Metrobank

February 28, 2019

Ms. Janet A. Encarnacion
Head, Disclosure Department
The Philippine Stock Exchange, Inc.
6/F PSE Tower
5th Avenue corner 28th Street
Bonifacio Global City, Taguig City

Dear Ms. Encarnacion:

We submit a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 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 4

Month *Day*

(Annual Meeting)

NONE

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

3,031

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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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 28, 2019
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 Avenue
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	3,980,015,036

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, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 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 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, 2018 are presented below.

Statements of Financial Position
(Amounts in millions)

	December 31			Increase (Decrease) 2018 vs. 2017		Increase (Decrease) 2017 vs. 2016	
	2018	**2017**	**2016**	**Amount**	%	**Amount**	%
Assets							
Cash and Other Cash Items	₱33,091	₱27,631	₱26,553	₱5,460	**19.76**	₱1,078	4.06
Due from Bangko Sentral ng Pilipinas	240,134	261,959	238,806	(21,825)	**(8.33)**	23,153	**9.70**
Due from Other Banks	45,802	31,291	44,315	14,511	**46.37**	(13,024)	**(29.39)**
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	50,719	45,475	91,646	5,244	**11.53**	(46,171)	**(50.38)**
Investment Securities at Fair Value Through Profit or Loss (FVTPL)	39,689	43,887	37,214	(4,198)	**(9.57)**	6,673	**17.93**
Fair Value Through Other Comprehensive Income (FVOCI)	111,288	-	-	111,288	**-**	-	**-**
Amortized Cost	265,376	-	-	265,376	**-**	-	**-**
Available-for-Sale (AFS) Investments	-	343,910	316,855	(343,910)	**-**	27,055	**8.54**
Loans and Receivables	1,391,034	1,265,469	1,060,868	125,565	**9.92**	204,601	**19.29**
Property and Equipment	21,954	22,362	21,995	(408)	(1.82)	367	1.67
Investments in Associates and a Joint Venture	5,947	5,764	5,350	183	3.17	414	**7.74**
Goodwill	5,200	5,200	5,200	-	0.00	-	0.00
Investment Properties	7,500	7,717	8,474	(217)	(2.81)	(757)	**(8.93)**
Deferred Tax Assets	10,238	9,161	8,855	1,077	**11.76**	306	3.46
Other Assets	15,721	10,466	9,878	5,255	**50.21**	588	**5.95**
Total Assets	₱2,243,693	₱2,080,292	₱1,876,009	₱163,401	**7.85**	₱204,283	**10.89**

Liabilities and Equity							
Liabilities							
Deposit Liabilities	₱1,556,753	₱1,527,962	₱1,389,302	₱28,791	1.88	₱138,660	**9.98**
Bills Payable and Securities Sold Under Repurchase Agreements	259,607	227,835	161,376	31,772	**13.95**	66,459	**41.18**
Derivative Liabilities	6,537	5,352	4,612	1,185	**22.14**	740	**16.05**
Manager's Checks and Demand Drafts Outstanding	7,565	8,054	6,932	(489)	**(6.07)**	1,122	**16.19**
Income Taxes Payable	2,830	3,381	2,185	(551)	**(16.30)**	1,196	**54.74**
Accrued Interest and Other Expenses	9,619	6,973	7,067	2,646	**37.95**	(94)	(1.33)
Bonds Payable	30,743	2,910	11,498	27,833	**956.46**	(8,588)	**(74.69)**
Subordinated Debts	26,618	26,580	29,524	38	0.14	(2,944)	**(9.97)**
Deferred Tax Liabilities	357	277	312	80	**28.88**	(35)	**(11.22)**
Non-equity Non-controlling Interest	6,747	8,002	7,934	(1,255)	**(15.68)**	68	0.86
Other Liabilities	45,613	58,876	49,714	(13,263)	**(22.53)**	9,162	**18.43**
Total Liabilities	1,952,989	1,876,202	1,670,456	76,787	4.09	205,746	**12.32**

	December 31			Increase (Decrease) 2018 vs. 2017		Increase (Decrease) 2017 vs. 2016	
	2018	2017	2016	Amount	%	Amount	%
Equity							
Equity Attributable to Equity Holders of the Bank							
Common stock	₱79,600	₱63,603	₱63,603	₱15,997	**25.15**	₱-	-
Capital paid in excess of par value	85,252	42,139	42,139	43,113	**102.31**	-	-
Surplus reserves	1,956	1,810	1,653	146	**8.07**	157	**9.50**
Surplus	130,550	116,786	101,900	13,764	**11.79**	14,886	**14.61**
Treasury stock	(67)	(46)	(485)	(21)	**(45.65)**	439	**90.52**
Remeasurement losses on retirement plan	(3,591)	(4,025)	(4,007)	434	10.78	(18)	(0.45)
Net unrealized loss on investment securities at FVOCI	(2,994)	-	-	(2,994)	-	-	-
Net unrealized loss on AFS investments	-	(15,804)	(10,115)	15,804	-	(5,689)	**(56.24)**
Equity in other comprehensive income (losses) of investees	(27)	22	54	(49)	**(222.73)**	(32)	**(59.26)**
Translation adjustment and others	(7,719)	(2,530)	1,260	(5,189)	**(205.10)**	(3,790)	**(300.79)**
	282,960	**201,955**	**196,002**	**81,005**	**40.11**	**5,953**	**3.04**
Other equity reserves	-	(7,400)	-	7,400	-	(7,400)	-
Non-controlling Interest	7,744	9,535	9,551	**(1,791)**	**(18.78)**	(16)	(0.17)
Total Equity	290,704	204,090	205,553	86,614	42.44	(1,463)	(0.71)
Total Liabilities and Equity	₱2,243,693	₱2,080,292	₱1,876,009	₱163,401	**7.85**	₱204,283	**10.89**

Statements of Income

Interest Income	₱97,186	₱80,322	₱68,181	₱16,864	**21.00**	₱12,141	**17.81**
Interest and Finance Charges	28,364	18,916	15,235	9,448	**49.95**	3,681	**24.16**
Net Interest Income	68,822	61,406	52,946	7,416	**12.08**	8,460	**15.98**
Provision for credit and impairment losses	7,770	7,507	7,342	263	3.50	165	2.25
Net Interest Income After Provision for Credit and Impairment Losses	61,052	53,899	45,604	7,153	**13.27**	8,295	**18.19**
Other Operating Income	22,910	22,147	25,666	763	3.45	(3,519)	**(13.71)**
Other Operating Expenses	53,656	47,475	44,593	6,181	**13.02**	2,882	**6.46**
Income Before Share in Net Income of Associates and a Joint Venture	30,306	28,571	26,677	1,735	**6.07**	1,894	**7.10**
Share in Net Income of Associates and a Joint Venture	874	689	261	185	**26.85**	428	**163.98**
Income Before Income Tax	31,180	29,260	26,938	1,920	**6.56**	2,322	**8.62**
Provision for Income Tax	7,745	7,990	6,622	(245)	(3.07)	1,368	**20.66**
Net Income	₱23,435	₱21,270	₱20,316	₱2,165	**10.18**	₱954	4.70
Attributable to:							
Equity holders of the Bank	₱22,008	₱18,223	₱18,086	₱3,785	**20.77**	₱137	0.76
Non-controlling interest	1,427	3,047	2,230	(1,620)	**(53.17)**	817	**36.64**
	₱23,435	₱21,270	₱20,316	₱2,165	**10.18**	₱954	4.70

Statements of Comprehensive Income

Net Income	₱23,435	₱21,270	₱20,316	₱2,165	10.18	₱954	4.70
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	498	26	(489)	472	**1,815.38**	515	**105.32**
Items that may be reclassified to profit or loss:							
Change in net unrealized loss on investment securities at FVOCI	(2,794)	-	-	(2,794)	-	-	-
Change in net unrealized loss on AFS investments	-	(5,772)	(5,464)	5,772	-	(308)	**(5.64)**
Change in equity in other comprehensive income of investees	(50)	(32)	(127)	(18)	**(56.25)**	95	**74.80**
Translation adjustment and others	(309)	733	(1,076)	(1,042)	**(142.16)**	1,809	**168.12**
	(3,153)	(5,071)	(6,667)	1,918	**37.82**	1,596	**23.94**
Total Comprehensive Income for the Year	₱20,780	₱16,225	₱13,160	₱4,555	**28.07**	₱3,065	**23.29**
Attributable to:							
Equity holders of the Bank	₱19,665	₱13,365	₱12,428	₱6,300	**47.14**	₱937	**7.54**
Non-controlling Interest	1,115	2,860	732	(1,745)	**(61.01)**	2,128	**290.71**
	₱20,780	₱16,225	₱13,160	₱4,555	**28.07**	₱3,065	**23.29**

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 2018					
Metrobank Group	₱71.11	₱5.83	9.08%	1.02%	3.82%
FMIC (a)	39.74	1.35	3.49%	1.04%	1.36%
PSBank	101.54	11.08	11.38%	1.15%	5.79%
MCC	14.83	4.97	34.94%	6.30%	13.99%
For the Year 2017					
Metrobank Group	₱63.52	₱5.62*	9.16%	0.92%	3.75%
FMIC (a)	37.57	3.15	7.92%	2.16%	1.57%
PSBank	93.21	11.05	12.51%	1.26%	6.10%
MCC	13.64	5.10	46.24%	7.51%	14.36%

** Restated to show the effect of stock rights issued in 2018.*
(a) FMIC and Subsidiaries

A separate schedule showing financial soundness indicators of the Group as of December 31, 2018 and 2017 is presented in Exhibit "A" as an attachment to this report.

<u>2018 Performance</u>

Financial Position

As of December 31, 2018, the Metrobank Group posted a 7.85% growth in total assets from ₱2.08 trillion as of December 31, 2017 to ₱2.24 trillion. Total liabilities of the Group increased to ₱1.95 trillion from ₱1.88 trillion or by 4.09%. Moreover, equity attributable to equity holders of the Parent Company was higher by ₱81.01 billion or 40.11% from ₱201.96 billion to ₱282.96 billion.

Cash and Other Cash Items increased by ₱5.46 billion or 19.76% due to the higher level of cash requirements of the Parent Company. Due from BSP which represents 10.70% of the Group's total assets decreased by ₱21.83 billion or 8.33% due to reserve cuts in 2018. Due from Other Banks increased by ₱14.51 billion or 46.37% 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 ₱5.24 billion or 11.53% primarily due to increase in balance of securities under resale agreement with BSP.

Total investment securities which consisted of FVTPL, FVOCI (AFS in 2017) and securities at amortized cost which represents 18.56% and 18.64% of the Group's total assets as of December 31, 2018 and December 31, 2017, respectively, went up by ₱28.56 billion or 7.36%. As a result of the adoption of the classification and measurement requirements of PFRS 9, the Group classified debt securities held under AFS investments as at January 1, 2018 as either at amortized cost for securities belonging to portfolios managed under a hold to collect business model or at FVOCI.

Loans and Receivables, representing 62.0% and 60.83% of the Group's total assets as of December 31, 2018 and 2017, respectively, went up by ₱125.57 billion or 9.92% driven by the strong demand for loans from all segments. Non-performing loans were at 1.20% as of December 31, 2018. Deferred Tax Assets (DTA) increased by ₱1.08 billion or 11.76% primarily attributable to allowance for credit and impairment losses. Other Assets increased by ₱5.26 billion or 50.21% from ₱10.47 billion to ₱15.72 billion primarily due to the increases in miscellaneous assets (inclusive of the funding for retirement) and interoffice float items.

Deposit liabilities represent 79.71% and 81.44% of the consolidated total liabilities as of December 31, 2018 and 2017, respectively, wherein, low cost deposits represent 61.98% and 62.19% of the Group's total deposits, respectively. The Group's deposit level, sourced by the Bank, PSBank and MBCL reached ₱1.56 trillion as of December 31, 2018, an increase of ₱28.79 billion or 1.88% from ₱1.53 trillion as of December 31, 2017. The increment came from CASA by

₱14.73 billion or 1.55%, time deposits by ₱0.30 billion or 0.05% and from the issuances of LTNCDs by the Bank for ₱8.68 billion and by PSBank for ₱5.08 billion on October 4 and August 9, 2018, respectively.

Bills Payable and SSURA representing 13.29% and 12.14% of the Group's total liabilities as of December 31, 2018 and 2017, respectively, went up by ₱31.77 billion or 13.95% due to the net effect of higher balances of borrowings from foreign banks by ₱18.48 billion, local banks by ₱4.07 billion and SSURA by ₱30.67 billion reduced by the decreases in borrowings from BSP by ₱6.50 billion and deposits substitutes by ₱14.95 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 ₱1.19 billion or 22.14%.

The decrease of ₱0.49 billion or 6.07% in Manager's Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income taxes payable decreased by ₱0.55 billion or 16.30% while Accrued Interest and Other Expenses went up by ₱2.65 billion or 37.95% due to increases in accruals of other bank expenses and interests on deposit liabilities. Bonds payable increased by ₱27.83 billion on account of the ₱10.00 billion and ₱18.00 billion fixed rate bonds issued by the Parent Company on November 9 and December 17, 2018, respectively, which bear an interest rate of 7.15% per annum and will mature on November 9, 2020. Deferred tax liabilities increased by ₱0.08 billion or 28.88%. 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 ₱1.26 billion or 15.68% on account of the net decline in income of these mutual funds.

Other Liabilities decreased by ₱13.26 billion or 22.53% primarily due to the settlement of the ₱14.80 billion liability on the agreed purchase of 40% stake in MCC and the funding of the ₱3.40 billion retirement liability, partially offset by the ₱1.00 billion increase in marginal deposits and the ₱2.60 billion unsecured notes issued by ORIX Metro on October 29, 2018.

Equity attributable to equity holders of the Parent Company increased by ₱81.01 billion or 40.11% due to the net effect of the ₱59.1 billion net proceeds from the stock rights issued by the Parent Company on April 12, 2018, net income reported during the year, net impact of PFRS 9 adoption on Surplus and net unrealized loss on FVOCI/AFS investments, and the ₱3.18 billion cash dividends declared and paid during the year. The Group also recognized additional equity reserves (included in "Translation adjustment and others") for the difference between the acquisition price and the acquired remaining non-controlling interest of 20% in MCC. The acquisition of the remaining 20% interest in MCC was completed on September 4, 2018 ("second tranche") and the Group recognized equity reserves (included in "Translation adjustment and others") for the difference between the acquisition price and the acquired non-controlling interest amounting to ₱5.1 billion. Other accounts affected by this transaction were "other equity reserves" and "non-controlling interest".

Results of Operations

Net income attributable to equity holders of the Bank amounted to ₱22.01 billion for the year 2018 compared with ₱18.22 billion net income for the year 2017.

Interest income improved by ₱16.86 billion or 21.00% resulting from higher interest income on loans and receivables by ₱16.27 billion and on total investment securities by ₱0.72 billion net of the ₱0.14 billion decrease in interest income on interbank loans and SPURA. Meanwhile, the increases in interest expense on deposit liabilities by ₱6.36 billion and on borrowings by ₱3.09 billion accounted for the increase of ₱9.45 billion or 49.95% in interest and finance charges. These resulted to a ₱7.42 billion or 12.08% increase net interest income.

Other operating income of ₱22.91 billion increased by ₱0.76 billion or 3.45% from ₱22.15 billion in 2017 on account of the increases in fee-based income by ₱1.65 billion, income from leasing by ₱0.12 billion and profit from disposal of foreclosed properties by ₱0.30 billion, reduced by lower net trading and securities and foreign exchange gains by ₱1.10 billion.

Provision for credit and impairment losses in 2018 was at ₱7.77 billion under PFRS 9 compared with ₱7.51 billion in 2017 under PAS 39 or increased by ₱0.26 billion or 3.50%. Total other operating expenses increased by ₱6.18 billion or 13.02% as a result of the increases in compensation and fringe benefits by ₱2.15 billion or 10.63%, taxes and licenses by ₱2.20 billion or 33.37% (as a result of changes on tax rates, particularly on documentary stamp taxes, brought about by the implementation of the TRAIN law in 2018), occupancy and equipment-related expenses by ₱0.26 billion or 9.01% and miscellaneous expenses by ₱1.51 billion or 10.96%. Provision for income tax was lower by ₱0.25 billion or 3.07% due to net movements in deferred income tax, corporate and final taxes.

Share in net income of associates and a joint venture increased by ₱0.19 billion or 26.85% due to higher net income of certain associates while income attributable to non-controlling interest went down by ₱1.62 billion or 53.17% due to the effect of the acquisition of the remaining 20% interest in MCC.

Total comprehensive income went up by ₱4.56 billion from ₱16.23 billion income in 2017 to ₱20.78 billion in 2018. The variance was attributable to the higher net income of the Group and the lower net unrealized loss recognized on investment securities. As a result, total comprehensive income attributable to equity holders of the Parent Company went up to ₱19.67 billion or by ₱6.30 billion from ₱13.37 billion in 2017.

Market share price was at ₱80.95 from ₱101.40 as of December 31, 2017 with a market capitalization of ₱322.18 billion as at December 31, 2018.

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 FVTPL 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 81.44% 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 and January 30, 2017, respectively.

Bills Payable and SSURA representing 12.14% 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 3, on October 18, 2017, the Parent Company's BOD approved and the Parent Company has entered into a purchase 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. 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 of ₱54.98 billion in 2017 or ₱3.05 billion or 5.87% increase from ₱51.94 billion in 2016 with 2.25% increase 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.

Exhibit A

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF DECEMBER 31, 2018 AND 2017

		2018	2017
a)	Liquidity Ratio	35.04%	36.25%
b)	Loans to Deposits Ratio	89.49%	82.60%
c)	Debt to Equity Ratio	690.20%	929.03%
d)	Asset to Equity Ratio	792.94	1,030.08%
e)	Return on Average Equity	9.08%	9.16%
f)	Return on Average Assets	1.02%	0.92%
g)	Net Interest Margin on Average Earning Assets	3.82%	3.75%
h)	Operating Efficiency Ratio	58.49%	56.82%
i)	Capital Adequacy Ratio	16.98%	14.35%
j)	Common Equity Tier 1 Ratio	14.56%	11.79%

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, 2018 and 2017, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (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.

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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

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

1. Classification of Financial Assets
   As at January 1, 2018 (the transition date), the Group and the Parent Company classified their financial assets based on their business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted in transition adjustments that increased surplus and other comprehensive income by ₱210.5 million and ₱15.4 billion, respectively. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria.

   The Group's and the Parent Company's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

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

   Audit response
   We obtained an understanding of the Group's and the Parent Company's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the board-approved business models

for the Group’s and the Parent Company’s portfolios of financial assets. We compared the parameters set within the business models with the portfolio and risk management policies of the Group and the Parent Company. For significant portfolios, we assessed frequency and relative amount of sales in the past, understood how the business performance is measured and evaluated performance measurement reports.

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

2. Expected Credit Loss (ECL)
The Group’s and the Parent Company’s adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group’s and the Parent Company’s credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

The adoption of the impairment requirements under PFRS 9 resulted in an increase in ECL allowances as of January 1, 2018 by ₱5.6 billion for the Group and ₱3.6 billion for the Parent Company. Provision for credit losses of the Group and the Parent Company in 2018 using the ECL model amounted to ₱7.7 billion and ₱807.5 million, respectively.

Refer to Notes 2 and 15 of the financial statements for the disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

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

We (a) assessed the Group’s and the Parent Company’s segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (c) tested the Group’s and the Parent Company’s application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group’s and the Parent Company’s records and considering management’s assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group’s and the Parent Company’s lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

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

We involved our internal specialists in the performance of the above procedures.

Existence of Loans and Receivables
As of December 31, 2018, the Group and the Parent Company's loans and receivables represent 62% and 60% of the total assets of the Group and the Parent Company, respectively. We considered 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.

The disclosures in relation to the loans and receivables are included in Note 9 to the financial statements.

Audit response
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 Internal Audit Group 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.

Recognition of Deferred Tax Assets
As of December 31, 2018, the net deferred tax assets of the Group and the Parent Company amounted to ₱10.2 billion and ₱6.8 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 Parent Company 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 Parent Company and the industry.

Applicable to the audit of the consolidated financial statements

Recoverability of 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, 2018, the Group has an investment in associate amounting to ₱2.1 billion where its fair value declined significantly 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.

Recoverability of Goodwill
As of December 31, 2018, 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 and their fair values were determined using price-to-earnings (P/E) ratios of comparable companies. Other assets of the CGU include investments in quoted equity shares and debt financial assets, and real properties, while other liabilities include unquoted debt financial liabilities.

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 determining the FVLCTS of the CGU, in particular those relating to the use of P/E ratios of comparable companies in the valuation of the unquoted equity shares. We tested the fair value of the other assets and liabilities by referring to the quoted prices of listed equity and debt instruments, agreeing the appraised values of real estate properties to the appraisal reports, comparing the future cash flows of unquoted debt instruments to the related contracts, and tested the discount rate if based on prevailing interest rates for similar instruments. 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, 2018, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above 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 and 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 the 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 the 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 the 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 the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 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. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332590, January 3, 2019, Makati City

February 13, 2019

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Millions)

	Consolidated		Parent Company	
	December 31			
	2018	2017	**2018**	2017
ASSETS				
Cash and Other Cash Items	**₱33,091**	₱27,631	**₱29,280**	₱24,975
Due from Bangko Sentral ng Pilipinas (Notes 4 and 16)	**240,134**	261,959	**206,289**	224,723
Due from Other Banks (Note 4)	**45,802**	31,291	**35,218**	19,286
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA) (Notes 4, 7 and 26)	**50,719**	45,475	**24,712**	27,208
Investment Securities at				
Fair Value Through Profit or Loss (FVTPL) (Note 8)	**39,689**	43,887	**30,166**	32,272
Fair Value Through Other Comprehensive Income (FVOCI) (Notes 4 and 8)	**111,288**	–	**92,144**	–
Amortized Cost (Notes 4 and 8)	**265,376**	–	**212,607**	–
Available-for-Sale (AFS) Investments (Note 8)	**–**	343,910	**–**	270,445
Loans and Receivables (Notes 4 and 9)	**1,391,034**	1,265,469	**1,116,257**	1,002,921
Property and Equipment (Note 10)	**21,954**	22,362	**15,632**	15,757
Investments in Subsidiaries (Note 11)	**–**	–	**81,288**	68,452
Investments in Associates and a Joint Venture (Note 11)	**5,947**	5,764	**494**	644
Goodwill (Note 11)	**5,200**	5,200	**–**	–
Investment Properties (Note 12)	**7,500**	7,717	**2,825**	3,013
Deferred Tax Assets (Note 28)	**10,238**	9,161	**6,769**	6,528
Other Assets (Note 14)	**15,721**	10,466	**9,983**	5,161
	₱2,243,693	₱2,080,292	**₱1,863,664**	₱1,701,385
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
Demand	**₱355,473**	₱344,708	**₱322,371**	₱314,542
Savings	**609,471**	605,508	**577,815**	576,807
Time	**548,019**	547,721	**390,475**	395,948
Long-Term Negotiable Certificates	**43,790**	30,025	**35,330**	26,650
	1,556,753	1,527,962	**1,325,991**	1,313,947
Bills Payable and Securities Sold Under Repurchase Agreements (SSURA) (Notes 17 and 31)	**259,607**	227,835	**151,079**	106,482
Derivative Liabilities (Note 8)	**6,537**	5,352	**6,182**	5,352
Manager's Checks and Demand Drafts Outstanding	**7,565**	8,054	**5,950**	5,840
Income Taxes Payable	**2,830**	3,381	**1,670**	2,077
Accrued Interest and Other Expenses (Note 18)	**9,619**	6,973	**5,625**	3,905
Bonds Payable (Notes 19 and 31)	**30,743**	2,910	**27,826**	–
Subordinated Debts (Note 20)	**26,618**	26,580	**22,471**	22,437
Deferred Tax Liabilities (Note 28)	**357**	277	–	–
Non-equity Non-controlling Interest (Note 21)	**6,747**	8,002	–	–
Other Liabilities (Note 21)	**45,613**	58,876	**24,107**	34,719
	1,952,989	1,876,202	**1,570,901**	1,494,759

(Forward)

	Consolidated		Parent Company	
	December 31			
	2018	2017	**2018**	2017
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 23)	**₱79,600**	₱63,603	**₱79,600**	₱63,603
Capital paid in excess of par value (Note 23)	**85,252**	42,139	**85,252**	42,139
Treasury stock (Notes 23 and 31)	**(67)**	(46)	**(67)**	(46)
Surplus reserves (Note 24)	**1,956**	1,810	**1,956**	1,810
Surplus (Note 23)	**130,550**	116,786	**130,550**	116,786
Net unrealized loss on investment securities at FVOCI (Note 8)	**(2,994)**	–	**(2,994)**	–
Net unrealized loss on AFS investments (Note 8)	**–**	(15,804)	**–**	(15,804)
Remeasurement losses on retirement plan (Notes 11 and 27)	**(3,591)**	(4,025)	**(3,591)**	(4,025)
Equity in other comprehensive income (losses) of investees (Note 11)	**(27)**	22	**(27)**	22
Translation adjustment and others (Note 11)	**(7,719)**	(2,530)	**2,084**	2,141
	282,960	201,955	**292,763**	206,626
Other Equity Reserves (Note 11)	**–**	(7,400)	**–**	–
Non-controlling Interest (Note 11)	**7,744**	9,535	**–**	–
	290,704	204,090	**292,763**	206,626
	₱2,243,693	₱2,080,292	**₱1,863,664**	₱1,701,385

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					
	2018	2017	2016	**2018**	2017	2016
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 31)	**₱79,659**	₱63,391	₱51,266	**₱46,860**	₱35,072	₱27,386
Investment securities at FVOCI/AFS investments and at amortized cost (Note 8)	**14,610**	13,480	14,261	**11,592**	10,655	11,892
Investment securities at FVTPL (Note 8)	**1,170**	1,585	1,110	**1,006**	1,362	853
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 31)	**1,092**	1,231	898	**441**	606	479
Deposits with banks and others	**655**	635	646	**422**	316	387
	97,186	80,322	68,181	**60,321**	48,011	40,997
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	**18,968**	12,613	9,888	**13,447**	8,777	6,811
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others (Notes 17, 19, 20, 21 and 31)	**9,396**	6,303	5,347	**4,546**	2,741	1,979
	28,364	18,916	15,235	**17,993**	11,518	8,790
NET INTEREST INCOME	**68,822**	61,406	52,946	**42,328**	36,493	32,207
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES (Note 15)	**7,770**	7,507	7,342	**807**	1,395	1,174
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	**61,052**	53,899	45,604	**41,521**	35,098	31,033
OTHER OPERATING INCOME						
Service charges, fees and commissions (Notes 25 and 31)	**12,695**	11,045	10,329	**4,954**	4,171	3,768
Trading and securities gain (loss) - net (Notes 8, 21 and 31)	**2,541**	(402)	6,563	**3,041**	(1,079)	6,154
Foreign exchange gain (loss) - net (Note 31)	**210**	4,257	2,005	**(66)**	4,101	1,533
Leasing (Notes 12, 13 and 31)	**2,252**	2,129	2,001	**224**	215	220
Profit from assets sold (Notes 12 and 31)	**1,371**	1,075	732	**623**	639	463
Income from trust operations (Notes 24 and 31)	**1,290**	1,377	1,274	**1,259**	1,351	1,251
Dividends (Note 11)	**141**	182	151	**23**	19	17
Miscellaneous (Note 25)	**2,410**	2,484	2,611	**401**	446	452
	22,910	22,147	25,666	**10,459**	9,863	13,858
OTHER OPERATING EXPENSES						
Compensation and fringe benefits (Notes 27 and 31)	**22,368**	20,218	18,374	**15,115**	13,526	12,339
Taxes and licenses (Note 28)	**8,776**	6,580	5,997	**5,253**	3,701	3,317
Depreciation and amortization (Notes 10, 12 and 14)	**3,572**	3,524	3,290	**1,559**	1,585	1,515
Occupancy and equipment-related cost (Note 13)	**3,193**	2,929	2,819	**1,824**	1,730	1,680
Amortization of software costs (Note 14)	**512**	494	474	**131**	123	141
Miscellaneous (Note 25)	**15,235**	13,730	13,639	**9,573**	8,553	8,881
	53,656	47,475	44,593	**33,455**	29,218	27,873
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE	**30,306**	28,571	26,677	**18,525**	15,743	17,018
SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE (Note 11)	**874**	689	261	**7,967**	6,995	4,958
INCOME BEFORE INCOME TAX	**31,180**	29,260	26,938	**26,492**	22,738	21,976
PROVISION FOR INCOME TAX (Note 28)	**7,745**	7,990	6,622	**4,484**	4,515	3,890
NET INCOME	**₱23,435**	₱21,270	₱20,316	**₱22,008**	₱18,223	₱18,086
Attributable to:						
Equity holders of the Parent Company (Note 32)	**₱22,008**	₱18,223	₱18,086			
Non-controlling interest (Note 11)	**1,427**	3,047	2,230			
	₱23,435	₱21,270	₱20,316			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱5.83**	₱5.62*	₱5.50*			

*Restated to show the effect of stock rights issued in 2018

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					
	2018	2017	2016	**2018**	2017	2016
Net Income	**₱23,435**	₱21,270	₱20,316	**₱22,008**	₱18,223	₱18,086
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)	**498**	26	(489)	**434**	(18)	(477)
Items that may be reclassified to profit or loss:						
Change in net unrealized loss on investment securities at FVOCI (Note 8)	**(2,794)**	–	–	**(2,671)**	–	–
Change in net unrealized loss on AFS investments (Note 8)	–	(5,772)	(5,464)	–	(5,689)	(5,332)
Change in equity in other comprehensive income of investees (Note 11)	**(50)**	(32)	(127)	**(49)**	(32)	(126)
Translation adjustment and others (Note 11)	**(309)**	733	(1,076)	**(57)**	881	277
	(3,153)	(5,071)	(6,667)	**(2,777)**	(4,840)	(5,181)
Total Comprehensive Income for the Year	**₱20,780**	₱16,225	₱13,160	**₱19,665**	₱13,365	₱12,428
Attributable to:						
Equity holders of the Parent Company	**₱19,665**	₱13,365	₱12,428			
Non-controlling interest	**1,115**	2,860	732			
	₱20,780	₱16,225	₱13,160			

