COVER SHEET

CS200711792

SEC Registration Number

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

43rd Floor, GT Tower International, Ayala Avenue corner H.V. de la Costa St., Makati City

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

Atty. Renee Lynn Miciano-Atienza	836-4500
(Contact Person)	(Company Telephone Number)

12	31	17-A	05	08
Month	Day	(Form Type)	Month	Day
(Fiscal Year)			(Annual Meeting)	

Certificate of Permit to Offer Securities for Sale (Order #92)

(Secondary License Type, If Applicable)

CFD	
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings (in PHP billion)

80	21.9 bonds	
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

Remarks: Please use BLACK ink for scanning purposes.

SEC Number CS200711792
File Number __________

GT CAPITAL HOLDINGS, INC.

(Company's Full Name)

43rd Floor, GT Tower International, Ayala Avenue cor H.V. Dela Costa St, Makati City

(Company's Address)

836-4500

(Telephone Number)

December 31

(Fiscal year ending)

17-A

(Form Type)

(Amendment Designation, if applicable)

December 31, 2018

(Period Ended Date)

None

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1.	For the fiscal year ended:	**December 31, 2018**
2.	SEC Identification Number:	**CS200711792**
3.	BIR Tax Identification Code:	**006-806-867**
4.	Name of Registrant as specified in its charter:	**GT CAPITAL HOLDINGS, INC.**
5.	Province, country or other jurisdiction of incorporation or organization:	**METRO MANILA, PHILIPPINES**
6.	Industry Classification Code:	(SEC Use Only)
7.	Address of principal office:	**43/F GT Tower International, 6813 Ayala Avenue corner H. V. Dela Costa St., Makati City, Metro Manila, Philippines** Postal Code: **1227**

8. Registrant's telephone number, including area code: **(632) 836-4500**

9. Former name, former address, former fiscal year: **Not Applicable**

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

a) Shares of Stock

Title of Each Class	Number of Shares/ Amount of Debt Outstanding
Common Shares	**199,337,584**
Series A Perpetual Preferred Shares (GTPPA)	**4,839,240**
Series B Perpetual Preferred Shares (GTPPB)	**7,160,760**
Amount of Debt Outstanding	**21,907,866,338**

b) Debt securities: Php21.9 Billion Bonds*

**amount represents only the debt of GT Capital Holdings, Inc. registered with Philippine SEC*

11. Are any or all of registrant's securities listed in a Stock Exchange?

Yes [X]   No [ ]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Type of Share	Stock Exchange
Common Shares	Philippine Stock Exchange
GTPPA	Philippine Stock Exchange
GTPPB	Philippine Stock Exchange

Corporate Retail Bonds	Philippine Dealing and Exchange Corporation

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [X] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [X] No [ ]

13. Aggregate market value of voting stock held by non-affiliates: **Php81.4 billion (**based on closing price of Php931.50 as of March 29, 2019 and 87,427,515 outstanding common shares held by public as of December 31, 2018); **Php17.4 million** (based on offer price of Php0.10 per share as of April 13, 2015 and 174,300,000 voting preferred shares as of December 31, 2018)

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not Applicable**

Yes [ ] No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of SEC Form 17-A into which the document is incorporated:

(a) 2018 Audited Consolidated Financial Statements of GT Capital Holdings, Inc. and Subsidiaries (incorporated as reference for items 1,7, and 8 of SEC Form 17-A)

(b) 2018 Audited Consolidated Financial Statements of Metropolitan Bank and Trust Company (incorporated as reference for item 1 of SEC Form 17-A)

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PART I.

BUSINESS AND GENERAL INFORMATION

Item 1. **Business**

GT Capital Holdings, Inc. (GT Capital or the Company or the Parent Company or the Group) was incorporated in the Republic of the Philippines on July 26, 2007. The Company's registered office address and principal place of business is at 43/F GT Tower International, 6813 Ayala Avenue corner H. V. Dela Costa St., Makati City, Metro Manila, Philippines. GT Capital is a listed company, of which 56.14% is owned by Grand Titan Capital Holdings, Inc. (Grand Titan) and the directors and senior officers of GT Capital, while the balance of 43.86% is publicly owned as of December 31, 2018.

