follows:

Issue Date	Maturity Date	Interest Rate	Redemption Period	Face Value	Carrying Value 2017	Carrying Value 2016
August 10, 2012	August 10, 2019	5.750%	after 5th year	₱3,000	**₱2,910**	₱2,791
November 25, 2011	February 25, 2017	5.675%	after 4th year	5,000*	–	4,857
August 10, 2012	November 10, 2017	5.500%	after 4th year	4,000*	–	3,850
				₱12,000	**₱2,910**	₱11,498

* The bonds have matured in 2017.

These bonds were issued 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 quarterly interest payment after the fourth or fifth anniversary of the issue date at 102.00% of its face value plus accrued interest. These are exempt securities pursuant to certain provisions of the Securities Regulation Code and are covered by deed of assignments on government securities held in trust by a collateral agent which shall have aggregate market value of 100.00% of the issued amount, otherwise, additional government securities shall be offered to increase and maintain the cover at 100.00%.

The carrying amount of government securities assigned as collateral classified under AFS investments amounted to ₱3.4 billion and ₱12.5 billion, as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, FMIC has complied with the terms of the issuance.

Interest expense on bonds payable (included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' of the Group) in 2017, 2016 and 2015 amounted to ₱399.9 million, ₱661.3 million and ₱659.5 million, respectively.

20. **Subordinated Debts**

This account consists of the following Peso Notes:

			Carrying Value		Market Value	
	Maturity Date	**Face Value**	**2017**	2016	**2017**	2016
Parent Company						
2024	June 27, 2024	₱16,000	**₱15,962**	₱15,937	**₱15,985**	₱15,930
2025	August 8, 2025	6,500	**6,475**	6,467	**6,269**	6,448
		22,500	**22,437**	22,404	**22,254**	22,378
PSBank – 2022	February 20, 2022	3,000	–	2,981	–	3,204
MCC – 2023	December 20, 2023	1,170	**1,164**	1,162	**1,204**	1,240
PSBank – 2024	August 23, 2024	3,000	**2,979**	2,977	**2,353**	2,310
		₱29,670	**₱26,580**	₱29,524	**₱25,811**	₱29,132

On April 15, 2013, the BOD of the Parent Company approved the issuance of Basel III - compliant Tier 2 capital notes up to USD500 million in one or more tranches, issued as part of the Parent Company's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP and to proactively manage its capital base for growth and refinancing of maturing capital securities. The issuance was approved by the BSP on July 26, 2013 and the amendment to the terms and conditions on January 30, 2014. Specifically, the BSP approved the issuance of up to USD500 million equivalent in either USD or PHP or combination in one or more tranches over the course of one (1) year. Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank pari passu and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company. The Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP. These Peso Notes have a term of 10.25 and 11 years and are redeemable at the option of the Parent Company (but not the holders) on the call option date in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the call option date, upon prior approval of the BSP and at least 30-banking day prior written notice to the Noteholders of record, subject to the following conditions: (1) the capital adequacy of the Issuer is at least equal to the required minimum ratio; (2) the note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue. Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, upon prior approval of the BSP and at least a 30-banking day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption (the "Redemption Option Date"). The Notes have a loss absorption feature which are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions as set out in "Terms and Conditions of the Notes - Loss Absorption Measure", when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 Ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (i) a Write-Down (as defined in "Terms and Conditions of the Notes") of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer would become non-viable, or (iii) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer has become non-viable.

Each Noteholder may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the Peso Notes and to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off. These Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation (PDIC).

Specific terms of these Basel III - compliant Notes follow:

2024 Peso Notes - issued on March 27, 2014 at 100.00% of the principal amount of ₱16.0 billion
- Bear interest at 5.375% per annum from March 27, 2014 to but excluding June 27, 2019. Interest will be payable quarterly in arrears on March 27, June 27, September 27 and December 27 of each year, commencing on June 27, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread of 1.51% per annum and such interest will be payable commencing on June 27, 2019 (call option date) up to and including June 27, 2024.

2025 Peso Notes - issued on August 8, 2014 at 100.00% of the principal amount of ₱6.5 billion
- Bear interest at 5.25% per annum from August 8, 2014 to but excluding August 8, 2020. Interest will be payable quarterly in arrears on February 8, May 8, August 8 and November 8 of each year, commencing on November 8, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at equivalent of the five-year PDST-R2 as of reset date plus a spread of 1.67% per annum and such interest will be payable commencing on August 8, 2020 (call option date) up to and including August 8, 2025.

MCC
2023 Peso Notes - issued on December 20, 2013 at 100.00% of the principal amount of ₱1.2 billion
- Bear interest at 6.21% per annum payable quarterly in arrears every 20th of March, June, September and December each year, commencing on March 20, 2014.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on February 17, 2013.
- In case of insolvency or liquidation of MCC, the notes will be subordinated in the right of payment of principal and interest to all depositors and other creditors of MCC, except those creditors expressed to rank equally with, or behind holders of the notes.
- If a non-viability trigger event occurs, MCC shall immediately write down some or all of the notes in accordance with the BSP's determination.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2023 Notes, at a redemption price equal to the face value together with the accrued and unpaid interest based on the interest rate.

PSBank
2022 Peso Notes - issued on February 20, 2012 at 100.00% of the principal amount of ₱3.0 billion
- Bear interest at 5.75% per annum from and including February 20, 2012 but excluding February 20, 2017 which is payable quarterly in arrears every May 20, August 20, November 20 and February 20, commencing on February 20, 2012.
- Constitute direct, unconditional, and unsecured obligations of PSBank and claim in respect of the 2022 Notes shall be at all times pari passu and without any preference among themselves.

- Subject to satisfaction of certain regulatory approval requirements, PSBank may redeem all and not less than the entire outstanding 2022 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

As approved by the BSP on September 8, 2016, on February 21, 2017, PSBank redeemed its 2022 Peso Notes amounting to ₱3.0 billion, ahead of its maturity.

2024 Peso Notes - issued on May 23, 2014 at 100.00% of the face value of ₱3.0 billion
- Bear interest at the rate 5.50% per annum for the first 5 years and 3 months. Interest will be payable quarterly in arrears on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread of 1.4438% per annum.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on April 14, 2014.
- May be redeemed by PSBank in full, but not in part, on the call option date upon prior approval of the BSP and subject to certain conditions.
- May be redeemed by PSBank in full, but not in part, upon the occurrence of a Tax Redemption or Regulatory Redemption Event prior to maturity by paying the Holders the following:
  a) In the case of a Tax Redemption Event, 100.00% of the face value of the Note plus accrued interest
  b) In the case of a Regulatory Redemption Event, 101.00% of the face value of the Note plus accrued interest.
- Have a loss absorption feature which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions.

As of December 31, 2017 and 2016, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2017, 2016 and 2015, interest expense on subordinated debt included in ‘Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others’ amounted to ₱1.5 billion, ₱1.7 billion and ₱1.6 billion (including amortization of debt issue cost and premium of ₱35.3 million, ₱38.0 million and ₱35.5 million), respectively, for the Group, and ₱1.2 billion (including amortization of debt issue cost and premium of ₱32.6 million, ₱30.9 million and ₱29.2 million, respectively) for the Parent Company.

21. Non-equity Non-controlling Interest and Other Liabilities

Non-equity non-controlling interest arises when mutual funds are consolidated and where the Group holds less than 100.00% of the investment in these funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests in that the Group does not hold an equity stake in such funds. Further, income (loss) attributable to non-equity non-controlling interests amounting to (₱1.3 billion), ₱0.4 billion, and ₱0.3 billion in 2017, 2016 and 2015, respectively, is included under ‘Trading and securities gain (loss)-net’ in the statements of income (Note 8).

Other liabilities consist of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Accounts payable	**₱16,083**	₱12,738	**₱7,488**	₱6,780
Bills purchased - contra (Note 9)	**12,333**	20,479	**12,323**	20,415
Retirement liability (Note 27)	**3,687**	4,703	**2,818**	3,556
Marginal deposits	**3,229**	3,697	**682**	245
Outstanding acceptances	**1,741**	1,440	**1,741**	1,440
Deposits on lease contracts	**1,472**	1,375	□	–
Deferred revenues	**1,357**	1,319	**54**	57
Other credits	**1,306**	1,146	**607**	554
Withholding taxes payable	**603**	538	**341**	302
Miscellaneous (Note 11)	**17,065**	2,279	**8,665**	1,367
	₱58,876	₱49,714	**₱34,719**	₱34,716

Deferred revenues include deferral and release of MCC's loyalty points program transactions and membership fees and dues.

As of December 31, 2017 and 2016, miscellaneous liabilities of the Group include dividends payable amounting to ₱90.7 million and ₱84.1 million, respectively.

22. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	Consolidated					
	2017			2016		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱27,631**	**₱–**	**₱27,631**	₱26,553	₱–	₱26,553
Due from BSP	**261,959**	**–**	**261,959**	238,806	–	238,806
Due from other banks	**31,291**	**–**	**31,291**	44,322	–	44,322
Interbank loans receivable and SPURA (Note 7)	**45,048**	**427**	**45,475**	91,224	422	91,646
Financial assets at FVPL (Note 8)	**43,887**	**–**	**43,887**	37,214	–	37,214
AFS investments (Note 8)	**24,740**	**319,465**	**344,205**	31,613	285,536	317,149
Loans and receivables (Note 9)						
Receivables from customers	**577,561**	**684,554**	**1,262,115**	482,888	576,510	1,059,398
Unquoted debt securities	**541**	**711**	**1,252**	392	923	1,315
Accrued interest receivable	**8,795**	**1**	**8,796**	7,952	71	8,023
Accounts receivable	**9,036**	**18**	**9,054**	4,580	22	4,602
Sales contract receivable	**18**	**109**	**127**	36	160	196
Other receivables	**278**	**–**	**278**	89	–	89
Other assets (Note 14)						
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Interoffice float items	**1,698**	**–**	**1,698**	2,330	–	2,330
Residual value of leased asset	**348**	**706**	**1,054**	325	678	1,003
Other investments	**–**	**26**	**26**	–	26	26
Miscellaneous	**–**	**–**	**–**	36	581	617
	1,041,688	**1,006,017**	**2,047,705**	977,217	864,929	1,842,146
Non-Financial Assets - at gross						
Investments in associates (Note 11)	**–**	**5,839**	**5,839**	–	5,425	5,425
Property and equipment (Note 10)	**–**	**45,527**	**45,527**	–	43,285	43,285
Investment properties (Note 12)	**–**	**10,574**	**10,574**	–	11,771	11,771
Deferred tax assets (Note 28)	**–**	**9,161**	**9,161**	–	8,855	8,855
Goodwill (Note 11)	**–**	**5,200**	**5,200**	–	5,200	5,200
Assets held under joint operations (Note 14)	**–**	**259**	**259**	–	368	368
Retirement asset (Note 14)	**–**	**99**	**99**	–	63	63

(Forward)

	Consolidated					
	2017			2016		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Accounts receivable (Note 9)	**₱–**	**₱4,493**	**₱4,493**	₱–	₱4,747	₱4,747
Other assets (Note 14)	**2,624**	**9,211**	**11,835**	2,404	7,543	9,947
	2,624	**90,363**	**92,987**	2,404	87,257	89,661
	₱1,044,312	**₱1,096,380**	**2,140,692**	₱979,621	₱952,186	1,931,807
Less:						
Unearned discounts and capitalized interest (Note 9)			**4,239**			3,076
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**27,376**			25,366
Allowance for credit and impairment losses (Note 15)			**28,785**			27,356
			₱2,080,292			₱1,876,009
Financial Liabilities						
Deposit liabilities						
Demand	**₱344,708**	**₱–**	**₱344,708**	₱298,388	₱–	₱298,388
Savings	**605,508**	**–**	**605,508**	547,685	–	547,685
Time	**502,794**	**44,927**	**547,721**	488,199	32,130	520,329
LTNCD	**–**	**30,025**	**30,025**	–	22,900	22,900
	1,453,010	**74,952**	**1,527,962**	1,334,272	55,030	1,389,302
Bills payable and SSURA (Note 17)	**197,228**	**30,607**	**227,835**	129,720	31,656	161,376
Derivative liabilities	**5,352**	**–**	**5,352**	4,612	–	4,612
Manager's checks and demand drafts outstanding	**8,054**	**–**	**8,054**	6,932	–	6,932
Accrued interest and other expenses	**5,709**	**45**	**5,754**	5,629	188	5,817
Bonds payable (Note 19)	**–**	**2,910**	**2,910**	8,708	2,790	11,498
Subordinated debts (Note 20)	**–**	**26,580**	**26,580**	2,976	26,548	29,524
Non-equity non-controlling interest	**8,002**	**–**	**8,002**	7,934	–	7,934
Other liabilities (Note 21)						
Bills purchased - contra	**12,333**	**–**	**12,333**	20,479	–	20,479
Accounts payable	**16,083**	**–**	**16,083**	12,738	–	12,738
Marginal deposits	**3,229**	**–**	**3,229**	3,697	–	3,697
Outstanding acceptances	**1,730**	**11**	**1,741**	1,432	8	1,440
Deposits on lease contracts	**978**	**494**	**1,472**	488	887	1,375
Dividends payable	**91**	**–**	**91**	84	–	84
Miscellaneous	**14,800**	**–**	**14,800**	–	125	125
	1,726,599	**135,599**	**1,862,198**	1,539,701	117,232	1,656,933
Non-Financial Liabilities						
Retirement liability (Note 27)	**–**	**3,687**	**3,687**	–	4,703	4,703
Income taxes payable	**3,381**	**–**	**3,381**	2,185	–	2,185
Accrued interest and other expenses	**1,219**	**–**	**1,219**	1,250	–	1,250
Withholding taxes payable (Note 21)	**603**	**–**	**603**	538	–	538
Deferred tax and other liabilities (Notes 21 and 28)	**3,531**	**1,583**	**5,114**	3,389	1,458	4,847
	8,734	**5,270**	**14,004**	7,362	6,161	13,523
	₱1,735,333	**₱140,869**	**₱1,876,202**	₱1,547,063	₱123,393	₱1,670,456

	Parent Company					
	2017			2016		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**₱24,975**	**₱–**	**₱24,975**	₱23,470	₱–	₱23,470
Due from BSP	**224,723**	**–**	**224,723**	203,781	–	203,781
Due from other banks	**19,286**	**–**	**19,286**	30,101	–	30,101
Interbank loans receivable and SPURA (Note 7)	**27,208**	**–**	**27,208**	73,094	–	73,094
Financial assets at FVPL (Note 8)	**32,272**	**–**	**32,272**	26,766	–	26,766
AFS investments (Note 8)	**14,500**	**256,105**	**270,605**	23,153	230,601	253,754
Loans and receivables (Note 9)						
Receivables from customers	**498,342**	**496,318**	**994,660**	414,826	419,014	833,840
Unquoted debt securities	**386**	**26**	**412**	386	113	499
Accrued interest receivable	**6,457**	**1**	**6,458**	5,700	–	5,700
Accounts receivable	**5,677**	**–**	**5,677**	3,250	–	3,250
Sales contract receivable	**14**	**6**	**20**	24	12	36
Other receivables	**9**	**–**	**9**	3,018	–	3,018
Other assets (Note 14)						
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Interoffice float items	**1,752**	**–**	**1,752**	2,346	–	2,346
Miscellaneous	**–**	**–**	**–**	–	426	426
	864,458	**752,456**	**1,616,914**	818,772	650,166	1,468,938

(Forward)

	Parent Company					
	2017			2016		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Non-Financial Assets - at gross						
Investment in subsidiaries (Note 11)	**₱–**	**₱68,452**	**₱68,452**	₱–	₱56,627	₱56,627
Investments in associates (Note 11)	**–**	**719**	**719**	–	690	690
Property and equipment (Note 10)	**–**	**30,748**	**30,748**	–	29,422	29,422
Investment properties (Note 12)	**–**	**4,934**	**4,934**	–	6,058	6,058
Deferred tax assets (Note 28)	**–**	**6,528**	**6,528**	–	6,439	6,439
Assets held under joint operations (Note 14)	**–**	**259**	**259**	–	368	368
Retirement asset (Note 14)	**–**	**19**	**19**	–	17	17
Accounts receivable (Note 9)	**–**	**4,493**	**4,493**	–	4,747	4,747
Other assets (Note 14)	**1,595**	**4,336**	**5,931**	1,367	3,831	5,198
	1,595	**120,488**	**122,083**	1,367	108,199	109,566
	₱866,053	**₱872,944**	**1,738,997**	₱820,139	₱758,365	1,578,504
Less:						
Unearned discounts and capitalized interest (Note 9)			**219**			195
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**17,071**			16,170
Allowance for credit and impairment losses (Note 15)			**20,322**			18,924
			₱1,701,385			₱1,543,215
Financial Liabilities						
Deposit liabilities						
Demand	**₱314,542**	**₱–**	**₱314,542**	₱272,081	₱–	₱272,081
Savings	**576,807**	**–**	**576,807**	522,643	–	522,643
Time	**393,489**	**2,459**	**395,948**	377,771	10,292	388,063
LTNCD	**–**	**26,650**	**26,650**	–	22,900	22,900
	1,284,838	**29,109**	**1,313,947**	1,172,495	33,192	1,205,687
Bills payable and SSURA (Note 17)	**93,992**	**12,490**	**106,482**	58,927	9,938	68,865
Derivative liabilities	**5,352**	**–**	**5,352**	4,547	–	4,547
Manager's checks and demand drafts outstanding	**5,840**	**–**	**5,840**	5,171	–	5,171
Accrued interest and other expenses	**2,656**	**45**	**2,701**	3,217	186	3,403
Subordinated debts (Note 20)	**–**	**22,437**	**22,437**	–	22,404	22,404
Other liabilities (Note 21)						
Bills purchased - contra	**12,323**	**–**	**12,323**	20,415	–	20,415
Accounts payable	**7,488**	**–**	**7,488**	6,780	–	6,780
Marginal deposits	**682**	**–**	**682**	245	–	245
Outstanding acceptances	**1,730**	**11**	**1,741**	1,432	8	1,440
Other liabilities	**7,400**	**–**	**7,400**	–	–	–
	1,422,301	**64,092**	**1,486,393**	1,273,229	65,728	1,338,957
Non-Financial Liabilities						
Retirement liability (Note 27)	**–**	**2,818**	**2,818**	–	3,556	3,556
Income taxes payable	**2,077**	**–**	**2,077**	1,177	–	1,177
Accrued interest and other expenses	**1,204**	**–**	**1,204**	1,243	–	1,243
Withholding taxes payable (Note 21)	**341**	**–**	**341**	302	–	302
Other liabilities (Note 21)	**1,319**	**607**	**1,926**	1,424	554	1,978
	4,941	**3,425**	**8,366**	4,146	4,110	8,256
	₱1,427,242	**₱67,517**	**₱1,494,759**	₱1,277,375	₱69,838	₱1,347,213

23. Capital Stock

As of December 31, 2017 and 2016, this account consists of (amounts in millions, except par value and number of shares):

	Shares	**Amount**
Authorized		
Preferred stock – ₱20.00 par value	1,000,000,000	
Common stock – ₱20.00 par value	4,000,000,000	
Common stock issued and outstanding		
Balance at beginning and end of year	3,180,172,786	₱63,603

As of December 31, 2017 and 2016, treasury shares totaling 469,990 and 5,980,412, respectively, represent shares of the Parent Company held by FMIC's mutual fund subsidiaries (Notes 2 and 31).