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

	Consolidated													
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid In Excess of Par Value (Note 23)	Treasury Stock (Note 23)	Surplus Reserves (Note 24)	Surplus (Note 23)	Net Unrealized Loss on Investment Securities at FVOCI/AFS Investments (Note 8)	Remeasurement Losses on Retirement Plan (Notes 11 and 27)	Equity in Other Comprehensive Income (Losses) 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 December 31, 2017	**₱63,603**	**₱–**	**₱42,139**	**(₱46)**	**₱1,810**	**₱116,786**	**(₱15,804)**	**(₱4,025)**	**₱22**	**(₱2,530)**	**₱201,955**	**(₱7,400)**	**₱9,535**	**₱204,090**
Effect of adoption of Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments* (Note 2)	–	–	–	–	–	**(4,756)**	**15,359**	–	–	–	**10,603**	–	**(108)**	**10,495**
Effect of adoption of PFRS 15, *Revenue from Contracts with Customers* (Note 2)	–	–	–	–	–	**(40)**	–	–	–	–	**(40)**	–	**(10)**	**(50)**
Balance as at January 1, 2018	**63,603**	–	**42,139**	**(46)**	**1,810**	**111,990**	**(445)**	**(4,025)**	**22**	**(2,530)**	**212,518**	**(7,400)**	**9,417**	**214,535**
Issuance of stock rights	**15,997**	–	**43,113**	–	–	–	–	–	–	–	**59,110**	–	–	**59,110**
Total comprehensive income for the year	–	–	–	–	–	**22,008**	**(2,671)**	**434**	**(49)**	**(57)**	**19,665**	–	**1,115**	**20,780**
Transfer to surplus reserves	–	–	–	–	**146**	**(146)**	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	–	**(3,180)**	–	–	–	–	**(3,180)**	–	**(520)**	**(3,700)**
Realized loss on sale of equity securities at FVOCI	–	–	–	–	–	**(122)**	**122**	–	–	–	–	–	–	–
Parent Company shares held by mutual fund subsidiaries	–	–	–	**(21)**	–	–	–	–	–	–	**(21)**	–	–	**(21)**
Settlement of non-controlling interest acquired (Note 11)	–	–	–	–	–	–	–	–	–	**(5,132)**	**(5,132)**	**7,400**	**(2,268)**	–
Balance as at December 31, 2018	**₱79,600**	**₱–**	**₱85,252**	**(₱67)**	**₱1,956**	**₱130,550**	**(₱2,994)**	**(₱3,591)**	**(₱27)**	**(₱7,719)**	**₱282,960**	**₱–**	**₱7,744**	**₱290,704**
Balance as at January 1, 2017	₱63,603	₱–	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002	₱–	₱9,551	₱205,553
Total comprehensive income for the year	–	–	–	–	–	18,223	(5,689)	(18)	(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	–	–	–	439	–	–	–	–	–	–	439	–	–	439
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	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	(₱2,530)	₱201,955	(₱7,400)	₱9,535	₱204,090
Balance as at January 1, 2016	₱63,603	₱6,351	₱42,139	(₱187)	₱1,506	₱87,497	(₱4,783)	(₱3,530)	₱180	₱983	₱193,759	₱–	₱9,551	₱203,310
Total comprehensive income for the year	–	–	–	–	–	18,086	(5,332)	(477)	(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	–	–	–	–	–	(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	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002	₱–	₱9,551	₱205,553

	Parent Company										
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid In Excess of Par Value (Note 23)	Treasury Stock (Note 23)	Surplus Reserves (Note 24)	Surplus (Note 23)	Net Unrealized Loss on Investment Securities at FVOCI/AFS Investments (Note 8)	Remeasurement Losses on Retirement Plan (Notes 11 and 27)	Equity in Other Comprehensive Income (Losses) of Investees (Note 11)	Translation Adjustment and Others (Note 11)	Total Equity
Balance as at December 31, 2017	**₱63,603**	**₱–**	**₱42,139**	**(₱46)**	**₱1,810**	**₱116,786**	**(₱15,804)**	**(₱4,025)**	**₱22**	**₱2,141**	**₱206,626**
Effect of adoption of PFRS 9 (Note 2)	–	–	–	–	–	**(4,756)**	**15,359**	–	–	–	**10,603**
Effect of adoption of PFRS 15 (Note 2)	–	–	–	–	–	**(40)**	–	–	–	–	**(40)**
Balance as at January 1, 2018	**63,603**	–	**42,139**	**(46)**	**1,810**	**111,990**	**(445)**	**(4,025)**	**22**	**2,141**	**217,189**
Issuance of stock rights	**15,997**	–	**43,113**	–	–	–	–	–	–	–	**59,110**
Total comprehensive income for the year	–	–	–	–	–	**22,008**	**(2,671)**	**434**	**(49)**	**(57)**	**19,665**
Transfer to surplus reserves	–	–	–	–	**146**	**(146)**	–	–	–	–	–
Cash dividends	–	–	–	–	–	**(3,180)**	–	–	–	–	**(3,180)**
Share in realized loss on sale of equity securities at FVOCI	–	–	–	–	–	**(122)**	**122**	–	–	–	–
Parent Company shares held by mutual fund subsidiaries	–	–	–	**(21)**	–	–	–	–	–	–	**(21)**
Balance as at December 31, 2018	**₱79,600**	**₱–**	**₱85,252**	**(₱67)**	**₱1,956**	**₱130,550**	**(₱2,994)**	**(₱3,591)**	**(₱27)**	**₱2,084**	**₱292,763**
Balance as at January 1, 2017	₱63,603	₱–	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002
Total comprehensive income for the year	–	–	–	–	–	18,223	(5,689)	(18)	(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	–	–	–	439	–	–	–	–	–	–	439
Balance as at December 31, 2017	₱63,603	₱–	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	₱2,141	₱206,626
Balance as at January 1, 2016	₱63,603	₱6,351	₱42,139	(₱187)	₱1,506	₱87,497	(₱4,783)	(₱3,530)	₱180	₱983	₱193,759
Total comprehensive income for the year	–	–	–	–	–	18,086	(5,332)	(477)	(126)	277	12,428
Transfer to surplus reserves	–	–	–	–	147	(147)	–	–	–	–	–
Cash dividends	–	–	–	–	–	(3,180)	–	–	–	–	(3,180)
Coupon payment of hybrid capital securities	–	–	–	–	–	(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	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002

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					
	2018	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱31,180**	₱29,260	₱26,938	**₱26,492**	₱22,738	₱21,976
Adjustments for:						
Provision for credit and impairment losses (Note 15)	**7,770**	7,507	7,342	**807**	1,395	1,174
Depreciation and amortization (Notes 10, 12 and 14)	**3,572**	3,524	3,290	**1,559**	1,585	1,515
Unrealized market valuation loss (gain) on financial assets and liabilities at FVTPL	**(3,499)**	1,652	(778)	**(3,494)**	1,652	(802)
Profit from assets sold (Notes 10 and 12)	**(1,371)**	(1,075)	(732)	**(623)**	(639)	(463)
Share in net income of subsidiaries, associates and a joint venture (Note 11)	**(874)**	(689)	(261)	**(7,967)**	(6,995)	(4,958)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	**(638)**	(1,075)	(834)	**(23)**	(26)	(24)
Amortization of software costs (Note 14)	**512**	494	474	**131**	123	141
Dividends (Note 11)	**(141)**	(182)	(151)	**(23)**	(19)	(17)
Trading and securities loss on investment securities at FVOCI (Note 8)	**115**	–	–	**24**	–	–
Amortization of discount on subordinated debts and bonds payable (Notes 19 and 20)	**45**	66	20	**34**	33	31
Trading and securities gain on AFS investments (Note 8)	**–**	(641)	(5,144)	**–**	(554)	(4,693)
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Investment securities at FVTPL	**5,735**	(7,497)	12,820	**3,617**	(6,327)	8,981
Loans and receivables	**(138,128)**	(213,951)	(182,710)	**(117,786)**	(161,020)	(149,598)
Other assets	**(5,785)**	1,033	2,820	**(4,737)**	938	1,643
Increase (decrease) in:						
Deposit liabilities	**28,791**	138,660	131,332	**12,044**	108,260	99,302
Bills payable - deposit substitutes	**(14,952)**	2,425	(263)	**–**	–	–
Manager's checks and demand drafts outstanding	**(489)**	1,122	1,319	**110**	669	907
Accrued interest and other expenses	**2,646**	(94)	(1,120)	**1,720**	(741)	(1,125)
Other liabilities	**(8,732)**	(5,704)	(3,894)	**(3,187)**	(7,317)	(2,649)
Non-equity non-controlling interest	**(1,255)**	68	(1,975)	**–**	–	–
Net cash used in operations	**(95,498)**	(45,097)	(11,507)	**(91,302)**	(46,245)	(28,659)
Dividends received (Note 11)	**141**	182	151	**23**	19	17
Income taxes paid	**(8,489)**	(7,053)	(5,884)	**(4,886)**	(3,704)	(3,168)
Net cash used in operating activities	**(103,846)**	(51,968)	(17,240)	**(96,165)**	(49,930)	(31,810)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Investment securities at FVOCI (Note 4)	**(786,157)**	–	–	**(774,480)**	–	–
Investment securities at amortized cost (Note 4)	**(7,017)**	–	–	**(5,037)**	–	–
AFS investments	**–**	(108,623)	(388,626)	**–**	(89,874)	(374,158)
Property and equipment (Note 10)	**(2,889)**	(3,556)	(3,512)	**(1,473)**	(1,826)	(1,640)
Investments in subsidiaries and associates (Note 11)	**–**	(235)	–	**(15,011)**	–	(1,611)
Software costs (Note 14)	**(636)**	(978)	(816)	**(233)**	(144)	(40)
Proceeds from sale of:						
Investment securities at FVOCI (Notes 4 and 11)	**764,214**	–	–	**759,803**	–	–
AFS investments	**–**	77,175	508,014	**–**	67,936	494,106
Held-to-maturity (HTM) investments (Note 8)	**–**	–	4,745	**–**	–	4,745
Property and equipment (Note 10)	**585**	165	331	**278**	85	147
Investments in associates (Note 11)	**–**	190	–	**–**	–	–
Investment properties (Note 12)	**1,896**	3,031	2,275	**626**	1,407	1,083
Proceeds from maturity of:						
Investment securities at amortized cost	**4,077**	–	–	**30**	–	–
HTM investments	**–**	–	1,221	**–**	–	1,221
Return of investment from an associate (Note 11)	**180**	–	–	**180**	–	–
Cash dividends from investees (Note 11)	**462**	288	23	**2,448**	3,655	1,847
Decrease (increase) in interbank loans receivable and SPURA (Note 26)	**1,388**	3,039	(11,192)	**5,984**	(322)	(5,221)
Net cash provided by (used in) investing activities	**(23,897)**	(29,504)	112,463	**(26,885)**	(19,083)	120,479

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	**2018**	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES (Note 26)						
Settlements of bills payable	**(₱4,472,284)**	(₱2,808,869)	(₱983,550)	**(₱3,445,236)**	(₱2,458,936)	(₱983,551)
Availments of bills payable and SSURA	**4,519,008**	2,872,903	968,398	**3,489,833**	2,496,553	963,776
Proceeds from issuance of:						
Bonds payable (Note 19)	**27,826**	–	–	**27,826**	–	–
Notes payable (Note 21)	**2,600**	–	–	**–**	–	–
Stock rights (Note 23)	**59,110**	–	–	**59,110**	–	–
Maturity of bonds payable (Note 19)	**–**	(8,599)	–	**–**	–	–
Repayments of subordinated debts (Note 20)	**–**	(3,000)	–	**–**	–	–
Cash dividends paid (Note 23)	**(3,700)**	(3,327)	(3,160)	**(3,180)**	(3,180)	(3,180)
Coupon payment of hybrid capital securities (Note 23)	**–**	–	(267)	**–**	–	(267)
Redemption of hybrid capital securities (Note 23)	**–**	–	(6,440)	**–**	–	(6,440)
Proceeds from disposal of Parent Company shares by mutual fund subsidiaries (Note 31)	**10**	455	–	**–**	–	–
Acquisition of Parent Company shares by a mutual fund subsidiary (Note 23)	**(31)**	(16)	(298)	**–**	–	–
Net cash provided by (used in) financing activities	**132,539**	49,547	(25,317)	**128,353**	34,437	(29,662)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,796**	(31,925)	69,906	**5,303**	(34,576)	59,007
CASH AND CASH EQUIVALENTS AT BEGINNING 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 SPURA (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
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**33,091**	27,631	26,553	**29,280**	24,975	23,470
Due from Bangko Sentral ng Pilipinas	**240,134**	261,959	238,806	**206,289**	224,723	203,781
Due from other banks	**45,808**	31,291	44,315	**35,218**	19,286	30,101
Interbank loans receivable and SPURA (Note 26)	**39,380**	32,736	75,868	**22,742**	19,242	65,450
	₱358,413	₱353,617	₱385,542	**₱293,529**	₱288,226	₱322,802

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	**2018**	2017	2016
Interest paid	**₱25,910**	₱18,347	₱15,569	**₱17,452**	₱11,391	₱9,102
Interest received	**95,315**	79,549	69,370	**61,129**	47,253	42,232

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
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 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 (FVTPL) and fair value through other comprehensive income (FVOCI)/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 and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards.

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 2018 and 2017 (Note 11):

Subsidiary	**Principal Place of Business and Country of Incorporation**	**Effective Percentage of Ownership**	**Functional Currency**
Financial Markets:			
Domestic:			
Metrobank Card Corporation (A Finance Company and General Insurance Agency) (MCC) (80.00% in 2017)	Philippines	100.00	PHP
First Metro Investment Corporation (FMIC) and Subsidiaries	Philippines	99.25	PHP
PSBank	Philippines	82.68	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 (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

* In process of dissolution
** In process of liquidation

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full at 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 (OCI) 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 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 36.36% and 36.09% interests in the Parent Company as of December 31, 2018 and 2017, respectively (Note 31).

Other Equity Reserves
Other equity reserves represent the charge to equity for an obligation of the Group to purchase its 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 FVTPL 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 new and amended standards which were adopted as of January 1, 2018, the accounting policies adopted are consistent with those of previous financial year.

Amendments

Philippine Accounting Standards (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. A change in use occurs when the

property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

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 FVTPL. 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, when applying the equity method, may 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 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
The amendments address concerns arising from implementing PFRS 9 before implementing the new insurance contracts standard (PFRS 17). Entities are allowed 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 OCI, 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 PFRS 17 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.

New Standards and Philippine Interpretations

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. It 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 adopted PFRS 9 on January 1, 2018 and the comparative information for 2017 for financial instruments in scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in 'Surplus', 'Net unrealized loss on investment securities at FVOCI/AFS investments' and 'Non-controlling interest' as of January 1, 2018 and are disclosed under "Transition to PFRS 9" below.

To reflect the differences between PFRS 9 and PAS 39, the Group also adopted the revised PFRS 7, *Financial Instruments: Disclosures*, as at January 1, 2018. Changes include transition disclosures as shown under "Transition to PFRS 9" below and detailed qualitative and quantitative information on impairment calculations such as the assumptions and inputs used as presented under "Significant Accounting Policies" below, reconciliation of gross carrying amounts of financial assets subject to expected credit loss (ECL) as presented in Note 4, and reconciliation from opening to closing ECL allowances as presented in Note 15.

a. Classification and Measurement
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, FVTPL or FVOCI. The accounting for financial liabilities remains largely the same as it was under PAS 39.

b. Impairment
The Group recognizes ECL for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

Incurred loss versus ECL methodology
The application of ECL significantly changed the Group's credit loss methodology and models. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are measured at amounts equal to either:
(i) 12-month ECL; or
(ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach)

The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. The lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model under PAS 39 recognizes lifetime credit losses only when there is objective evidence of impairment while ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier.

c. Hedge accounting
The hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with the Group'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 this adoption does not have a significant impact on the financial statements as the hedging relationships continue to be accounted for under PFRS 9 as cash flow hedges as they were under PAS 39.

d. Transition to PFRS 9
As at January 1, 2018, the change in classification and measurement of financial instruments (specifically, recognition of investment securities at amortized cost) and the shift to ECL impairment model resulted in reversal of 'Net unrealized loss' in OCI of ₱15.4 billion for the Group and the Parent Company, and net decrease in Surplus by ₱4.8 billion for the Group and the Parent Company.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as at January 1, 2018 is presented below. The Group's adoption of PFRS 9 has no impact on its financial liabilities.

Consolidated	December 31, 2017 under PAS 39, as previously reported Category	Amount	Reclassification/ Remeasurement Ref	January 1, 2018 under PFRS 9, as restated Category	Amount
Loans and advances to banks					
Cash and other cash items		₱27,631			₱27,631
Due from BSP		261,959			261,959
Due from other banks		31,291	**f/**		31,273
Interbank loans receivable and SPURA		45,475	**f/**		45,450
	L&R	₱366,356		Amortized cost	₱366,313
Investment securities at FVTPL					
Debt		₱29,656		FVTPL	₱26,759
				Amortized cost	2,897
	FVTPL	29,656			29,656
Equity		7,862		FVTPL	7,738
			a/	FVOCI	124
	FVTPL	7,862			7,862
Derivatives	FVTPL	6,369		FVTPL	6,369
		₱43,887			₱43,887
AFS investments					
Debt		₱342,111	**c/ f/**	Amortized cost	₱258,114
				FVOCI	98,203
			b/	FVTPL	1,420
	AFS	342,111			357,737
Equity		1,799	**e/**	FVOCI	1,006
			b/	FVTPL	793
	AFS	1,799			1,799
		₱343,910			₱359,536
Loans and receivables (L&R)					
			f/	Amortized cost	₱1,260,395
			d/	FVTPL	229
	L&R	₱1,265,469			₱1,260,624

Parent Company	December 31, 2017 under PAS 39, as previously reported Category	Amount	Reclassification/ Remeasurement Ref	January 1, 2018 under PFRS 9, as restated Category	Amount
Loans and advances to banks					
Cash and other cash items		₱24,975			₱24,975
Due from BSP		224,723			224,723
Due from other banks		19,286	**j/**		19,268
Interbank loans receivable and SPURA		27,208	**j/**		27,183
	L&R	₱296,192		Amortized cost	₱296,149
Investment securities at FVTPL					
Debt		₱25,977		FVTPL	₱23,080
				Amortized cost	2,897
	FVTPL	25,977			25,977
Derivatives	FVTPL	6,295		FVTPL	6,295
		₱32,272			₱32,272
AFS investments					
Debt		₱270,041	**g/ j/**	Amortized cost	₱204,751
			j/	FVOCI	79,038
	AFS	270,041			283,789
Equity		404	**i/**	FVOCI	349
			h/	FVTPL	55
	AFS	404			404
		₱270,445			₱284,193
Loans and receivables					
			j/	Amortized cost	₱999,370
				FVTPL	24
	L&R	₱1,002,921			₱999,394

The summary of impact on reclassification and remeasurement under PFRS 9 as of January 1, 2018 follows:

	Surplus	Net Unrealized Loss on Investment Securities at FVOCI/AFS Investments	Non-controlling Interest	Total
Consolidated				
a/ Reclassification of net unrealized losses from Surplus	₱2	(₱2)	₱–	₱–
b/ Reclassification of net unrealized gains to Surplus				
AFS debt investments	21	(21)	–	–
AFS equity investments	47	(47)	–	–
c/ Reversal of net unrealized losses	–	15,564	197	15,761
d/ Recognition of unrealized gains	5	–	–	5
e/ Reversal of allowance on AFS equity investments reclassified to investment securities at FVOCI	135	(135)	–	–
f/ Recognition of additional allowance under ECL	(4,966)	–	(305)	(5,271)
	(₱4,756)	₱15,359	(₱108)	₱10,495
Parent Company				
g/ Reversal of net unrealized losses	₱–	₱13,890	₱–	₱13,890
h/ Reclassification of net unrealized gains on AFS equity investments to Surplus	22	(22)		–
i/ Reversal of allowance on AFS equity investments reclassified to investment securities at FVOCI	23	(23)	–	–
j/ Recognition of additional allowance under ECL	(3,768)	–	–	(3,768)
	(3,723)	13,845	–	10,122
Share in impact of PFRS 9 adoption by investees	(1,033)	1,514	–	481
	(₱4,756)	₱15,359	₱–	₱10,603

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Group and the Parent Company on January 1, 2018:

- Certain equity investment securities previously classified at FVTPL amounting to ₱124.4 million were reclassified to investment securities at FVOCI as these will be held by the Group for strategic investment.
- Certain debt investment securities of the Group previously classified as AFS investments with carrying value of ₱1.4 billion were classified as investment securities at FVTPL, while certain equity securities previously classified as AFS investments amounting to ₱792.6 million for the Group and ₱55.2 million for the Parent Company were reclassified to investment securities at FVTPL in compliance with the defined business model.
- Certain debt investment securities previously classified as AFS investments with carrying value of ₱242.3 billion for the Group and ₱190.9 billion for the Parent Company were reclassified as at amortized cost as the business model is to collect contractual cash flows until the instruments' corresponding maturities.
- The Group's asset-backed securities and investment in tier 2 notes with total carrying value of ₱223.8 million (of which ₱23.8 pertains to the Parent Company) have been reclassified from loans and receivables to investment securities at FVTPL as the cash flows relating to these instruments do not represent solely payments of principal and interest (SPPI).
- The Group and the Parent Company elected the option to irrevocably designate and present in OCI the changes in fair value of certain equity securities amounting to ₱1.1 billion and ₱348.9 million, respectively, as the Group and the Parent Company consider these to be strategic in nature.

The application of the PFRS 9 classification requirements resulted in adjustments that increased surplus and OCI by ₱210.5 million and ₱15.4 billion, respectively, as of January 1, 2018.

As of December 31, 2018, the fair value of the investment securities at amortized cost which were transferred out of investment securities at FVTPL upon adoption of PFRS 9 amounted to ₱2.6 billion for the Group and the Parent Company. As of the same date, the fair value of the investment securities at amortized cost which were transferred out of AFS investments amounted to ₱216.8 billion for the Group and ₱173.6 billion for the Parent Company. Had these been retained to be measured at fair value, fair value loss amounting to ₱291.2 million would have been recognized in the 2018 net income of the Group and the Parent Company, while fair value loss amounting to ₱21.5 billion and ₱17.3 billion would have been recognized in the 2018 OCI of the Group and the Parent Company, respectively. Interest income recognized by the Group and the Parent Company in 2018 from investment securities at amortized cost that were transferred out of investment securities at FVTPL amounted to ₱109.9 million, with effective interest rates ranging from 2.5% to 4.9%.

As a result of PFRS 9 adoption as at January 1, 2018, additional provisions for credit losses have been recognized on the following accounts, net of deferred tax of ₱513.1 million for the Group, which are charged against the beginning balance of Surplus as follows:

	Consolidated	Parent Company
Financial assets at amortized cost		
Due from other banks	₱18	₱18
Interbank loans receivable and SPURA	25	25
Investment securities at amortized cost	2	2
Loans and receivables	4,259	3,527
Investment securities at FVOCI	140	140
Loan commitments and financial guarantee contracts	522	56
	₱4,966	₱3,768

The following table reconciles the aggregate opening loan loss provision allowances under PAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (December 31, 2017) to the ECL allowances under PFRS 9 (January 1, 2018).

	Consolidated			**Parent Company**		
	December 31, 2017	**Remeasurement**	**January 1, 2018**	**December 31, 2017**	**Remeasurement**	**January 1, 2018**
Loans and advances to banks						
Due from other banks	**₱–**	**₱18**	**₱18**	**₱–**	**₱18**	**₱18**
Interbank loans receivable and SPURA	**–**	**25**	**25**	**–**	**25**	**25**
	₱–	**₱43**	**₱43**	**₱–**	**₱43**	**₱43**
Investment securities						
AFS investments						
Debt	**₱1**	**(₱1)**	**₱–**	**₱–**	**₱–**	**₱–**
Equity	**294**	**(294)**	**–**	**160**	**(160)**	**–**
	295	**(295)**	**–**	**160**	**(160)**	**–**
Investment securities at FVOCI						
Government	**–**	**107**	**107**	**–**	**107**	**107**
Private	**–**	**33**	**33**	**–**	**33**	**33**
	–	**140**	**140**	**–**	**140**	**140**
Investments securities at amortized cost						
Treasury notes and bonds	**–**	**2**	**2**	**–**	**2**	**2**
	₱295	**(₱153)**	**₱142**	**₱160**	**(₱18)**	**₱142**

(Forward)

	Consolidated			Parent Company		
	December 31, 2017	Remeasurement	January 1, 2018	December 31, 2017	Remeasurement	January 1, 2018
Loans and receivables						
Receivables from customers						
Commercial loans	₱5,529	₱2,063	₱7,592	₱3,723	₱2,720	₱6,443
Auto loans	1,958	1,012	2,970	1	575	576
Residential mortgage loans	881	277	1,158	249	404	653
Trade loans	246	43	289	246	43	289
Others	2,742	1,780	4,522	78	(32)	46
	11,356	5,175	16,531	4,297	3,710	8,007
Other receivables	5,051	(325)	4,726	4,293	(183)	4,110
	₱16,407	₱4,850	₱21,257	₱8,590	₱3,527	₱12,117
Loan commitments and financial guarantees	₱–	₱887	₱887	₱–	₱56	₱56

The application of the PFRS 9 ECL requirements resulted in transition adjustments that increased ECL allowances by ₱5.6 billion for the Group and ₱3.6 billion for the Parent Company.

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. It affects the Group's credit card business wherein it requires that, where contract has more than one performance obligation, transaction price must be allocated to all the performance obligations. Prior to PFRS 15, card features that provide rewards and credits (e.g. rebates, real-time redemption and credit-back option) are not treated as separate performance obligations.

The Group adopted PFRS 15 using a modified retrospective approach. As at January 1, 2018, the adoption of PFRS 15 resulted in recognition of additional 'Deferred tax asset' of ₱21.4 million and 'Deferred revenue' of ₱71.5 million with a reduction in 'Surplus' of ₱40.0 million and 'Non-controlling interest' of ₱10.0 million for the Group, and a reduction in 'Investments in subsidiaries' and 'Surplus' of ₱40.0 million for the Parent Company.

Philippine Interpretation IFRIC 22, *Foreign Currency Transaction and Advance Consideration*
This clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency and covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes 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 paid 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.

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

monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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 BAP (PDS in 2017 and prior years) closing rate prevailing at the statement of financial position date, and their income and expenses are translated at BAP weighted average rate for 2018 while in 2017 and prior, the basis was the PDS weighted average rate. Exchange differences arising on translation are taken to the 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 FVTPL, 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.

Financial Instruments - Initial Recognition

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 at FVTPL, the initial measurement of financial instruments includes transaction costs.

'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.

Financial Assets at FVTPL

Financial assets or financial liabilities held for trading (HFT)

HFT financial assets or financial liabilities are recorded in the statement of financial position at fair value and are classified as investment securities at FVTPL. Changes in fair value relating to the HFT 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.

Derivatives recorded at FVTPL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps, call options, non-deliverable forwards 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.

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.

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

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

Financial Instruments - Classification and Subsequent Measurement
Policies applicable beginning January 1, 2018
Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

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

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

Investment securities at FVOCI
Investment securities at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'Change in net unrealized loss on investment securities at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are 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. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. 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)', 'Investment securities at amortized cost' and 'Loans and receivables'.

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

Policies applicable prior to January 1, 2018
Prior to January 1, 2018, the Group classifies its financial assets in the following categories: financial assets at FVTPL, AFS investments, held-to-maturity (HTM) investments, and loans and receivables, while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities 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.

AFS investments
AFS investments include debt and equity instruments. Equity investments classified under AFS investments are those which are neither classified as HFT nor designated at FVTPL. 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 'Change in net unrealized loss on AFS investments'. When the AFS investments are 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.

Interest earned on holding AFS debt investments are reported as 'Interest income' using the EIR method. Dividends earned on holding AFS equity 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 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 credit and impairment losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and 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 HFT financial assets', designated as AFS investments, or 'financial assets designated at FVTPL'. After initial measurement, these are subsequently measured at amortized cost using the EIR method, less allowance for credit losses.

Financial Liabilities at Amortized Cost
Issued financial instruments or their components, which are not designated at FVTPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable and securities sold under repurchase agreements (SSURA)', 'Bonds payable', or 'Subordinated debts' 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 FVTPL, 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.

Financial Guarantees and Undrawn Loan Commitments
The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.

Derecognition of Financial Assets and Financial Liabilities

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.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, 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 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

Policies applicable beginning January 1, 2018

The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

Overview of the ECL principles

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

The major portfolios of financial assets identified upon initial analysis of the Group's credit exposure are loan receivables, treasury accounts, and other receivables. Loan receivables may be availed by specific individuals, corporations or organizations. Hence, these portfolios can be further segmented to commercial and consumer portfolios. After segmentation, financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

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 31 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

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

SICR

In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Group assesses whether there has been a SICR since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. 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. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

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

For credit-impaired financial assets:
- Financial assets 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 financial asset or a portfolio of financial assets. The ECL model requires a lifetime ECL for impaired financial assets.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired (POCI) assets. These are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs. POCI assets pertain to loans purchased by the Parent Company from MBCL as discussed in Note 31.

Assessment of ECL on a collective basis
The Group calculates ECL either on an individual or a collective basis. The Group performs collective impairment by grouping exposures into smaller homogenous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the ECL models.

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 judgement.

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 financial asset is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD consists of the amortized cost and any accrued interest receivable. For off-balance sheet and undrawn committed amounts, EAD includes a credit conversion factor which is an estimate of any further amount to be drawn at the time of default.

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

The Group applies a simplified ECL approach for its accounts receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to predict conditions over the span of a given observation period.

MCC offers credit card facilities, in which MCC has the right to cancel and/or reduce the facilities with one-day notice. MCC does not limit its exposure to credit losses to the contractual notice period, but instead, calculates ECL over a period that reflects MCC's expectations of the customers' behavior, their likelihood of default, and MCC's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and MCC's expectations, the period over which MCC calculates ECL for these products is two years. The interest rate used to discount the ECL for credit cards is based on interest rates derived using the capital asset pricing model. These rates are also used to discount future recoveries over a period of five years as these cover the cost of securing an equivalent fund.

Forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset 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 growth of the gross domestic product, 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.

Debt investment securities measured at FVOCI
The ECL for debt securities at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of these financial assets.

<u>Policies applicable prior to January 1, 2018</u>
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, interbank loans and SPURA, and HTM investments, the Group first assesses whether objective

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

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 'Recovery on charged-off assets' under 'Miscellaneous income' 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 (NFR) 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 NFR percentage 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 NFRs 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 securities classified as 'AFS investments', this would include a significant or prolonged decline in the fair value of the securities below their 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 OCI and recognized in the statement of income. Impairment losses on equity securities are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI. In case of unquoted equity securities classified as 'AFS investments', the amount of the impairment is measured as the difference between their carrying amount 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 and monitors restructured loans until derecognition 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 credit and impairment losses' in the statement of income. Beginning January 1, 2018, when the loan has been restructured but not derecognized, the Group also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised EIR.

Collateral Valuation of Financial Assets
The Group's accounting policy for collateral assigned to it through its lending arrangements under PFRS 9 is the same as it was under PAS 39. Collateral, unless repossessed, is not recorded in the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed every other year. However, some collaterals, for example, cash or securities relating to margining requirements, are valued daily.

Revenue Recognition
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

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

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

a. *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Group. Using an output method, revenue is recognized if the Group has a right to invoice the customer for services directly corresponding to performance completed to date. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, asset management fees, income from trust operations, and advisory fees.

b. *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

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

Discounts earned, membership fees and awards revenue on credit cards
The following table provides information about the nature and timing of the satisfaction of performance obligations for the Group's credit card business, including significant payment terms, and the related revenue recognition policies.

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under PFRS 15	Revenue recognition under PAS 18
Discounts earned	Discounts are charges arising from credit availments by the Group's and other credit companies' cardholders when the Group is acting as an acquirer. These discounts are computed based on certain agreed rates. These also include interchange income from transactions processed by other acquirers through VISA and Mastercard and fees from cash advance transactions of cardholders.	Discounts are recognized as revenue upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when the Group is acting as an acquirer.	Discounts are recognized as revenue upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when the Group is acting as an acquirer.
Membership fees and dues	Membership fees are periodically charged to cardholders upfront.	Membership fees are deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card.	Membership fees are deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card.

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under PFRS 15	Revenue recognition under PAS 18
Awards revenue	The Group operates a loyalty points program, which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points accumulate and do not expire.	The Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The amount allocated to the loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote.	A proportion of the revenue from discounts earned and interchange fees from credit cards is allocated to the reward points. The allocated revenue that corresponds to the total fair value of the reward points is determined by applying statistical analysis. The fair value of the points issued is deferred and recorded under 'Deferred revenue' and recognized as revenue when the points are redeemed.

Revenues outside the scope of PFRS 15

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVOCI/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. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, 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.

Recovery on charged-off assets

Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

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 FVTPL and gains and losses from disposal of investment securities at FVTPL, debt securities at FVOCI/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'.