GT Capital is a major Philippine conglomerate with interests in market-leading businesses across banking, automotive assembly, importation, distribution and financing, property development, life and non-life insurance, and infrastructure and utilities. GT Capital is the primary vehicle for the holding and management of the diversified business interests of the Ty family in the Philippines. GT Capital's business management, investment decisions and future business development are and will be firmly rooted in its corporate values of integrity, competence, respect, entrepreneurial spirit and commitment to value creation.

GT Capital's portfolio of businesses is well-positioned to benefit from broad-based growth in the Philippine economy and domestic consumption in particular. The portfolio as of December 31, 2018 comprises directly-held interests in the following GT Capital component companies:

- **Automotive assembly, importation, distribution, dealership and financing –** GT Capital primarily conducts its automotive business through its 51.00% interest in Toyota Motor Philippines Corporation (TMP). TMP is engaged in the assembly, importation, and wholesale distribution of Toyota motor vehicles in the Philippines, and is also engaged in the sale of motor vehicle parts and accessories both within the Philippines and abroad through exports. TMP is also engaged in the distribution of Lexus brand motor vehicles in the Philippines. In addition, TMP owns Toyota Makati with one (1) branch – Toyota Bicutan; Toyota San Fernando in Pampanga with two (2) branches – in Plaridel, Bulacan and Hacienda Luisita, Tarlac City; Toyota Santa Rosa in Laguna; and Lexus Manila, situated in Bonifacio Global City, Taguig.

  GT Capital conducts its automotive dealership business through its 58.10% interest in Toyota Manila Bay Corporation (TMBC). TMBC exclusively distributes Toyota motor vehicles in the Luzon island, primarily servicing the market in Metro Manila. TMBC also offers original Toyota brand motor vehicle parts and accessories, and provide after-sales services for Toyota vehicles.

  GT Capital provides financing for the acquisition of Toyota and Hino motor vehicles through its 40.00% interest in Toyota Financial Services Philippines Corporation (TFSPH). TFSPH offers retail loans and finance lease to its individual and corporate clients for the acquisition of brand new Hino and brand-new and/or certified pre-owned Toyota vehicles.

  On June 13, 2016, SEC approved the incorporation of GT Capital Auto Dealership Holdings, Inc. (GTCAD). GTCAD will be a holding entity primarily for future auto dealerships of the Company. On July 14, 2016, SEC approved the incorporation of Toyota Subic, Inc. (TSB), a joint venture between GTCAD and JBT Global Holdings Inc. (JBT Global), with GTCAD owning 55% and JBT Global owning 45% of TSB's issued and outstanding capital stock. TSB commenced commercial operations on November 8, 2018.

- **Banking** – GT Capital conducts banking services through its 36.36% interest in Metropolitan Bank & Trust company ("MBT" or "Metrobank"). MBT is a universal bank that provides, through itself and other members of the MBT Group, a full range of banking and other financial products and services including corporate, commercial and consumer banking products and services as well as credit card, investment banking and trust services. Metrobank has been listed on the Philippine Stock Exchange since 1981. As of December 31, 2018, the MBT Group had a total of 957 branches in the Philippines, of which 707 were operated by MBT and 250 were operated by Philippine Savings Bank ("PSBank"); and over 2,300 automated teller machines ("ATMs").