On March 15, 2013, the BOD of the Parent Company approved (a) the amendment of the Articles of Incorporation (AOI) for the purpose of increasing the authorized capital stock and (b) the declaration of 30.00% stock dividend, which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2013. These were subsequently approved by the BSP on May 15, 2013 while the SEC approved the amended AOI on August 13, 2013.

Following this, the authorized capital stock of the Parent Company increased from ₱50.0 billion to ₱100.0 billion consisting of 4.0 billion Common Shares and 1.0 billion Preferred Shares, both with par value of ₱20 per share. The 30.00% stock dividend equivalent to 633.4 million common shares amounting to ₱12.7 billion represents at least the minimum 25.00% subscribed and paid-up capital for the increase in the authorized capital stock referred to above. As delegated by the BOD, the President fixed the record and payment dates on September 3 and 16, 2013, respectively. On September 10, 2013, the PSE approved the listing of additional 633,415,805 common shares and on September 16, 2013, the Parent Company issued the stock dividend and paid the cash equivalent of the related fractional shares.

Preferred Shares are non-voting except as provided by law; have preference over Common Shares in the distribution of dividends; subject to such terms and conditions as may be determined by the BOD and to the extent permitted by applicable law, may or may not be redeemable; and shall have such other features as may be determined by the BOD at the time of issuance.

On January 21, 2015, the Parent Company's BOD approved the Stock Rights Offer (SRO) by way of issuance from the unissued portion of the authorized capital stock. This was noted by BSP with the issuance of a letter of no objection to the Rights Issue on February 17, 2015. On February 24, 2015, the SEC confirmed the exemption of the proposed issuance of ₱32.0 billion worth of common shares from the registration requirements under Section 8 of the Securities Regulation Code. On February 25, 2015, the PSE approved the listing of up to 500.0 million common shares to cover the SRO to all stockholders of record as of March 18, 2015. On April 7, 2015, following regulatory approvals, the Parent Company concluded the ₱32.0 billion SRO, involving 435,371,720 common shares with par value of ₱20.00 priced at ₱73.50 per share and listed with the PSE on the same date. The difference between the issued price and the par value is recognized as 'Capital paid in excess of par value'.

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2017 and 2016, there are 3,068 and 3,129 holders, respectively, of the listed shares of the Parent Company, with share price closed at ₱101.40 and ₱72.60 a share, respectively. The history of share issuances during the last ten years follows:

Year	Issuance	Listing Date	Number of Shares Issued
2015	Stock rights	April 7, 2015	435,371,720
2013	Stock dividend	September 16, 2013	633,415,049
2011	Stock rights	January 24, 2011	200,000,000

On February 16, 2016, the Parent Company redeemed its USD125.0 million HT1 Capital Securities as approved by its BOD and the BSP on June 17, 2015 and October 22, 2015, respectively. Prior to redemption, HT1 Capital represents USD125.0 million, 9.00% non-cumulative step-up callable perpetual capital securities with liquidation preference of USD100,000 per capital security issued by the Parent Company on February 15, 2006 pursuant to a trust deed with The Bank of New York (Trustee) and listed with the Singapore Exchange Securities Trading Limited. The HT1 Capital is governed by English law except on certain clauses in the Trust Deed which are governed by

Philippine law. It bears interest at 9.00% per annum payable semi-annually in arrear from (and including) February 15, 2006 to (but excluding) February 15, 2016, and thereafter at a rate, reset and payable quarterly in arrear, of 6.10% per annum above the then prevailing LIBOR for three-month USD deposits. Under certain conditions, the Parent Company is not obliged to make any coupon payment if the BOD of the Parent Company, in its absolute discretion, elects not to make any coupon payment in whole or in part. Coupon is payable on February 15 and August 15 in each year, commencing on August 15, 2006 (in respect of the period from (and including) February 15, 2006 to (but excluding) August 15, 2006 and ending on February 15, 2016 (first optional redemption date); thereafter coupon amounts will be payable (subject to adjustment for days which are not business days) on February 15, May 15, August 15 and November 15 in each year commencing on May 15, 2016.

The Parent Company paid the semi-annual coupon amounting to USD5.6 million from 2006 to 2016 after obtaining their respective BSP approvals. Details of approvals and payments from 2015 to 2016 are as follows:

Date of BSP Approval	Date Paid
January 28, 2016	February 16, 2016
July 24, 2015	August 17, 2015
February 9, 2015	February 17, 2015

Details of the Parent Company's cash dividend distributions from 2015 to 2017 follow:

Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
February 22, 2017	₱1.00	₱3,180	a/	March 9, 2017	March 23, 2017
March 16, 2016	1.00	3,180	a/	April 1, 2016	April 8, 2016
January 27, 2015	1.00	2,745	March 3, 2015	March 26, 2015	March 31, 2015

a/ No longer required in accordance with BSP Circular No. 888 dated October 9, 2015.

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 BSP guidelines.

24. **Surplus Reserves**

This account consists of:

	2017	2016
Reserve for trust business (Note 29)	**₱1,350**	₱1,215
Reserve for self-insurance	**460**	438
	₱1,810	₱1,653

In compliance with existing BSP regulations, 10.00% of the Parent Company's income from trust business is appropriated to surplus reserves. This yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Parent Company's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

25. Miscellaneous Income and Expenses

In 2017, 2016 and 2015, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱1.1 billion, ₱834.4 million and ₱713.4 million, respectively, for the Group and ₱25.5 million, ₱24.2 million and ₱21.4 million, respectively, for the Parent Company; recovery on charged-off assets amounting to ₱1.1 billion, ₱774.0 million and ₱722.2 million, respectively, for the Group and ₱28.9 million, ₱28.3 million and ₱10.2 million, respectively, for the Parent Company; and information technology and other fees amounting to ₱338.5 million, ₱354.0 million and ₱432.8 million, respectively, for the Parent Company (Note 31).

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Insurance	**₱3,220**	₱2,832	₱2,712	**₱2,457**	₱2,203	₱2,140
Security, messengerial and janitorial	**2,359**	2,265	2,117	**1,779**	1,830	1,651
Advertising	**895**	1,499	920	**284**	803	216
Litigation (Note 12)	**794**	644	640	**309**	249	291
Information technology (Note 31)	**769**	809	827	**520**	581	621
Management and professional fees	**652**	600	775	**397**	351	567
Supervision fees	**650**	616	573	**539**	516	469
Communications	**616**	600	603	**96**	84	62
Repairs and maintenance	**608**	557	591	**292**	286	301
Transportation and travel	**497**	501	463	**344**	344	315
Stationery and supplies used	**403**	426	490	**240**	264	319
Entertainment, amusement and representation (EAR) (Note 28)	**302**	505	290	**261**	461	246
Others (Note 31)	**1,965**	1,785	1,183	**1,035**	909	518
	₱13,730	₱13,639	₱12,184	**₱8,553**	₱8,881	₱7,716

26. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and securities purchased under agreements to resell considered as cash and cash equivalents follow:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Interbank loans receivable and SPURA	**₱45,475**	₱91,646	₱36,118	**₱27,208**	₱73,094	₱25,951
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(12,739)**	(15,778)	(4,586)	**(7,966)**	(7,644)	(2,423)
	₱32,736	₱75,868	₱31,532	**₱19,242**	₱65,450	₱23,528

Significant non-cash transactions of the Group and the Parent Company include reclassification of remaining HTM investments to AFS investments in 2016 as discussed in Note 8; foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; accrual of cash dividends from subsidiaries and SMBC Metro as disclosed in Notes 11 and 31; reclassifications of BUC (Note 10); and reclassification of investment in LCMC in 2015 (Note 11).

The table below provides for the changes in liabilities arising from financing activities:

	Consolidated					
	January 1, 2017	Cash flows	Foreign exchange movement	Changes in fair values	Others	December 31, 2017
Bills payable and SSURA (Note 17)	₱161,376	₱64,034	₱–	₱–	₱2,425	₱227,835
Derivative liabilities (Note 8)	4,612	(27)	–	832	(65)	5,352
Bonds payable (Note 19)	11,498	(8,599)	–	–	11	2,910
Subordinated debts (Note 20)	29,524	(3,000)	–	–	56	26,580
Dividends payable (Note 21)	84	(3,180)	–	–	3,187	91
Total liabilities from financing activities	₱207,094	₱49,228	₱–	₱832	₱5,614	₱262,768

	Parent Company					
	January 1, 2017	Cash flows	Foreign exchange movement	Changes in fair values	Others	December 31, 2017
Bills payable and SSURA (Note 17)	₱68,865	₱37,617	₱–	₱–	₱–	₱106,482
Derivative liabilities (Note 8)	4,547	(27)	–	832	–	5,352
Subordinated debts (Note 20)	22,404	–	–	–	33	22,437
Dividends payable (Note 21)	–	(3,180)	–	–	3,180	–
Total liabilities from financing activities	₱95,816	₱34,410	₱–	₱832	₱3,213	₱134,271

Others include the effect of cash flows of liabilities arising from operating activities, declaration of dividends, and effect of accretion of interest.