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.

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% 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 the 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 the 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 (losses) of subsidiaries and changes therein are included in remeasurement losses on retirement plan, net unrealized loss on investment securities at FVOCI and 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. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as 'Gain on initial recognition of investment properties' under 'Miscellaneous income'. 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 five 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 First Metro Securities Brokerage Corporation (FMSBC), a subsidiary of FMIC, 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. FMSBC 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, intangible assets with finite useful lives and other assets
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 (FVLCTS) 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 with indefinite useful lives 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. The Group uses the higher of FVLCTS and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount.

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

Surplus represents accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired or Parent Company's shares acquired by its subsidiaries (treasury stock) 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.

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 OCI 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.

Earnings Per Share
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.

Dividends on Common Shares
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.

Debt Issuance Costs
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.

Capital Securities Issuance Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity against ‘Capital paid in excess of par value’.

Events after the Statement of Financial Position Date
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.

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

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

Standards Issued but not yet Effective

The list below 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 standards and interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2019
New standard - PFRS 16, *Leases*
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. 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, *Financial Instruments - 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 FVOCI. 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, *Investments in Associates and Joint Ventures - 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.

Subject to Board of Accountancy's Approval
Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement*
The measurement requires the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs.

Annual Improvements to PFRS 2015 to 2017 Cycle
PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously held interest in a joint operation*
The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.

PAS 12, *Income Taxes - Income tax consequence of payments on financial instruments classified as equity*
The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23, *Borrowing Costs - Borrowing costs eligible for capitalization*
The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
This 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.

Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)
Amendments to PFRS 3, *Business Combinations - Definition of a Business*
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply to future business combinations of the Group.

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

Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's Approval)
PFRS 17, *Insurance Contracts*
PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and

introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15.

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in 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. *Classification of financial assets*

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

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

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

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

b. *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), First Metro Philippine Equity Traded Fund, Inc. (FMPETF) and First Metro Save and Learn F.O.C.C.U.S. Dynamic Fund, Inc. 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.

c. *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.

d. *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).

e. *Leases*
<u>Operating lease</u>
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.

f. 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 on financial assets
The Group reviews its debt financial assets subject to ECL 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. The measurement of credit losses both under PFRS 9 and PAS 39 across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Beginning January 1, 2018
The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:
- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a SICR and so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of debt financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models

Refer to Note 2 for detailed discussions regarding the abovementioned significant judgments and estimates in relation to ECL estimation.

The gross carrying amounts of financial assets subject to ECL as of December 31, 2018 are disclosed in Note 4, while the related ECL allowances for credit losses are disclosed in Note 15.

In 2018, provision for credit losses on these financial assets amounted to ₱7.7 billion for the Group and ₱807.4 million for the Parent Company (Note 15).

Prior to January 1, 2018
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 NFR method.

The carrying values of loans and receivables and the related allowance for credit losses as of December 31, 2017 are disclosed in Note 9. In 2017 and 2016, provision for credit losses on loans and receivables amounted to ₱8.0 billion and ₱7.3 billion, respectively, for the Group, and ₱1.8 billion and ₱1.2 billion, respectively, for the Parent Company (Note 15).

b. *Impairment of AFS equity securities*
Prior to January 1, 2018, 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, allowance for impairment losses on AFS equity securities amounted to ₱293.5 million for the Group and ₱159.6 million for the Parent Company. As of December 31, 2017, the carrying value of AFS equity securities (included under 'AFS investments') amounted to ₱1.8 billion for the Group and ₱404.0 million 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 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*
The Group assesses impairment on non-financial assets (property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs, chattel mortgage properties and other 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 FVLCTS and VIU in determining recoverable amount. As of December 31, 2018 and 2017, 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, chattel mortgage properties, and other assets 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 recoverable amount of the CGU is determined based on FVLCTS.

The fair value of the CGU is determined using the discounted cash flow method for unquoted debt financial assets/liabilities at the appropriate market rate, the price-to-earnings (P/E) valuation model (in 2018) and discounted cash flow method (in 2017) for unquoted equity investments, and the appraisal reports for the valuation of real properties. Fair values of listed debt and equity securities are based on their quoted market prices. In applying the discounted cash flow method for equity investments, 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 2018, the Group applied the P/E valuation model by reference to P/E ratios of listed comparable companies of the CGU's equity investments. In 2017, the applicable pre-tax discount rates applied to cash flow projections is 7.18% and the growth rate applied to cash flows is 3.00%. Key assumptions in FVLCTS calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows and the P/E ratios of listed comparable companies of the CGU's equity investments. As of December 31, 2018 and 2017, 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 Board of Directors (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 (RMCC) composed of 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, among others. 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 Internal Audit Group and RSK, respectively.

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.

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

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

Maximum exposure to credit risk
An analysis of the maximum credit risk exposure relating to financial assets is shown below:

	Consolidated							
	2018				2017			
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
Due from other banks	₱578	₱2,203	₱578	₱–	₱–	₱–	₱–	₱–
Interbank loans receivable and SPURA	8,067	8,060	8,058	9	2,890	1,497	1,497	1,393
Loans and receivables - net								
Receivables from customers								
Commercial loans	305,371	793,563	283,893	21,478	355,965	770,343	280,367	75,598
Auto loans	116,975	197,160	116,465	510	115,839	205,210	115,243	596
Residential mortgage loans	106,818	202,043	96,980	9,838	98,852	201,224	98,691	161
Trade loans	59,972	58,936	58,718	1,254	39,946	41,921	38,223	1,723
Others	674	694	655	19	688	679	642	46
	589,810	1,252,396	556,711	33,099	611,290	1,219,377	533,166	78,124
Accounts receivable	–	–	–	–	1	1	1	–
Accrued interest receivable	3,424	3,416	3,416	8	3,112	4,805	2,902	210
Sales contract receivable	155	347	122	33	89	364	89	–
	593,389	1,256,159	560,249	33,140	614,492	1,224,547	536,158	78,334
Total	₱602,034	₱1,266,422	₱568,885	₱33,149	₱617,382	₱1,226,044	₱537,655	₱79,727

	Parent Company 2018				Parent Company 2017			
	Maximum Exposure to Credit Risk	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Net Exposure**	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
Due from other banks	**₱–**	**₱–**	**₱–**	**₱–**	₱–	₱–	₱–	₱–
Interbank loans receivable and SPURA	**1,459**	**1,634**	**1,459**	**–**	1,635	2,013	1,635	–
Loans and receivables - net								
Receivables from customers								
Commercial loans	**269,607**	**753,469**	**254,545**	**15,062**	244,514	655,998	217,393	27,121
Auto loans	**29,109**	**74,249**	**28,646**	**463**	33,524	78,135	32,950	574
Residential mortgage loans	**57,239**	**113,903**	**57,026**	**213**	52,890	111,478	52,729	161
Trade loans	**59,908**	**58,873**	**58,654**	**1,254**	39,895	41,870	38,172	1,723
Others	**659**	**685**	**647**	**12**	673	673	637	36
	416,522	**1,001,179**	**399,518**	**17,004**	371,496	888,154	341,881	29,615
Accrued interest receivable	**1,489**	**1,483**	**1,483**	**6**	1,371	1,161	1,161	210
Sales contract receivable	**116**	**140**	**109**	**7**	16	60	16	–
	418,127	**1,002,802**	**401,110**	**17,017**	372,883	889,375	343,058	29,825
Total	**₱419,586**	**₱1,004,436**	**₱402,569**	**₱17,017**	₱374,518	₱891,388	₱344,693	₱29,825

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2018 is shown below:

	Consolidated				
	Maximum Exposure to Credit Risk	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Net Exposure**	**Expected Credit Loss**
Loans and receivables - net					
Receivables from customers					
Commercial loans	**₱921**	**₱2,907**	**₱886**	**₱35**	**₱2,087**
Auto loans	**2,870**	**5,780**	**2,870**	**–**	**1,148**
Residential mortgage loans	**2,130**	**4,067**	**1,717**	**413**	**252**
Trade loans	**4**	**97**	**4**	**–**	**95**
Others	**1**	**40**	**1**	**–**	**38**
	5,926	**12,891**	**5,478**	**448**	**3,620**
Accrued interest receivable	**61**	**524**	**61**	**–**	**699**
Sales contract receivable	**–**	**62**	**–**	**–**	**27**
Total	**₱5,987**	**₱13,477**	**₱5,539**	**₱448**	**₱4,346**

	Parent Company				
	Maximum Exposure to Credit Risk	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Net Exposure**	**Expected Credit Loss**
Loans and receivables - net					
Receivables from customers					
Commercial loans	**₱791**	**₱2,518**	**₱757**	**₱34**	**₱1,805**
Auto loans	**100**	**463**	**100**	**–**	**82**
Residential mortgage loans	**667**	**1,512**	**667**	**–**	**88**
Trade loans	**4**	**97**	**4**	**–**	**95**
Others	**1**	**40**	**1**	**–**	**38**
	1,563	**4,630**	**1,529**	**34**	**2,108**
Accrued interest receivable	**10**	**10**	**10**	**–**	**333**
Total	**₱1,573**	**₱4,640**	**₱1,539**	**₱34**	**₱2,441**

Collateral on loans and receivables includes real estate and chattel mortgages, guarantees, and other registered securities over assets (Note 9). Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements and certain due from other banks. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2018 and 2017. Estimates of fair values of the collateral 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. The Group is not permitted to sell or repledge the collateral in the absence of default by the counterparty.

The maximum exposure to credit risks for the other financial assets including loan commitments and financial guarantees is limited to their carrying values as of December 31, 2018 and 2017.

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						
2018						
Derivative assets	**₱178,920**	**₱168,270**	**₱10,650**	**₱1,534**	**₱–**	**₱9,116**
SPURA	**8,067**	**–**	**8,067**	**–**	**8,058**	**9**
	₱186,987	**₱168,270**	**₱18,717**	**₱1,534**	**₱8,058**	**₱9,125**
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
Parent Company						
2018						
Derivative assets	**₱177,295**	**₱166,659**	**₱10,636**	**₱1,534**	**₱–**	**₱9,102**
2017						
Derivative assets	₱162,083	₱155,961	₱6,122	₱919	₱–	₱5,203
Financial liabilities recognized by type						
Consolidated						
2018						
Derivative liabilities	**₱172,755**	**₱166,221**	**₱6,534**	**₱1,534**	**₱–**	**₱5,000**
SSURA	**95,247**	**–**	**95,247**	**–**	**95,247**	**–**
	₱268,002	**₱166,221**	**₱101,781**	**₱1,534**	**₱95,247**	**₱5,000**
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
Parent Company						
2018						
Derivative liabilities	**₱154,742**	**₱148,562**	**₱6,180**	**₱1,534**	**₱–**	**₱4,646**
SSURA	**95,247**	**–**	**95,247**	**–**	**95,247**	**–**
	₱249,989	**₱148,562**	**₱101,427**	**₱1,534**	**₱95,247**	**₱4,646**
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

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

Below is an analysis of concentrations of credit risk at the reporting date based on carrying amount:

	Consolidated				
	Loans and Receivables*	**Loans and Advances to Banks****	**Investment Securities*****	**Others******	**Total**
2018					
Concentration by Industry					
Financial and insurance activities	**₱184,848**	**₱336,673**	**₱80,486**	**₱199,358**	**₱801,365**
Manufacturing	**218,850**	**–**	**967**	**28,694**	**248,511**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**231,924**	**–**	**–**	**8,023**	**239,947**
Real estate activities	**210,582**	**–**	**1,416**	**912**	**212,910**
Transportation and storage, information and communication	**113,058**	**–**	**152**	**1,372**	**114,582**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**100,346**	**–**	**4,238**	**3,601**	**108,185**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**86,926**	**–**	**–**	**257**	**87,183**
Construction	**58,218**	**–**	**–**	**488**	**58,706**
Agricultural, forestry and fishing	**34,356**	**–**	**–**	**2,810**	**37,166**
Accommodation and food service activities	**32,211**	**–**	**–**	**5**	**32,216**
Others*****	**138,767**	**–**	**288,324**	**25,571**	**452,662**
	1,410,086	**336,673**	**375,583**	**271,091**	**2,393,433**
Less allowance for credit losses	**22,688**	**18**	**48**	**10,598**	**33,352**
	₱1,387,398	**₱336,655**	**₱375,535**	**₱260,493**	**₱2,360,081**
Concentration by Location					
Philippines	**₱1,371,536**	**₱249,078**	**₱323,643**	**₱265,578**	**₱2,209,835**
Asia	**38,166**	**53,007**	**25,362**	**5,298**	**121,833**
USA	**273**	**10,968**	**13,829**	**215**	**25,285**
Europe	**81**	**14,672**	**7,727**	**–**	**22,480**
Others	**30**	**8,948**	**5,022**	**–**	**14,000**
	1,410,086	**336,673**	**375,583**	**271,091**	**2,393,433**
Less allowance for credit losses	**22,688**	**18**	**48**	**10,598**	**33,352**
	₱1,387,398	**₱336,655**	**₱375,535**	**₱260,493**	**₱2,360,081**
2017					
Concentration by Industry					
Financial and insurance activities	₱92,645	₱338,725	₱78,354	₱173,921	₱683,645
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	238,644	–	–	198	238,842
Manufacturing	194,439	–	1,013	17,209	212,661
Wholesale and retail trade, repair of motor vehicles, motorcycles	203,582	–	–	24,862	228,444
Real estate activities	205,574	–	1,550	818	207,942
Transportation and storage, information and communication	102,282	–	–	982	103,264
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	89,061	–	4,898	1,259	95,218
Construction	52,411	–	–	15,110	67,521
Accommodation and food service activities	28,645	–	–	49	28,694
Agricultural, forestry and fishing	29,476	–	–	580	30,056
Others*****	40,624	–	256,297	6,018	302,939
	1,277,383	338,725	342,112	241,006	2,199,226
Less allowance for credit losses	16,407	–	1	9,614	26,022
	₱1,260,976	₱338,725	₱342,111	₱231,392	₱2,173,204
Concentration by Location					
Philippines	₱1,247,661	₱265,587	₱291,675	₱238,847	₱2,043,770
Asia	29,583	62,115	26,212	2,068	119,978
USA	50	6,021	12,138	91	18,300
Europe	54	4,740	7,310	–	12,104
Others	35	262	4,777	–	5,074
	1,277,383	338,725	342,112	241,006	2,199,226
Less allowance for credit losses	16,407	–	1	9,614	26,022
	₱1,260,976	₱338,725	₱342,111	₱231,392	₱2,173,204

	Parent Company				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Others****	Total
2018					
Concentration by Industry					
Financial and insurance activities	**₱120,484**	**₱266,231**	**₱31,692**	**₱11,000**	**₱429,407**
Manufacturing	**213,184**	**–**	**967**	**28,694**	**242,845**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**215,810**	**–**	**–**	**8,023**	**223,833**
Real estate activities	**164,310**	**–**	**–**	**873**	**165,183**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**97,581**	**–**	**3,836**	**3,601**	**105,018**
Transportation and storage, information and communication	**98,907**	**–**	**152**	**1,372**	**100,431**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**86,271**	**–**	**–**	**257**	**86,528**
Construction	**44,195**	**–**	**–**	**435**	**44,630**
Agricultural, forestry and fishing	**29,837**	**–**	**–**	**2,810**	**32,647**
Accommodation and food service activities	**31,762**	**–**	**–**	**5**	**31,767**
Others*****	**23,077**	**–**	**267,679**	**24,397**	**315,153**
	1,125,418	**266,231**	**304,326**	**81,467**	**1,777,442**
Less allowance for credit losses	**12,797**	**12**	**48**	**9,685**	**22,542**
	₱1,112,621	**₱266,219**	**₱304,278**	**₱71,782**	**₱1,754,900**
Concentration by Location					
Philippines	**₱1,110,240**	**₱208,586**	**₱258,035**	**₱75,993**	**₱1,652,854**
Asia	**14,810**	**23,471**	**19,773**	**5,261**	**63,315**
USA	**258**	**10,589**	**13,769**	**213**	**24,829**
Europe	**80**	**14,637**	**7,727**	**–**	**22,444**
Others	**30**	**8,948**	**5,022**	**–**	**14,000**
	1,125,418	**266,231**	**304,326**	**81,467**	**1,777,442**
Less allowance for credit losses	**12,797**	**12**	**48**	**9,685**	**22,542**
	₱1,112,621	**₱266,219**	**₱304,278**	**₱71,782**	**₱1,754,900**
2017					
Concentration by Industry					
Financial and insurance activities	₱87,854	₱271,217	₱32,337	₱13,756	₱405,164
Manufacturing	189,967	–	1,013	17,209	208,189
Wholesale and retail trade, repair of motor vehicles, motorcycles	189,915	–	–	24,862	214,777
Real estate activities	162,660	–	–	782	163,442
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	85,673	–	4,445	1,258	91,376
Transportation and storage, information and communication	90,064	–	–	982	91,046
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	86,081	–	–	198	86,279
Construction	40,979	–	–	15,054	56,033
Accommodation and food service activities	28,093	–	–	49	28,142
Agricultural, forestry and fishing	25,486	–	–	580	26,066
Others*****	20,245	–	232,246	4,880	257,371
	1,007,017	271,217	270,041	79,610	1,627,885
Less allowance for credit losses	8,589	–	–	9,614	18,203
	₱998,428	₱271,217	₱270,041	₱69,996	₱1,609,682
Concentration by Location					
Philippines	₱997,421	₱226,512	₱225,410	₱77,486	₱1,526,829
Asia	9,157	34,087	20,595	2,034	65,873
USA	341	5,738	11,948	90	18,117
Europe	62	4,618	7,311	–	11,991
Others	36	262	4,777	–	5,075
	1,007,017	271,217	270,041	79,610	1,627,885
Less allowance for credit losses	8,589	–	–	9,614	18,203
	₱998,428	₱271,217	₱270,041	₱69,996	₱1,609,682

* Excludes statutory receivables which are not considered financial assets.
** Comprised of due from BSP, due from other banks and interbank loans receivable and SPURA.
*** Comprised of debt securities at FVOCI and investment securities at amortized cost (in 2018) and AFS debt investments (in 2017).
**** 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.

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.

Loans and receivables
The credit quality is generally monitored using the 10-grade ICRRS which is integrated in the credit process. 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:

High Grade
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.

Standard Grade
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.

<u>Substandard Grade</u>
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 Group.

<u>Impaired</u>
8 - Substandard
These are loans or portions, thereof which appear to involve a substantial and unreasonable degree of risk to the Group because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the Group 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.

Investment securities
In ensuring quality investment portfolio, the Group 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 Group considers a debt security to have low credit risk when its credit risk rating is equivalent to those rated by external rating agencies as 'Investment grade' (i.e., those under High grade in the table above).

The following tables show the credit quality of loans and advances to banks and investment securities, gross of allowance for credit losses, as of December 31, 2018. All loans and advances to banks and investment securities are classified as Stage 1 in 2018.

	Consolidated	Parent Company
Due from BSP		
High grade	₱240,134	₱206,289
Due from other banks		
High grade	44,707	35,137
Standard grade	697	50
Unrated	404	31
	45,808	35,218
Interbank loans receivable and SPURA		
High grade	48,757	22,750
Unrated	1,974	1,974
	50,731	24,724
Total loans and advances to banks		
High grade	333,598	264,176
Standard grade	697	50
Unrated	2,378	2,005
	₱336,673	₱266,231
Debt securities at FVOCI		
Private		
High grade	₱41,872	₱32,576
Standard grade	258	258
Unrated	239	239
	42,369	33,073
Treasury notes and bonds		
High grade	40,786	37,377
Government		
High grade	26,226	20,443
Standard grade	778	778
	27,004	21,221
Total debt securities at FVOCI		
High grade	108,884	90,396
Standard grade	1,036	1,036
Unrated	239	239
	110,159	91,671
Investment securities at amortized cost		
Treasury notes and bonds		
High grade	237,476	204,176
Government		
High grade	21,859	8,479
Private		
High grade	5,298	–
Standard grade	742	–
	6,040	–
Treasury bills		
High grade	49	–
Total investment securities at amortized cost		
High grade	264,682	212,655
Standard grade	742	–
	265,424	212,655
Total debt investment securities		
High grade	373,566	303,051
Standard grade	1,778	1,036
Unrated	239	239
	₱375,583	₱304,326

For loans and advances to other banks, availments of interbank loans and SPURA amounted to ₱33.0 billion for the Group and ₱24.7 billion for the Parent Company, and maturities amounted to ₱27.7 billion for the Group and ₱27.2 billion for the Parent Company. Net increase (decrease) in due from BSP and due from other banks amounted to (₱21.8 billion) and ₱14.5 billion, respectively, for the Group, and (₱18.4 billion) and ₱15.9 billion, respectively, for the Parent Company.

For debt investment securities at FVOCI, purchases amounted to ₱786.2 billion for the Group and ₱774.5 billion for the Parent Company. Disposals/maturities amounted to ₱764.2 billion for the Group and ₱759.8 billion for the Parent Company. Other movements, which include amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in a decrease in carrying value of ₱10.1 billion for the Group and ₱2.2 billion for the Parent Company.

For investment securities at amortized cost, purchases amounted to ₱7.0 billion for the Group and ₱5.0 billion for the Parent Company. Maturities amounted to ₱4.1 billion for the Group and ₱29.6 million for the Parent Company. Other movements, which include amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in an increase in carrying value of ₱1.5 billion for the Group and a decrease in carrying value of ₱2.9 million for the Parent Company.

The credit quality of receivables from customers, net of unearned discount and capitalized interest, as of December 31, 2018 follow:

	Consolidated					
	Stage 1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Commercial loans						
High grade	₱255,970	₱10,916	₱–	₱–	₱–	₱266,886
Standard grade	565,642	29,719	–	792	–	596,153
Sub-standard grade	104,141	1	7,290	198	3,793	115,423
Past due but not impaired	–	–	–	111	–	111
Non-performing individually impaired	–	–	230	–	7,114	7,344
	925,753	40,636	7,520	1,101	10,907	985,917
Auto loans						
High grade	4,014	67,561	1	8,103	–	79,679
Standard grade	25,120	34	313	5,892	–	31,359
Sub-standard grade	16	6	1	1,557	13	1,593
Past due but not impaired	–	–	–	3,301	–	3,301
Non-performing individually impaired	–	–	34	–	4,006	4,040
	29,150	67,601	349	18,853	4,019	119,972
Residential mortgage loans						
High grade	1,802	39,422	–	6,181	–	47,405
Standard grade	52,429	33	1,462	785	–	54,709
Sub-standard grade	1,009	–	183	70	310	1,572
Past due but not impaired	–	–	–	1,855	–	1,855
Non-performing individually impaired	–	–	142	–	2,264	2,406
	55,240	39,455	1,787	8,891	2,574	107,947
Trade loans						
High grade	6,664	–	–	–	–	6,664
Standard grade	53,566	–	–	–	–	53,566
Sub-standard grade	2,521	–	276	–	–	2,797
Non-performing individually impaired	–	–	–	–	99	99
	62,751	–	276	–	99	63,126
Other loans						
High grade	12,194	859	–	345	–	13,398
Standard grade	68,816	22,916	–	1,434	–	93,166
Sub-standard grade	–	6	–	420	–	426
Past due but not impaired	–	–	–	86	–	86
Non-performing individually impaired	–	–	2,077	–	2,106	4,183
	81,010	23,781	2,077	2,285	2,106	111,259
Total receivables from customers						
High grade	280,644	118,758	1	14,629	–	414,032
Standard grade	765,573	52,702	1,775	8,903	–	828,953
Sub-standard grade	107,687	13	7,750	2,245	4,116	121,811
Past due but not impaired	–	–	–	5,353	–	5,353
Non-performing individually impaired	–	–	2,483	–	15,589	18,072
	₱1,153,904	₱171,473	₱12,009	₱31,130	₱19,705	₱1,388,221

	Parent Company						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Commercial loans							
High grade	₱255,970	₱–	₱–	₱–	₱–	₱–	₱255,970
Standard grade	569,963	–	–	–	–	–	569,963
Sub-standard grade	104,141	–	7,290	–	3,793	–	115,224
Non-performing individually impaired	–	–	57	–	3,127	3,309	6,493
	930,074	–	7,347	–	6,920	3,309	947,650
Auto loans							
High grade	4,014	–	1	–	–	–	4,015
Standard grade	25,120	–	313	–	–	–	25,433
Sub-standard grade	16	–	2	–	12	–	30
Non-performing individually impaired	–	–	34	–	169	–	203
	29,150	–	350	–	181	–	29,681
Residential mortgage loans							
High grade	1,802	–	–	–	–	–	1,802
Standard grade	52,428	–	1,462	–	–	–	53,890
Sub-standard grade	1,009	–	183	–	311	–	1,503
Non-performing individually impaired	–	–	142	–	637	–	779
	55,239	–	1,787	–	948	–	57,974
Trade loans							
High grade	6,664	–	–	–	–	–	6,664
Standard grade	53,502	–	–	–	–	–	53,502
Sub-standard grade	2,521	–	276	–	–	–	2,797
Non-performing individually impaired	–	–	–	–	99	–	99
	62,687	–	276	–	99	–	63,062
Other loans							
High grade	12,194	–	–	–	–	–	12,194
Standard grade	336	–	–	–	–	–	336
Non-performing individually impaired	–	–	–	–	41	–	41
	12,530	–	–	–	41	–	12,571
Total receivables from customers							
High grade	280,644	–	1	–	–	–	280,645
Standard grade	701,349	–	1,775	–	–	–	703,124
Sub-standard grade	107,687	–	7,751	–	4,116	–	119,554
Non-performing individually impaired	–	–	233	–	4,073	3,309	7,615
	₱1,089,680	₱–	₱9,760	₱–	₱8,189	₱3,309	₱1,110,938

Movements during 2018 for receivables from customers follows:

	Consolidated					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Commercial loans						
Balance at January 1, 2018	₱847,899	₱47,240	₱9,214	₱997	₱5,820	₱911,170
New assets originated or purchased	465,911	12,730	–	–	–	478,641
Assets derecognized or repaid	(386,216)	(18,853)	(3,696)	(258)	(420)	(409,443)
Amounts written off	–	–	(1)	–	(78)	(79)
Transfers to/(from) Stage 1	(7,170)	(482)	–	–	–	(7,652)
Transfers to/(from) Stage 2	–	–	1,897	362	–	2,259
Transfers to/(from) Stage 3	–	–	–	–	5,393	5,393
Others	5,329	1	106	–	192	5,628
Balance at December 31, 2018	925,753	40,636	7,520	1,101	10,907	985,917
Auto loans						
Balance at January 1, 2018	32,153	66,459	1,578	14,490	3,485	118,165
New assets originated or purchased	10,921	35,206	–	–	–	46,127
Assets derecognized or repaid	(14,699)	(18,665)	(335)	(7,651)	(2,511)	(43,861)
Amounts written off	–	–	–	(12)	(447)	(459)
Transfers to/(from) Stage 1	775	(15,399)	–	–	–	(14,624)
Transfers to/(from) Stage 2	–	–	(894)	12,026	–	11,132
Transfers to/(from) Stage 3	–	–	–	–	3,492	3,492
Balance at December 31, 2018	29,150	67,601	349	18,853	4,019	119,972
Residential mortgage loans						
Balance at January 1, 2018	46,939	36,429	5,519	8,662	2,187	99,736
New assets originated or purchased	16,378	10,240	–	–	–	26,618
Assets derecognized or repaid	(10,493)	(4,398)	(752)	(2,016)	(748)	(18,407)
Transfers to/(from) Stage 1	2,416	(2,816)	–	–	–	(400)
Transfers to/(from) Stage 2	–	–	(2,980)	2,245	–	(735)
Transfers to/(from) Stage 3	–	–	–	–	1,135	1,135
Balance at December 31, 2018	55,240	39,455	1,787	8,891	2,574	107,947

(Forward)

	Consolidated					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Trade loans						
Balance at January 1, 2018	₱40,624	₱–	₱395	₱–	₱101	₱41,120
New assets originated or purchased	62,840	–	–	–	–	62,840
Assets derecognized or repaid	(41,071)	–	(253)	–	(20)	(41,344)
Transfers to/(from) Stage 1	(151)	–	–	–	–	(151)
Transfers to/(from) Stage 2	–	–	134	–	–	134
Transfers to/(from) Stage 3	–	–	–	–	17	17
Others	509	–	–	–	1	510
Balance at December 31, 2018	62,751	–	276	–	99	63,126
Other loans						
Balance at January 1, 2018	71,885	10,018	2,022	2,007	1,753	87,685
New assets originated or purchased	24,527	26,264	–	–	–	50,791
Assets derecognized or repaid	(8,954)	(11,673)	(59)	(609)	(242)	(21,537)
Amounts written off	(1)	(2)	–	(66)	(5,617)	(5,686)
Transfers to/(from) Stage 1	(6,453)	(826)	–	–	–	(7,279)
Transfers to/(from) Stage 2	–	–	114	953	–	1,067
Transfers to/(from) Stage 3	–	–	–	–	6,212	6,212
Others	6	–	–	–	–	6
Balance at December 31, 2018	81,010	23,781	2,077	2,285	2,106	111,259
Total receivables from customers						
Balance at January 1, 2018	1,039,500	160,146	18,728	26,156	13,346	1,257,876
New assets originated or purchased	580,577	84,440	–	–	–	665,017
Assets derecognized or repaid	(461,433)	(53,589)	(5,095)	(10,534)	(3,941)	(534,592)
Amounts written off	(1)	(2)	(1)	(78)	(6,142)	(6,224)
Transfers to/(from) Stage 1	(10,583)	(19,523)	–	–	–	(30,106)
Transfers to/(from) Stage 2	–	–	(1,729)	15,586	–	13,857
Transfers to/(from) Stage 3	–	–	–	–	16,249	16,249
Others	5,844	1	106	–	193	6,144
Balance at December 31, 2018	₱1,153,904	₱171,473	₱12,009	₱31,130	₱19,705	₱1,388,221

	Parent Company						
	Stage1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Commercial loans							
Balance at January 1, 2018	₱839,156	₱–	₱9,092	₱–	₱1,880	₱3,383	₱853,511
New assets originated or purchased	474,250	–	–	–	–	–	474,250
Assets derecognized or repaid	(381,738)	–	(3,661)	–	(265)	(74)	(385,738)
Transfers to/(from) Stage 1	(6,923)	–	–	–	–	–	(6,923)
Transfers to/(from) Stage 2	–	–	1,810	–	–	–	1,810
Transfers to/(from) Stage 3	–	–	–	–	5,113	–	5,113
Others	5,329	–	106	–	192	–	5,627
Balance at December 31, 2018	930,074	–	7,347	–	6,920	3,309	947,650
Auto loans							
Balance at January 1, 2018	32,153	–	1,579	–	151	–	33,883
New assets originated or purchased	10,921	–	–	–	–	–	10,921
Assets derecognized or repaid	(14,698)	–	(335)	–	(90)	–	(15,123)
Transfers to/(from) Stage 1	774	–	–	–	–	–	774
Transfers to/(from) Stage 2	–	–	(894)	–	–	–	(894)
Transfers to/(from) Stage 3	–	–	–	–	120	–	120
Balance at December 31, 2018	29,150	–	350	–	181	–	29,681
Residential mortgage loans							
Balance at January 1, 2018	46,938	–	5,519	–	684	–	53,141
New assets originated or purchased	16,379	–	–	–	–	–	16,379
Assets derecognized or repaid	(10,492)	–	(752)	–	(302)	–	(11,546)
Transfers to/(from) Stage 1	2,414	–	–	–	–	–	2,414
Transfers to/(from) Stage 2	–	–	(2,980)	–	–	–	(2,980)
Transfers to/(from) Stage 3	–	–	–	–	566	–	566
Balance at December 31, 2018	55,239	–	1,787	–	948	–	57,974
Trade loans							
Balance at January 1, 2018	40,574	–	395	–	101	–	41,070
New assets originated or purchased	62,826	–	–	–	–	–	62,826
Assets derecognized or repaid	(41,071)	–	(253)	–	(20)	–	(41,344)
Transfers to/(from) Stage 1	(151)	–	–	–	–	–	(151)
Transfers to/(from) Stage 2	–	–	134	–	–	–	134
Transfers to/(from) Stage 3	–	–	–	–	17	–	17
Others	509	–	–	–	1	–	510
Balance at December 31, 2018	62,687	–	276	–	99	–	63,062
Other loans							
Balance at January 1, 2018	12,793	–	–	–	42	–	12,835
New assets originated or purchased	8,118	–	–	–	–	–	8,118
Assets derecognized or repaid	(8,387)	–	–	–	(1)	–	(8,388)
Others	6	–	–	–	–	–	6
Balance at December 31, 2018	12,530	–	–	–	41	–	12,571

(Forward)

	Parent Company						
	Stage1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Total receivables from customers							
Balance at January 1, 2018	₱971,614	₱–	₱16,585	₱–	₱2,858	₱3,383	₱994,440
New assets originated or purchased	572,494	–	–	–	–	–	572,494
Assets derecognized or repaid	(456,386)	–	(5,001)	–	(678)	(74)	(462,139)
Transfers to/(from) Stage 1	(3,886)	–	–	–	–	–	(3,886)
Transfers to/(from) Stage 2	–	–	(1,930)	–	–	–	(1,930)
Transfers to/(from) Stage 3	–	–	–	–	5,816	–	5,816
Others	5,844	–	106	–	193	–	6,143
Balance at December 31, 2018	₱1,089,680	₱–	₱9,760	₱–	₱8,189	₱3,309	₱1,110,938

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2018 follows:

	Consolidated					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Unquoted debt securities						
Standard grade	₱632	₱–	₱–	₱–	₱–	₱632
Non-performing individually impaired	–	–	–	–	386	386
	632	–	–	–	386	1,018
Accrued interest receivable						
High grade	4,305	1,758	–	120	–	6,183
Standard grade	2,783	4	6	99	–	2,892
Sub-standard grade	488	–	23	26	2	539
Unrated	21	1	–	–	–	22
Past due but not impaired	3	–	–	95	–	98
Non-performing individually impaired	–	–	1	–	932	933
	7,600	1,763	30	340	934	10,667
Sales contract receivables						
High grade	–	45	–	–	–	45
Unrated	–	116	–	–	–	116
Non-performing individually impaired	–	–	–	–	29	29
	–	161	–	–	29	190
Other receivables						
High grade	2	1	–	–	–	3
Standard grade	–	282	–	–	–	282
Unrated	36	12	–	–	–	48
Non-performing individually impaired	–	–	–	–	2	2
	38	295	–	–	2	335
Total other receivables						
High grade	4,307	1,804	–	120	–	6,231
Standard grade	3,415	286	6	99	–	3,806
Sub-standard grade	488	–	23	26	2	539
Unrated	57	129	–	–	–	186
Past due but not impaired	3	–	–	95	–	98
Non-performing individually impaired	–	–	1	–	1,349	1,350
	₱8,270	₱2,219	₱30	₱340	₱1,351	₱12,210

	Parent Company					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Unquoted debt securities						
Non-performing individually impaired	₱–	₱–	₱–	₱–	₱386	₱386
Accrued interest receivable						
High grade	4,188	–	–	–	–	4,188
Standard grade	2,737	–	6	–	–	2,743
Sub-standard grade	487	–	23	–	2	512
Unrated	20	1	–	–	–	21
Past due but not impaired	3	–	–	–	–	3
Non-performing individually impaired	–	–	1	–	519	520
	7,435	1	30	–	521	7,987
Sales contract receivables						
Unrated	–	117	–	–	–	117
Non-performing individually impaired	–	–	–	–	2	2
	–	117	–	–	2	119
Other receivables						
Unrated	–	11	–	–	–	11
Non-performing individually impaired	–	–	–	–	2	2
	–	11	–	–	2	13

(Forward)

	Parent Company					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Total other receivables						
High grade	₱4,188	₱–	₱–	₱–	₱–	₱4,188
Standard grade	2,737	–	6	–	–	2,743
Sub-standard grade	487	–	23	–	2	512
Unrated	20	129	–	–	–	149
Past due but not impaired	3	–	–	–	–	3
Non-performing individually impaired	–	–	1	–	909	910
	₱7,435	₱129	₱30	₱–	₱911	₱8,505

* Excludes statutory receivable which are not considered financial assets.