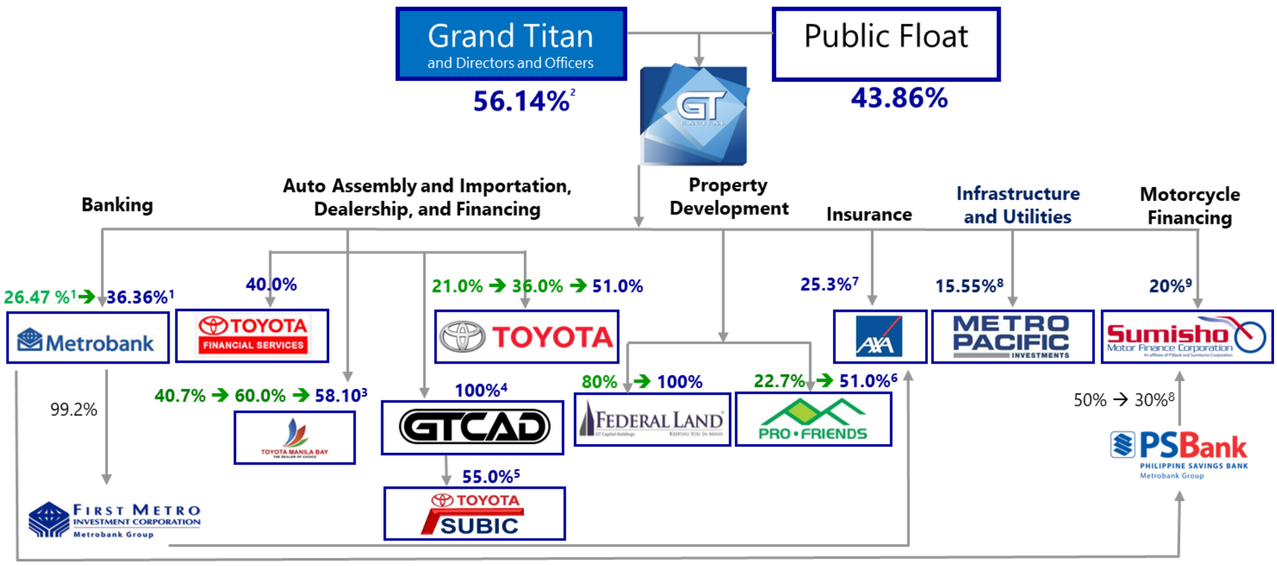
- **Property development** – GT Capital engages in the property development business through its wholly-owned subsidiary Federal Land, Inc. (Fed Land or Federal Land) and its 51.0% interest in affordable housing subsidiary, Property Company of Friends, Inc. (Pro-Friends or PCFI). Federal Land primarily focuses on the development of high-rise, vertical residential condominium projects, as well as on master-planned communities that offer residential, retail, office and commercial space. It caters mainly to the upper mid-end market segment with projects in key, strategic urban communities. Pro-Friends, on the other hand, focuses on housing developments in key strategic and urbanizing areas. Pro-Friends primarily targets the so-called property development "sweet spot" that mainly serves the economic and low-cost segment of the residential market.

- **Life and Non-Life Insurance** – GT Capital conducts its life and non-life insurance business through its 25.3% interest in Philippine AXA Life Insurance Corporation (AXA Philippines), which offers personal and group insurance products in the country, including investment-linked insurance products. AXA Philippines also fully-owns Charter Ping An Insurance Corporation (Charter Ping An or CPAIC) which offers non-life insurance products in the Philippines that includes fire/property, marine, motor car, personal accident, other casualty, and engineering insurance, among others. AXA Philippines distributes its products through a multi-channel distribution network comprised of agents, bancassurance (through MBT and PSBank branches), and corporate solutions.

- **Infrastructure and Utilities –** GT Capital, through its 15.55% stake in Metro Pacific Investments Corporation (MPIC), the Philippines' largest infrastructure conglomerate, has exposure in high-growth infrastructure businesses such as toll roads, water, power, railways, healthcare, and logistics. Among MPIC's portfolio is Manila Electric Company (MERALCO), the country's largest power distribution utility; Global Business Power Corporation (GBPC), one of the largest power generation companies in the Visayas Region; Maynilad Water Services, Inc., which manages Metro Manila's widest water distribution network; and Metro Pacific Tollways Corporation, operator of the country's largest toll road network.

- **Motorcycle Financing** – GT Capital, through its 20.0% stake in Sumisho Motor Finance Corporation (SMFC), which offers end-user financing for Japanese motorcycle brands.

GT Capital's organizational chart as of December 31, 2018 is as follows:



Note:

1 *In 2016, GT Capital acquired additional shares in the secondary market equivalent to 1.25% direct equity stake in MBT for a total consideration of Php3.0 billion. This effectively increased the direct equity stake of GT Capital in MBT from 25.22% to 26.47%.*
On April 20, 2017, GT Capital signed a Sale and Purchase Agreement to acquire secondary shares representing 9.622% interest in MBT held by various Ty-family owned companies for approximately Php24.72 billion. This increased GT Capital's equity stake in MBT from 26.47% to 36.09%.

In April 2018, GT Capital exercised its stock rights and subscribed for additional shares which aggregated to 299.28 million shares for a total cost of Php22.45 billion. This increased GT Capital's ownership in MBT from 36.09% to 36.36%.