27. Retirement Plan and Other Employee Benefits

The Parent Company and most of its subsidiaries have funded non-contributory defined benefit retirement plan covering all their respective permanent and full-time employees. Benefits are based on the employee’s years of service and final plan salary.

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

Under the existing regulatory framework, Republic Act (RA) 7641 (Retirement Pay Law) requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Parent Company and most of its subsidiaries meet the minimum retirement benefit specified under RA 7641.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries are shown below:

	Parent Company	**FMIC**	**PSBank**	**MCC**	**ORIX Metro**
As of January 1, 2017					
Average remaining working life	**8 years**	**9 to 10 years**	**12 years**	**12 years**	**12 to 27 years**
Discount rate	**5.11%**	**5.11% to 5.49%**	**5.31%**	**4.84%**	**3.89% to 5.36%**
Future salary increases	**7%**	**5%**	**5%**	**8.50%**	**8%**
As of January 1, 2016					
Average remaining working life	10 years	7 to 10 years	12 years	12 years	13 to 27 years
Discount rate	4.79%	4.93% to 5.08%	5.01%	5.23%	4.59% to 5.56%
Future salary increases	8.00%	5.00%	5.00%	8.70%	8.00%

Discount rates used in computing for the present value of the DBO of the Parent Company and significant subsidiaries as of December 31, 2017 and 2016 follow:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2017	**5.39%**	**5.62% to 5.77%**	**5.73%**	**5.74%**	**4.84% to 5.40%**
2016	5.11%	5.11% to 5.49%	5.31%	4.84%	3.89% to 5.36%

Net retirement liability included in 'Other liabilities' as of December 31, 2017 and 2016 amounted to ₱3.7 billion and ₱4.7 billion, respectively, for the Group and ₱2.8 billion and ₱3.6 billion, respectively, for the Parent Company (Note 21).

The fair value of plan assets by each class as at the end of the reporting year are as follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Cash	**₱555**	₱33	**₱–**	₱–
Due from BSP	**–**	602	**–**	–
Deposit in banks	**904**	251	**707**	98
	1,459	886	**707**	98
Financial assets at FVPL				
Equity securities	**16**	17	**–**	–
Debt securities	**812**	62	**735**	–
Unit investment trust fund and others	**232**	468	**100**	464
Total financial assets at FVPL	**1,060**	547	**835**	464
AFS investments - net				
Quoted debt instruments				
Private	**1,193**	1,441	**660**	817
Government	**9,028**	8,433	**7,562**	7,691
	10,221	9,874	**8,222**	8,508
Equity securities				
Quoted	**2,851**	2,439	**2,691**	2,355
Unquoted	**13**	213	**13**	13
	2,864	2,652	**2,704**	2,368
Investment funds	**636**	382	**600**	234
Total AFS investments	**13,721**	12,908	**11,526**	11,110
HTM investments				
Government	**16**	–	**–**	–
Loans and discounts - net	**265**	71	**259**	71
Other receivables - net	**161**	142	**140**	128
Liabilities	**(8)**	(23)	**(6)**	–
Total assets	**₱16,674**	₱14,531	**₱13,461**	₱11,871

Changes in net defined benefit liability of funded funds in 2017 are as follows:

Consolidated	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
January 1, 2017	**₱19,188**	**(₱14,531)**	**₱4,657**
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	**1,588**	–	**1,588**
Past service cost	**1**	–	**1**
Net interest	**932**	**(755)**	**177**
Sub-total	**2,521**	**(755)**	**1,766**
Benefits paid	**(1,182)**	**1,184**	**2**
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	**199**	**199**
Actuarial changes arising from experience adjustments	**393**	–	**393**
Actuarial changes arising from changes in financial/demographic assumptions	**(639)**	–	**(639)**
Sub-total	**(246)**	**199**	**(47)**
Contributions paid	–	**(2,771)**	**(2,771)**
December 31, 2017	**₱20,281**	**(₱16,674)**	**₱3,607**

Parent Company	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
January 1, 2017	**₱15,427**	**(₱11,871)**	**₱3,556**
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	**1,176**	–	**1,176**
Net interest	**744**	**(614)**	**130**
Sub-total	**1,920**	**(614)**	**1,306**
Benefits paid	**(1,034)**	**1,034**	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	**33**	**33**
Actuarial changes arising from experience adjustments	**295**	–	**295**
Actuarial changes arising from changes in financial/demographic assumptions	**(329)**	–	**(329)**
Sub-total	**(34)**	**33**	**(1)**
Contributions paid	–	**(2,043)**	**(2,043)**
December 31, 2017	**₱16,279**	**(₱13,461)**	**₱2,818**

Changes in net defined benefit liability of funded funds in 2016 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2016	₱17,404	(₱13,003)	₱4,401
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	1,448	–	1,448
Past service cost	3	–	3
Net interest	831	(627)	204
Sub-total	2,282	(627)	1,655
Benefits paid	(845)	845	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	360	360
Actuarial changes arising from experience adjustments	1,896	–	1,896
Actuarial changes arising from changes in financial/demographic assumptions	(1,549)	(1)	(1,550)
Sub-total	347	359	706
Contributions paid	–	(2,105)	(2,105)
December 31, 2016	₱19,188	(₱14,531)	₱4,657

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2016	₱13,928	(₱10,924)	₱3,004
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	1,081	–	1,081
Net interest	667	(523)	144
Sub-total	1,748	(523)	1,225
Benefits paid	(705)	705	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	326	326
Actuarial changes arising from experience adjustments	1,817	–	1,817
Actuarial changes arising from changes in financial/demographic assumptions	(1,361)	–	(1,361)
Sub-total	456	326	782
Contributions paid	–	(1,455)	(1,455)
December 31, 2016	₱15,427	(₱11,871)	₱3,556

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of December 31, 2017 and 2016, assuming all other assumptions were held constant:

	Parent Company	FMIC	PSBank	MCC	Orix Metro
As of December 31, 2017					
Discount rate					
+100 basis points (bps)	**₱15,321**	**₱237**	**₱2,222**	**₱843**	**₱(47)**
- 100 bps	**17,352**	**270**	**2,639**	**1,052**	**56**
Salary increase rate					
+100 bps	**17,296**	**271**	**2,654**	**1,025**	**50**
- 100 bps	**15,348**	**236**	**2,206**	**865**	**(43)**
Turnover rate					
+50 bps	**–**	**–**	**–**	**889**	**–**
+300 bps	**15,893**	**10**	**2,405**	**–**	**–**
- 25 bps	**–**	**–**	**–**	**968**	**–**
- 300 bps	**16,740**	**11**	**2,427**	**–**	**–**
As of December 31, 2016					
Discount rate					
+100 bps	₱14,460	₱258	₱2,032	₱859	₱282
- 100 bps	16,513	296	2,444	1,094	371
Salary increase rate					
+100 bps	16,414	298	2,461	1,065	366
- 100 bps	14,528	256	2,014	878	286
Turnover rate					
+50 bps	–	–	–	896	–
+300 bps	15,093	–	–	–	–
- 25 bps	–	–	–	1,008	–
- 300 bps	15,720	–	–	–	–

The Group and the Parent Company expect to contribute to the defined benefit retirement plans the required funding for normal cost in 2018 amounting to ₱1.8 billion and ₱1.4 billion, respectively.

The average duration of the DBO of the Group as of December 31, 2017 and 2016 are as follows:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2017	**11.56 years**	**10.82 to 18.26 years**	**16.13 years**	**16.25 years**	**10.20 to 13.50 years**
2016	11.98 years	12.56 to 18.70 years	16.49 years	16.79 years	12.90 to 17.30 years

Shown below is the maturity analysis of the undiscounted benefit payments:

	Parent Company	FMIC	PSBank	MCC	Orix Metro
As of December 31, 2017					
Less than 1 year	**₱1,749**	**₱34**	**₱261**	**₱33**	**₱4**
More than 1 year to 5 years	**7,555**	**103**	**728**	**162**	**103**
More than 5 years to 10 years	**12,559**	**213**	**1,673**	**619**	**266**
More than 10 years to 15 years	**7,716**	**212**	**1,991**	**1,100**	**–**
More than 15 years to 20 years	**6,526**	**170**	**2,002**	**2,059**	**–**
More than 20 years	**8,881**	**171**	**4,280**	**1,482**	**–**
As of December 31, 2016					
Less than 1 year	₱1,730	₱27	₱147	₱24	₱4
More than 1 year to 5 years	6,590	135	661	152	15
More than 5 years to 10 years	11,596	219	1,365	447	158
More than 10 years to 15 years	8,195	221	2,014	1,227	–
More than 15 years to 20 years	6,661	184	1,954	1,733	–
More than 20 years	9,180	278	4,096	1,922	–

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2017 and 2016 amounted to ₱263.9 million and ₱249.0 million, respectively.

As of December 31, 2017 and 2016, the retirement fund of the Parent Company's employees amounting to ₱13.5 billion and ₱11.9 billion, respectively, is being managed by the Parent Company's Trust Banking Group (as defined in the trust agreement), which has a Trust Committee that is mandated to approve, the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee. Directors' fees and bonuses of the Parent Company in 2017, 2016 and 2015 amounted to ₱65.7 million, ₱59.4 million and ₱61.2 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱7.3 billion, ₱6.8 billion and ₱6.2 billion, respectively.

28. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30.00% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) 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 some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

Foreign Branches	Tax Rates
USA - New York (NY) Branch	34.00% income tax; 7.10% state tax ; 8.85% city tax
Japan - Tokyo and Osaka Branches	23.40% income tax; various rates for business taxes - income tax, local business, sheet value and sheet capital allocations
Korea - Seoul and Pusan Branches	various rates; 0.50% education tax
Taiwan - Taipei Branch	17.00% income tax; 5.00% gross business receipts tax; 5.00% VAT

The provision for income tax consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Current:						
Final tax	**₱2,875**	₱3,235	₱3,895	**₱2,286**	₱2,509	₱3,323
RCIT*	**5,374**	3,779	2,036	**2,318**	1,382	129
MCIT	**–**	–	324	**–**	–	324
	8,249	7,014	6,255	**4,604**	3,891	3,776
Deferred*	**(259)**	(392)	(1,018)	**(89)**	(1)	(570)
	₱7,990	₱6,622	₱5,237	**₱4,515**	₱3,890	₱3,206

* Includes income taxes of foreign subsidiaries.

Components of net deferred tax assets of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱7,165**	₱6,215	**₱5,167**	₱4,310
Unamortized past service cost	**1,170**	969	**956**	860
Retirement liability	**1,076**	1,408	**845**	1,094
Accumulated depreciation of investment properties	**295**	380	**190**	284
Deferred membership/awards	**167**	189	**–**	–
Unrealized losses	**9**	308	**5**	294
Others	**471**	411	**108**	117
	10,353	9,880	**7,271**	6,959
Deferred tax liability on:				
Unrealized gains	**633**	367	**574**	293
Unrealized gain on initial measurement of investment properties	**523**	580	**169**	227
Retirement asset	**22**	–	**–**	–
Others	**14**	78	**–**	–
	1,192	1,025	**743**	520
Net deferred tax assets	**₱9,161**	₱8,855	**₱6,528**	₱6,439

Components of net deferred tax liabilities of the Group follow:

	2017	2016
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱194**	₱–
Retirement liability	**24**	20
Unamortized past service cost	**2**	–
Others	**16**	154
	236	174
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**500**	467
Others	**13**	19
	513	486
Net deferred tax liabilities	**₱277**	₱312

As of December 31, 2017 and 2016, no deferred tax asset was recognized on the following temporary differences: (a) allowance for credit and impairment losses amounting to ₱2.2 billion and ₱4.1 billion, respectively, for the Group and ₱2.1 billion and ₱3.5 billion, respectively, for the Parent Company; (b) NOLCO of ₱909.5 million and ₱1.2 billion, respectively, for the Group and ₱55.0 million and ₱220.2 million, respectively, for the Parent Company; (c) MCIT of ₱8.0 million and ₱16.4 million, respectively, for the Group and ₱8.0 million and ₱9.9 million, respectively, for the Parent Company; and (d) others amounting to ₱10.7 thousand in 2016 for the Group. The Group believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

There are no income tax consequences attaching to the payment of dividends by the Group to the shareholders of the Group.

Details of the excess MCIT credits follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2014	₱4	₱4	₱–	2017	₱4	₱4	₱–	2017
2015	1	–	1	2018	1	–	1	2018
2016	3	–	3	2019	3	–	3	2019
2017	4	–	4	2020	4	–	4	2020
	₱12	₱4	₱8		₱12	₱4	₱8	

Details of the NOLCO follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2014	₱335	₱335	₱–	2017	₱–	₱–	₱–	2017
2015	566	179	387	2018	234	179	55	2018
2016	301	–	301	2019	–	–	–	2019
2017	236	–	236	2020	–	–	–	2020
	₱1,438	₱514	₱924		₱234	₱179	₱55	

A reconciliation of the statutory income tax rates and the effective income tax rates follows:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effect of:						
Tax-paid and tax-exempt income	**(7.35)**	(13.15)	(10.56)	**(5.03)**	(11.84)	(9.38)
Non-deductible interest expense	**3.33**	4.90	6.62	**3.04**	3.39	4.52
Non-recognition of deferred tax asset	**(5.19)**	(2.44)	(2.29)	**2.51**	(2.52)	(2.61)
FCDU income	**(2.29)**	(3.30)	(0.84)	**(2.52)**	(3.10)	(0.89)
Others - net	**8.81**	8.57	(2.69)	**(8.14)**	1.77	(6.95)
Effective income tax rate	**27.31%**	24.58%	20.24%	**19.86%**	17.70%	14.69%

29. **Trust Operations**

Properties held by the Parent Company and certain subsidiaries in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not resources of the Parent Company and its subsidiaries (Note 30).

In compliance with current banking regulations relative to the Parent Company and certain subsidiaries' trust functions, as of December 31, 2017 and 2016, government securities classified as AFS investments with the following total face values amounting to ₱8.7 billion and ₱5.1 billion, respectively, for the Group, and ₱8.6 billion and ₱5.0 billion, respectively, for the Parent Company, are deposited with the BSP.

On June 24, 2016, the Board of Directors of FMIC approved the recommendation of its Trust Committee to surrender its trust license to the BSP and on January 19, 2017, the BSP has issued the Revocation of Authority to conduct FMIC's trust and fiduciary business.

30. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Trust Banking Group accounts (Note 29)	**₱450,492**	₱427,741	**₱443,989**	₱422,812
Credit card lines	**160,057**	132,901	**–**	–
Unused commercial letters of credit (Note 31)	**44,759**	46,678	**43,423**	45,725
Bank guaranty with indemnity agreement (Note 31)	**13,555**	12,045	**13,555**	12,045
Credit line certificate with bank commission	**6,351**	5,322	**6,351**	5,322
Outstanding shipside bonds/airway bills	**5,248**	4,712	**5,248**	4,712
Inward bills for collection	**2,824**	930	**2,823**	929
Undrawn commitments - facilities to lend	**1,965**	20,521	**1,965**	20,521
Outward bills for collection	**682**	622	**681**	622
Late deposits/payments received	**472**	2,292	**467**	2,229
Confirmed export letters of credits	**246**	109	**57**	97
Outstanding guarantees	**92**	117	**88**	117
Others	**6,076**	12,137	**382**	5,550
	₱692,819	₱666,127	**₱519,029**	₱520,681

On October 17, 2011, a consortium of eight banks including the Parent Company filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the ROP, Bureau of Internal Revenue (BIR) and its Commissioner, the Department of Finance and its Secretary and the BTr and the National Treasurer, asking the Court to annul BIR Ruling No. 370-2011 which imposes a 20-percent FWT on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe Bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20-percent FWT be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. The respondents have not complied with the said TRO, i.e., they have not credited the banks' escrow accounts with the amount corresponding to the questioned 20-percent FWT. On January 13, 2015, the Court promulgated a Decision granting the petition wherein BIR Ruling No. 370-2011 was nullified, and the respondent BTr was ordered to immediately release and pay to the bondholders the amount corresponding to the 20-percent FWT withheld on October 18, 2011. On March 13, 2015, respondents filed a Motion for Reconsideration and Clarification of the Court's Decision. On August 16, 2016, the Court issued a Resolution denying the respondents' Motion for Reconsideration and Clarification, and ordered the respondent BTr to immediately release and pay the bondholders for the 20-percent FWT on the PEACe Bonds, with legal interest of 6.00% per annum from October 19, 2011 until full payment. On October 19, 2016, the respondents' filed a Motion for Leave (i) to File Motion for Partial Reconsideration and (ii) to Admit Motion for Partial Reconsideration of the said Resolution. On November 22, 2016, the Court issued a Resolution denying the said Motion, considering that a second motion for reconsideration is a prohibited pleading under the Rules of Civil Procedure. The Resolution also stated that no further pleadings or motions will be entertained. The case was settled on April 11, 2017 by way of issuance of RTB (Note 14).

Upon its own discovery, the Parent Company immediately caused the arrest of its Corporate Service Management Division Head, Ma. Victoria S. Lopez on July 17, 2017 for qualified theft through falsification of commercial documents. Both the Motion to Fix Bail and Motion for Reconsideration were denied and the case is now pending trial with the Regional Trial Court (RTC) of Makati City. She is currently incarcerated at the Makati City Jail. On July 24, 2017, another criminal complaint for qualified theft through falsification of commercial documents and violation of Section 55 of the General Banking Law (GBL) was filed against her and her cohorts for the abstraction of ₱900.0 million before The Office of the City Prosecutor of Makati City and is pending resolution. On the civil case, RTC Makati City granted the preliminary writ of attachment in the civil case against her, her family, cohorts and corporations, for the collection of the said sum of money, interests and penalties, damages and other costs. This case is scheduled for judicial dispute resolution. On December 5, 2017, a third criminal case for the qualified theft through falsification of commercial documents and violation of Section 55 of GBL was filed against her, her cohorts and family members relative to the abstraction of ₱850.0 million. This case is undergoing preliminary investigation. In addition, foreign proceedings are ongoing on the cases which were filed in the USA to preserve and recover their identified properties; and in Singapore to preserve and recover funds in identified accounts. As of December 31, 2017, accounts receivable classified under 'Loans and Receivables' includes total identified claims of ₱1.75 billion with full provisioning (Notes 9 and 15). Relative to this incident, the MB approved the imposition of certain sanctions to the Parent Company (Note 4) and added that the MB took into consideration the strong financial condition and immediate corrective actions and re-affirms the safety and soundness of the Parent Company given the medium to long-term initiatives that improve governance, controls and compliance. The Parent Company does not expect this isolated incident to have long term material impact on its financial statements. Further, the Parent Company is reinforcing its commitment to the highest standards of integrity and upholds the protection of its customers as its main priority.