Movements during 2018 for other receivables follow:

	Consolidated					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Balance at January 1, 2018	₱6,957	₱1,942	₱145	₱307	₱878	₱10,229
New assets originated or purchased	3,107	704	–	–	–	3,811
Assets derecognized or repaid	(1,252)	(253)	(55)	(50)	(218)	(1,828)
Transfers to/(from) Stage 1	(542)	(174)	–	–	–	(716)
Transfers to/(from) Stage 2	–	–	(60)	83	–	23
Transfers to/(from) Stage 3	–	–	–	–	693	693
Others	–	–	–	–	(2)	(2)
Balance at December 31, 2018	₱8,270	₱2,219	₱30	₱340	₱1,351	₱12,210

	Parent Company					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Balance at January 1, 2018	₱5,979	₱25	₱145	₱–	₱726	₱6,875
New assets originated or purchased	2,748	113	–	–	–	2,861
Assets derecognized or repaid	(1,108)	(9)	(55)	–	(57)	(1,229)
Transfers to/(from) Stage 1	(184)	–	–	–	–	(184)
Transfers to/(from) Stage 2	–	–	(60)	–	–	(60)
Transfers to/(from) Stage 3	–	–	–	–	244	244
Others	–	–	–	–	(2)	(2)
Balance at December 31, 2018	₱7,435	₱129	₱30	₱–	₱911	₱8,505

The credit risk exposure on the accounts receivable (excluding statutory receivables which are not considered financial assets) of the Group and the Parent Company based on their aging as of December 31, 2018 follows:

	Age of accounts receivables				
	Up to 1 month	> 1 to 2 months	> 2 to 3 months	More than 3 months	Total gross carrying amount
Consolidated	₱5,256	₱126	₱55	₱4,218	₱9,655
Parent Company	₱2,359	₱57	₱18	₱3,541	₱5,975

The credit quality of loan commitments and financial guarantees as of December 31, 2018 follows:

	Consolidated					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
High grade	₱71	₱–	₱–	₱–	₱–	₱71
Standard grade	188,211	–	–	–	–	188,211
Unrated	69,513	–	84	–	–	69,597
	₱257,795	₱–	₱84	₱–	₱–	₱257,879

	Parent Company					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Unrated	₱69,513	₱–	₱84	₱–	₱–	₱69,597

Movements during 2018 for loan commitments and financial guarantees follow:

	Consolidated					
	Stage1		Stage 2			
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**Total**
Balance at January 1, 2018	**₱228,559**	**₱–**	**₱302**	**₱–**	**₱–**	**₱228,861**
New assets originated or purchased	**50,093**	–	–	–	–	**50,093**
Assets derecognized or repaid	**(20,980)**	–	**(95)**	–	–	**(21,075)**
Transfers to/(from) Stage 1	**123**	–	–	–	–	**123**
Transfers to/(from) Stage 2	–	–	**(123)**	–	–	**(123)**
Balance at December 31, 2018	**₱257,795**	**₱–**	**₱84**	**₱–**	**₱–**	**₱257,879**

	Parent Company					
	Stage1		Stage 2			
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**Total**
Balance at January 1, 2018	**₱68,419**	**₱–**	**₱302**	**₱–**	**₱–**	**₱68,721**
New assets originated or purchased	**21,939**	–	–	–	–	**21,939**
Assets derecognized or repaid	**(20,968)**	–	**(95)**	–	–	**(21,063)**
Transfers to/(from) Stage 1	**123**	–	–	–	–	**123**
Transfers to/(from) Stage 2	–	–	**(123)**	–	–	**(123)**
Balance at December 31, 2018	**₱69,513**	**₱–**	**₱84**	**₱–**	**₱–**	**₱69,597**

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

	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Consolidated					
Neither past due nor impaired	₱1,243,084	₱338,725	₱342,111	₱231,392	₱2,155,312
Past due but not individually impaired	19,963	–	–	–	19,963
Impaired	14,336	–	1	9,614	23,951
Gross	1,277,383	338,725	342,112	241,006	2,199,226
Less allowance for credit losses	16,407	–	1	9,614	26,022
Net	₱1,260,976	₱338,725	₱342,111	₱231,392	₱2,173,204
Parent Company					
Neither past due nor impaired	₱996,138	₱271,217	₱270,041	₱69,996	₱1,607,392
Past due but not individually impaired	553	–	–	–	553
Impaired	10,326	–	–	9,614	19,940
Gross	1,007,017	271,217	270,041	79,610	1,627,885
Less allowance for credit losses	8,589	–	–	9,614	18,203
Net	₱998,428	₱271,217	₱270,041	₱69,996	₱1,609,682

* Comprised of due from BSP, due from other banks and interbank loans receivable and SPURA.
** Comprised of AFS debt 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) as of December 31, 2017:

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
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
AFS investments					
Debt securities					
Government	33,859	1,455	–	3,498	38,812
Private	50,980	2,720	–	53	53,753
Treasury bills	115	–	–	–	115
Treasury notes and bonds	249,380	–	–	51	249,431
	334,334	4,175	–	3,602	342,111

(Forward)

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and receivables					
Receivables from customers					
Commercial loans	₱275,149	₱524,599	₱106,762	₱–	₱906,510
Auto loans	73,895	30,551	43	–	104,489
Residential mortgage loans	41,600	50,450	1,169	–	93,219
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
	₱1,142,779	₱660,911	₱110,391	₱241,231	₱2,155,312

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
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
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
	265,222	1,270	–	3,549	270,041
Loans and receivables					
Receivables from customers					
Commercial loans	261,376	479,810	106,545	–	847,731
Auto loans	3,387	30,327	23	–	33,737
Residential mortgage loans	1,799	49,758	1,038	–	52,595
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
	₱823,261	₱596,486	₱109,854	₱77,791	₱1,607,392

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

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Commercial loans	**₱1,798**	₱2,897	**₱1,793**	₱2,869
Auto loans	**25**	32	**–**	–
Residential mortgage loans	**123**	153	**23**	23
Others	**164**	195	**–**	–
	₱2,110	₱3,277	**₱1,816**	₱2,892

As of December 31, 2018, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	Consolidated					
	Number of days past due					
	Within 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**Over 180 days**	**Total**
Auto loans	**₱61**	**₱14**	**₱10**	**₱34**	**₱1,464**	**₱1,583**
Residential mortgage loans	**266**	**88**	**43**	**120**	**838**	**1,355**
	₱327	**₱102**	**₱53**	**₱154**	**₱2,302**	**₱2,938**

	Parent Company					
	Number of days past due					
	Within 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**Over 180 days**	**Total**
Auto loans	**₱54**	**₱12**	**₱9**	**₱26**	**₱103**	**₱204**
Residential mortgage loans	**265**	**87**	**43**	**119**	**436**	**950**
	₱319	**₱99**	**₱52**	**₱145**	**₱539**	**₱1,154**

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2017 is shown below:

	Consolidated					
	Number of days past due					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
Receivables from customers						
Commercial loans	₱139	₱12	₱22	₱34	₱134	₱341
Auto loans	5,461	2,435	1,176	1,293	1,394	11,759
Residential mortgage loans	2,891	1,010	344	306	657	5,208
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

	Parent Company					
	Number of days past due					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
Receivables from customers						
Commercial loans	₱–	₱–	₱7	₱28	₱126	₱161
Auto loans	–	–	–	1	145	146
Residential mortgage loans	–	–	–	2	232	234
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

Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the inability to meet obligations when they come due. This may be caused by the inability to liquidate assets or to obtain funding to meet liquidity needs.

The Group manages its liquidity risk by holding adequate stock of high quality liquid assets, analyzing net funding requirements over time, diversification of funding sources and contingency planning.

To measure the prospective liquidity needs, the Group uses Maximum Cumulative Outflow (MCO), a liquidity gap tool to project short-term as well as long-term cash flow expectations on a business-as-usual condition.

The MCO is generated by distributing the cash flows of the Group's assets, liabilities and off-balance sheet items to time bands based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

Cash flows from assets are considered as cash inflows, while cash flows from liabilities are considered cash outflows. The net cash flows are determined for each given time period. If the inflows exceed the outflows, the Group is said to have a positive liquidity gap or excess funds for the given time bucket. Conversely, if the outflows exceed the inflows, the Group is said to have a negative liquidity gap or funding need for the given time bucket

The MCO is monitored regularly to ensure that it remains within the set limits. The Parent Company generates and monitors daily its MCO. The subsidiaries generate at least monthly their respective MCO reports. The liquidity profile of the Group is reported monthly to the Parent Company's ROC.

To supplement the business-as-usual scenario parameters reflected in the MCO report, the Group also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to the Group's liquidity profile. Liquidity stress testing is performed quarterly.

Financial assets

Analysis of debt securities into 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
2018							
Financial Assets							
Cash and other cash items	₱33,091	₱–	₱–	₱–	₱–	₱–	₱33,091
Due from BSP	240,134	–	–	–	–	–	240,134
Due from other banks	40,058	3,728	2,036	–	–	–	45,822
Interbank loans receivable and SPURA	2,200	27,992	13,294	3,749	3,521	–	50,756
Investment securities at FVTPL							
HFT investments	–	9,508	20,036	–	–	39	29,583
Derivative assets							
Trading:							
Receive	4	34,677	27,348	13,324	3,734	–	79,087
Pay	–	(59,215)	(24,785)	(12,371)	(5,417)	–	(101,788)
	4	(24,538)	2,563	953	(1,683)	–	(22,701)
Investment securities at FVOCI	–	309	1,314	5,405	15,132	109,071	131,231
Investment securities at amortized cost	29	40	253	929	3,773	366,156	371,180
Loans and receivables							
Receivables from customers	49,067	242,271	173,781	125,761	89,350	984,476	1,664,706
Unquoted debt securities	–	9	–	9	18	1,306	1,342
Accrued interest receivable	8,546	1,319	358	377	67	–	10,667
Accounts receivable	8,515	564	24	5	56	491	9,655
Sales contract receivable	8	1	13	14	26	143	205
Other receivables	15	320	–	–	–	–	335
Other assets							
Residual value of leased assets	28	40	61	67	158	776	1,130
Returned checks and other cash items	417	–	–	–	–	–	417
Miscellaneous	11	2	2	5	6	191	217
	₱382,123	₱261,565	₱213,735	₱137,274	₱110,424	₱1,462,649	₱2,567,770
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱355,473	₱–	₱–	₱–	₱–	₱–	₱355,473
Savings	609,471	–	–	–	–	–	609,471
Time	–	328,841	133,644	38,455	28,169	20,887	549,996
Long-term negotiable certificates of deposit (LTNCD)	–	34	104	375	750	49,814	51,077
	964,944	328,875	133,748	38,830	28,919	70,701	1,566,017
Bills payable and SSURA	1,155	87,961	65,458	35,957	24,933	52,487	267,951
Manager's checks and demand drafts outstanding	7,565	–	–	–	–	–	7,565
Accrued interest payable	329	1,141	2,154	240	90	334	4,288
Accrued other expenses	2,592	848	325	195	–	2	3,962
Bonds payable	–	67	265	501	3,964	30,002	34,799
Subordinated debts	–	–	301	16,360	290	12,008	28,959
Non-equity non-controlling interest	6,747	–	–	–	–	–	6,747
Other liabilities							
Bills purchased - contra	12,171	–	–	–	–	–	12,171
Accounts payable	3,101	10,446	–	2,082	–	–	15,629
Marginal deposits	82	–	4,150	–	–	–	4,232
Outstanding acceptances	–	898	419	225	251	–	1,793
Deposits on lease contracts	–	46	93	81	320	1,103	1,643
Notes payable	–	16	31	47	96	2,699	2,889
Dividends payable	–	90	–	–	–	–	90
Miscellaneous	8	–	–	–	–	–	8
	998,694	430,388	206,944	94,518	58,863	169,336	1,958,743
Derivative liabilities*							
Trading:							
Pay	–	73,574	40,125	66,613	5,474	7,402	193,188
Receive	–	(36,064)	(30,290)	(15,322)	(4,895)	(7,277)	(93,848)
	–	37,510	9,835	51,291	579	125	99,340
Loan commitments and financial guarantees	199,507	7,373	19,844	10,917	14,763	5,475	257,879
	₱1,198,201	₱475,271	₱236,623	₱156,726	₱74,205	₱174,936	₱2,315,962

	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
Investment securities at FVTPL							
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 debts	–	–	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
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

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2018							
Financial Assets							
Cash and other cash items	₱29,280	₱–	₱–	₱–	₱–	₱–	₱29,280
Due from BSP	206,289	–	–	–	–	–	206,289
Due from other banks	29,607	3,701	1,923	–	–	–	35,231
Interbank loans receivable and SPURA	–	18,046	6,106	–	601	–	24,753
Investment securities at FVTPL							
HFT investments	–	–	20,036	–	–	38	20,074
Derivative assets							
Trading:							
Receive	–	34,674	27,341	13,324	3,734	–	79,073
Pay	–	(59,215)	(24,785)	(12,371)	(5,417)	–	(101,788)
	–	(24,541)	2,556	953	(1,683)	–	(22,715)
Investment securities at FVOCI	–	240	866	4,788	10,751	91,191	107,836
Investment securities at amortized cost	–	–	57	–	423	298,611	299,091
Loans and receivables							
Receivables from customers	6,227	236,314	159,325	107,788	43,325	732,624	1,285,603
Unquoted debt securities	–	–	–	–	–	595	595
Accrued interest receivable	7,987	–	–	–	–	–	7,987
Accounts receivable	5,975	–	–	–	–	–	5,975
Sales contract receivable	4	1	13	13	25	77	133
Other receivables	13	–	–	–	–	–	13
Other assets							
Returned checks and other cash items	397	–	–	–	–	–	397
	₱285,779	₱233,761	₱190,882	₱113,542	₱53,442	₱1,123,136	₱2,000,542
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱322,371	₱–	₱–	₱–	₱–	₱–	₱322,371
Savings	577,815	–	–	–	–	–	577,815
Time	–	255,265	98,486	24,356	12,121	1,563	391,791
LTNCD	–	34	104	375	750	39,946	41,209
	900,186	255,299	98,590	24,731	12,871	41,509	1,333,186
Bills payable and SSURA	–	58,122	42,463	26,629	5,396	21,201	153,811
Manager's checks and demand drafts outstanding	5,950	–	–	–	–	–	5,950
Accrued interest payable	–	807	1,149	238	88	93	2,375
Accrued other expenses	1,881	–	–	–	–	–	1,881
Bonds payable	–	–	265	501	1,001	30,002	31,769
Subordinated debts	–	–	241	16,300	171	6,756	23,468
Other liabilities							
Bills purchased - contra	12,158	–	–	–	–	–	12,158
Accounts payable	–	7,104	–	–	–	–	7,104
Outstanding acceptances	–	898	419	225	251	–	1,793
Marginal deposits	–	–	166	–	–	–	166
	920,175	322,230	143,293	68,624	19,778	99,561	1,573,661
Derivative liabilities*							
Trading:							
Pay	–	73,574	40,122	66,613	5,474	–	185,783
Receive	–	(36,064)	(30,290)	(15,322)	(4,895)	–	(86,571)
	–	37,510	9,832	51,291	579	–	99,212
Loan commitments and financial guarantees	11,296	7,373	19,791	10,900	14,762	5,475	69,597
	₱931,471	₱367,113	₱172,916	₱130,815	₱35,119	₱105,036	₱1,742,470

	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
Investment securities at FVTPL							
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 debts	–	–	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

*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 exchange rates, and other market factors. Market risk originates from holdings in foreign currencies, debt securities, and derivatives transactions. It is managed by segregating the balance sheet into a trading book and a banking book. ALCO, chaired by the President, is the senior review and decision-making body for the management of all related market risks. A set of risk limits is enforced to properly monitor and manage market risks. The risk limits are approved by the BOD. 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.

As part of group supervision, 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).

To the extent possible, the risk management framework used in monitoring and controlling market risk of the Parent Company, are aligned across the Group. While the Parent Company sets the said framework, each institution has its own risk management unit responsible in monitoring the market risk exposure of their institution.

Market risk - trading book
In measuring the potential loss in its trading portfolio, the Parent Company uses VaR. VaR is an estimate of 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 Trading Book VaR daily and this value is compared against the set VaR limit. Meanwhile, the Group VaR is monitored and reported monthly.

VaR methodology assumptions and parameters
Historical Simulation (HS) is used to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the 260-day historical period. In calculating VaR, a 99.00% confidence level and a one-day holding period are assumed. 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 HS 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 backtesting analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily backtesting 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, 2018			
December 28	**₱47.91**	**₱34.15**	**₱2.58**
Average	**71.66**	**77.34**	**13.52**
Highest	**250.69**	**214.96**	**37.96**
Lowest	**23.21**	**28.84**	**1.88**
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

Rates and Foreign Exchange (FX) VaR is the correlated VaR of the following products: FX spot, outright forward, non-deliverable forwards, FX swaps, interest rate swaps, 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, 2018						
December 28	**₱–**	**₱7.58**	**₱–**	**₱0.00**	**₱–**	**₱0.86**
Average	**8.32**	**11.90**	**0.34**	**0.50**	**0.86**	**0.92**
Highest	**24.61**	**37.26**	**4.06**	**12.17**	**12.14**	**3.64**
Lowest	**1.45**	**4.40**	**1.31**	**0.00**	**–**	**0.12**
As of December 31, 2017						
December 29	23.75	0.56	7.29	8.64	–	1.14
Average	23.79	5.36	3.43	9.33	9.11	0.88
Highest	97.03	13.32	7.91	30.31	39.34	1.30
Lowest	5.66	0.06	0.36	0.00	0.47	0.18

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 and the results are reported to the ALCO and, subsequently, to the ROC and BOD. On a Group-wide perspective, stress testing is done, at least, on an annual basis. The results are reported by the Parent Company's Risk Management Group to the BOD through ROC. Furthermore, the results and contagion effects relevant to the specific institution will be reported by the institutions Risk Management Unit to their respective Senior Management and Board-level ROC.

Market risk - banking book
The Parent Company and its subsidiaries have in place their risk management system and processes to quantify and manage their respective market risks in the banking book.

The Group assesses interest rate risk in the banking book using measurement tools such as Interest Rate Repricing Gap, EaR, Delta Economic Value of Equity (ΔEVE), and Sensitivity Analysis.

Interest Rate Repricing Gap is a tool that distributes rate-sensitive assets and liabilities into pre-defined tenor buckets according to time remaining to their maturity (if fixed rate) or repricing (if floating rate). Items lacking definitive repricing schedule (e.g., current and savings account) and items with actual maturities that could vary from contractual maturities (e.g., securities with embedded options) are assigned to repricing tenor buckets based on analysis of historical patterns, past experience and/or expert judgment.

EaR measures the possible decline in the Group's net interest income as a result of adverse interest rate movements, given the current repricing profile. It is a tool used to evaluate the sensitivity of the accrual portfolio to changes in interest rates in the adverse direction over the next twelve (12) months.

EaR methodology assumptions and parameters
The Parent Company and its Subsidiaries calculate EaR using HS approach, with one-year horizon and using five years data. EaR is then derived as the 99th percentile biggest drop in net interest income. This methodology was implemented starting 2018, thus resulting to significant changes in the EaR figures below.

The table below shows the EaR profile of the Parent Company and certain subsidiaries as of December 31, 2018 and 2017:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro	Total
2018	**(₱1,407.13)**	**(₱166.00)**	**(₱1,121.72)**	**(₱197.34)**	**(₱18.12)**	**(₱2,910.31)**
2017	(7,196.49)	(410.00)	(781.20)	(82.19)	(2.38)	(8,472.26)

The Parent Company generates and monitors daily its EaR exposure. The subsidiaries generate at least monthly their respective EaR reports.

In addition to EaR, starting 2018, the Parent Company uses ΔEVE to measure changes in the net present value of its banking book at different interest rates shocks and stress scenarios. It reflects changes in the economic value of equity over the remaining life of the assets and liabilities, i.e. run-off assumption. ΔEVE is calculated by slotting the notional repricing cash flows arising from rate-sensitive assets and liabilities into pre-defined tenor buckets. The present value of the net repricing cash flows is then calculated using various interest rate scenarios prescribed by Basel and internally developed by the Parent Company. As of December 31, 2018, the ΔEVE of the Parent Company amounted to (₱17.4 billion).

Aside from the EaR and ΔEVE, the Parent Company and its subsidiaries perform regular sensitivity and stress testing analysis on their banking books to further broaden their forward-looking analysis. This way, management can craft strategies to address and/or arrest probable risks, if necessary.

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**					
	2018			2017			**2018**			2017		
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%	**(121.52)**	**1.89**	+1.00%	37.13	7.51	+1.00%	**(34.54)**	**0.09**	+1.00%	36.43	0.44
EUR	+1.00%	**24.26**	**0.00**	+1.00%	31.31	0.00	+1.00%	**23.40**	**0.00**	+1.00%	29.11	0.00
JPY	+1.00%	**(18.51)**	**0.00**	+1.00%	(11.53)	0.00	+1.00%	**(18.51)**	**0.00**	+1.00%	(11.53)	0.00
GBP	+1.00%	**22.25**	**0.00**	+1.00%	18.46	0.00	+1.00%	**22.25**	**0.00**	+1.00%	18.46	0.00
Others	+1.00%	**11.41**	**0.00**	+1.00%	(1.83)	0.00	+1.00%	**11.41**	**0.00**	+1.00%	(1.83)	0.00

	Consolidated						**Parent Company**					
	2018			2017			**2018**			2017		
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%	**121.52**	**(1.89)**	-1.00%	(37.13)	(7.51)	-1.00%	**34.54**	**(0.09)**	-1.00%	(36.43)	(0.44)
EUR	-1.00%	**(22.53)**	**0.00**	-1.00%	(31.31)	0.00	-1.00%	**(23.40)**	**0.00**	-1.00%	(29.11)	0.00
JPY	-1.00%	**18.51**	**0.00**	-1.00%	11.53	0.00	-1.00%	**18.51**	**0.00**	-1.00%	11.53	0.00
GBP	-1.00%	**(22.25)**	**0.00**	-1.00%	(18.46)	0.00	-1.00%	**(22.25)**	**0.00**	-1.00%	(18.46)	0.00
Others	-1.00%	**(11.41)**	**0.00**	-1.00%	1.83	0.00	-1.00%	**(11.41)**	**0.00**	-1.00%	1.83	0.00

Information relating to Parent Company’s currency derivatives is included in Note 8. As of December 31, 2018 and 2017, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱7.6 billion and ₱4.5 billion, respectively (sold), and ₱8.8 billion and ₱10.8 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.

BSP Reporting

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) of 10.00%. These ratios shall be maintained at all times. Further, BSP Circular No. 856 covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks 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 was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The details of CAR, as reported to the BSP, as of December 31, 2018 and 2017 follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Tier 1 capital	**₱278,930**	₱207,096	**₱281,282**	₱196,170
CET1 Capital	**278,930**	207,096	**281,282**	196,170
Less: Required deductions	**31,156**	26,824	**106,847**	69,006
Net Tier 1 Capital	**247,774**	180,272	**174,435**	127,164
Tier 2 capital	**41,177**	39,013	**32,649**	31,449
Total Qualifying Capital	**₱288,951**	₱219,285	**₱207,084**	₱158,613
Credit Risk-Weighted Assets	**₱1,469,970**	₱1,299,292	**₱1,160,414**	₱1,014,289
Market Risk-Weighted Assets	**57,101**	65,540	**46,045**	52,410
Operational Risk-Weighted Assets	**174,345**	163,790	**102,152**	107,484
Total Risk-Weighted Assets	**1,701,416**	1,528,622	**1,308,611**	1,174,183
CET1 Ratio*	**14.56%**	11.79%	**13.33%**	10.83%
Tier 1 capital ratio	**14.56%**	11.79%	**13.33%**	10.83%
Total capital ratio	**16.98%**	14.35%	**15.82%**	13.51%

** of which capital conservation buffer in 2018 and 2017 is 8.56% and 5.79%, respectively, for the Group and 7.33% and 4.83%, 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, OCI and non-controlling interest less required regulatory deductions. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debts and general loan loss provision.

RWA consist of total assets excluding 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. Operational RWA are computed using the Basic Indicator Approach. As of December 31, 2018, as discussed in Note 30, 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 Internal Capital Adequacy Assessment Process (ICAAP) supplements the BSP's risk-based capital adequacy framework. 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.

Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Leverage Ratio framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

Liquidity Coverage Ratio (LCR)
On March 10, 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on 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 not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

5. Fair Value Measurement

Financial Instruments
The methods and assumptions used by the Group and the Parent Company in estimating the fair values of financial assets and financial liabilities 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 and equity securities are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group and the Parent Company obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. In 2017, unquoted equity securities 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. In 2018, remeasurement of such unquoted equity securities to their fair values is not material to the financial statements.

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 their current use.