2 *On April 20, 2017, a Subscription Agreement was signed for the subscription of Grand Titan to 9.5% primary shares of GT Capital for approximately Php21.69 billion. Consequently, Grand Titan, increased its direct equity stake in GT Capital to 55.93%.*

3 *On March 7, 2016, SEC approved the merger between TMBC and Toyota Cubao, Inc. (TCI). TMBC is the surviving corporation, absorbing the entire assets and liabilities of TCI. With the merger, the Company effectively owns 58.1% of TMBC while 40% of TMBC's common share capital is owned by Mitsui and Co. Ltd.*

4 *On June 13, 2016, SEC approved the incorporation of GTCAD. GTCAD is a holding entity for TSB and other future auto dealerships of the Company.*

5 *On July 14, 2016, SEC approved the incorporation of TSB, a joint venture between GTCAD and JBT Global, with GTCAD owning 55% and JBT Global owning 45% of TSB's issued and outstanding capital stock.*
JBT Global is the holding entity of Mr. Jose B. Tan, a strategic partner of TMP in Toyota San Fernando, which also operates Toyota dealerships in Plaridel, Bulacan and Hacienda Luisita, Tarlac City.

6 *On August 6, 2015, GT Capital and Maplecrest Group, Inc., formerly Profriends Group, Inc., executed a Master Subscription Agreement (MSA) to subscribe to 51% Series A Preferred Shares of Pro-Friends over a three-year subscription period.*
On August 20, 2015, after fulfillment of all closing conditions, GT Capital finalized the acquisition of 22.68% equity stake in Pro-Friends for Php7.24 billion. Subsequently, on June 30, 2016, pursuant to the MSA, GT Capital increased its direct equity stake by 28.32% to 51% for a total consideration of Php8.76 billion.

7 *On November 5, 2015, GT Capital and AXA Philippines executed a Sale and Purchase Agreement wherein GT Capital agreed to sell its 100% equity stake in Charter Ping An to AXA Philippines. The transaction was completed on April 4, 2016.*

8 *On May 27, 2016, GT Capital subscribed to 3.6 billion new common shares of MPIC at a subscription price of Php6.10 per share for a total cash consideration of Php21.96 billion. With the subscription, GT Capital holds 11.4% of the enlarged common share capital base of MPIC.*
On the same date, GT Capital also acquired a further 1.3 billion shares from Metro Pacific Holdings, Inc. (MPHI), the majority shareholder of MPIC, for a total cash consideration of Php7.93 billion, which then increased GT Capital's overall shareholdings in MPIC to 15.55%. On the same date, MPIC's associate, Beacon Electric Asset Holdings, Inc. (Beacon Electric), through a wholly-owned subsidiary Beacon PowerGen Holdings Inc. (Beacon PowerGen or BPHI), entered into a Share Purchase Agreement with GT Capital for the acquisition of an aggregate 56% of the issued and outstanding common shares of Global Business Power Corporation (GBPC) for a total consideration of Php22.06 billion

9 *On August 9 and 11, 2017, GT Capital entered into a Sale and Purchase Agreement (SPA) with Philippine Savings Bank (PSBank) and Philippine Savings Bank Retirement Fund (PSBank Retirement Fund) to acquire 20% direct equity stake in Sumisho Motor Finance Corporation (SMFC) for a total consideration of Php379.92 million.*

Competition

Many of GT Capital's activities are carried on in highly competitive industries. Given the diversity of GT Capital's businesses, GT Capital companies compete based on product, service and geographic area. While GT Capital is one of the largest conglomerates in the Philippines, the GT Capital companies compete against several companies in various sectors, some of which possess competitive manufacturing, financial, research and development and market resources.

The table below sets out GT Capital's principal competitors in each of the principal industry segments in which the GT Capital companies operate.

Industry Segment	Principal Competitors
Automotive Assembly and Importation	Mitsubishi, Honda, Ford, Isuzu, Hyundai, Nissan and Suzuki
Automotive Distribution and Dealership	Hyundai dealers, Ford dealers, Mitsubishi dealers, Nissan dealers and other Toyota dealers
Automotive Financing	PSBank, East West Bank, BDO, and BPI Family Bank
Banking	BDO and Bank of the Philippine Islands
Property Development	Ayala Land, Inc., Filinvest Land, Inc., Megaworld Corporation, Century Properties, SM Development Corp., DM Consunji, Inc., Robinsons Land Corporation, Rockwell Land Corporation, Vista Land and Lifescapes, Inc., and 8990 Housing Development
Life Insurance	Sun Life of Canada, Philippine American Life Insurance Co., Pru Life UK, Manufacturers Life Insurance, and Insular Life
Non-life Insurance	Malayan Insurance, Prudential Guarantee, Pioneer Insurance, BPI/MS, and FPG Insurance
Infrastructure and Utilities	Ayala Corporation, San Miguel Corporation, DM Consunji, Inc., Aboitiz Equity Ventures
Motorcycle Financing	Bank of Makati and Robinsons Bank