Several suits and claims relating to the Group's operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

31. **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 such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities and are classified as entities with significant influence, subsidiaries, associates, other related parties and key personnel (Notes 2 and 11).

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

The Parent Company has a Related Party Transactions Committee (RPTC) and a Related Party Transactions Management Committee (RPTMC), both of which are created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTC and RPTMC disclose all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD, composed of at least three (3) Board non-executive members, two (2) of whom should be independent directors, including the Chairperson. Currently, RPTC is composed of three (3) independent directors (including the Committee's Chairman); the head of Internal Audit Group (as Resource Person); and the Compliance Officer (as the Committee Secretary) and meets monthly or as the need arises. On the other hand, RPTMC members are appointed annually by the President, composed of four (4) members. RPTC's and RPTMC's review of the proposed related party transactions considers the following: (a) identity of the parties involved in the transaction or relationship; (b) terms of the transaction or relationship and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances; (c) business purpose, timing, rationale and benefits of the transaction or relationship; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; (j) extent that such transaction or relationship would present an improper conflict of interest; and (k) the availability of other sources of comparable products or services. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, except in order to provide material information on the related party transaction to RPTC.

Major subsidiaries, which include FMIC, PSBank, MCC and MBCL, have their own respective RPTCs which assist their respective BODs in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that their corporate or business resources are not misappropriated or misapplied.

In the ordinary course of business, the Group has loan transactions with investees and with certain DOSRI based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Parent Company, PSBank, FMIC and ORIX Metro.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Total outstanding DOSRI accounts	**₱4,879**	₱4,205	**₱3,442**	₱2,270
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%	**0.00%**	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.39%**	0.40%	**0.35%**	0.27%
Percent of DOSRI accounts to total loans	**0.39%**	0.40%	**0.35%**	0.27%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**13.11%**	13.97%	**5.54%**	8.65%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2017 and 2016, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.00% of such net worth wherein the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 10.14% and 7.14%, respectively, of the Parent Company's net worth.

Further, BSP Circular No. 654 allows a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2017 and 2016, the Parent Company has no outstanding loans, other credit accommodations and guarantees to subsidiaries and affiliates engaged in energy and power generation.

Total interest income on the DOSRI loans in 2017, 2016 and 2015 amounted to ₱52.3 million, ₱124.3 million and ₱107.2 million, respectively, for the Group and ₱37.2 million, ₱88.6 million and ₱55.6 million, respectively, for the Parent Company.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

	Consolidated	
	December 31, 2017	
Category	Amount	Terms and Conditions/Nature
Entity with Significant Influence Over the Group		
Outstanding Balance:		
Deposit liabilities*	**₱16**	With annual fixed interest rates ranging from 0.00% to 0.25% (Note 16)
Amount/Volume:		
Deposit liabilities	**(2,119)**	Generally similar to terms and conditions above
Bills payable	**(303)**	Peso borrowing in 2016 subject to annual fixed interest rate of 2.00% with maturity term of 17 days (Note 17)
Investments in associates and a JV	**190**	Proceeds from sale of 10% ownership of PSBank in SMFC (Note 11)
Interest expense	**11**	Interest expense on deposit liabilities and bills payable (Note 16)
Foreign currency - sell	**7**	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱3,439**	Peso and foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 days to 94 days no impairment (Note 7)
Receivables from customers*	**235**	Secured and unsecured amounted to ₱140.0 million and ₱94.6 million, respectively; no impairment. With annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 days to 359 days (Note 9)
Accounts receivable	**500**	Non-interest bearing receivables on service fees, remittance, rental fees and common use service area fees
Deposit liabilities*	**7,211**	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Bills payable	**888**	Peso borrowings subject to annual fixed interest rates ranging from 1.13% to 4.63% with maturity terms from 15 days to 33 days (Note 17)
Bonds payable*	**81**	Issued by FMIC with interest rate ranging from 5.75% and maturity term of 5 years (Note 19)
Treasury stock	**46**	Parent Company's shares held by First Metro Philippine Equity Exchange Traded Fund Inc. (Note 23)
Amount/Volume:		
Interbank loans receivable	**(2,655)**	Generally similar to terms and conditions above
Receivables from customers	**(2,129)**	Generally similar to terms and conditions above
Accounts receivable	**163**	Generally similar to terms and conditions above
Deposit liabilities	**2,433**	Generally similar to terms and conditions above
Bills payable	**881**	Generally similar to terms and conditions above
Bonds payable	**(439)**	Generally similar to terms and conditions above
Treasury stock	**455**	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	**133**	Income on receivables from customers (Note 9) and interbank loans receivables (Note 7)
Service charges, fees and commissions	**125**	Income from transactional fees
Trading and securities loss - net	**(21)**	Net loss from securities transactions (Note 11)
Foreign exchange gain - net	**165**	Net gain from foreign exchange transactions
Leasing income	**90**	Income from leasing agreements with various lease terms
Miscellaneous income	**347**	Information technology and other fees
Interest expense	**51**	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16 and 17)

(Forward)

Category	Consolidated December 31, 2017 Amount	Terms and Conditions/Nature
Miscellaneous expense	**₱73**	Other fees (Note 25)
Dividends declared	**3,649**	Dividends declared by PSBank, FMIC, MB Bahamas, MR Singapore (Note 11)
Contingent - Derivatives	**75**	Outright forward exchange bought with various terms
Securities transactions		
Purchases	**24,503**	Outright purchases of HFT securities and AFS investments
Sales	**28,765**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**1,063,463**	Outright purchases of foreign currency
Sell	**1,037,786**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Accounts receivable	**₱2**	Non-interest bearing receivable on rental fees
Deposit liabilities*	**1,125**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 4 days to 90 days (Note 16)
Amount/Volume:		
Accounts receivable	**1**	Generally similar to terms and conditions above
Deposit liabilities	**374**	Generally similar to terms and conditions above (Note 16)
Leasing income	**20**	Income from leasing agreements with various lease terms
Interest expense	**2**	Interest expense on deposit liabilities (Note 16)
Dividends declared	**6**	Dividends declared by NLI (Note 11)
Securities transactions		
Outright purchases	**299**	Outright purchases of HFT securities and AFS investments
Outright sales	**200**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**174**	Outright purchases of foreign currency
Sell	**25,804**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱19,703**	Secured - ₱4.4 billion and unsecured - ₱15.3 billion, no impairment With annual fixed interest rates ranging from 1.80% to 8.50% and maturity terms from 30 days to 5 years (Note 9)
Accounts receivable	**4**	Credit card receivables, current and non-revolving
Assets held under joint operations	**259**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**26,970**	With annual fixed interest rates ranging from 0.00% to 3.75% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Bills payable*	**197**	Peso-denominated borrowings subject to annual fixed interest rates ranging from 2.00% to 2.75% with maturity terms from 30 days to 122 days (Note 17)
Amount/Volume:		
Receivables from customers	**11,525**	Generally similar to terms and conditions above
Accounts receivable	**1**	Generally similar to terms and conditions above
Deposit liabilities	**6,564**	Generally similar to terms and conditions above
Bills payable	**(517)**	Generally similar to terms and conditions above
Interest income	**375**	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**20**	Income from leasing agreements with various lease terms
Profit from assets sold	**56**	Gain on sale of condominium units and parking spaces
Interest expense	**392**	Interest expense on deposit liabilities (Note 16) and bills payable (Note 17)
Contingent - Unused commercial LCs	**102**	LC transactions with various terms
Securities transactions		
Outright purchases	**249**	Outright purchases of HFT securities and AFS investments
Outright sales	**686**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**11,626**	Outright purchases of foreign currency
Sell	**83,219**	Outright sale of foreign currency

(Forward)

Category	Consolidated December 31, 2017 Amount	Terms and Conditions/Nature
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱76**	Secured and unsecured amounted to ₱51.9 million and ₱23.8 million, respectively; no impairment. With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1.5 years to 15 years (Note 9)
Deposit liabilities	**164**	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	**(4)**	Generally similar to terms and conditions above
Deposit liabilities	**(9)**	Generally similar to terms and conditions above
Interest income	**3**	Interest income on receivables from customers (Note 9)
*including accrued interest		

Category	Consolidated December 31, 2016 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	₱2,135	With annual fixed interest rate of 1.75% including time deposits with maturity term of 30 days (Note 16)
Bills payable*	303	Peso borrowing subject to annual fixed interest rate of 2.00% with maturity term of 17 days (Note 17)
Amount/Volume:		
Deposit liabilities	(4,249)	Generally similar to terms and conditions above
Miscellaneous income	327	Other income from sale of securities of FMIC
Service charges, fees and commisions	444	FMIC's advisory and underwriting fees charged to GT Capital
Interest expense	46	Interest expense on deposit liabilities and bills payable (Note 16)
Outright sale of securities	3,259	Outright sale of AFS investments of FMIC
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱6,094	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.97% to 2.90% with maturity terms from 14 days to 372 days, no impairment (Note 7)
Receivables from customers*	2,364	Unsecured with no impairment With annual fixed interest rates ranging from 2.45% to 2.80% and maturity terms from 6 days to 275 days (Note 9)
Accounts receivable	337	Outstanding remittance receivables, service fees, rental fees and common use service area fees, non-interest bearing
Other receivables	2,980	Dividends receivable from FMIC (Notes 9 and 11)
Derivative assets	66	Fair value of forward leg swap bought and forward exchange sold with various terms
Deposit liabilities*	4,778	With annual fixed interest rates ranging from 0.00% to 1.75% including time deposits with maturity terms from 5 days to 364 days (Note 16)
Bills payable	7	Peso borrowings subject to annual fixed interest rates ranging from 2.00% to 1.25% with maturity terms from 15 days to 17 days (Note 17)
Bonds payable*	520	Issued by FMIC with interest rates ranging from 1.38% to 5.75% with maturity terms from 42 days to 7 years (Note 19)
Treasury stock	485	Parent Company's shares held by FMIC's mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	4,681	Generally similar to terms and conditions above
Receivables from customers	(929)	Generally similar to terms and conditions above
Accounts receivable	58	Generally similar to terms and conditions above
Deposit liabilities	(492)	Generally similar to terms and conditions above
Bills payable	(4,412)	Generally similar to terms and conditions above
Bonds payable	70	Generally similar to terms and conditions above
Interest income	111	Income on receivables from customers (Note 9) and interbank loans receivables (Note 7)
Service charges, fees and commissions	88	Income from transactional fees