The following tables summarize the carrying amounts and fair values of 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)

	2018				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Private	**₱9,257**	**₱9,257**	**₱–**	**₱–**	**₱9,257**
Government	**6,247**	**6,247**	**–**	**–**	**6,247**
Treasury notes and bonds	**4,285**	**4,285**	**–**	**–**	**4,285**
Treasury bills	**2,642**	**2,642**	**–**	**–**	**2,642**
BSP	**2**	**2**	**–**	**–**	**2**
	22,433	**22,433**	**–**	**–**	**22,433**
Equity securities	**6,605**	**6,605**	**–**	**–**	**6,605**
Derivative assets					
Cross currency swaps	**8,222**	**–**	**8,222**	**–**	**8,222**
Currency forwards	**1,223**	**–**	**1,223**	**–**	**1,223**
Interest rate swaps	**1,205**	**–**	**1,205**	**–**	**1,205**
Put option	**1**	**–**	**1**	**–**	**1**
	10,651	**–**	**10,651**	**–**	**10,651**
	39,689	**29,038**	**10,651**	**–**	**39,689**
Investment securities at FVOCI					
Debt securities					
Private	**42,369**	**36,498**	**5,871**	**–**	**42,369**
Treasury notes and bonds	**40,786**	**40,786**	**–**	**–**	**40,786**
Government	**27,004**	**26,610**	**394**	**–**	**27,004**
	110,159	**103,894**	**6,265**	**–**	**110,159**
Equity securities	**1,129**	**945**	**184**	**–**	**1,129**
	111,288	**104,839**	**6,449**	**–**	**111,288**
	₱150,977	**₱133,877**	**₱17,100**	**₱–**	**₱150,977**
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	**₱237,464**	**₱202,537**	**₱–**	**₱–**	**₱202,537**
Government	**21,823**	**20,700**	**–**	**–**	**20,700**
Private	**6,040**	**5,654**	**–**	**–**	**5,654**
Treasury bills	**49**	**49**	**–**	**–**	**49**
	265,376	**228,940**	**–**	**–**	**228,940**
Loans and receivables - net					
Receivables from customers					
Commercial loans	**977,404**	**–**	**–**	**975,343**	**975,343**
Auto loans	**117,309**	**–**	**–**	**138,227**	**138,227**

(Forward)

	2018				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Residential mortgage loans	**₱107,079**	**₱–**	**₱–**	**₱128,752**	**₱128,752**
Trade loans	**62,786**	**–**	**–**	**62,786**	**62,786**
Others	**106,014**	**–**	**–**	**106,910**	**106,910**
	1,370,592	**–**	**–**	**1,412,018**	**1,412,018**
Unquoted debt securities	**632**	**–**	**–**	**635**	**635**
Sales contract receivable	**156**	**–**	**–**	**196**	**196**
	1,371,380	**–**	**–**	**1,412,849**	**1,412,849**
Other assets					
Residual value of leased assets	**1,130**	**–**	**–**	**1,006**	**1,006**
Miscellaneous	**207**	**–**	**–**	**315**	**315**
	1,337	**–**	**–**	**1,321**	**1,321**
	1,638,093	**228,940**	**–**	**1,414,170**	**1,643,110**
Non-Financial Assets					
Investment properties	**7,500**	**–**	**–**	**14,224**	**14,224**
	₱1,645,593	**₱228,940**	**₱–**	**₱1,428,394**	**₱1,657,334**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross currency swaps	**₱3,857**	**₱–**	**₱3,857**	**₱–**	**₱3,857**
Currency forwards	**1,388**	**–**	**1,388**	**–**	**1,388**
Interest rate swaps	**1,290**	**–**	**1,290**	**–**	**1,290**
Put option	**2**	**–**	**2**	**–**	**2**
Non-equity non-controlling interest	**6,747**	**–**	**6,747**	**–**	**6,747**
	₱13,284	**₱–**	**₱13,284**	**₱–**	**₱13,284**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	**₱548,019**	**₱–**	**₱–**	**₱548,837**	**₱548,837**
LTNCD	**43,790**	**40,354**	**–**	**–**	**40,354**
	591,809	**40,354**	**–**	**548,837**	**589,191**
Bills payable and SSURA	**259,607**	**–**	**–**	**273,567**	**273,567**
Bonds payable	**30,743**	**28,023**	**–**	**2,944**	**30,967**
Subordinated debts	**26,618**	**22,047**	**–**	**3,355**	**25,402**
Other liabilities					
Notes payable	**2,600**	**–**	**–**	**2,575**	**2,575**
Deposits on lease contracts	**1,643**	**–**	**–**	**1,376**	**1,376**
	₱913,020	**₱90,424**	**₱–**	**₱832,654**	**₱923,078**

	2018				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Private	**₱8,571**	**₱8,571**	**₱–**	**₱–**	**₱8,571**
Government	**6,063**	**6,063**	**–**	**–**	**6,063**
Treasury notes and bonds	**3,394**	**3,394**	**–**	**–**	**3,394**
Treasury bills	**1,460**	**1,460**	**–**	**–**	**1,460**
BSP	**2**	**2**	**–**	**–**	**2**
	19,490	**19,490**	**–**	**–**	**19,490**
Equity securities	**38**	**38**	**–**	**–**	**38**
Derivative assets					
Cross currency swaps	**8,222**	**–**	**8,222**	**–**	**8,222**
Currency forwards	**1,210**	**–**	**1,210**	**–**	**1,210**
Interest rate swaps	**1,205**	**–**	**1,205**	**–**	**1,205**
Put option	**1**	**–**	**1**	**–**	**1**
	10,638	**–**	**10,638**	**–**	**10,638**
	30,166	**19,528**	**10,638**	**–**	**30,166**
Investment securities at FVOCI					
Debt securities					
Treasury notes and bonds	**37,377**	**37,377**	**–**	**–**	**37,377**
Private	**33,073**	**32,499**	**574**	**–**	**33,073**
Government	**21,221**	**21,058**	**163**	**–**	**21,221**
	91,671	**90,934**	**737**	**–**	**91,671**

(Forward)

	2018				
	Parent Company				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Equity securities	**₱473**	**₱412**	**₱61**	**₱–**	**₱473**
	92,144	**91,346**	**798**	**–**	**92,144**
	₱122,310	**₱110,874**	**₱11,436**	**₱–**	**₱122,310**
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	**₱204,164**	**₱173,943**	**₱–**	**₱–**	**₱173,943**
Government	**8,443**	**8,162**	**–**	**–**	**8,162**
	212,607	**182,105**	**–**	**–**	**182,105**
Loans and receivables - net					
Receivables from customers					
Commercial loans	**940,127**	**–**	**–**	**922,105**	**922,105**
Auto loans	**29,444**	**–**	**–**	**29,522**	**29,522**
Residential mortgage loans	**57,500**	**–**	**–**	**57,860**	**57,860**
Trade loans	**62,722**	**–**	**–**	**62,722**	**62,722**
Others	**12,530**	**–**	**–**	**12,530**	**12,530**
	1,102,323	**–**	**–**	**1,084,739**	**1,084,739**
Sales contract receivable	**118**	**–**	**–**	**118**	**118**
	1,102,441	**–**	**–**	**1,084,857**	**1,084,857**
	1,315,048	**182,105**	**–**	**1,084,857**	**1,266,962**
Non-Financial Assets					
Investment properties	**2,825**	**–**	**–**	**6,194**	**6,194**
	₱1,317,873	**₱182,105**	**₱–**	**₱1,091,051**	**₱1,273,156**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross currency swaps	**₱3,505**	**₱–**	**₱3,505**	**₱–**	**₱3,505**
Currency forwards	**1,385**	**–**	**1,385**	**–**	**1,385**
Interest rate swaps	**1,290**	**–**	**1,290**	**–**	**1,290**
Put option	**2**	**–**	**2**	**–**	**2**
	₱6,182	**₱–**	**₱6,182**	**₱–**	**₱6,182**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	**₱390,475**	**₱–**	**₱–**	**₱390,475**	**₱390,475**
LTNCD	**35,330**	**32,661**	**–**	**–**	**32,661**
	425,805	**32,661**	**–**	**390,475**	**423,136**
Bills payable and SSURA	**151,079**	**–**	**–**	**150,852**	**150,852**
Bonds payable	**27,826**	**28,023**	**–**	**–**	**28,023**
Subordinated debts	**22,471**	**22,047**	**–**	**–**	**22,047**
	₱627,181	**₱82,731**	**₱–**	**₱541,327**	**₱624,058**

	2017				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
Debt securities					
Treasury notes and bonds	₱13,383	₱13,383	₱–	₱–	₱13,383
Private	9,560	8,884	676	–	9,560
Government	5,310	5,310	–	–	5,310
Treasury bills	1,401	1,401	–	–	1,401
BSP	2	2	–	–	2
	29,656	28,980	676	–	29,656
Equity securities					
Quoted	7,862	7,862	–	–	7,862
Derivative assets					
Cross currency swaps	3,889	–	3,889	–	3,889
Currency forwards	1,671	–	1,671	–	1,671
Interest rate swaps	635	–	635	–	635
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

(Forward)

	2017				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
AFS investments					
Debt securities					
Treasury notes and bonds	₱249,431	₱249,431	₱–	₱–	₱249,431
Private	53,753	47,641	6,113	–	53,754
Government	38,812	34,659	4,153	–	38,812
Treasury bills	115	115	–	–	115
BSP	–	–	–	–	–
	342,111	331,846	10,266	–	342,112
Equity securities					
Quoted	1,625	1,625	–	–	1,625
	343,736	333,471	10,266	–	343,737
	₱387,623	₱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 FVTPL					
Derivative liabilities					
Currency forwards	₱2,067	₱–	₱2,067	₱–	₱2,067
Cross currency swaps	2,759	–	2,759	–	2,759
Interest rate swaps	501	–	501	–	501
Call option	24	–	24	–	24
Put option	1	–	1	–	1
Non-equity non-controlling interest	8,002	–	8,002	–	8,002
	₱13,354	₱–	₱13,354	₱–	₱13,354
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
	577,746	28,740	–	547,991	576,731
Bills payable and SSURA	227,835	–	–	227,276	227,276
Bonds payable	2,910	–	–	2,992	2,992
Subordinated debts	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					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Treasury notes and bonds	₱10,881	₱10,881	₱–	₱–	₱10,881
Private	8,698	8,698	–	–	8,698
Government	5,240	5,240	–	–	5,240
Treasury bills	1,156	1,156	–	–	1,156
BSP	2	2	–	–	2
	25,977	25,977	–	–	25,977
Derivative assets					
Cross currency swaps	3,889	–	3,889	–	3,889
Currency forwards	1,597	–	1,597	–	1,597
Interest rate swaps	635	–	635	–	635
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
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross currency swaps	₱2,759	₱–	₱2,759	₱–	₱2,759
Currency forwards	2,067	–	2,067	–	2,067
Interest rate swaps	501	–	501	–	501
Call option	24	–	24	–	24
Put option	1	–	1	–	1
	₱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 debts	22,437	22,254	–	–	22,254
	₱551,517	₱47,862	₱–	₱502,482	₱550,344

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 2018 and 2017.

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
2018							
Results of Operations							
Net interest income (expense)							
Third party	**₱17,881**	**₱40,602**	**₱–**	**₱9,444**	**(₱1,997)**	**₱2,892**	**₱68,822**
Intersegment	**(476)**	**(30,190)**	**–**	**1,761**	**27,639**	**1,266**	**–**
Net interest income after intersegment transactions	**17,405**	**10,412**	**–**	**11,205**	**25,642**	**4,158**	**68,822**
Non-interest income	**6,892**	**1,078**	**347**	**1,748**	**4,771**	**8,074**	**22,910**
Revenue - net of interest expense	**24,297**	**11,490**	**347**	**12,953**	**30,413**	**12,232**	**91,732**
Non-interest expense	**14,523**	**4,877**	**26**	**2,418**	**23,203**	**16,379**	**61,426**
Income (loss) before share in net income of subsidiaries, associates and a JV	**9,774**	**6,613**	**321**	**10,535**	**7,210**	**(4,147)**	**30,306**
Share in net income of subsidiaries, associates and a JV	**–**	**77**	**–**	**–**	**–**	**797**	**874**
Provision for income tax	**(2,212)**	**(455)**	**–**	**(2,637)**	**(88)**	**(2,353)**	**(7,745)**
Non-controlling interest in net income of consolidated subsidiaries	**–**	**–**	**–**	**–**	**–**	**(1,427)**	**(1,427)**
Net income (loss)	**₱7,562**	**₱6,235**	**₱321**	**₱7,898**	**₱7,122**	**(₱7,130)**	**₱22,008**
Statement of Financial Position							
Total assets	**₱221,884**	**₱1,043,630**	**₱–**	**₱464,751**	**₱153,913**	**₱359,515**	**₱2,243,693**
Total liabilities	**₱75,848**	**₱999,803**	**₱–**	**₱488,041**	**₱259,621**	**₱129,676**	**₱1,952,989**
Other Segment Information							
Capital expenditures	**₱488**	**₱62**	**₱–**	**₱108**	**₱60**	**₱2,807**	**₱3,525**
Depreciation and amortization	**₱586**	**₱130**	**₱–**	**₱28**	**₱1,557**	**₱1,783**	**₱4,084**
Provision for credit and impairment losses	**₱6,607**	**₱669**	**₱–**	**₱126**	**₱172**	**₱196**	**₱7,770**
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
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

(Forward)

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
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

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

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
2018					
Interest income	**₱94,670**	**₱2,461**	**₱55**	**₱–**	**₱97,186**
Interest expense	**27,269**	**1,075**	**20**	**–**	**28,364**
Net interest income	**67,401**	**1,386**	**35**	**–**	**68,822**
Non-interest income	**21,189**	**1,065**	**602**	**54**	**22,910**
Provision for credit and impairment losses	**7,576**	**194**	**–**	**–**	**7,770**
Total external net operating income	**₱81,014**	**₱2,257**	**₱637**	**₱54**	**₱83,962**
Non-current assets	**₱31,635**	**₱653**	**₱15**	**₱5**	**₱32,308**
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

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	
	2018	2017	**2018**	2017
Interbank loans receivable (Note 31)	**₱42,664**	₱43,859	**₱24,724**	₱27,208
SPURA	**8,067**	1,616	**–**	–
	50,731	45,475	**24,724**	27,208
Less allowance for credit losses (Note 15)	**12**	–	**12**	–
	₱50,719	₱45,475	**₱24,712**	₱27,208

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 2018, 2017 and 2016, the interest rates of the interbank loans receivables ranging from 0.00% to 5.40%, 0.00% to 5.90%, and 0.00% to 3.50%, respectively, for the Group and 0.00% to 3.54%, 0.00% to 3.50%, and 0.00% to 2.90%, respectively, for the Parent Company.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Investment securities at:				
FVTPL	**₱39,689**	₱43,887	**₱30,166**	₱32,272
FVOCI (Note 29)	**111,288**	–	**92,144**	–
Amortized cost (Note 29)	**265,376**	–	**212,607**	–
AFS investments (Note 29)	**–**	343,910	**–**	270,445
	₱416,353	₱387,797	**₱334,917**	₱302,717

Investment securities at FVTPL consist of the following:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
HFT investments				
Debt securities				
Private	**₱9,257**	₱9,560	**₱8,571**	₱8,698
Government	**6,247**	5,310	**6,063**	5,240
Treasury notes and bonds	**4,285**	13,383	**3,394**	10,881
Treasury bills	**2,642**	1,401	**1,460**	1,156
BSP	**2**	2	**2**	2
	22,433	29,656	**19,490**	25,977
Equity securities	**6,605**	7,862	**38**	–
	29,038	37,518	**19,528**	25,977
Derivative assets	**10,651**	6,369	**10,638**	6,295
	₱39,689	₱43,887	**₱30,166**	₱32,272

The following are the fair values of the Parent Company's derivative financial instruments 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, 2018 and 2017 and are not indicative of either market risk or credit risk.

	Derivative Assets	Derivative Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2018				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	**₱68**	**₱1,152**	**USD 1,774**	**₱53.1275**
CNY	**–**	**28**	**CNY 515**	**CNY 0.1463**
EUR	**–**	**1**	**EUR 1**	**EUR 1.1746**
THB	**0**	**–**	**THB 5**	**THB 0.0307**
TWD	**4**	**7**	**TWD 67**	**TWD 436.96**
SOLD:				
USD	**1,009**	**133**	**USD 1,357**	**₱53.5023**
CNY	**110**	**11**	**CNY 871**	**CNY 0.1475**
JPY	**2**	**47**	**JPY 6,779**	**JPY 0.0195**
EUR	**6**	**–**	**EUR 2**	**EUR 49.1943**
MXN	**–**	**0**	**MXN 1**	**MXN 0.0487**
THB	**0**	**1**	**THB 60**	**THB 0.0306**
CHF	**–**	**3**	**CHF 7**	**CHF 1.0057**
AUD	**10**	**0**	**AUD 16**	**AUD 0.7168**
HKD	**1**	**0**	**HKD 40**	**HKD 0.1280**
SGD	**–**	**2**	**SGD 18**	**SGD 0.7292**
TRY	**–**	**0**	**TRY 1**	**TRY 0.1699**
DKK	**–**	**0**	**DKK 2**	**DKK 0.1530**
Interest rate swaps - PHP	**320**	**667**	**₱27,375**	
Interest rate swaps - FX	**885**	**623**	**USD 1,936**	
Cross currency swaps - PHP	**159**	**3,396**	**₱46,245**	
Cross currency swaps - FX	**7,577**	**109**	**USD 1,458**	
Cross currency swaps - EUR	**486**	**0**	**EUR 57**	
Cross currency swaps - JPY	**0**	**–**	**JPY 10**	
Credit default swaps - USD	**0**	**–**	**USD 1**	
Over-the-counter FX options	**1**	**2**	**USD 41**	
	₱10,638	**₱6,182**		
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
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		

*Non-financial host contracts include foreign currency derivatives with average notional amounts of USD1,579 per month as of December 31, 2017.

As of December 31, 2018 and 2017, the Group's derivative assets include currency forwards entered into by the subsidiaries amounting to ₱13.0 million and ₱74.0 million, respectively. As of December 31, 2018, the Group's derivative liabilities include cross currency swaps entered into by the subsidiaries amounting to ₱354.4 million.

Investment securities at FVOCI as of December 31, 2018 consist of the following:

	Consolidated	Parent Company
Debt securities		
Private	**₱42,369**	**₱33,073**
Treasury notes and bonds (Note 17)	**40,786**	**37,377**
Government (Note 17)	**27,004**	**21,221**
	110,159	**91,671**
Equity securities	**1,129**	**473**
	₱111,288	**₱92,144**

The equity securities are irrevocably designated at FVOCI. In 2018, as part of risk management, the Group disposed equity securities at FVOCI with total carrying value of ₱771.4 million and with dividends of ₱14.9 million, and recognized loss of ₱121.8 million charged against 'Surplus'. Outstanding equity securities at FVOCI as of December 31, 2018 generated dividends in 2018 amounting to ₱126.5 million for the Group and ₱23.1 million for the Parent Company.

As of December 31, 2018, the ECL on debt securities at FVOCI (included in 'Net unrealized loss on investment securities at FVOCI') amounted to ₱247.7 million for the Group and ₱244.3 million for the Parent Company (Note 15).

AFS investments as of December 31, 2017 consist of the following:

	Consolidated	Parent Company
Debt securities		
Treasury notes and bonds (Note 17)	₱249,431	₱213,393
Private	53,754	36,065
Government (Notes 17, 19 and 31)	38,812	20,583
Treasury bills	115	–
	342,112	270,041
Equity securities		
Quoted	1,707	423
Unquoted	386	141
	2,093	564
	344,205	270,605
Less allowance for impairment losses (Note 15)	295	160
	₱343,910	₱270,445

As of December 31, 2018 and 2017, investments include floating and fixed rate private notes with total carrying value of USD10.9 million (with peso equivalent of ₱573.9 million classified as 'Investment securities at FVOCI' and ₱550.2 million classified as 'AFS investments', respectively) which are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation and the Office of the Controller of the Currency in New York.

Investments also include US Treasury notes with carrying value of USD1.0 million (with peso equivalent of ₱52.6 million classified as 'Investment securities at FVOCI' and ₱51.0 million classified as 'AFS investments' as of December 31, 2018 and 2017, 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.

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	
	2018	2017	**2018**	2017
Balance at beginning of the year, as previously reported	**₱16,019**	₱10,247	**₱15,804**	₱10,115
Effect of PFRS 9 adoption (Note 2)	**(15,556)**	–	**(15,359)**	–
Balance at beginning of the year, as restated	**463**	10,247	**445**	10,115
Unrealized loss recognized in OCI	**2,469**	5,126	**2,294**	5,130
Amounts realized in surplus	**(123)**	–	**(122)**	–
Amounts realized in profit or loss	**(115)**	641	**(24)**	554
	2,694	16,014	**2,593**	15,799
Tax (Note 28)	**440**	5	**401**	5
Balance at end of the year	**₱3,134***	₱16,019*	**₱2,994**	₱15,804

* Includes share of non-controlling interest amounting to ₱139.4 million and ₱214.6 million as of December 31, 2018 and 2017, respectively.

Investment securities at amortized cost as of December 31, 2018 consist of the following:

	Consolidated	Parent Company
Treasury notes and bonds (Note 17)	**₱237,476**	**₱204,176**
Government (Notes 17 and 19)	**21,859**	**8,479**
Private	**6,040**	**–**
Treasury bills	**49**	**–**
	265,424	**212,655**
Less allowance for credit losses (Note 15)	**48**	**48**
	₱265,376	**₱212,607**

In 2016, the Parent Company partially disposed and reclassified the remaining HTM investments to AFS investments in accordance with the 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, the market value of the remaining reclassified investments amounted to ₱167.7 billion, respectively, for the Group, and ₱133.1 billion, respectively, for the Parent Company, with net unrealized loss amounting to ₱11.3 billion, respectively, for the Group, and ₱9.9 billion, respectively, for the Parent Company included in 'Net unrealized loss on AFS investments'.

Interest income on investment securities at FVOCI/AFS investments and at amortized cost consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Investment securities at amortized cost	**₱11,147**	₱–	₱–	**₱8,916**	₱–	₱–
Investment securities at FVOCI	**3,463**	–	–	**2,676**	–	–
AFS investments	**–**	13,480	6,875	**–**	10,655	5,634
HTM investments	**–**	–	7,386	**–**	–	6,258
	₱14,610	₱13,480	₱14,261	**₱11,592**	₱10,655	₱11,892

In 2018, 2017 and 2016, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.10% to 11.63%, 0.10% to 11.63% and 0.29% 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 2.13% to 18.25%, 1.63% to 15.00% and 1.63% to 14.38%, respectively, for the Group and from 3.25% to 18.25%, 1.63% to 15.00% and 1.63% to 13.75%, respectively, for the Parent Company.

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

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Investment securities at FVTPL, excluding derivatives	**(₱1,668)**	₱1,915	(₱718)	**(₱570)**	₱73	(₱260)
Derivative assets/liabilities - net	**3,639**	(1,706)	682	**3,635**	(1,706)	707
Debt securities at FVOCI	**(115)**	–	–	**(24)**	–	–
AFS investments	**–**	641	5,144	**–**	554	4,693
HTM investments	**–**	–	1,014	**–**	–	1,014
	1,856	850	6,122	**₱3,041**	(₱1,079)	₱6,154
Income (loss) attributable to non-equity non-controlling interests (Note 21)	**685**	(1,252)	441			
	₱2,541	(₱402)	₱6,563			

Trading gains (losses) on debt securities at FVOCI and AFS investments represent realized gains/losses previously reported in OCI.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Receivables from customers (Note 31)				
Commercial loans	**₱987,186**	₱914,367	**₱947,916**	₱853,729
Auto loans	**119,972**	118,166	**29,681**	33,883
Residential mortgage loans	**107,947**	99,738	**57,974**	53,144
Trade loans	**63,126**	41,120	**63,062**	41,070
Others	**114,849**	88,724	**12,571**	12,834
	1,393,080	1,262,115	**1,111,204**	994,660
Less unearned discounts and capitalized interest	**4,859**	4,239	**266**	219
	1,388,221	1,257,876	**1,110,938**	994,441
Unquoted debt securities				
Private	**1,018**	1,250	**386**	409
Government	**–**	2	**–**	3
	1,018	1,252	**386**	412
Accounts receivable (Notes 30 and 31)	**13,291**	13,547	**9,611**	10,170
Accrued interest receivable (Note 31)	**10,667**	8,796	**7,987**	6,458
Sales contract receivable	**190**	127	**119**	20
Other receivables (Note 31)	**335**	278	**13**	9
	1,413,722	1,281,876	**1,129,054**	1,011,510
Less allowance for credit losses (Note 15)	**22,688**	16,407	**12,797**	8,589
	₱1,391,034	₱1,265,469	**₱1,116,257**	₱1,002,921

Receivables from customers consist of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Loans and discounts	**₱1,319,442**	₱1,209,737	**₱1,037,424**	₱942,165
Less unearned discounts and capitalized interest	**4,859**	4,239	**266**	219
	1,314,583	1,205,498	**1,037,158**	941,946
Customers' liabilities under letters of credit (LC)/trust receipts	**61,590**	40,048	**61,526**	39,998
Bills purchased (Note 21)	**12,048**	12,330	**12,254**	12,497
	₱1,388,221	₱1,257,876	**₱1,110,938**	₱994,441

Receivables from customers - others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱70.5 billion, ₱6.8 billion and ₱6.1 billion, respectively, as of December 31, 2018 and ₱60.8 billion, ₱6.0 billion and ₱5.8 billion, respectively, as of December 31, 2017 (Note 13).

Other receivables of the Group include dividends receivable of ₱4.4 million as of December 31, 2017.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Receivables from customers	**₱60,071**	₱47,403	₱38,417	**₱44,980**	₱34,014	₱26,507
Receivables from cardholders	**13,527**	11,550	9,339	**–**	–	–
Lease contract receivables	**4,162**	3,299	2,493	**–**	–	–
Customers' liabilities under LC/trust receipts	**1,711**	979	769	**1,711**	979	769
Restructured loans	**69**	77	115	**60**	66	81
Unquoted debt securities and others	**119**	83	133	**109**	13	29
	₱79,659	₱63,391	₱51,266	**₱46,860**	₱35,072	₱27,386

As of December 31, 2018 and 2017, 83.21% and 83.15%, respectively, of the total receivables from customers of the Group, respectively, and 99.91% (for both years) of the total receivables from customers of the Parent Company are subject to periodic interest repricing. In 2018 and 2017, the remaining peso receivables from customers earn annual fixed interest rates ranging from 4.70% to 42.00% and from 3.00% to 42.00%, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 2.10% to 36.00% and from 2.05% to 36.00%, respectively.

<u>BSP Reporting</u>

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

	Consolidated				Parent Company			
	2018		2017		**2018**		2017	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Other securities	**₱286,705**	**20.58**	₱242,383	19.21	**₱286,693**	**25.80**	₱242,384	24.37
Chattel	**157,259**	**11.29**	150,451	11.92	**28,801**	**2.59**	32,841	3.30
Real estate	**110,901**	**7.96**	99,636	7.89	**74,860**	**6.74**	67,301	6.77
Deposit hold-out	**19,096**	**1.37**	25,294	2.00	**18,181**	**1.64**	24,513	2.46
Equity securities	**18,525**	**1.33**	18,146	1.44	**5,161**	**0.46**	5,033	0.51
Others	**18,420**	**1.32**	8,696	0.69	**6,450**	**0.58**	537	0.05
	610,906	**43.85**	544,606	43.15	**420,146**	**37.81**	372,609	37.46
Unsecured	**782,174**	**56.15**	717,509	56.85	**691,058**	**62.19**	622,051	62.54
	₱1,393,080	**100.00**	₱1,262,115	100.00	**₱1,111,204**	**100.00**	₱994,660	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			
	2018		2017		2018		2017	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles	**₱242,426**	**17.40**	₱214,041	16.96	**₱215,353**	**19.38**	₱189,444	19.05
Manufacturing	**215,125**	**15.44**	193,693	15.35	**212,451**	**19.12**	189,255	19.03
Real estate activities	**209,610**	**15.05**	204,870	16.23	**163,386**	**14.70**	162,037	16.29
Activities of households as employers and undifferentiated goods and services - producing activities of households for own use	**153,597**	**11.03**	233,184	18.48	**82,678**	**7.44**	82,763	8.32
Financial and insurance activities	**106,338**	**7.63**	87,879	6.96	**117,435**	**10.57**	84,874	8.53
Transportation and storage, information and communication	**106,139**	**7.62**	96,988	7.68	**98,405**	**8.86**	89,510	9.00
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**98,857**	**7.10**	87,674	6.95	**96,149**	**8.65**	84,509	8.50
Construction	**58,405**	**4.19**	53,200	4.21	**44,100**	**3.97**	40,937	4.11
Agricultural, forestry and fishing	**34,714**	**2.49**	30,122	2.39	**29,688**	**2.67**	25,439	2.56
Accommodation and food service activities	**32,005**	**2.30**	28,399	2.25	**31,657**	**2.85**	28,030	2.82
Others	**135,864**	**9.75**	32,065	2.54	**19,902**	**1.79**	17,862	1.79
	₱1,393,080	**100.00**	₱1,262,115	100.00	**₱1,111,204**	**100.00**	₱994,660	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:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Gross NPLs	**₱16,866**	₱12,716	**₱8,041**	₱6,020
Less allowance for credit losses	**8,530**	8,641	**6,026**	4,643
Net carrying amount	**₱8,336**	₱4,075	**₱2,015**	₱1,377

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

10. **Property and Equipment**

The composition of and movements in this account follow:

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	Total
2018						
Cost						
Balance at beginning of year	**₱5,908**	**₱9,647**	**₱20,817**	**₱4,309**	**₱4,846**	**₱45,527**
Additions	–	**20**	**1,862**	**147**	**860**	**2,889**
Disposals	**(84)**	–	**(5,166)**	**(11)**	–	**(5,261)**
Reclassification/others	–	**5,285**	**29**	**143**	**(5,445)**	**12**
Balance at end of year	**5,824**	**14,952**	**17,542**	**4,588**	**261**	**43,167**
Accumulated depreciation and amortization						
Balance at beginning of year	–	**5,264**	**14,867**	**3,010**	–	**23,141**
Depreciation and amortization	–	**530**	**2,244**	**383**	–	**3,157**
Disposals	–	–	**(5,082)**	**(11)**	–	**(5,093)**
Reclassification/others	–	**26**	**10**	**(36)**	–	–
Balance at end of year	–	**5,820**	**12,039**	**3,346**	–	**21,205**
Allowance for impairment losses						
Balance at beginning of year	–	**24**	–	–	–	**24**
Reclassification/others	–	**(16)**	–	–	–	**(16)**
Balance at end of year	–	**8**	–	–	–	**8**
Net book value at end of year	**₱5,824**	**₱9,124**	**₱5,503**	**₱1,242**	**₱261**	**₱21,954**
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

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	Total
2018						
Cost						
Balance at beginning of year	**₱4,465**	**₱7,955**	**₱10,855**	**₱2,627**	**₱4,846**	**₱30,748**
Additions	–	–	**609**	**4**	**860**	**1,473**
Disposals	**(84)**	–	**(4,162)**	**(1)**	–	**(4,247)**
Reclassification/others	–	**5,283**	**32**	**146**	**(5,445)**	**16**
Balance at end of year	**4,381**	**13,238**	**7,334**	**2,776**	**261**	**27,990**
Accumulated depreciation and amortization						
Balance at beginning of year	–	**4,579**	**8,662**	**1,726**	–	**14,967**
Depreciation and amortization	–	**470**	**813**	**223**	–	**1,506**
Disposals	–	–	**(4,126)**	**(1)**	–	**(4,127)**
Reclassification/others	–	**23**	**18**	**(37)**	–	**4**
Balance at end of year	–	**5,072**	**5,367**	**1,911**	–	**12,350**
Allowance for impairment losses						
Balance at beginning of year	–	**24**	–	–	–	**24**
Reclassification/others	–	**(16)**	–	–	–	**(16)**
Balance at end of year	–	**8**	–	–	–	**8**
Net book value at end of year	**₱4,381**	**₱8,158**	**₱1,967**	**₱865**	**₱261**	**₱15,632**
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

(Forward)

	Parent Company					
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**BUC**	**Total**
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

BUC pertains to bank premises yet to be completed and used by the Parent Company. As of December 31, 2017, 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., a jointly controlled entity of GT Capital through Federal Land, Inc. (FLI), a related party, which was completed in 2018.

As of December 31, 2018 and 2017, the cost of fully depreciated property and equipment still in use amounted to ₱4.7 billion and ₱8.0 billion, respectively, for the Group and ₱2.2 billion and ₱5.7 billion, respectively, for the Parent Company.

11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consist of:

	2018	2017
Acquisition cost		
MCC	**₱15,149**	₱7,614
FMIC	**11,751**	11,751
MBCL	**10,079**	10,079
PSBank	**5,237**	5,237
Circa	**837**	837
ORIX Metro	**265**	265
MR USA	**365**	289
MTI	**200**	200
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
	44,150	36,539
Accumulated equity in net income		
Balance at beginning of year, as previously reported	**32,039**	28,731
Effects of PFRS 9 and 15 adoption	**(1,072)**	–
Balance at beginning of year, as restated	**30,967**	28,731
Share in net income	**7,928**	6,957
Share in realized loss on sale of equity securities at FVOCI	**(122)**	–
Dividends	**(2,438)**	(3,649)
Balance at end of year	**36,335**	32,039

(Forward)

	2018	2017
Equity in net unrealized loss on investment securities at FVOCI	**(₱1,074)**	₱–
Equity in net unrealized loss on AFS investments	**–**	(1,764)
Equity in net unrealized gain on remeasurement of retirement plan and translation adjustment and others	**1,777**	1,517
Excess of share in net losses of subsidiaries over cost included in 'Miscellaneous liabilities' (Note 21)	**100**	121
Carrying value		
MCC	**26,166**	15,533
FMIC	**17,732**	18,409
MBCL	**12,488**	12,221
PSBank	**20,467**	18,172
Circa	**241**	187
ORIX Metro	**3,294**	2,832
MR USA	**122**	55
MTI	**14**	14
MR Japan	**73**	63
MR Italia	**–**	–
MR UK	**52**	53
MRHL	**156**	159
MRSPL	**158**	162
FMIIC	**240**	232
Metrobank Bahamas	**80**	355
PVCC	**5**	5
	₱81,288	₱68,452

The following subsidiaries have material non-controlling interests as of December 31, 2018 and 2017:

	Country of Incorporation and Principal Place of Business	Principal Activities	Effective Ownership of Non-Controlling Interest 2018	2017
ORIX Metro	Philippines	Leasing, Financing	**40.15%**	40.15%
PSBank	Philippines	Banking	**17.32%**	17.32%
MCC	Philippines	Credit Card Services	**–**	20.00%*

*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, 2018 and 2017.