Transaction with Related Parties

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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities. These related parties include subsidiaries, associates, joint venture, key management personnel, stockholders and other related parties which include affiliates. Related party transactions are conducted fairly and on an arms' length basis and are discussed in the accompanying financial statements of the Company.

Developmental and Other Activities

As a holding company, GT Capital has no material patent, trademark, or intellectual property right to its products. The Company's operating companies, however, may have these material intellectual property rights, but the dates and terms of their expiration or renewal are not perceived to have a material adverse effect on the Company. The Company complies with all existing government regulations and environmental laws, the costs of which are not material. GT Capital has no material development activities.

Employees

As of December 31, 2018, the GT Capital group of companies had a combined 20,687 full-time employee headcount (excluding contract and temporary employees), broken down by operating company or division as follows:

Operating Company	Number of Employees
GT Capital	36
MBT (Parent Bank)	12,851
Federal Land	480
Pro-Friends	1,524
TMP	1,925
AXA Philippines and Charter Ping An	2,419
TMBC	983
TFSPH	417
MPIC Parent	52
Total	20,687

Risk

Risk Management Framework
The Board of Directors (BOD), supported by its Risk Oversight Committee (ROC), Executive Committee (ExCom), and Audit Committee (Audit Com), oversees the Company's risk management activities and approves GT Capital's risk management policies. The ROC was formed in May 2015 and has the oversight role over the Company's risk management activities. The ExCom covers specific non-financial risks, such as strategic, operational and regulatory risks, while the Audit Com provides oversight over financial reporting risks and internal audit.

The Group's key risks are summarized below:

Market Risk
GT Capital component companies are engaged in various sectors namely banking, insurance, property development, automotive assembly and distribution, and infrastructure and utilities. GT Capital component companies may be adversely affected by market and other macroeconomic factors such as interest rate, foreign exchange rates, inflation, and other economic variables. Political policies, directions and uncertainties may also impinge the market demand for Component Company products and services.

To mitigate this risk, GT Capital and its component companies continuously monitor key risk indicators, conduct sensitivity analyses, and adjust their business strategies accordingly.

Operational Risk
GT Capital component companies are exposed to risks in the conduct of its operations which includes fraud and information security. Incidents in this category may lead to disruption in operations, reputational damage or financial losses.

To mitigate this risk, GT Capital and its component companies maintain robust operational policies, procedures and controls. Regular internal audits and third-party checks, as necessary, are conducted to identify and address gaps in the performance of various functions.

Regulatory Compliance Risk
GT Capital component companies are regulated by the Philippine Stock Exchange, Bangko Sentral ng Pilipinas, Insurance Commission, Housing and Land Use Regulatory Board, SEC, Bureau of Internal Revenue, and other regulatory bodies. Rules and implementing guidelines are always evolving and GT Capital should always be up to date with these new developments.

To mitigate this risk, GT Capital component companies have their own legal and compliance departments to ensure proper compliance with relevant regulations. In addition, the internal audit department of each component company reports any material non-compliance to their respective Audit Committees.

Financial Reporting Risk
It is of utmost importance to GT Capital and its component companies to be transparent to its shareholders, in terms of financial reporting.

To achieve this, each of GT Capital's component companies has engaged SGV & Co. as their external auditor. In addition, GT Capital conducts its own review of the submitted financial reports for consolidation. Afterwards, the consolidated financial statements at the GT Capital level are then subject to another external audit by SGV & Co.

Portfolio Management Risk
As a holding company, GT Capital aims to have a diversified portfolio that maximizes profitability and creates shareholder value.

To achieve this, GT Capital management meets on a periodic basis to monitor and review the performance of the portfolio and accordingly recommends the adjustment of business strategies to the ExCom and the BOD.

Environmental and Social Risk

GT Capital component companies are exposed to non-financial risk such as environmental and social impacts in the conduct of its operations. Environmental risks may be brought by non-compliance with relevant laws and regulations and contribution to climate change. Social risk primarily arises from the component companies interaction with its stakeholders such as employees, suppliers, customers and other participants in the value chain.