(Forward)

	Consolidated	
	December 31, 2016	
Category	Amount	Terms and Conditions/Nature
Trading and securities gain - net	₱48	Net gain from securities transactions; includes gain on sale of PSBank shares by FMIC (Note 11)
Foreign exchange gain - net	69	Net gain from foreign exchange transactions
Leasing income	84	Income from leasing agreements with various lease terms
Miscellaneous income	600	Information technology and other fees; gain on buy back of shares
Interest expense	92	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16 and 17)
Miscellaneous expense	126	Management and other professional fees and merchant discount (Note 25)
Dividends declared	4,802	Dividends declared by PSBank, MCC, Metrobank Bahamas and FMIC (Note 11)
Contingent		
Derivatives	2,668	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	53,716	Outright purchases of HFT securities and AFS investments
Sales	56,565	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	46,284	Outright purchases of foreign currency
Sell	40,745	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Accounts receivable	₱1	Non-interest bearing receivable on rental fees
Other receivables	30	Dividends receivable from SMBC Metro (Notes 9 and 11)
Deposit liabilities*	751	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 days to 63 days (Note 16)
Amount/Volume:		
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	(1,037)	Generally similar to terms and conditions above (Note 16)
Trading and securities gain - net	3	Net gain from securities transactions
Foreign exchange loss - net	(3)	Net loss from foreign exchange transactions
Leasing income	20	Income from leasing agreements with various lease terms
Interest expense	4	Interest expense on deposit liabilities (Note 16)
Dividends declared	55	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	680	Outright purchases of HFT securities and AFS investments
Outright sales	1,500	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	680	Outright purchases of foreign currency
Sell	1,802	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱8,178	Secured - ₱3.3 billion and unsecured - ₱4.9 billion, no impairment With annual fixed interest rates ranging from 1.50% to 8.50% and maturity terms from 30 days to 5 years (Note 9)
Accounts receivable	3	Credit card receivables, current and non-revolving
Assets held under joint operations	368	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	20,406	With annual fixed interest rates ranging from 0.00% to 2.38% including time deposits with maturity terms from 5 days to 365 days (Note 16)
Bills payable*	714	Peso-denominated borrowings subject to annual fixed interest rates ranging from 1.25% to 2.25% with maturity terms from 17 days to 183 days (Note 17)
Amount/Volume:		
Receivables from customers	(1,738)	Generally similar to terms and conditions above
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	4,276	Generally similar to terms and conditions above
Bills payable	(2,525)	Generally similar to terms and conditions above
Interest income	223	Interest income on receivables from customers (Note 9)
Foreign exchange loss - net	(17)	Net loss from foreign exchange transactions
Leasing income	19	Income from leasing agreements with various lease terms

(Forward)

Category	Consolidated December 31, 2016 Amount	Terms and Conditions/Nature
Interest expense	₱292	Interest expense on deposit liabilities (Note 16) and bills payable (Note 17)
Contingent		
Unused commercial LCs	68	LC transactions with various terms
Others	3	Bank guaranty with indemnity agreement
Securities transactions		
Outright purchases	404	Outright purchases of HFT securities and AFS investments
Outright sales	4,671	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	83	Outright purchases of foreign currency
Sell	73,761	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱80	Secured - ₱55.9 million and unsecured - ₱24.5 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 2 years to 15 years (Note 9)
Deposit liabilities	173	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	(2)	Generally similar to terms and conditions above
Deposit liabilities	38	Generally similar to terms and conditions above
Interest income	4	Interest income on receivables from customers (Note 9)

Category	**Parent Company December 31, 2017 Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	**₱16**	With annual fixed interest rate ranging from 0.00% to 0.25% (Note 16)
Amount/Volume:		
Deposit liabilities	**(2,119)**	Generally similar to terms and conditions above
Interest expense	**10**	Interest expense on deposit liabilities (Note 16)
Foreign currency - sell	**7**	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱2,138**	Peso foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 days to 94 days, no impairment (Note 7)
Receivables from customers*	**235**	Secured – P140.0 million and unsecured – P94.6 million, no impairment. With annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 days to 359 days (Note 9)
Accounts receivable	**445**	Non-interest bearing receivables on service fees, remittance, rental fees and common use service area fees
Deposit liabilities*	**5,754**	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Treasury stock	**46**	Parent Company's shares held by First Metro Philippine Equity Exchange Traded Fund Inc. (Note 23)
Amount/Volume:		
Interbank loans receivable	**(3,956)**	Generally similar to terms and conditions above
Receivables from customers	**(2,129)**	Generally similar to terms and conditions above
Accounts receivable	**151**	Generally similar to terms and conditions above
Deposit liabilities	**2,082**	Generally similar to terms and conditions above
Treasury stock	**455**	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	**123**	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**75**	Income from transactional fees
Trading and securities loss - net	**(5)**	Net loss from securities transactions
Foreign exchange gain - net	**165**	Net gain from foreign exchange transactions
Leasing income	**35**	Income from leasing agreements with various lease terms

(Forward)

	Parent Company	
	December 31, 2017	
Category	**Amount**	**Terms and Conditions/Nature**
Miscellaneous income	**₱339**	Information technology and other fees (Note 25)
Interest expense	**13**	Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17)
Miscellaneous expense	**73**	Other fees
Dividends declared	**3,649**	Dividends declared by PSBank, FMIC, MB Bahamas and MR Singapore (Note 11)
Contingent - derivatives	**75**	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	**19,388**	Outright purchases of HFT securities and AFS investments
Sales	**25,117**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**1,063,463**	Outright purchases of foreign currency
Sell	**1,037,786**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Deposit liabilities*	**□1,111**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 4 days to 90 days (Note 16)
Amount/Volume:		
Deposit liabilities	**372**	Generally similar to terms and conditions above
Leasing income	**9**	Income from leasing agreements with various lease terms
Interest expense	**2**	Interest expense on deposit liabilities
Dividends declared	**6**	Dividends received from NLI (Note 11)
Outright sale of securities	**200**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**174**	Outright purchases of foreign currency
Sell	**25,804**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱19,702**	Secured - ₱4.4 billion and unsecured - ₱15.3 billion, no impairment With annual fixed interest rates ranging from 1.80% to 5.29% and maturity terms from 30 days to 5 years (Note 9)
Assets held under joint operations	**259**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**25,420**	With annual fixed interest rates ranging from 0.00% to 3.75% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Amount/Volume:		
Receivables from customers	**11,527**	Generally similar to terms and conditions above
Deposit liabilities	**11,643**	Generally similar to terms and conditions above
Interest income	**375**	Interest income on receivables from customers
Foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**20**	Income from leasing agreements with various lease terms
Profit from assets sold	**24**	Gain on sale of condominium units and parking spaces
Interest expense	**303**	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	**102**	LC transactions with various terms
Securities transactions		
Outright purchases	**70**	Outright purchases of HFT securities and AFS investments
Sales	**150**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**11,626**	Outright purchases of foreign currency
Sell	**83,219**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱60**	Secured - ₱48.9 million and unsecured - ₱10.7 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities	**164**	With various terms and with minimum annual interest rate of 0.00% (Note 16)

(Forward)

Category	**Parent Company December 31, 2017 Amount**	**Terms and Conditions/Nature**
Amount/Volume:		
Receivables from customers	**(₱2)**	Generally similar to terms and conditions above
Deposit liabilities	**(9)**	Generally similar to terms and conditions above
Interest income	**2**	Interest income on receivables from customers (Note 9)
*including accrued interest		

Category	Parent Company December 31, 2016 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	₱2,135	With annual fixed interest rate of 1.75% including time deposits with maturity term of 30 days (Note 16)
Amount/Volume:		
Deposit liabilities	(4,249)	Generally similar to terms and conditions above
Interest expense	38	Interest expense on deposit liabilities (Note 16)
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱6,094	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.97% to 2.90% with maturity terms from 14 days to 372 days, no impairment (Note 7)
Receivables from customers*	2,364	Unsecured with no impairment With annual fixed interest rates ranging from 2.45% to 2.80% and maturity terms from 6 days to 275 days (Note 9)
Accounts receivable	294	Outstanding information technology fees and remittance receivable, non-interest bearing
Other receivables	2,880	Dividends receivable from FMIC (Note 9)
Derivative assets	66	Fair value of forward leg swap bought and forward exchange sold with various terms
Deposit liabilities*	3,672	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 days to 364 days (Note 16)
Treasury stock	485	Parent Company's shares held by FMIC's mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	4,681	Generally similar to terms and conditions above
Receivables from customers	(929)	Generally similar to terms and conditions above
Accounts receivable	17	Generally similar to terms and conditions above
Deposit liabilities	(1,530)	Generally similar to terms and conditions above
Bills payable	(3,876)	Foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 1 day to 33 days (Note 17)
Interest income	108	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	35	Income from transactional fees
Trading and securities gain - net	141	Net gain from securities transactions
Foreign exchange gain - net	69	Net gain from foreign exchange transactions
Leasing income	34	Income from leasing agreements with various lease terms
Miscellaneous income	354	Information technology and other fees (Note 25)
Interest expense	37	Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17)
Miscellaneous expense	126	Management and other professional fees and merchant discount
Dividends declared	4,802	Dividends declared by PSBank, MCC, Metrobank Bahamas and FMIC (Note 11)
Contingent		
Derivatives	2,668	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	44,108	Outright purchases of HFT securities and AFS investments
Sales	46,036	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	46,284	Outright purchases of foreign currency
Sell	40,745	Outright sale of foreign currency