	2018		2017		
	PSBank	**ORIX Metro**	PSBank	MCC	ORIX Metro
Statement of Financial Position					
Total assets	**₱237,894**	**₱55,627**	₱223,324	₱75,414	₱47,757
Total liabilities	**213,597**	**47,392**	200,931	61,770	40,676
Non-controlling interest	**4,240**	**3,319**	3,772	2,729	2,853
Statement of Income					
Gross income	**19,241**	**7,095**	17,354	17,019	5,723
Operating income	**14,199**	**5,121**	13,889	15,369	4,763
Net income	**2,652**	**1,230**	2,654	5,108	1,279
Net income attributable to non-controlling interest	**459**	**738**	460	2,043	767
Total comprehensive income	**2,271**	**1,304**	2,209	1,260	5,156
Statement of Cash Flows					
Net cash provided by (used in) operating activities	**223**	**(16,755)**	16,776	3,539	(6,428)
Net cash provided by (used in) investing activities	**287**	**(960)**	(6,123)	72	(1,128)
Net cash provided by (used in) financing activities	**787**	**16,894**	(11,298)	(171)	9,271
Net increase (decrease) in cash and cash equivalents	**1,297**	**(821)**	(645)	3,440	1,715
Cash and cash equivalents at beginning of year	**21,213**	**7,100**	21,858	9,617	5,385
Cash and cash equivalents at end of year	**22,510**	**6,279**	21,213	13,057	7,100

Investment in MCC
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. With this BSP approval, the purchase of the 20% stake in MCC is deemed completed for accounting purposes in the financial statements as of December 31, 2017. 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). This 20% acquisition was completed on January 8, 2018 ("first tranche"). 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 2017 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. As of December 31, 2017, 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. The acquisition of the remaining 20% interest in MCC was completed on September 4, 2018 ("second tranche"). In the consolidated financial statements, the Group recognized equity reserves (included in 'Translation adjustment and others') for the difference between the acquisition price and the acquired non-controlling interest amounting to ₱4.7 billion (for the first tranche) and ₱5.1 billion (for the second tranche).

Investment in MR USA
On August 17, 2017, the New York State Department of Financial Services has approved the merger of MR USA and Metro Remittance Center, Inc. (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 California on December 22 and December 27, 2017, respectively. Both offices have accepted and annotated such certification/agreement of merger.

Investment in Metrobank Bahamas
On April 17, 2018, Metrobank Bahamas has advised The Central Bank of The Bahamas (CBTB) of its intention to discontinue its operations effective June 30, 2018. On October 11 and October 12, 2018, it has surrendered its securities and banking licenses, respectively, to CBTB and has been placed into a voluntary liquidation.

As of December 31, 2018 and 2017, carrying amount of goodwill of the Group amounted to ₱5.2 billion, of which ₱5.0 billion pertains to the goodwill arising from the acquisition of the then Solidbank Corporation which was merged with FMIC.

Investments in associates and a JV consist of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Acquisition cost:				
Lepanto Consolidated Mining Company (LCMC) (13.35% effectively owned)	**₱2,527**	₱2,527		
SMFC (24.80% effectively owned)*	**610**	610		
Northpine Land, Inc. (NLI) (20.00% owned)	**232**	232	**₱232**	₱232
Taal Land Inc. (TLI) (35.00% owned)	**178**	178	**178**	178
Cathay International Resources Corporation (CIRC) (32.49% effectively owned)	**175**	175		
Philippine AXA Life Insurance Corporation (PALIC) (27.96% owned)	**172**	172		
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	**180**	180	**180**	180
Others	**33**	33		
	4,107	4,107	**590**	590
Accumulated equity in net income:				
Balance at beginning of year	**1,710**	1,309	**130**	98
Share in net income	**874**	689	**39**	38
Dividends	**(462)**	(288)	**(10)**	(6)
Balance at end of year	**2,122**	1,710	**159**	130
Equity in other comprehensive income (losses)	**(27)**	22	**–**	(1)
Return of investment - SMBC Metro	**(180)**	–	**(180)**	–
Allowance for impairment losses (Note 15)	**(75)**	(75)	**(75)**	(75)
Carrying value				
LCMC	**2,107**	2,246		
SMFC	**685**	608		
NLI	**429**	402	**429**	402
TLI	**16**	16	**16**	16
CIRC	**199**	208		
PALIC	**2,419**	2,026		
SMBC Metro	**49**	226	**49**	226
Others	**43**	32		
	₱5,947	₱5,764	**₱494**	₱644

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

Investment of FMIC in LCMC

FMIC has the ability to exercise significant influence through a 5-year agreement with Philex Mining Corporation to jointly vote their 18.6% ownership. 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, 2018 and 2017, LCMC-A shares are trading at ₱0.112 per share and ₱0.151 per share, respectively, while LCMC-B shares are trading at ₱0.115 per share and ₱0.153 per share, respectively. As of December 31, 2018 and 2017, there has been a significant decline in the fair value of the shares compared to the acquisition cost. Based on management's assessment, the investment in LCMC is not impaired (Note 3).

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 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. On March 2, 2018, the Board of Liquidating Trustees of SMBC Metro declared the liquidation of its entire paid-up capital to its stockholders on record as of December 31, 2017 due to the expiration of its corporate term on the same date. On March 28, 2018, the Parent Company received a total amount of ₱180.0 million representing partial liquidation.

The following tables present financial information of significant associates and a JV:

	Statements of Financial Position		Statements of Income and Other Comprehensive Income				
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	OCI	Total Comprehensive Income
December 31, 2018							
PALIC	**₱126,794**	**₱117,559**	**₱14,120**	**₱4,310**	**₱3,084**	**₱–**	**₱3,084**
LCMC	**9,754**	**3,067**	**2,093**	**(702)**	**(687)**	**–**	**(687)**
NLI	**3,538**	**1,510**	**482**	**197**	**186**	**–**	**186**
SMFC	**5,054**	**2,749**	**1,267**	**390**	**262**	**6**	**268**
CIRC	**2,290**	**1,426**	**324**	**143**	**6**	**–**	**6**
SMBC Metro	**82**	**0**	**4**	**1**	**1**	**–**	**1**
TLI	**49**	**–**	**1**	**0**	**1**	**–**	**1**
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

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

	2018	2017
PALIC		
Cash and cash equivalents	**₱4,392**	₱4,617
Loans and receivables - net	**912**	966
Investment securities at FVTPL	**1,454**	1,383
Investment securities at FVOCI	**12,744**	–
AFS investments	**–**	11,693
Investment in unit-linked funds	**56**	62
Property and equipment	**726**	522
LCMC		
Inventories	**415**	453
Investments and advances	**997**	961
Mine exploration cost	**9**	249
Property, plant and equipment - net	**6,879**	6,522
NLI		
Cash and cash equivalents	**241**	160
Real estate properties	**1,933**	1,819
Receivables - net	**1,151**	959
SMFC		
Cash and cash equivalents	**109**	97
Receivables - net	**4,776**	3,305
CIRC		
Cash and cash equivalents	**162**	121
Receivables - net	**441**	358
Property, plant and equipment - net	**1,370**	1,360
Condominium units for sale/inventories	**213**	326
SMBC Metro		
Cash and cash equivalents	**77**	502
AFS investments	**1**	1
Receivables - net	–	168
TLI		
Cash and cash equivalents	**49**	49

Dividends declared by investee companies of the Parent Company follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2018					
Subsidiaries					
Cash Dividend					
PSBank	January 18, 2018	₱0.75	₱180	February 2, 2018	February 19, 2018
PSBank	April 23, 2018	0.75	180	May 9, 2018	May 23, 2018
PSBank	July 20, 2018	0.75	180	August 6, 2018	August 20, 2018
PSBank	October 15, 2018	0.75	180	October 30, 2018	November 14, 2018
MCC	June 29, 2018	1.98	1,975	August 26, 2018	August 29, 2018
Metrobank Bahamas	July 16, 2018	USD 0.30	USD 1.5	July 16, 2018	December 4, 2018
Stock Dividend					
ORIX Metro	October 24, 2018	₱100.00	₱647	November 29, 2018	November 29, 2018
Associates					
Cash Dividend					
NLI	March 21, 2018	₱4.35	₱53	December 31, 2017	April 5, 2018
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

Dividends declared by significant investee companies of FMIC follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2018					
Subsidiaries					
Cash Dividend					
FAMI	December 12, 2018	₱18.00	₱27	December 14, 2018	December 21, 2018
FMSBC	February 1, 2018	29.59	50	February 15, 2018	March 15, 2018
Associates					
Cash Dividend					
PALIC	November 26, 2018	159.50	1,595	November 23, 2018	December 18, 2018
Stock Dividend					
ORIX Metro	October 24, 2018	100.00	647	October 24, 2018	January 31, 2019
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

12. Investment Properties

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

	Consolidated					
	2018			2017		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱5,997**	**₱4,577**	**₱10,574**	₱6,712	₱5,059	₱11,771
Additions	**327**	**660**	**987**	360	767	1,127
Disposals	**(685)**	**(683)**	**(1,368)**	(1,357)	(975)	(2,332)
Reclassification/others	**(258)**	**282**	**24**	282	(274)	8
Balance at end of year	**5,381**	**4,836**	**10,217**	5,997	4,577	10,574
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**1,174**	**1,174**	–	1,492	1,492
Depreciation and amortization	**–**	**148**	**148**	–	147	147
Disposals	**–**	**(167)**	**(167)**	–	(439)	(439)
Reclassification/others	**–**	**(7)**	**(7)**	–	(26)	(26)
Balance at end of year	**–**	**1,148**	**1,148**	–	1,174	1,174
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,490**	**193**	**1,683**	1,642	163	1,805
Provision for (reversal of) impairment loss	**1**	**26**	**27**	(32)	–	(32)
Disposals	**(131)**	**(2)**	**(133)**	(53)	(17)	(70)
Reclassification/others	**(47)**	**39**	**(8)**	(67)	47	(20)
Balance at end of year	**1,313**	**256**	**1,569**	1,490	193	1,683
Net book value at end of year	**₱4,068**	**₱3,432**	**₱7,500**	₱4,507	₱3,210	₱7,717

	Parent Company					
	2018			2017		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱3,317**	**₱1,617**	**₱4,934**	₱4,043	₱2,015	₱6,058
Additions	**67**	**92**	**159**	77	146	223
Disposals	**(288)**	**(277)**	**(565)**	(803)	(544)	(1,347)
Reclassification/others	**24**	**–**	**24**	–	–	–
Balance at end of year	**3,120**	**1,432**	**4,552**	3,317	1,617	4,934
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**726**	**726**	–	1,044	1,044
Depreciation and amortization	**–**	**43**	**43**	–	47	47
Disposals	**–**	**(104)**	**(104)**	–	(365)	(365)
Balance at end of year	**–**	**665**	**665**	–	726	726
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,143**	**52**	**1,195**	1,209	56	1,265
Disposals	**(131)**	**(2)**	**(133)**	(53)	(17)	(70)
Reclassification/others	**10**	**(10)**	**–**	(13)	13	–
Balance at end of year	**1,022**	**40**	**1,062**	1,143	52	1,195
Net book value at end of year	**₱2,098**	**₱727**	**₱2,825**	₱2,174	₱839	₱3,013

As of December 31, 2018 and 2017, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱1.1 billion and ₱1.2 billion, respectively, for the Group and ₱121.5 million and ₱206.6 million, respectively, for the Parent Company.

As of December 31, 2018 and 2017, aggregate market value of investment properties amounted to ₱14.2 billion and ₱12.2 billion, respectively, for the Group and ₱6.2 billion for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱7.6 billion for the Group and ₱6.1 billion 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 2018, 2017 and 2016 amounted to ₱67.3 million, ₱59.9 million and ₱69.8 million, respectively, for the Group and ₱1.0 million, ₱1.4 million and ₱4.4 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2018, 2017 and 2016 amounted to ₱0.4 million, ₱1.0 million and ₱4.7 million, respectively, for the Group and ₱0.3 million, ₱1.0 million and ₱1.1 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2018, 2017 and 2016 amounted to ₱257.9 million, ₱219.4 million and ₱128.4 million, respectively, for the Group and ₱102.5 million, ₱66.9 million and ₱91.3 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 2018, 2017 and 2016 amounted to ₱883.3 million, ₱960.0 million and ₱613.4 million, respectively, for the Group and ₱322.4 million, ₱497.0 million and ₱345.6 million, respectively, for the Parent Company (Note 31).

13. Long-term Leases

Finance Leases

Lease contract receivables under finance leases, which are solely accounts of ORIX Metro, are due in monthly installments with terms ranging from one to five years. These are broken down as follows:

	2018	2017
Within one year	**₱607**	₱684
After one year but not more than five years	**5,476**	5,087
	₱6,083	₱5,771

Operating Leases

The Parent Company leases the premises occupied by some of its branches (40.45% and 40.40% of the branch sites as of December 31, 2018 and 2017, 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 one (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, 2018 and 2017, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2018, 2017 and 2016 amounted to ₱2.4 billion, ₱2.2 billion and ₱2.2 billion, respectively, for the Group and ₱1.3 billion, ₱1.2 billion and ₱1.2 billion, respectively, for the Parent Company.

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

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Within one year	**₱1,474**	₱1,277	**₱741**	₱584
After one year but not more than five years	**3,405**	3,042	**1,838**	1,531
More than five years	**1,110**	666	**762**	205
	₱5,989	₱4,985	**₱3,341**	₱2,320

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and investment properties and 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 2018, 2017 and 2016, leasing income amounted to ₱2.3 billion, ₱2.1 billion and ₱2.0 billion, respectively, for the Group and ₱223.6 million, ₱215.2 million and ₱220.5 million, respectively, for the Parent Company.

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

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱1,655**	₱1,958	**₱114**	₱106
After one year but not more than five years	**1,638**	2,404	**184**	145
More than five years	**1**	3	**1**	3
	₱3,294	₱4,365	**₱299**	₱254

14. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Investment in SPVs	**₱8,857**	₱8,857	**₱8,857**	₱8,857
Interoffice float items	**2,536**	1,698	**2,619**	1,752
Software costs - net	**1,800**	1,747	**665**	572
Customized system development cost	**1,753**	1,504	**1,753**	1,504
Creditable withholding tax	**1,505**	1,459	**956**	927
Residual value of leased assets	**1,130**	1,054	**–**	–
Chattel properties acquired in foreclosure - net	**835**	815	**24**	33
Prepaid expenses	**832**	536	**165**	153
Documentary and postage stamps on hand	**491**	334	**355**	231
Returned checks and other cash items	**417**	295	**397**	284
Assets held under joint operations	**219**	259	**219**	259
Miscellaneous (Note 27)	**5,654**	2,200	**4,258**	865
	26,029	20,758	**20,268**	15,437
Less allowance for impairment losses (Note 15)	**10,308**	10,292	**10,285**	10,276
	₱15,721	₱10,466	**₱9,983**	₱5,161

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, 2018 and 2017, 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 ₱8.9 billion.

Movements in software costs account follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Cost				
Balance at beginning of year	**₱4,653**	₱4,125	**₱1,925**	₱1,773
Additions	**636**	978	**233**	144
Others	**(125)**	(450)	**7**	8
Balance at end of year	**5,164**	4,653	**2,165**	1,925
Accumulated amortization				
Balance at beginning of year	**2,906**	2,485	**1,353**	1,213
Amortization	**512**	494	**131**	123
Others	**(54)**	(73)	**16**	17
Balance at end of year	**3,364**	2,906	**1,500**	1,353
Net book value at end of year	**₱1,800**	₱1,747	**₱665**	₱572

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Cost				
Balance at beginning of year	**₱979**	₱821	**₱61**	₱51
Additions	**2,824**	2,742	**19**	24
Disposals/others	**(2,767)**	(2,584)	**(31)**	(14)
Balance at end of year	**1,036**	979	**49**	61
Accumulated depreciation and amortization				
Balance at beginning of year	**155**	125	**25**	21
Depreciation and amortization	**267**	208	**10**	11
Disposals/others	**(230)**	(178)	**(13)**	(7)
Balance at end of year	**192**	155	**22**	25
Allowance for impairment losses (Note 15)				
Balance at beginning of year	**9**	9	**3**	3
Provision for impairment loss	**–**	2	**–**	–
Disposals	**–**	(2)	**–**	–
Balance at end of year	**9**	9	**3**	3
Net book value at end of year	**₱835**	₱815	**₱24**	₱33

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.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances in 2018 is as follows:

	Consolidated					
	Due from Other Banks			Interbank Loans Receivable and SPURA		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	₱18	₱–	₱18	₱25	₱–	₱25
New assets originated or purchased	6	–	6	12	–	12
Assets derecognized or repaid	–	–	–	(25)	–	(25)
Changes in assumptions	(18)	–	(18)	–	–	–
ECL allowance, December 31, 2018	₱6	₱–	₱6	₱12	₱–	₱12

	Consolidated					
	Investment Securities at FVOCI			Investment Securities at Amortized Cost		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	**₱140**	**₱–**	**₱140**	**₱2**	**₱–**	**₱2**
New assets originated or purchased	**69**	**–**	**69**	**46**	**–**	**46**
Assets derecognized or repaid	**(20)**	**–**	**(20)**	**–**	**–**	**–**
Changes in assumptions	**59**	**–**	**59**	**–**	**–**	**–**
ECL allowance, December 31, 2018	**₱248**	**₱–**	**₱248**	**₱48**	**₱–**	**₱48**

	Consolidated					
	Receivables from Customers					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
Commercial loans						
ECL allowance, January 1, 2018	**₱1,520**	**₱475**	**₱829**	**₱23**	**₱4,745**	**₱7,592**
New assets originated or purchased	**1,321**	**97**	**–**	**–**	**–**	**1,418**
Assets derecognized or repaid	**(737)**	**(248)**	**(316)**	**(7)**	**(258)**	**(1,566)**
Amounts written off	**–**	**–**	**–**	**–**	**(52)**	**(52)**
Transfers to/(from) Stage 1	**(385)**	**(37)**	**–**	**–**	**–**	**(422)**
Transfers to/(from) Stage 2	**–**	**–**	**215**	**36**	**–**	**251**
Transfers to/(from) Stage 3	**–**	**–**	**–**	**–**	**1,060**	**1,060**
Changes in assumptions	**86**	**1**	**1**	**–**	**144**	**232**
ECL allowance, December 31, 2018	**1,805**	**288**	**729**	**52**	**5,639**	**8,513**
Auto loans						
ECL allowance, January 1, 2018	**125**	**395**	**387**	**845**	**1,218**	**2,970**
New assets originated or purchased	**33**	**848**	**–**	**–**	**–**	**881**
Assets derecognized or repaid	**(84)**	**(222)**	**(56)**	**(232)**	**(278)**	**(872)**
Amounts written off	**–**	**–**	**–**	**(12)**	**(447)**	**(459)**
Transfers to/(from) Stage 1	**3**	**(261)**	**–**	**–**	**–**	**(258)**
Transfers to/(from) Stage 2	**–**	**–**	**(255)**	**210**	**–**	**(45)**
Transfers to/(from) Stage 3	**–**	**–**	**–**	**–**	**191**	**191**
Changes in assumptions	**(10)**	**(289)**	**10**	**180**	**364**	**255**
ECL allowance, December 31, 2018	**67**	**471**	**86**	**991**	**1,048**	**2,663**
Residential mortgage loans						
ECL allowance, January 1, 2018	**57**	**72**	**319**	**261**	**449**	**1,158**
New assets originated or purchased	**39**	**43**	**–**	**–**	**–**	**82**
Assets derecognized or repaid	**(15)**	**(31)**	**(40)**	**(107)**	**(76)**	**(269)**
Transfers to/(from) Stage 1	**5**	**(30)**	**–**	**–**	**–**	**(25)**
Transfers to/(from) Stage 2	**–**	**–**	**(185)**	**20**	**–**	**(165)**
Transfers to/(from) Stage 3	**–**	**–**	**–**	**–**	**85**	**85**
Changes in assumptions	**(18)**	**–**	**12**	**–**	**8**	**2**
ECL allowance, December 31, 2018	**68**	**54**	**106**	**174**	**466**	**868**
Trade loans						
ECL allowance, January 1, 2018	**145**	**–**	**56**	**–**	**88**	**289**
New assets originated or purchased	**280**	**–**	**–**	**–**	**–**	**280**
Assets derecognized or repaid	**(145)**	**–**	**(41)**	**–**	**(7)**	**(193)**
Transfers to/(from) Stage 1	**(10)**	**–**	**–**	**–**	**–**	**(10)**
Transfers to/(from) Stage 2	**–**	**–**	**10**	**–**	**–**	**10**
Transfers to/(from) Stage 3	**–**	**–**	**–**	**–**	**(3)**	**(3)**
Changes in assumptions	**(46)**	**–**	**(4)**	**–**	**17**	**(33)**
ECL allowance, December 31, 2018	**224**	**–**	**21**	**–**	**95**	**340**
Other loans						
ECL allowance, January 1, 2018	**842**	**112**	**1,762**	**122**	**1,684**	**4,522**
New assets originated or purchased	**4,712**	**237**	**–**	**–**	**–**	**4,949**
Assets derecognized or repaid	**(3)**	**(56)**	**(6)**	**(9)**	**(16)**	**(90)**
Amounts written off	**(1)**	**(2)**	**–**	**(66)**	**(4,153)**	**(4,222)**
Transfers to/(from) Stage 1	**(4,631)**	**(129)**	**–**	**–**	**–**	**(4,760)**
Transfers to/(from) Stage 2	**–**	**–**	**168**	**159**	**–**	**327**
Transfers to/(from) Stage 3	**–**	**–**	**–**	**–**	**4,536**	**4,536**
Changes in assumptions	**(1)**	**(15)**	**–**	**–**	**(1)**	**(17)**
ECL allowance, December 31, 2018	**918**	**147**	**1,924**	**206**	**2,050**	**5,245**
Total receivables from customers						
ECL allowance, January 1, 2018	**2,689**	**1,054**	**3,353**	**1,251**	**8,184**	**16,531**
New assets originated or purchased	**6,385**	**1,225**	**–**	**–**	**–**	**7,610**
Assets derecognized or repaid	**(984)**	**(557)**	**(459)**	**(355)**	**(635)**	**(2,990)**
Amounts written off	**(1)**	**(2)**	**–**	**(78)**	**(4,652)**	**(4,733)**
Transfers to/(from) Stage 1	**(5,018)**	**(457)**	**–**	**–**	**–**	**(5,475)**
Transfers to/(from) Stage 2	**–**	**–**	**(47)**	**425**	**–**	**378**
Transfers to/(from) Stage 3	**–**	**–**	**–**	**–**	**5,869**	**5,869**
Changes in assumptions	**11**	**(303)**	**19**	**180**	**532**	**439**
ECL allowance, December 31, 2018	**₱3,082**	**₱960**	**₱2,866**	**₱1,423**	**₱9,298**	**₱17,629**

	Consolidated					
	Other Receivables					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
ECL allowance, January 1, 2018	₱6	₱37	₱26	₱16	₱716	₱801
New assets originated or purchased	373	17	–	–	–	390
Assets derecognized or repaid	(1)	(17)	(10)	–	(158)	(186)
Transfers to/(from) Stage 1	(368)	(29)	–	–	–	(397)
Transfers to/(from) Stage 2	–	–	10	13	–	23
Transfers to/(from) Stage 3	–	–	–	–	378	378
Changes in assumptions	175	1	26	(1)	103	304
ECL allowance, December 31, 2018	₱185	₱9	₱52	₱28	₱1,039	₱1,313

	Consolidated					
	Loan Commitments and Financial Guarantees					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
ECL allowance, January 1, 2018	₱874	₱–	₱13	₱–	₱–	₱887
New assets originated or purchased	97	–	–	–	–	97
Assets derecognized or repaid	(19)	–	(4)	–	–	(23)
Transfers to/(from) Stage 1	–	–	–	–	–	–
Transfers to/(from) Stage 2	–	–	(6)	–	–	(6)
Changes in assumptions	(9)	–	–	–	–	(9)
ECL allowance, December 31, 2018	₱943	₱–	₱3	₱–	₱–	₱946

	Parent Company					
	Due from Other Banks			Interbank Loans Receivable and SPURA		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	₱18	₱–	₱18	₱25	₱–	₱25
New assets originated or purchased	–	–	–	12	–	12
Assets derecognized or repaid	–	–	–	(25)	–	(25)
Changes in assumptions	(18)	–	(18)	–	–	–
ECL allowance, December 31, 2018	₱–	₱–	₱–	₱12	₱–	₱12

	Parent Company					
	Investment Securities at FVOCI			Investment Securities at Amortized Cost		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	₱140	₱–	₱140	₱2	₱–	₱2
New assets originated or purchased	69	–	69	46	–	46
Assets derecognized or repaid	(20)	–	(20)	–	–	–
Changes in assumptions	55	–	55	–	–	–
ECL allowance, December 31, 2018	₱244	₱–	₱244	₱48	₱–	₱48

	Parent Company						
	Receivable from Customers						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Commercial loans							
ECL allowance, January 1, 2018	₱1,292	₱–	₱813	₱–	₱1,563	₱2,775	₱6,443
New assets originated or purchased	1,180	–	–	–	–	–	1,180
Assets derecognized or repaid	(693)	–	(311)	–	(155)	(60)	(1,219)
Transfers to/(from) Stage 1	(302)	–	–	–	–	–	(302)
Transfers to/(from) Stage 2	–	–	197	–	–	–	197
Transfers to/(from) Stage 3	–	–	–	–	993	–	993
Changes in assumptions	86	–	1	–	203	(59)	231
ECL allowance, December 31, 2018	1,563	–	700	–	2,604	2,656	7,523
Auto loans							
ECL allowance, January 1, 2018	124	–	387	–	65	–	576
New assets originated or purchased	33	–	–	–	–	–	33
Assets derecognized or repaid	(84)	–	(56)	–	(21)	–	(161)
Transfers to/(from) Stage 1	3	–	–	–	–	–	3
Transfers to/(from) Stage 2	–	–	(255)	–	–	–	(255)
Transfers to/(from) Stage 3	–	–	–	–	40	–	40
Changes in assumptions	(10)	–	10	–	1	–	1
ECL allowance, December 31, 2018	66	–	86	–	85	–	237

(Forward)

	Parent Company						
	Receivable from Customers						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Residential mortgage loans							
ECL allowance, January 1, 2018	₱57	₱–	₱319	₱–	₱277	₱–	₱653
New assets originated or purchased	39	–	–	–	–	–	39
Assets derecognized or repaid	(16)	–	(40)	–	(26)	–	(82)
Transfers to/(from) Stage 1	5	–	–	–	–	–	5
Transfers to/(from) Stage 2	–	–	(185)	–	–	–	(185)
Transfers to/(from) Stage 3	–	–	–	–	42	–	42
Changes in assumptions	(17)	–	12	–	7	–	2
ECL allowance, December 31, 2018	68	–	106	–	300	–	474
Trade loans							
ECL allowance, January 1, 2018	145	–	56	–	88	–	289
New assets originated or purchased	280	–	–	–	–	–	280
Assets derecognized or repaid	(145)	–	(41)	–	(7)	–	(193)
Transfers to/(from) Stage 1	(10)	–	–	–	–	–	(10)
Transfers to/(from) Stage 2	–	–	11	–	–	–	11
Transfers to/(from) Stage 3	–	–	–	–	(2)	–	(2)
Changes in assumptions	(47)	–	(4)	–	16	–	(35)
ECL allowance, December 31, 2018	223	–	22	–	95	–	340
Other loans							
ECL allowance, January 1, 2018	4	–	–	–	42	–	46
New assets originated or purchased	1	–	–	–	–	–	1
Assets derecognized or repaid	(3)	–	–	–	(1)	–	(4)
Changes in assumptions	(1)	–	–	–	(1)	–	(2)
ECL allowance, December 31, 2018	1	–	–	–	40	–	41
Total receivables from customers							
ECL allowance, January 1, 2018	1,622	–	1,575	–	2,035	2,775	8,007
New assets originated or purchased	1,533	–	–	–	–	–	1,533
Assets derecognized or repaid	(941)	–	(448)	–	(210)	(60)	(1,659)
Transfers to/(from) Stage 1	(304)	–	–	–	–	–	(304)
Transfers to/(from) Stage 2	–	–	(232)	–	–	–	(232)
Transfers to/(from) Stage 3	–	–	–	–	1,073	–	1,073
Changes in assumptions	11	–	19	–	226	(59)	197
ECL allowance, December 31, 2018	₱1,921	₱–	₱914	₱–	₱3,124	₱2,656	₱8,615

	Parent Company					
	Other Receivables					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
ECL allowance, January 1, 2018	₱5	₱2	₱26	₱2	₱704	₱739
New assets originated or purchased	20	1	–	–	–	21
Assets derecognized or repaid	(1)	–	(10)	–	(45)	(56)
Transfers to/(from) Stage 1	(15)	–	–	–	–	(15)
Transfers to/(from) Stage 2	–	–	10	–	–	10
Transfers to/(from) Stage 3	–	–	–	–	8	8
Changes in assumptions	175	1	27	(1)	5	207
ECL allowance, December 31, 2018	₱184	₱4	₱53	₱1	₱672	₱914

	Parent Company					
	Loan Commitments and Financial Guarantees					
	Stage1		Stage 2			
	Individual	Collective	Individual	Collective	Stage 3	Total
ECL allowance, January 1, 2018	₱43	₱–	₱13	₱–	₱–	₱56
New assets originated or purchased	13	–	–	–	–	13
Assets derecognized or repaid	(19)	–	(4)	–	–	(23)
Transfers to/(from) Stage 1	0	–	–	–	–	0
Transfers to/(from) Stage 2	–	–	(6)	–	–	(6)
Changes in assumptions	(9)	–	(1)	–	–	(10)
ECL allowance, December 31, 2018	₱28	₱–	₱2	₱–	₱–	₱30

The amounts of "transfers to/(from)" include the changes in the ECL on the exposures transferred from one stage to another during the year.

As of December 31, 2018, the ECL allowances on loan commitments and financial guarantees are included in 'Miscellaneous liabilities' under 'Other liabilities' (Note 21).

The increase in the ECL allowances was driven by an increase in the gross size of the portfolio and movements between stages as a result of increase in credit risk and improvement in economic conditions.