(Forward)

Category	Parent Company December 31, 2016 Amount	Terms and Conditions/Nature
Associates		
Outstanding Balance:		
Other receivables	₱30	Dividends receivable from SMBC Metro (Note 9)
Deposit liabilities*	739	With annual fixed interest rates ranging from 0.00% to 1.13% including time deposits with maturity terms from 5 days to 63 days (Note 16)
Amount/Volume:		
Deposit liabilities	(1,044)	Generally similar to terms and conditions above
Trading and securities gain - net	3	Net gain from securities transactions
Foreign exchange loss - net	(3)	Net loss from foreign exchange transactions
Leasing income	8	Income from leasing agreements with various lease terms
Interest expense	4	Interest expense on deposit liabilities
Dividends declared	55	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	680	Outright purchases of HFT securities and AFS investments
Outright sales	1,500	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	680	Outright purchases of foreign currency
Sell	1,802	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱8,175	Secured - ₱3.3 billion and unsecured - ₱4.9 billion, no impairment With annual fixed interest rates ranging from 1.50% to 5.29% and maturity terms from 30 days to 5 years (Note 9)
Assets held under joint operations	368	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,777	With annual fixed interest rates ranging from 0.00% to 2.38% including time deposits with maturity terms from 5 days to 365 days (Note 16)
Amount/Volume:		
Receivables from customers	(1,036)	Generally similar to terms and conditions above
Deposit liabilities	1,769	Generally similar to terms and conditions above
Interest income	223	Interest income on receivables from customers
Foreign exchange loss - net	(17)	Net loss from foreign exchange transactions
Leasing income	19	Income from leasing agreements with various lease terms
Interest expense	50	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	68	LC transactions with various terms
Others	3	Bank guaranty with indemnity agreement
Securities transactions		
Outright purchases	143	Outright purchases of HFT securities and AFS investments
Sales	3,825	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	83	Outright purchases of foreign currency
Sell	73,761	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱62	Secured - ₱50.9 million and unsecured - ₱10.7 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities	173	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	3	Generally similar to terms and conditions above
Deposit liabilities	38	Generally similar to terms and conditions above
Interest income	2	Interest income on receivables from customers (Note 9)

*including accrued interest

On September 5, 2017 and December 23, 2016, the Parent Company purchased selected loans from MBCL totalling to RMB443.3 million (equivalent to ₱3.4 billion) in two tranches through separate biddings held on August 31, 2017 and October 24, 2016, respectively, in Nanjing, China. These transactions have been reviewed and endorsed by the Overseas Banking Committee and RPTC in separate meetings and approved by the Parent Company's BOD on September 26, 2016 and August 16, 2017 for the first tranche and second tranche, respectively. The BSP noted the purchase on October 27, 2016 and this transaction has also been approved by the required regulators in China. As of December 31, 2017 and 2016, the Parent Company recognized allowance for credit losses of ₱1.9 billion and ₱1.2 billion, respectively (Notes 9 and 15).

As of December 31, 2016 and 2015, government bonds (classified under AFS investments) with total face value of ₱50.0 million are pledged by PSBank to the Parent Company to secure the latter's payroll account with the PSBank. Also, the Parent Company has assigned to PSBank government securities (classified under AFS investments) with total face value of ₱3.0 billion to secure PSBank deposits to the Parent Company.

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group and the Parent Company. Together with the sale of investment properties, borrowings, contingent accounts including derivative transactions, outright purchases and sales of HFT securities and AFS investments, foreign currency buy and sell, leasing of office premises, securing of insurance coverage on loans and property risk, and other management services rendered, these are conducted in the normal course of business, at arm's-length transactions and are generally settled in cash. The amounts and related volumes and changes are presented in the summary above. Terms of receivables from customers, deposit liabilities and borrowings are also disclosed in Notes 9, 16 and 17, respectively, while other related party transactions above have been referred to their respective note disclosures.

The compensation of the key management personnel of the Group and the Parent Company follows:

	Consolidated			**Parent Company**		
	2017	2016	2015	**2017**	2016	2015
Short-term employee benefits	**₱2,910**	₱2,572	₱2,197	**₱2,165**	₱1,865	₱1,546
Post-employment benefits	**132**	129	193	**46**	42	93
	₱3,042	₱2,701	₱2,390	**₱2,211**	₱1,907	₱1,639

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Certain trustees of the plans are either officers or directors of the Parent Company and/or the subsidiaries. Income earned by the Parent Company from such services amounted to ₱65.2 million, ₱58.5 million and ₱54.1 million in 2017, 2016 and 2015, respectively. As of December 31, 2017 and 2016, the Parent Company sold securities totaling ₱2.0 billion and ₱1.7 billion, respectively, to its related party retirement plans and recognized net trading loss of ₱0.2 million and ₱0.1 million, and has also purchased securities totaling ₱171.3 million and ₱288.9 million as of December 31, 2017 and 2016, respectively. In 2017, the retirement fund of PSBank sold equity securities to GT Capital totaling ₱200.0 million and recognized a trading loss of ₱10.0 million. Further, as of December 31, 2017 and 2016, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱855.6 million and ₱403.6 million, respectively. Interest expense on deposit liabilities amounted to ₱13.8 million, ₱1.3 million and ₱0.7 million in 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱218.9 million and ₱380.6 million, respectively, with unrealized trading gains of ₱32.2 million and ₱28.6 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱745.0 million and ₱412.2 million, respectively, with unrealized trading gains of ₱19.4 million and ₱1.4 million, respectively. As of December 31, 2017, 2016 and 2015, dividend income recognized from these securities amounted to nil, ₱6.9 million and ₱17.3 million, respectively, and realized trading gains amounted to ₱7.8 million, ₱262.8 million and ₱14.7 million, respectively (Note 11).

32. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

		2017	2016	2015
a.	Net income attributable to equity holders of the Parent Company	**₱18,223**	₱18,086	₱18,625
b.	Share of hybrid capital securities holders	**–**	(267)	(506)
c.	Net income attributable to common shareholders	**18,223**	17,819	18,119
d.	Weighted average number of outstanding common shares of the Parent Company	**3,179**	3,176	3,092
e.	Basic/diluted earnings per share (c/d)	**₱5.73**	₱5.61	₱5.86

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			**Parent Company**		
	2017	2016	2015	**2017**	2016	2015
Return on average equity	**9.16%**	9.28%	10.83%	**9.05%**	9.28%	10.83%
Return on average assets	**0.92%**	0.99%	1.11%	**1.12%**	1.20%	1.33%
Net interest margin on average earning assets	**3.75%**	3.54%	3.54%	**2.85%**	2.72%	2.79%

33. Foreign Exchange

PDS closing rates as of December 31 and PDSWAR for the year ended December 31 are as follows:

	2017	2016	2015
PDS Closing	**₱49.93**	₱49.72	₱47.06
PDSWAR	**50.41**	47.48	45.50

34. Other Matters

The Group has no significant matters to report in 2017 on the following:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.

b. Explanatory comments about the seasonality or cyclicality of operations.

c. Issuances, repurchases and repayments of debt and equity securities except for the issuance of LTNCD amounting to ₱3.8 billion for the Parent Company and ₱3.4 billion for PSBank as discussed in Note 16, and maturity of bonds payable with total face value of ₱9.0 billion as discussed in Note 19.

d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividends and semi-annual coupons on the hybrid capital securities by the Parent Company as discussed in Note 23; and

e. Effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations (except as discussed in Notes 2 and 11).

35. Subsequent Events

a. The purchase of 200 million MCC shares by the Parent Company representing 20% ownership was completed on January 8, 2018 (Note 11).

b. On January 17, 2018, the BOD of the Parent Company approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares which is equivalent to the remaining unissued portion of the authorized capital stock for the purpose of raising additional capital of up to ₱60.0 billion. This was noted by the BSP with the issuance of a letter of no objection to the Rights Issue on January 29, 2018. The SRO issuance shall be further subject to other regulatory approvals as well as market and other conditions.

c. On January 18, 2018, the BOD of PSBank declared a 7.50% regular cash dividend for the fourth quarter of 2017 amounting to ₱180.2 million or ₱0.75 per share, payable not later than February 19, 2018 to all common stockholders as of record date of February 2, 2018.

36. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on January 30, 2018.

37. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

Supplementary Information Under RR No. 15-2010
On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2017 included under 'Taxes and licenses' account in the statements of income:

GRT	₱1,820
DST	1,617
Local taxes	123
Real estate tax	73
Others	68
	₱3,701

Details of total withholding taxes remitted for the taxable year December 31, 2017 follow:

Taxes withheld on compensation	₱2,592
FWT	2,032
Expanded withholding taxes	223
	₱4,847