The ECL on the accounts receivables of the Group and the Parent Company based on their aging as of December 31, 2018 follows:

	Age of accounts receivables				
	Up to 1 month	**> 1 to 2 months**	**> 2 to 3 months**	**More than 3 months**	**Total ECL**
Consolidated	**₱19**	**₱1**	**₱1**	**₱3,725**	**₱3,746**
Parent Company	**₱–**	**₱–**	**₱0**	**₱3,269**	**₱3,269**

Changes in the allowance for credit and impairment losses as of December 31, 2017 follow:

	Consolidated	Parent Company
Balance at beginning of year:		
Due from other banks	₱7	₱–
AFS investments (Note 8)		
Equity securities		
Quoted	82	79
Unquoted	212	81
Loans and receivables (Note 9)	14,426	6,697
Investments in associates (Note 11)	75	75
Property and equipment (Note 10)	26	24
Investment properties (Note 12)	1,805	1,265
Other assets* (Note 14)	10,723	10,703
	27,356	18,924
Provisions for credit and impairment losses	7,507	1,395
Accounts written off/others	(6,078)	3
Balance at end of year:		
Due from other banks	–	–
AFS investments (Note 8)		
Debt securities		
Private	1	–
Equity securities		
Quoted	82	80
Unquoted	212	80
Loans and receivables (Note 9)	16,407	8,589
Investments in associates (Note 11)	75	75
Property and equipment (Note 10)	24	24
Investment properties (Note 12)	1,683	1,195
Other assets* (Note 14)	10,301	10,279
	₱28,785	₱20,322

* 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		
	2018	2017	2016	**2018**	2017	2016
Financial assets and other credit-related exposures:						
Loans and receivables	**₱7,676**	₱7,969	₱7,295	**₱748**	₱1,821	₱1,174
Investment securities at FVOCI	**94**	–	–	**92**	–	–
Investment securities at amortized cost	**49**	–	–	**49**	–	–
Interbank loans receivable	**(17)**	–	(3)	**(17)**	–	–
Due from other banks	**4**	(7)	(1)	**–**	–	–
AFS investments	**–**	1	(5)	**–**	–	–
Loan commitments and financial guarantees	**(65)**	–	–	**(65)**	–	–
	7,741	7,963	7,286	**807**	1,821	1,174

(Forward)

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Non-financial assets:						
Investment properties	**₱27**	(₱32)	₱83	**₱–**	₱–	₱–
Chattel properties acquired in foreclosure	**–**	2	1	**–**	–	–
Investments in associates and a joint venture	**–**	–	(28)	**–**	–	–
Other assets	**2**	(426)	–	**–**	(426)	–
	29	(456)	56	**–**	(426)	–
	₱7,770	₱7,507	₱7,342	**₱807**	₱1,395	₱1,174

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.

The reconciliation of the allowance for credit losses by class of loans and receivables in 2017 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

	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	₱3,929	₱2,857	₱6,786
Collective impairment	177	2	–	147	41	367	1,436	1,803
	₱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

* 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.

The movements in the allowance for impairment losses on AFS investments and other assets in 2017 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)
Others	–	–	2	2	–	–	2	2
Balance at December 31, 2017	₱1	₱294	₱10,301	₱10,596	₱–	₱160	₱10,279	₱10,439

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

16. **Deposit Liabilities**

The LTNCDs of the Group and the Parent Company consist of the following:

BSP Approval	Interest Rate	Issue Date	Maturity Date	**2018**	2017
Parent Company					
September 18, 2014	4.00%	October 24, 2014	April 24, 2020	**₱8,000**	₱8,000
September 18, 2014	4.25%	November 21, 2014	November 22, 2021	**6,250**	6,250
August 12, 2016	3.50%	September 19, 2016	September 19, 2023	**8,650**	8,650
August 12, 2016	3.88%	July 20, 2017	July 20, 2024	**3,750**	3,750
July 19, 2018	5.38%	October 4, 2018	April 4, 2024	**8,680**	–
				35,330	26,650
PSBank					
December 8, 2016	3.50%	January 30, 2017	April 30, 2022	**3,375**	3,375
July 13, 2018	5.00%	August 9, 2018	February 9, 2024	**5,085**	–
				8,460	3,375
				₱43,790	₱30,025

As of December 31, 2018 and 2017, 33.51% and 35.32%, respectively, of the total interest-bearing deposit liabilities of the Group and 30.69% and 30.81%, respectively, of the total interest-bearing deposit liabilities of the Parent Company are subject to periodic interest repricing. In 2018, 2017 and 2016, 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 7.56%, from 0.00% to 3.80%, and from 0.00% to 2.75%, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2018	2017	2016	**2018**	2017	2016
Demand	**₱946**	₱840	₱661	**₱692**	₱617	₱495
Savings	**1,405**	1,315	1,167	**1,256**	1,178	1,050
Time	**15,240**	9,389	7,389	**10,353**	6,029	4,595
LTNCD	**1,377**	1,069	671	**1,146**	953	671
	₱18,968	₱12,613	₱9,888	**₱13,447**	₱8,777	₱6,811

<u>Reserve Requirement</u>
In 2018, BSP Circular Nos. 997 and 1004 were issued reducing the reserve requirements against deposit and deposit substitute liabilities. As of December 31, 2018, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to required reserves of 18% from 20.00% in 2017 while required reserves for non-FCDU deposit liabilities of PSBank remained at 8.00%. Peso-denominated LTNCDs are subject to reserves equivalent to 7.00%. The required reserves can be kept in the form of deposits maintained in the demand deposit accounts with the BSP and any government securities 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, 2018 and 2017.

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

	2018	2017
Parent Company	**₱206,289**	₱224,723
PSBank	**15,178**	13,915
MCC	**9,527**	10,948
ORIX Metro	**5,669**	6,623
FMIC	**3,490**	4,400
	₱240,153	₱260,609

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
SSURA	**₱95,247**	₱64,575	**₱95,247**	₱61,249
Local banks	**53,740**	49,668	**8,497**	9,431
Deposit substitutes	**53,225**	68,177	**–**	–
Foreign banks	**35,895**	17,415	**27,335**	10,802
BSP	**21,500**	28,000	**20,000**	25,000
	₱259,607	₱227,835	**₱151,079**	₱106,482

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Deposit substitutes pertain to borrowings from the public of PSBank, 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			
	2018		2017		**2018**		2017	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA	**Transferred Securities**	**SSURA**	Transferred Securities	SSURA
Investment securities at amortized cost	**₱111,504**	**₱70,217**	₱–	₱–	**₱111,504**	**₱70,217**	₱–	₱–
Investment securities at FVOCI	**32,166**	**25,030**	–	–	**32,166**	**25,030**	–	–
AFS investments	**–**	**–**	85,003	64,575	**–**	**–**	81,899	61,249
	₱143,670	**₱95,247**	₱85,003	₱64,575	**₱143,670**	**₱95,247**	₱81,899	₱61,249

The Group's peso borrowings are subject to annual fixed interest rates ranging from 0.88% to 7.45%, from 0.06% to 6.45% and from 0.06% to 6.34% in 2018, 2017 and 2016, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 1.38% to 8.00%, from 0.05% to 3.76% and from 0.32% to 3.25% in 2018, 2017 and 2016, 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 2018, 2017 and 2016 amounted to ₱7.2 billion, ₱4.2 billion and ₱2.9 billion, respectively, for the Group and ₱2.8 billion, ₱1.4 billion and ₱645.6 million, respectively, for the Parent Company.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Accrued interest (Note 31)	**₱4,288**	₱2,066	**₱2,375**	₱923
Accrued other expenses	**5,331**	4,907	**3,250**	2,982
	₱9,619	₱6,973	**₱5,625**	₱3,905

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 consists of the following scripless fixed rate bonds:

				Carrying Value	
Issue Date	Maturity Date	Interest Rate	Face Value	**2018**	2017
Parent Company					
November 9, 2018	November 9, 2020	7.15%	₱10,000	**₱9,922**	₱–
December 17, 2018	November 9, 2020	7.15%	18,000	**17,904**	–
			28,000	**27,826**	–
FMIC					
August 10, 2012	August 10, 2019	5.75%	2,920	**2,917**	2,910
			₱30,920	**₱30,743**	₱2,910

Parent Company Fixed Rate Bonds due 2020
On November 9, 2018, the Parent Company issued ₱10.0 billion fixed rate bonds with issue price at 100% face value, which bear an interest rate of 7.15% per annum and will mature on November 9, 2020 and further issued ₱18.0 billion fixed rate bonds (Additional Bonds) on December 17, 2018 at an issue price of 100.26% plus an amount corresponding to accrued interest from, and including, November 9, 2018, but excluding the new issue date. The Additional Bonds have the same terms and conditions as the ₱10.0 billion bond. The interest of the bonds for the entire term are payable quarterly in arrears on February 9, May 9, August 9 and November 9 of each year, commencing on February 9, 2019. Total bond issuance costs, net of bonds premium, amounted to ₱184.9 million.

FMIC Fixed Rate Corporate Bonds due 2019
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 (SRC) and are covered by deeds of assignment 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 amounted to ₱3.9 billion classified under 'Investment securities at amortized cost' as of December 31, 2018 and ₱3.4 billion classified under 'AFS investments' as of December 31, 2017.

As of December 31, 2018 and 2017, 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') in 2018, 2017 and 2016 amounted to ₱336.7 million, ₱399.9 million and ₱661.3 million, respectively for the Group and ₱163.9 million in 2018 for the Parent Company.

20. Subordinated Debts

This account consists of the following Peso Notes:

			Carrying Value		Market Value	
	Maturity Date	**Face Value**	**2018**	2017	**2018**	2017
Parent Company						
2024	June 27, 2024	₱16,000	**₱15,987**	₱15,962	**₱15,813**	₱15,985
2025	August 8, 2025	6,500	**6,484**	6,475	**6,234**	6,269
		22,500	**22,471**	22,437	**22,047**	22,254
MCC – 2023	December 20, 2023	1,170	**1,165**	1,164	**1,113**	1,204
PSBank – 2024	August 23, 2024	3,000	**2,982**	2,979	**2,243**	2,353
		₱26,670	**₱26,618**	₱26,580	**₱25,403**	₱25,811

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 its regulatory capital compliance and to proactively manage its capital base for growth and refinancing of maturing capital securities which was also 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. The 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 its other present and future unsecured and subordinated obligations. 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 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 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.

Specific terms of these Basel III-compliant Peso Notes follow:

Parent Company
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
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, 2018 and 2017, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2018, 2017 and 2016, interest expense on subordinated debts included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱1.5 billion, ₱1.5 billion and ₱1.7 billion (including amortization of debt issue cost and premium of ₱38.2 million, ₱35.3 million and ₱37.4 million), respectively, for the Group, and ₱1.2 billion (including amortization of debt issue cost and premium of ₱34.4 million, ₱32.6 million and ₱30.9 million, respectively) for the Parent Company.

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

Non-equity Non-controlling Interest

This account 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 ₱0.7 billion, (₱1.3 billion), and ₱0.4 billion in 2018, 2017 and 2016, respectively, is included under 'Trading and securities gain (loss) - net' in the statements of income (Note 8).

Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Accounts payable	**₱15,629**	₱16,083	**₱7,104**	₱7,488
Bills purchased - contra (Note 9)	**12,171**	12,333	**12,158**	12,323
Notes payable	**2,600**	–	**–**	–
Marginal deposits	**4,232**	3,229	**166**	682
Other credits	**1,887**	1,306	**726**	607
Outstanding acceptances	**1,793**	1,741	**1,793**	1,741
Deposits on lease contracts	**1,643**	1,472	**–**	–
Deferred revenues (Note 25)	**1,398**	1,357	**64**	54
Withholding taxes payable	**897**	603	**564**	341
Retirement liability (Note 27)	**277**	3,675	**–**	2,818
Miscellaneous (Notes 11 and 15)	**3,086**	17,077	**1,532**	8,665
	₱45,613	₱58,876	**₱24,107**	₱34,719

Notes payable represent unsecured notes issued by ORIX Metro on October 29, 2018 maturing on April 29, 2020 and October 29, 2020 with annual interest rates of 7.02% and 7.45%, respectively, payable quarterly in arrears every January 29, April 29, July 29 and October 29 until their maturity. In 2018, interest expense on notes payable included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱32.6 million.

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

As of December 31, 2018 and 2017, miscellaneous liabilities of the Group include dividends payable amounting to ₱90.4 million and ₱90.7 million, respectively.

22. Maturity Profile of Assets and Liabilities

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

	Consolidated					
	2018			2017		
	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	**₱33,091**	**₱–**	**₱33,091**	₱27,631	₱–	₱27,631
Due from BSP	**240,134**	**–**	**240,134**	261,959	–	261,959
Due from other banks	**45,808**	**–**	**45,808**	31,291	–	31,291
Interbank loans receivable and SPURA (Note 7)	**50,731**	**–**	**50,731**	45,048	427	45,475
Investment securities at FVTPL (Note 8)	**39,689**	**–**	**39,689**	43,887	–	43,887
Investment securities at FVOCI (Note 8)	**25,167**	**86,121**	**111,288**	–	–	–
Investment securities at amortized cost (Note 8)	**2,684**	**262,740**	**265,424**	–	–	–
AFS investments (Note 8)	**–**	**–**	**–**	24,740	319,465	344,205
Loans and receivables (Note 9)						
Receivables from customers	**631,150**	**761,930**	**1,393,080**	577,561	684,554	1,262,115
Unquoted debt securities	**–**	**1,018**	**1,018**	541	711	1,252
Accrued interest receivable	**10,661**	**6**	**10,667**	8,795	1	8,796
Accounts receivable	**9,574**	**81**	**9,655**	9,036	18	9,054
Sales contract receivable	**119**	**71**	**190**	18	109	127
Other receivables	**335**	**–**	**335**	278	–	278
Other assets (Note 14)						
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Interoffice float items	**2,536**	**–**	**2,536**	1,698	–	1,698
Returned checks and other cash items	**417**	**–**	**417**	295	–	295
Residual value of leased asset	**354**	**776**	**1,130**	348	706	1,054
Other investments	**–**	**26**	**26**	–	26	26
	1,101,307	**1,112,769**	**2,214,076**	1,041,983	1,006,017	2,048,000
Non-Financial Assets - at gross						
Investments in associates and a JV (Note 11)	**–**	**6,022**	**6,022**	–	5,839	5,839
Property and equipment (Note 10)	**–**	**43,167**	**43,167**	–	45,527	45,527
Investment properties (Note 12)	**–**	**10,217**	**10,217**	–	10,574	10,574
Deferred tax assets (Note 28)	**–**	**10,238**	**10,238**	–	9,161	9,161
Goodwill (Note 11)	**–**	**5,200**	**5,200**	–	5,200	5,200
Assets held under joint operations (Note 14)	**–**	**219**	**219**	–	259	259
Accounts receivable (Note 9)	**–**	**3,636**	**3,636**	–	4,493	4,493
Other assets (Note 14)	**2,828**	**13,581**	**16,409**	2,329	9,310	11,639
	2,828	**92,280**	**95,108**	2,329	90,363	92,692
	₱1,104,135	**₱1,205,049**	**2,309,184**	₱1,044,312	₱1,096,380	2,140,692
Less:						
Unearned discounts and capitalized interest (Note 9)			**4,859**			4,239
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**25,909**			27,376
Allowance for credit and impairment losses (Note 15)			**34,723**			28,785
			₱2,243,693			₱2,080,292
Financial Liabilities						
Deposit liabilities						
Demand	**₱355,473**	**₱–**	**₱355,473**	₱344,708	₱–	₱344,708
Savings	**609,471**	**–**	**609,471**	605,508	–	605,508
Time	**527,635**	**20,384**	**548,019**	502,794	44,927	547,721
LTNCD (Note 16)	**–**	**43,790**	**43,790**	–	30,025	30,025
	1,492,579	**64,174**	**1,556,753**	1,453,010	74,952	1,527,962
Bills payable and SSURA (Note 17)	**212,478**	**47,129**	**259,607**	197,228	30,607	227,835
Derivative liabilities (Note 8)	**6,537**	**–**	**6,537**	5,352	–	5,352
Manager's checks and demand drafts outstanding	**7,565**	**–**	**7,565**	8,054	–	8,054
Accrued interest and other expenses	**8,155**	**95**	**8,250**	5,709	45	5,754
Bonds payable (Note 19)	**2,917**	**27,826**	**30,743**	–	2,910	2,910
Subordinated debts (Note 20)	**15,987**	**10,631**	**26,618**	–	26,580	26,580
Non-equity non-controlling interest (Note 21)	**6,747**	**–**	**6,747**	8,002	–	8,002
Other liabilities (Note 21)						
Bills purchased - contra	**12,171**	**–**	**12,171**	12,333	–	12,333
Accounts payable	**15,629**	**–**	**15,629**	16,083	–	16,083
Marginal deposits	**4,232**	**–**	**4,232**	3,229	–	3,229
Notes payable	**–**	**2,600**	**2,600**	–	–	–
Outstanding acceptances	**1,793**	**–**	**1,793**	1,730	11	1,741
Deposits on lease contracts	**540**	**1,103**	**1,643**	978	494	1,472
Dividends payable	**90**	**–**	**90**	91	–	91
Miscellaneous	**–**	**–**	**–**	14,800	–	14,800
	1,787,420	**153,558**	**1,940,978**	1,726,599	135,599	1,862,198

(Forward)

	Consolidated					
	2018			2017		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-Financial Liabilities						
Retirement liability (Note 27)	₱–	₱277	₱277	₱–	₱3,675	₱3,675
Income taxes payable	2,830	–	2,830	3,381	–	3,381
Accrued other expenses	1,369	–	1,369	1,219	–	1,219
Withholding taxes payable (Note 21)	897	–	897	603	–	603
Deferred tax and other liabilities (Notes 21 and 28)	4,394	2,244	6,638	3,531	1,595	5,126
	9,490	2,521	12,011	8,734	5,270	14,004
	₱1,796,910	₱156,079	₱1,952,989	₱1,735,333	₱140,869	₱1,876,202

	Parent Company					
	2018			2017		
	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	₱29,280	₱–	₱29,280	₱24,975	₱–	₱24,975
Due from BSP	206,289	–	206,289	224,723	–	224,723
Due from other banks	35,218	–	35,218	19,286	–	19,286
Interbank loans receivable and SPURA (Note 7)	24,724	–	24,724	27,208	–	27,208
Investment securities at FVTPL (Note 8)	30,166	–	30,166	32,272	–	32,272
Investment securities at FVOCI (Note 8)	16,647	75,497	92,144	–	–	–
Investment securities at amortized cost (Note 8)	471	212,184	212,655	–	–	–
AFS investments (Note 8)	–	–	–	14,500	256,105	270,605
Loans and receivables (Note 9)						
Receivables from customers	547,558	563,646	1,111,204	498,342	496,318	994,660
Unquoted debt securities	–	386	386	386	26	412
Accrued interest receivable	7,981	6	7,987	6,457	1	6,458
Accounts receivable	5,975	–	5,975	5,677	–	5,677
Sales contract receivable	47	72	119	14	6	20
Other receivables	13	–	13	9	–	9
Other assets (Note 14)						
Investments in SPVs	8,857	–	8,857	8,857	–	8,857
Interoffice float items	2,619	–	2,619	1,752	–	1,752
Returned checks and other cash items	397	–	397	284	–	284
	916,242	851,791	1,768,033	864,742	752,456	1,617,198
Non-Financial Assets - at gross						
Investments in subsidiaries (Note 11)	–	81,288	81,288	–	68,452	68,452
Investments in associates (Note 11)	–	569	569	–	719	719
Property and equipment (Note 10)	–	27,990	27,990	–	30,748	30,748
Investment properties (Note 12)	–	4,552	4,552	–	4,934	4,934
Deferred tax assets (Note 28)	–	6,769	6,769	–	6,528	6,528
Assets held under joint operations (Note 14)	–	219	219	–	259	259
Accounts receivable (Note 9)	–	3,636	3,636	–	4,493	4,493
Other assets (Note 14)	1,477	8,224	9,701	1,311	4,355	5,666
	1,477	133,247	134,724	1,311	120,488	121,799
	₱917,718	₱985,038	1,902,757	₱866,053	₱872,944	1,738,997
Less:						
Unearned discounts and capitalized interest (Note 9)			266			219
Accumulated depreciation and amortization (Notes 10, 12 and 14)			14,537			17,071
Allowance for credit and impairment losses (Note 15)			24,290			20,322
			₱1,863,664			₱1,701,385
Financial Liabilities						
Deposit liabilities						
Demand	₱322,371	₱–	₱322,371	₱314,542	₱–	₱314,542
Savings	577,815	–	577,815	576,807	–	576,807
Time	389,008	1,467	390,475	393,489	2,459	395,948
LTNCD (Note 16)	–	35,330	35,330	–	26,650	26,650
	1,289,194	36,797	1,325,991	1,284,838	29,109	1,313,947
Bills payable and SSURA (Note 17)	131,870	19,209	151,079	93,992	12,490	106,482
Derivative liabilities (Note 8)	6,182	–	6,182	5,352	–	5,352
Manager's checks and demand drafts outstanding	5,950	–	5,950	5,840	–	5,840
Accrued interest and other expenses	3,863	93	3,956	2,656	45	2,701
Bonds payable (Note 19)	–	27,826	27,826	–	–	–
Subordinated debts (Note 20)	15,987	6,484	22,471	–	22,437	22,437
Other liabilities (Note 21)						
Bills purchased - contra	12,158	–	12,158	12,323	–	12,323
Accounts payable	7,104	–	7,104	7,488	–	7,488
Marginal deposits	166	–	166	682	–	682
Outstanding acceptances	1,793	–	1,793	1,730	11	1,741
Other liabilities	–	–	–	7,400	–	7,400
	1,474,267	90,409	1,564,676	1,422,301	64,092	1,486,393

(Forward)

	Parent Company					
	2018			2017		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Non-Financial Liabilities						
Retirement liability (Note 27)	**₱–**	**₱–**	**₱–**	₱–	₱2,818	₱2,818
Income taxes payable	**1,670**	**–**	**1,670**	2,077	–	2,077
Accrued other expenses	**1,669**	**–**	**1,669**	1,204	–	1,204
Withholding taxes payable (Note 21)	**564**	**–**	**564**	341	–	341
Other liabilities (Note 21)	**1,596**	**726**	**2,322**	1,319	607	1,926
	5,499	**726**	**6,225**	4,941	3,425	8,366
	₱1,479,766	**₱91,135**	**₱1,570,901**	₱1,427,242	₱67,517	₱1,494,759

23. Capital Stock

As of December 31, 2018 and 2017, this account consists of (amounts in millions, except par value and number of shares):

	Shares		Amount	
	2018	2017	**2018**	2017
Authorized				
Common stock – ₱20.00 par value	**4,000,000,000**	4,000,000,000		
Preferred stock – ₱20.00 par value	**1,000,000,000**	1,000,000,000		
Common stock issued and outstanding				
Balance at beginning of year	**3,180,172,786**	3,180,172,786	**₱63,603**	₱63,603
Issuance of stock rights	**799,842,250**	–	**15,997**	–
Balance at the end of year	**3,980,015,036**	3,180,172,786	**₱79,600**	₱63,603

As of December 31, 2018 and 2017, treasury shares totaling 825,000 and 560,100, 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 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 ₱20.00 per share. The 30.00% stock dividend equivalent to 633,415,049 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 which was issued/paid on September 16, 2013 with record date on September 3, 2013. On September 10, 2013, the PSE approved the listing of such additional common 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 which 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 this issuance of ₱32.0 billion worth of common shares from the registration requirements under Section 8 of the SRC. 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'.

On February 16, 2016, the Parent Company redeemed its USD125.0 million HT1 Capital Securities. Prior to redemption, the HT1 Capital Securities represent USD125.0 cumulative step-up callable perpetual hybrid capital securities issued on February 15, 2006, with interest of 9.00% payable semi-annually in arrears until February 15, 2016. In 2016, the coupon payment amounting to USD 5.6 million (or ₱267.0 million) was treated as dividends and deducted from equity when due.

On January 17, 2018, the Parent Company's BOD approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares to raise 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. On April 4, 2018, following the regulatory approvals, the Parent Company concluded the ₱60.0 billion SRO, involving 799,842,250 common shares with par value of ₱20.00 priced at ₱75.00 per share and listed on the PSE on April 12, 2018. Transaction costs on SRO amounting to ₱878.2 million were charged against '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, 2018 and 2017, there are 3,031 and 3,068 holders, respectively, of the listed shares of the Parent Company, with share price closed at ₱80.95 and ₱101.40 a share, respectively.

The history of share issuances during the last ten years follows:

Year	Issuance	Listing Date	Number of Shares Issued
2018	Stock rights	April 12, 2018	799,842,250
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

Details of the Parent Company's cash dividend distributions from 2016 to 2018 follow:

Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
February 21, 2018	₱1.00	₱3,180	March 8, 2018	March 16, 2018
February 22, 2017	1.00	3,180	March 9, 2017	March 23, 2017
March 16, 2016	1.00	3,180	April 1, 2016	April 8, 2016

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:

	2018	2017
Reserve for trust business (Note 29)	**₱1,475**	₱1,350
Reserve for self-insurance	**481**	460
	₱1,956	₱1,810

In compliance with existing BSP regulations, 10.0% 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 20.0% 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. Other Operating Income and Expenses

Service Charges, Fees and Commissions

The table below presents the disaggregation of service charges, fees and commission by business segment:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Consumer banking	**₱5,694**	₱5,094	₱4,629	**₱125**	₱93	₱77
Branch banking	**3,418**	2,711	2,514	**2,482**	1,957	1,911
Corporate banking	**791**	585	418	**812**	635	437
Investment banking	**347**	307	643	**–**	–	–
Treasury	**333**	292	190	**297**	267	139
Others	**2,112**	2,056	1,935	**1,238**	1,219	1,204
	₱12,695	₱11,045	₱10,329	**₱4,954**	₱4,171	₱3,768

Others include the remittance business of the Group and the Parent Company.

The remaining performance obligations on revenue contracts with customers of the Group under PFRS 15, which are expected to be recognized beyond one year amounting to ₱722.1 million (included in 'Deferred revenues' under 'Other liabilities') as of December 31, 2018 relate to the customer loyalty program of MCC. The customer loyalty points have no expiration and redemptions can go beyond one year.

Miscellaneous Income and Expenses

In 2018, 2017 and 2016, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱638.5 million, ₱1.1 billion and ₱834.4 million, respectively, for the Group and ₱22.8 million, ₱25.5 million and ₱24.2 million, respectively, for the Parent Company; recovery on charged-off assets amounting to ₱874.9 million, ₱1.1 billion and ₱774.0 million, respectively, for the Group and ₱8.8 million, ₱28.9 million and ₱28.3 million, respectively, for the Parent Company; and information technology and other fees amounting to ₱212.3 million, ₱338.5 million and ₱354.0 million, respectively, for the Parent Company (Note 31).

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Insurance	**₱3,422**	₱3,220	₱2,832	**₱2,684**	₱2,457	₱2,203
Security, messengerial and janitorial	**2,433**	2,359	2,265	**1,837**	1,779	1,830
Information technology (Note 31)	**1,066**	769	809	**684**	520	581
Advertising	**986**	895	1,499	**221**	284	803
Management and professional fees	**792**	652	600	**538**	397	351
Litigation (Note 12)	**781**	794	644	**276**	309	249
Supervision fees	**738**	650	616	**613**	539	516
Communications	**647**	616	600	**115**	96	84
Repairs and maintenance	**538**	608	557	**190**	292	286
Transportation and travel	**527**	497	501	**382**	344	344
Stationery and supplies used	**446**	403	426	**261**	240	264
Entertainment, amusement and representation (EAR) (Note 28)	**340**	302	505	**295**	261	461
Others (Note 31)	**2,519**	1,965	1,785	**1,477**	1,035	909
	₱15,235	₱13,730	₱13,639	**₱9,573**	₱8,553	₱8,881

26. **Notes to Statements of Cash Flows**

The amounts of interbank loans receivable and SPURA, gross of allowance for credit losses, considered as cash and cash equivalents follow:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Interbank loans receivable and SPURA	**₱50,731**	₱45,475	₱91,646	**₱24,724**	₱27,208	₱73,094
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(11,351)**	(12,739)	(15,778)	**(1,982)**	(7,966)	(7,644)
	₱39,380	₱32,736	₱75,868	**₱22,742**	₱19,242	₱65,450

Significant non-cash transactions of the Group and the Parent Company (other than the impact of PFRS 9 adoption as discussed in Note 2) 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; and reclassifications of BUC (Note 10).

The table below provides for the changes in liabilities arising from financing activities in 2018 and 2017:

	Consolidated			
	January 1, 2018	**Net cash flows**	**Others**	**December 31, 2018**
Bills payable and SSURA (Note 17)	**₱227,835**	**₱46,724**	**(₱14,952)**	**₱259,607**
Bonds payable (Note 19)	**2,910**	**27,826**	**7**	**30,743**
Subordinated debts (Note 20)	**26,580**	**–**	**38**	**26,618**
Notes payable (Note 21)	**–**	**2,600**	**–**	**2,600**
Dividends payable (Note 21)	**91**	**(3,180)**	**3,179**	**90**
Total liabilities from financing activities	**₱257,416**	**₱73,970**	**(₱11,728)**	**₱319,658**

	Consolidated			
	January 1, 2017	Net cash flows	Others	December 31, 2017
Bills payable and SSURA (Note 17)	₱161,376	₱64,034	₱2,425	₱227,835
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	₱202,482	₱49,255	₱5,679	₱257,416

	Parent Company			
	January 1, 2018	**Net cash flows**	**Others**	**December 31, 2018**
Bills payable and SSURA (Note 17)	**₱106,482**	**₱44,597**	**₱–**	**₱151,079**
Bonds payable (Note 19)	**–**	**27,826**	**–**	**27,826**
Subordinated debts (Note 20)	**22,437**	**–**	**34**	**22,471**
Dividends payable (Note 21)	**–**	**(3,180)**	**3,180**	**–**
Total liabilities from financing activities	**₱128,919**	**₱69,243**	**₱3,214**	**₱201,376**

	Parent Company			
	January 1, 2017	Net cash flows	Others	December 31, 2017
Bills payable and SSURA (Note 17)	₱68,865	₱37,617	₱–	₱106,482
Subordinated debts (Note 20)	22,404	–	33	22,437
Dividends payable (Note 21)	–	(3,180)	3,180	–
Total liabilities from financing activities	₱91,269	₱34,437	₱3,213	₱128,919

Others include the effect of cash flows of liabilities arising from operating activities, declaration of dividends, and effect of amortization of transaction costs.

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	MCC	FMIC	PSBank	ORIX Metro
As of January 1, 2018					
Average remaining working life	**9 years**	**12 years**	**7 to 10 years**	**11 years**	**12 to 27 years**
Discount rate	**5.39%**	**5.74%**	**5.62% to 5.77%**	**5.73%**	**4.84% to 5.40%**
Future salary increases	**7.00%**	**8.00%**	**5.00%**	**5.00%**	**7.00% to 8.00%**
As of January 1, 2017					
Average remaining working life	8 years	12 years	9 to 10 years	12 years	12 to 27 years
Discount rate	5.11%	4.84%	5.11% to 5.49%	5.31%	3.89% to 5.36%
Future salary increases	7.00%	8.50%	5.00%	5.00%	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, 2018 and 2017 follow:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
2018	**7.29%**	**8.37%**	**7.16% to 7.32%**	**7.33%**	**6.80% to 7.83%**
2017	5.39%	5.74%	5.62% to 5.77%	5.73%	4.84% to 5.40%

The net retirement liability (asset) of the Group and the Parent Company is presented in the following accounts in the statement of financial position:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Other assets (Note 14)	**(₱3,654)**	(₱68)	**(₱3,606)**	₱–
Other liabilities (Note 21)	**277**	3,675	**–**	2,818
	(₱3,377)	₱3,607	**(₱3,606)**	₱2,818

The defined benefit plan exposes the Group and the Parent Company to actuarial risk, such as longevity risk, interest rate risk and market (investment risk).

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

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Cash	**₱–**	₱555	**₱–**	₱–
Due from BSP	**13**	–	–	–
Deposit in banks	**1,487**	904	**417**	707
	1,500	1,459	**417**	707
Investment securities at FVTPL				
Equity securities	**97**	16	–	–
Debt securities (Note 31)	**2,653**	812	**2,653**	735
Unit investment trust fund and others (Note 31)	**112**	232	**112**	100
Total investment securities at FVTPL	**2,862**	1,060	**2,765**	835
Investment securities at FVOCI				
Debt securities				
Private (Note 31)	**663**	–	**612**	–
Government	**10,052**	–	**9,053**	–
Equity securities				
Quoted (Note 31)	**3,968**	–	**3,798**	–
Unquoted	**13**	–	**13**	–
Investment funds (Note 31)	**1,848**	–	**1,726**	–
Total investment securities at FVOCI	**16,544**	–	**15,202**	–
AFS investments				
Debt securities				
Private (Note 31)	–	1,193	–	660
Government	–	9,028	–	7,562
Equity securities				
Quoted (Note 31)	–	2,851	–	2,691
Unquoted	–	13	–	13
Investment funds	–	636	–	600
Total AFS investments	–	13,721	–	11,526
Investment securities at amortized cost - Government	**1,280**	–	–	
HTM investments - Government	–	16		–
Loans and discounts - net	**264**	265	**258**	259
Other receivables - net	**189**	161	**165**	140
Liabilities	**(8)**	(8)	**(6)**	(6)
Fair value of net plan assets	**₱22,631**	₱16,674	**₱18,801**	₱13,461

Changes in net defined benefit liability (asset) in 2018 are as follows:

Consolidated	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
January 1, 2018	**₱20,281**	**(₱16,674)**	**₱3,607**
Net benefit cost			
Current service cost	**1,641**	–	**1,641**
Past service cost	**55**	–	**55**
Net interest	**1,048**	**(927)**	**121**
Sub-total	**2,744**	**(927)**	**1,817**
Benefits paid	**(1,498)**	**1,502**	**4**
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	–	**1,559**	**1,559**
Actuarial changes arising from experience adjustments	**(70)**	–	**(70)**
Actuarial changes arising from changes in financial/demographic assumptions	**(2,203)**	–	**(2,203)**
Sub-total	**(2,273)**	**1,559**	**(714)**
Contributions paid	–	**(8,091)**	**(8,091)**
December 31, 2018	**₱19,254**	**(₱22,631)**	**(₱3,377)**

Parent Company	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
January 1, 2018	**₱16,279**	**(₱13,461)**	**₱2,818**
Net benefit cost			
Current service cost	**1,225**	**–**	**1,225**
Net interest	**830**	**(735)**	**95**
Sub-total	**2,055**	**(735)**	**1,320**
Benefits paid	**(1,273)**	**1,273**	**–**
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	**–**	**1,414**	**1,414**
Actuarial changes arising from experience adjustments	**(97)**	**–**	**(97)**
Actuarial changes arising from changes in financial/demographic assumptions	**(1,769)**	**–**	**(1,769)**
Sub-total	**(1,866)**	**1,414**	**(452)**
Contributions paid	**–**	**(7,292)**	**(7,292)**
December 31, 2018	**₱15,195**	**(₱18,801)**	**(₱3,606)**

Changes in net defined benefit liability 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			
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 OCI			
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			
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 OCI			
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

In 2018, 2017 and 2016, deferred tax on remeasurements on retirement plans credited (charged) to OCI amounted to ₱213.5 million, ₱11.1 million, and (₱209.7 million), respectively, for the Group, and ₱185.8 million, (₱7.6 million) and (₱204.4 million), respectively, for the Parent Company (Note 28).

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, assuming all other assumptions were held constant:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
As of December 31, 2018					
Discount rate					
+100 basis points (bps)	**₱14,368**	**₱890**	**₱231**	**₱2,240**	**₱295**
- 100 bps	**16,117**	**1,069**	**259**	**2,699**	**367**
Salary increase rate					
+100 bps	**16,082**	**1,052**	**261**	**2,717**	**364**
- 100 bps	**14,380**	**901**	**229**	**2,220**	**297**
Turnover rate					
+300 bps	**14,930**	**–**	**–**	**–**	**–**
+100 bps	**–**	**–**	**–**	**2,448**	**–**
+ 25 bps	**–**	**952**	**239**	**–**	**–**
- 300 bps	**15,494**	**–**	**–**	**–**	**–**
- 100 bps	**–**	**–**	**–**	**2,457**	**–**
- 25 bps	**–**	**998**	**250**	**–**	**–**
As of December 31, 2017					
Discount rate					
+100 bps	₱15,321	₱843	₱237	₱2,222	₱347
- 100 bps	17,352	1,052	270	2,639	450
Salary increase rate					
+100 bps	17,296	1,025	271	2,654	444
- 100 bps	15,348	865	236	2,206	351
Turnover rate					
+300 bps	–	889	–	–	–
- 25 bps	15,893	–	10	2,405	–
- 300 bps	–	968	–	–	–

The Group and the Parent Company expect to contribute to the defined benefit retirement plans the required funding for normal cost in 2019 amounting to ₱2.4 billion and ₱1.8 billion, respectively.

The average duration of the DBO of the Group as of December 31, 2018 and 2017 are as follows:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2018	**12.55 years**	**10.14 to 15.90 years**	**16.69 years**	**14.81 years**	**9.00 to 11.50 years**
2017	11.56 years	10.82 to 18.26 years	16.13 years	16.25 years	10.20 to 13.50 years

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

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
As of December 31, 2018					
Less than 1 year	**₱1,877**	**₱28**	**₱130**	**₱33**	**₱4**
More than 1 year to 5 years	**8,425**	**123**	**788**	**274**	**120**
More than 5 years to 10 years	**11,363**	**292**	**1,699**	**867**	**265**
More than 10 years to 15 years	**7,631**	**161**	**2,396**	**1,204**	**–**
More than 15 years to 20 years	**9,664**	**134**	**3,547**	**1,918**	**–**
More than 20 years	**11,954**	**125**	**5,280**	**1,124**	**–**
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	–

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 2018 and 2017 amounted to ₱273.1 million and ₱263.9 million, respectively.

As of December 31, 2018 and 2017, the retirement funds of the Group's employees amounting to ₱22.6 billion and ₱16.7 billion, respectively, are being managed by its trust banking units. The Parent Company 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 2018, 2017 and 2016 amounted to ₱57.8 million, ₱65.7 million and ₱59.4 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱7.8 billion, ₱7.3 billion and ₱6.8 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 15.00%. 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 Branch	2018 - 21.00% federal income tax; 7.10% state tax; 6.50% city tax 2017 - 34.00% federal 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	20.00% income tax; 5.00% gross business receipts tax; 5.0% value-added tax

The provision for income tax consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Current:						
Final tax	**₱2,928**	₱2,875	₱3,235	**₱2,389**	₱2,286	₱2,509
RCIT*	**5,010**	5,374	3,779	**2,090**	2,318	1,382
	7,938	8,249	7,014	**4,479**	4,604	3,891
Deferred*	**(193)**	(259)	(392)	**5**	(89)	(1)
	₱7,745	₱7,990	₱6,622	**₱4,484**	₱4,515	₱3,890

* Includes income taxes of foreign subsidiaries.

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

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱8,804**	₱7,165	**₱5,928**	₱5,167
Unamortized past service cost	**2,629**	1,170	**2,382**	956
Unrealized foreign exchange losses	**366**	4	**341**	–
Deferred membership/awards	**340**	167	**–**	–
Accumulated depreciation of investment properties	**284**	295	**169**	190
Retirement liability	**70**	1,076	**–**	845
Fair value loss on securities	**39**	–	**–**	–
Others	**468**	471	**104**	108
	13,000	10,348	**8,924**	7,266
Deferred tax liability on:				
Retirement asset	**1,069**	22	**1,055**	–
Fair value gain on securities	**993**	294	**942**	235
Unrealized gain on initial measurement of investment properties	**546**	523	**158**	169
Unrealized foreign exchange gains	**–**	334	**–**	334
Others	**154**	14	**–**	–
	2,762	1,187	**2,155**	738
Net deferred tax assets	**₱10,238**	₱9,161	**₱6,769**	₱6,528

Components of net deferred tax liabilities of the Group follow:

	2018	2017
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱231**	₱194
Unamortized past service cost	**3**	2
Retirement liability	**–**	24
Others	**49**	16
	283	236
Deferred tax liability on:		
Leasing income differential on lease accounting methods	**559**	500
Fair value gain on securities	**5**	–
Retirement asset	**2**	–
Others	**74**	13
	640	513
Net deferred tax liabilities	**₱357**	₱277

In 2018 and 2017, deferred tax charged (credited) to OCI amounted to (₱225.7 million) and ₱51.4 million for the Group, respectively, and (₱259.7 million) and ₱0.2 million for the Parent Company, respectively.

As of December 31, 2018 and 2017, no deferred tax asset was recognized on the following temporary differences: (a) allowance for credit and impairment losses amounting to ₱341.9 million and ₱198.0 million, respectively, for the Group; (b) NOLCO of ₱816.5 million and ₱855.1 million, respectively, for the Group, and ₱55.0 million in 2017 for the Parent Company; (c) MCIT of ₱8.5 million and ₱8.1 million, respectively, for the Group, and ₱8.0 million in 2017 for the Parent Company. 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. There are no temporary differences arising from undistributed profits of subsidiaries, branches, associates and a JV.

Details of the excess MCIT credits follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2015	₱1	₱1	₱–	2018	₱1	₱1	₱–	2018
2016	3	3	–	2019	3	3	–	2019
2017	4	4	–	2020	4	4	–	2020
2018	9	–	9	2021	–	–	–	2021
	₱17	₱8	₱9		₱8	₱8	₱–	

Details of the NOLCO follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2015	₱565	₱565	₱–	2018	₱234	₱234	₱–	2018
2016	302	–	302	2019	–	–	–	2019
2017	245	–	245	2020	–	–	–	2020
2018	270	–	270	2021	–	–	–	2021
	₱1,382	₱565	₱817		₱234	₱234	₱–	

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

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effect of:						
Tax-paid, tax-exempt and other non-taxable income	**(12.13)**	(14.52)	(13.15)	**(12.02)**	(14.23)	(11.84)
Non-deductible interest expense	**4.94**	3.33	4.90	**4.08**	3.04	3.39
FCDU income	**(1.89)**	(2.29)	(3.30)	**(1.94)**	(2.52)	(3.10)
Others - net	**3.92**	10.79	6.13	**(3.19)**	3.57	(0.75)
Effective income tax rate	**24.84%**	27.31%	24.58%	**16.93%**	19.86%	17.70%

29. Trust Operations

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

In compliance with current banking regulations relative to the Parent Company and PSBank's trust functions, the following are government securities deposited with the BSP.

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Investment securities at amortized cost	**₱5,000**	₱–	**₱5,000**	₱–
Investment securities at FVOCI	**65**	–	**–**	–
AFS investments	**–**	5,017	**–**	₱4,952
	₱5,065	₱5,017	**₱5,000**	₱4,952

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.

BSP Reporting

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

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Trust Banking Group accounts (Note 29)	**₱429,162**	₱450,492	**₱422,761**	₱443,989
Credit card lines	**188,211**	160,057	**–**	–
Unused commercial letters of credit (Note 31)	**43,051**	44,759	**42,123**	43,423
Bank guaranty with indemnity agreement (Note 31)	**11,708**	13,555	**11,708**	13,555
Undrawn commitments - facilities to lend	**6,890**	1,965	**6,890**	1,965
Outstanding shipside bonds/airway bills	**6,350**	5,248	**6,350**	5,248
Credit line certificate with bank commission	**5,509**	6,351	**5,492**	6,351
Late deposits/payments received	**1,376**	472	**1,366**	467
Inward bills for collection	**1,141**	2,824	**1,141**	2,823
Outward bills for collection	**747**	682	**746**	681
Confirmed export letters of credits	**235**	246	**83**	57
Outstanding guarantees	**209**	92	**209**	88
Others	**9,080**	6,076	**612**	382
	₱703,669	₱692,819	**₱499,481**	₱519,029

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 Bureau of Treasury (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. The Parent Company recognized a receivable from a third party of ₱425.7 million representing the 20% FWT. 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 and also stated that no further pleadings or motions will be entertained. The case was settled on April 11, 2017 by way of issuance of retail treasury bonds.

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. She is currently detained 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 RTC of Makati City. 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. These criminal cases are pending trial with the RTC of Makati City. On the civil case, the RTC of Makati City granted the preliminary writ of attachment filed by the Parent Company 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 likewise pending trial. In addition, foreign proceedings are ongoing on the cases which were filed in the USA and in Singapore to preserve and recover their identified properties. 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 of the Parent Company as well as its safety and soundness 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, assesments or notices, and claims relating to the Group's operations and labor-related cases remain unsettled. In the opinion of management, these suits, assessments or notices, 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 collectability 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 directors, officers, stockholders and related interests (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**	
	2018	2017	**2018**	2017
Total outstanding DOSRI accounts	**₱8,244**	₱4,879	**₱7,872**	₱3,442
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	**0.59%**	0.39%	**0.71%**	0.35%
Percent of DOSRI accounts to total loans	**0.59%**	0.39%	**0.71%**	0.35%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**31.58%**	13.11%	**28.68%**	5.54%
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. and requires that 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, 2018 and 2017, 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 17.61% and 10.14%, 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, 2018 and 2017, 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 2018, 2017 and 2016 amounted to ₱276.5 million, ₱52.3 million and ₱124.3 million, respectively, for the Group and ₱262.8 million, ₱37.2 million and ₱88.6 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, 2018	
Category	Amount	Terms and Conditions/Nature
Entity with Significant Influence Over the Group		
Outstanding Balance:		
Deposit liabilities*	**₱480**	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 21 to 30 days (Note 16)
Bills payable*	**204**	Peso borrowings subject to annual fixed interest rates ranging from 4.25% to 4.38% with maturity term of 45 days (Note 17)
Amount/Volume:		
Deposit liabilities	**464**	Generally similar to terms and conditions above
Bills payable	**204**	Generally similar to terms and conditions above
Interest expense	**40**	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱4,634**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 2.61% to 3.54% with maturity terms from 32 to 184 days with minimal ECL (Note 7)
Receivables from customers*	**13,685**	Unsecured, with ECL of ₱3.0 million; with annual fixed interest rates ranging from 3.43% to 5.45% and maturity terms from 5 days to 3 years
Accounts receivable	**333**	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees
Derivative assets	**118**	Fair value of forward and swaps bought with various terms

Category	Consolidated December 31, 2018 Amount	Terms and Conditions/Nature
Deposit liabilities*	**₱3,275**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 to 31 days (Note 16)
Bills payable*	**127**	Peso borrowings subject to annual fixed interest rates ranging from 4.00% to 6.25% with maturity terms from 30 to 185 days (Note 17)
Bonds payable*	**81**	Issued by FMIC with interest rate of 5.75% and maturity term of 5 years (Note 19)
Treasury stock	**67**	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividends declared	**2,255**	Dividend declared by PSBank, MCC and Metrobank Bahamas
Amount/Volume:		
Interbank loans receivable	**1,195**	Generally similar to terms and conditions above
Receivables from customers	**13,450**	Generally similar to terms and conditions above
Accounts receivable	**(167)**	Generally similar to terms and conditions above
Deposit liabilities	**(3,936)**	Generally similar to terms and conditions above
Bills payable	**(761)**	Generally similar to terms and conditions above
Treasury stock	**10**	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	**406**	Interest income on receivables from customers and interbank loan receivables
Service charges, fees and commissions	**323**	Income on transactional fees, including underwriting fees
Trading and securities loss - net	**(6)**	Net loss from securities transactions (Note 11)
Foreign exchange gain - net	**7**	Net gain from foreign exchange transactions
Leasing income	**77**	Income from leasing agreements with various lease terms
Miscellaneous income	**248**	Information technology and other fees
Interest expense	**29**	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16, 17 and 19)
Miscellaneous expense	**45**	Other fees (Note 25)
Contingent - derivatives	**989**	Swap bought with various terms
Securities transactions		
Purchases	**7,040**	Outright purchases of investment securities at FVTPL and FVOCI
Sales	**13,715**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**43,162**	Outright purchases of foreign currency
Sell	**37,744**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivables from customers*	**₱703**	Unsecured with ECL of ₱0.01 million; with annual fixed interest rates ranging from 4.33% to 6.18% and maturity terms from 346 to 360 days
Accounts receivable	**2**	Non-interest bearing receivable on rental fees
Investments in associates	**180**	Liquidating dividends from SMBC Metro
Deposit liabilities*	**836**	With annual fixed interest rates ranging from 0.00% to 3.38% including time deposits with maturity terms from 31 to 36 days (Note 16)
Dividends declared	**10**	Dividend declared by NLI
Amount/Volume:		
Receivables from customers	**703**	Generally similar to terms and conditions above
Deposit liabilities	**(289)**	Generally similar to terms and conditions above (Note 16)
Interest Income	**19**	Interest income on receivables from customers
Foreign exchange loss - net	**1**	Net loss from foreign exchange transactions
Leasing income	**33**	Income from leasing agreements with various lease terms
Interest expense	**1**	Interest expense on deposit liabilities (Note 16)
Securities transactions		
Outright sales	**1,561**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**1,924**	Outright purchases of foreign currency
Sell	**1,054**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱29,472**	Secured - ₱5.2 billion and unsecured - ₱24.2 billion, with ECL of ₱3.1 million; with annual fixed interest rates ranging from 3.88% to 6.00% and maturity terms from 14 days to 5 years (Note 9)
Accounts receivable	**3**	Credit card receivables, current and non-revolving

Category	Consolidated December 31, 2018 Amount	Terms and Conditions/Nature
Assets held under joint operations	**₱219**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**13,821**	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 to 359 days (Note 16)
Bills payable*	**51**	Peso-denominated borrowings subject to annual fixed interest rates ranging from 2.25% to 4.00% with maturity terms from 90 to 122 days (Note 17)
Amount/Volume:		
Receivables from customers	**9,769**	Generally similar to terms and conditions above
Accounts receivable	**(1)**	Generally similar to terms and conditions above
Deposit liabilities	**(13,149)**	Generally similar to terms and conditions above
Bills payable	**(146)**	Generally similar to terms and conditions above
Interest income	**713**	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**22**	Income from leasing agreements with various lease terms
Interest expense	**678**	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Contingent - others	**3**	Bank guaranty with indemnity agreement (Note 30)
Securities transactions		
Outright sales	**219**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**422**	Outright purchases of foreign currency
Sell	**967**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱85**	Secured - ₱59.5 million unsecured - ₱25.1 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1 year to 15 years (Note 9)
Deposit liabilities	**166**	With various terms and with annual interest rates ranging from 0.00% to 6.00%; with interest of ₱0.7 million (Note 16)
Amount/Volume:		
Receivables from customers	**9**	Generally similar to terms and conditions above
Deposit liabilities	**2**	Generally similar to terms and conditions above
Interest income	**4**	Interest income on receivables from customers (Note 9)

*including accrued interest

Category	Consolidated December 31, 2017 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
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 (Notes 16 and 17)
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 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 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 to 360 days (Note 16)

Category	Consolidated December 31, 2017 Amount	Terms and Conditions/Nature
Bills payable	₱888	Peso borrowings subject to annual fixed interest rates ranging from 1.13% to 4.63% with maturity terms from 15 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 FMPETF(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, 17 and 19)
Miscellaneous expense	73	Other fees (Note 25)
Dividends declared	3,649	Dividends declared by PSBank, FMIC, Metrobank Bahamas, MRSPL (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 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 to 122 days (Note 17)

	Consolidated	
	December 31, 2017	
Category	Amount	Terms and Conditions/Nature
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 and bills payable (Notes 16 and 17)
Contingent - unused commercial LCs	102	LC transactions with various terms (Note 30)
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
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 annual interest rates ranging from 0.00% to 1.38%; with interest expense of ₱0.5 million (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

	Parent Company	
	December 31, 2018	
Category	**Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	**₱480**	With annual fixed interest rate ranging from 0.00% to 4.00% including time deposits with maturity terms from 21 to 30 days (Note 16)
Amount/Volume:		
Deposit liabilities	**464**	Generally similar to terms and conditions above
Interest expense	**36**	Interest expense on deposit liabilities (Note 16)
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱4,634**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 2.61% to 3.54% with maturity terms from 32 to 184 days with minimal ECL (Note 7)
Receivables from customers*	**13,685**	Unsecured, with ECL of ₱3.0 million; with annual fixed interest rates ranging from 3.43% to 5.45% and maturity terms from 5 days to 3 years (Note 9)
Accounts receivable	**274**	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees
Derivative assets	**118**	Fair value of forward and swaps bought with various terms
Deposit liabilities*	**3,093**	With annual fixed interest rates ranging from 0.00% to 0.50% including time deposits with maturity terms from 3 days to 357 days (Note 16)
Treasury stock	**67**	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividend declared	**2,255**	Dividend declared by PSBank, MCC and MB Bahamas
Amount/Volume:		
Interbank loans receivable	**2,496**	Generally similar to terms and conditions above
Receivables from customers	**13,450**	Generally similar to terms and conditions above
Accounts receivable	**(171)**	Generally similar to terms and conditions above
Deposit liabilities	**(2,661)**	Generally similar to terms and conditions above
Treasury stock	**10**	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries

Category	Parent Company December 31, 2018 Amount	 Terms and Conditions/Nature
Interest income	**₱365**	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**35**	Income from transactional fees
Trading and securities loss - net	**(17)**	Net loss from securities transactions
Foreign exchange gain - net	**7**	Net gain from foreign exchange transactions
Leasing income	**36**	Income from leasing agreements with various lease terms
Miscellaneous income	**212**	Information technology and other fees (Note 25)
Interest expense	**16**	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Miscellaneous expense	**45**	Other fees (Note 25)
Contingent - derivatives	**989**	Swap bought with various terms
Securities transactions		
Purchases	**6,907**	Outright purchases of investment securities at FVTPL and FVOCI
Sales	**13,566**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**43,162**	Outright purchases of foreign currency
Sell	**37,744**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivables form customers*	**₱703**	Unsecured with ECL of ₱0.01 million; with annual fixed rates ranging from 4.33% to 6.18% and maturity terms from 346 to 360 days
Investment in associates	**180**	Liquidating dividends from SMBC Metro
Deposit liabilities*	**821**	With annual fixed interest rates ranging from 0.00% to 3.38% including time deposits with maturity terms from 31 to 36 days (Note 16)
Dividends declared	**10**	Dividend declared by NLI
Amount/Volume:		
Receivables from customers	**703**	Generally similar to terms and conditions above
Deposit liabilities	**(290)**	Generally similar to terms and conditions above
Interest Income	**19**	Interest income on receivables from customers
Foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**8**	Income from leasing agreements with various lease terms
Interest expense	**1**	Interest expense on deposit liabilities (Note 16)
Outright sale of securities	**340**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**1,924**	Outright purchases of foreign currency
Sell	**1,054**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱29,472**	Secured - ₱5.2 billion and unsecured - ₱24.2 billion, with ECL of ₱3.1 million; with annual fixed interest rates ranging from 3.88% to 6.00% and maturity terms from 14 days to 5 years (Note 9)
Assets held under joint operations	**219**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**13,183**	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 to 359 days (Note 16)
Amount/Volume:		
Receivables from customers	**9,770**	Generally similar to terms and conditions above
Deposit liabilities	**(12,237)**	Generally similar to terms and conditions above
Interest income	**713**	Interest income on receivables from customers
Foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**22**	Income from leasing agreements with various lease terms
Interest expense	**636**	Interest expense on deposit liabilities (Note 16)
Contingent		
Others	**3**	Bank guaranty with indemnity agreement (Note 30)
Securities transactions		
Sales	**70**	Outright sale of FVTPL and AFS investments
Foreign currency		
Buy	**422**	Outright purchases of foreign currency
Sell	**967**	Outright sale of foreign currency

Category	**Amount**	**Terms and Conditions/Nature**
	Parent Company	
	December 31, 2018	
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱68**	Secured - ₱55.9 million and unsecured - ₱11.9 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 to 15 years (Note 9)
Deposit liabilities	**166**	With various terms and with annual interest rates ranging from 0.00% to 6.00%; with interest expense of ₱0.7 million (Note 16)
Amount/Volume:		
Receivables from customers	**8**	Generally similar to terms and conditions above
Deposit liabilities	**2**	Generally similar to terms and conditions above
Interest income	**2**	Interest income on receivables from customers (Note 9)

*including accrued interest

Category	Amount	Terms and Conditions/Nature
	Parent Company	
	December 31, 2017	
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 to 94 days, no impairment (Note 7)
Receivables from customers*	235	Secured - ₱140.0 million and unsecured - ₱94.6 million, no impairment; with annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 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 FMPETF (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
Miscellaneous income	339	Information technology and other fees (Note 25)
Interest expense	13	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Miscellaneous expense	73	Other fees (Note 25)
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

Category	Parent Company December 31, 2017 Amount	Terms and Conditions/Nature
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 (Note 16)
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 (Note 30)
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 to 15 years (Note 9)
Deposit liabilities	164	With various terms and with annual interest rates ranging from 0.00% to 1.38%; with interest expense of ₱0.5 million (Note 16)
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

On September 5, 2017 and December 23, 2016, the Parent Company purchased selected loans from MBCL totaling 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, 2018 and 2017, the Parent Company recognized allowance for credit losses of ₱2.7 billion and ₱1.9 billion, respectively (Notes 9 and 15).

As of December 31, 2018 and 2017, government bonds with total face value of ₱60.0 million (classified as 'Investment securities at amortized cost') and ₱50.0 million (classified as 'AFS investments'), respectively, are pledged by PSBank to the Parent Company to secure the latter's payroll account with PSBank. Also, the Parent Company has assigned to PSBank government securities with total face value of ₱4.0 billion (classified as 'Investment securities at amortized cost') and ₱3.1 billion (classified as 'AFS investments'), respectively, to secure the PSBank deposits to the Parent Company.

As of December 31, 2018 and 2017, government securities classified as 'Investment securities at amortized cost' and 'AFS investments', respectively, amounting to ₱40.9 billion and ₱41.3 billion, respectively, for the Group and ₱40.9 billion and ₱28.5 billion, respectively, for the Parent Company are pledged to various funds managed by the Trust Banking Group of the Parent Company to secure borrowings from these funds.

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 securities and 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**		
	2018	2017	2016	**2018**	2017	2016
Short-term employee benefits	**₱3,222**	₱2,910	₱2,572	**₱2,334**	₱2,165	₱1,865
Post-employment benefits	**173**	132	129	**56**	46	42
	₱3,395	₱3,042	₱2,701	**₱2,390**	₱2,211	₱1,907

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 ₱69.1 million, ₱65.2 million and ₱58.5 million in 2018, 2017 and 2016, respectively. As of December 31, 2018 and 2017, the Parent Company sold securities totaling ₱2.2 billion and ₱2.0 billion, respectively, to its related party retirement plans and recognized net trading loss of ₱94 thousand and ₱0.2 million in 2018 and 2017, respectively, and has also purchased securities totaling ₱266.9 million and ₱171.3 million, respectively. Further, as of December 31, 2018 and 2017, the total outstanding deposit liabilities of Group to these related party retirement funds amounted to ₱433.6 million and ₱855.6 million, respectively. Interest expense on deposit liabilities amounted to ₱17.7 million, ₱13.8 million and ₱1.3 million in 2018, 2017 and 2016, respectively.

As of December 31, 2018 and 2017, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱196.3 million and ₱218.9 million, respectively, with unrealized trading loss of ₱14.3 million and unrealized trading gain of ₱32.2 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱2.0 billion and ₱745.0 million, respectively, with unrealized trading gains of ₱48.7 million and ₱19.4 million, respectively. Further, as of December 31, 2018, investments in the corporate bonds of the Parent Company by the related party retirement plans amounted to ₱2.1 billion with minimal unrealized trading loss. As of December 31, 2018, 2017 and 2016, realized trading gains amounted to ₱48.6 million, ₱7.8 million and ₱262.8 million, respectively. The related party retirement plans also recognized dividend income in 2016 amounting to ₱6.9 million (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):

		2018	2017	2016
a.	Net income attributable to equity holders of the Parent Company	**₱22,008**	₱18,223	₱18,086
b.	Share of hybrid capital securities holders	**–**	–	(267)
c.	Net income attributable to common shareholders	**22,008**	18,223	17,819
d.	Weighted average number of outstanding common shares of the Parent Company	**3,776**	3,243	3,240
e.	Basic/diluted earnings per share (c/d)	**₱5.83**	₱5.62*	₱5.50*

**Restated to show the effect of stock rights issued in 2018*

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

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Return on average equity (1)	**9.08%**	9.16%	9.28%	**8.81%**	9.05%	9.28%
Return on average assets (2)	**1.02%**	0.92%	0.99%	**1.23%**	1.12%	1.20%
Net interest margin on average earning assets (3)	**3.82%**	3.75%	3.54%	**2.98%**	2.85%	2.72%

(1) Net income attributable to equity holders of the Parent Company for the year divided by average total equity attributable to the Parent Company.
(2) Net income attributable to equity holders of the Parent Company for the year divided by average total assets.
(3) Net interest income for the year divided by average interest-earning assets.

33. Foreign Exchange

Closing rates as of December 31 and WAR for each of the year ended December 31 are as follows:

	BAP	PDS	
	2018	2017	2016
Closing	**₱52.58**	₱49.93	₱49.72
WAR	**52.68**	50.41	47.48

34. **Other Matters**

The Group has no significant matters to report in 2018 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 issuances of ₱8.7 billion LTNCD, ₱28.0 billion fixed rate bonds and ₱60.0 billion stock rights for the Parent Company and the issuance of LTNCD amounting to ₱5.1 billion for PSBank as discussed in Notes 16, 19 and 23.

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 by the Parent Company as discussed in Note 23; and

e. Effect of changes in the composition of the Group during the year, 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. On January 11, 2019, PSBank concluded its ₱8.0 billion SRO, involving 142,856,925 common shares priced at ₱56.00 per share and listed at the PSE on January 18, 2019. This was approved by the BOD of PSBank on October 15, 2018 and noted by the BSP on October 19, 2018. The Parent Company exercised its rights to purchase thus increasing its ownership in PSBank to 88.38%.

b. On January 17, 2019, the BOD of PSBank declared a 7.50% regular cash dividend for the fourth quarter of 2018 amounting to ₱180.2 million or ₱0.75 per share, payable not later than February 18, 2019 to all common stockholders as of record date of February 1, 2019.

c. On February 13, 2019, the BOD of the Parent Company approved the following:
   i. declaration of 5% regular cash dividend payable on March 14, 2019 to all stockholders of record as of March 1, 2019;
   ii. exercise of the call option on the Parent Company's ₱16.0 billion 2024 Peso Notes described in Note 20 on June 27, 2019 in accordance with its terms and conditions; and
   iii. increase in the authorized capital stock of the Parent Company from ₱100.0 billion to ₱140.0 billion and the declaration of a 13% stock dividend equivalent to 517,401,955 shares amounting to ₱10.3 billion representing the minimum 25% subscription and paid-up capital for the increase in the authorized capital stock. These shall be subject to receipt of regulatory approvals and stockholders' approval during the Annual Stockholders' Meeting scheduled on April 24, 2019.

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 February 13, 2019.

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, 2018 included under 'Taxes and licenses' account in the statements of income:

DST	₱2,539
GRT	2,285
Local taxes	153
Real estate tax	99
Others	177
	₱5,253

Details of total withholding taxes remitted for the taxable year December 31, 2018 follow:

FWT	₱3,176
Taxes withheld on compensation	2,102
Expanded withholding taxes	225
	₱5,503