To mitigate this risk, GT Capital component companies are actively engaging key stakeholders to improve its response to environmental and social risks. In addition, the component companies ensure compliance with all relevant laws and regulations which provide protection to the environment, and to participants of its supply chain.

Metropolitan Bank and Trust Company

Metropolitan Bank & Trust Company ("Metrobank" or "MBT" or the "Bank") was incorporated on April 6, 1962 by a group of Filipino businessmen to provide financial services to the Filipino-Chinese community. Since its formation, the Bank has diversified its business, and to date provides a broad range of banking and collateral services to all sectors of the Philippine economy.

MBT's organizational milestones include the following:

- MBT opened its first office in Binondo, Manila on September 5, 1962.
- In 1975, MBT rolled out its first international branch in Taipei, followed by offices in New York, Guam, Hong Kong, and Tokyo towards the early 1980s.
- The Philippine Central Bank authorized Metrobank to operate its Foreign Currency Deposit Unit ("FCDU") on April 15, 1977.
- On February 26, 1981, Metrobank's common shares were listed on the Makati Stock Exchange Inc. and the Manila Stock Exchange, (which unified and now The Philippine Stock Exchange, Inc. or PSE) with the trading symbol "MBT".
- On August 21, 1981, Metrobank became one of the first to be granted a universal banking license by the Philippine Central Bank, now Bangko Sentral ng Pilipinas ("BSP"). This license allowed the Bank to engage in "non-allied undertakings", which include automobile manufacturing, travel services and real estate, as well as finance-related businesses such as insurance, savings and retail banking, credit card services and leasing.

Services/Customers/Clients

Metrobank offers a complete range of commercial and investment banking services. MBT's customer base covers a cross section of the top Philippine corporate market. MBT has always been particularly strong in the middle market corporate sector, a significant proportion of which consists of Filipino-Chinese business.

MBT's principal business activities involve deposit-taking and lending, trade finance, remittances, treasury, investment banking and thrift banking. MBT is also a major participant in the Philippine foreign exchange market. It is accredited as a Government Securities Eligible Dealer ("GSED") and has played an active role in the development of the domestic capital markets.

MBT provides investment banking services through First Metro Investment Corporation ("FMIC") and retail banking through MBT and its subsidiaries PSBank and Metrobank Card Corporation ("MCC").

Contribution to Sales/Revenues

The net interest income derived from lending, investment and borrowing activities represents 74.3%, 72.9% and 67.1% of the MBT Group's revenue net of interest and finance charges in 2018, 2017 and 2016, respectively. Other operating income (consisting of service charges, fees and commissions; net trading and securities gains; net foreign exchange gain; gain on sale of investments in an associates; gain on sale of non-current asset held for sale; leasing income; profit from assets sold; income from trust operations; dividend income; and miscellaneous income) and share in net income of associates and a joint venture account for 25.7%, 27.1% and 32.9% of the MBT Group's revenue net of interest and finance charges in 2018, 2017 and 2016, respectively.

Contribution of Foreign Offices

The percentage contributions of the MBT Group's offices in Asia, the United States and Europe to the MBT Group's revenue, net of interest and finance charges, and external net operating income for the years 2018. 2017 and 2016 are as follows:

Offices in	**Year**	**Percentage (%) Contribution to**	
		Revenue, Net	External Net Operating Income
Asia (Other than the Philippines)	2018	2.67	2.69
	2017	2.36	2.44
	2016	2.21	2.32
United States	2018	0.69	0.76
	2017	0.64	0.70
	2016	0.89	0.98
Europe	2018	0.06	0.06
	2017	0.07	0.07
	2016	0.10	0.11

Distribution Methods of Products and Services

To remain strongly positioned and retain its leadership, Metrobank continued to upgrade and expand its distribution channels:

1. Branches

Metrobank ended 2018 with 957 branches as compared to 953 in 2017. Selected branches in Metro Manila and the countryside were relocated to maximize visibility and greater reach to its clients. Branch renovations were done and continued to reflect MBT's customer-centric and sales-oriented focus.

2. Remittance Centers

To further expand the remittance business of MBT and its presence in the international market, remittance alliances were established between MBT and several well-established businesses in the country.

2018 - New International Remittance Tie-Ups

a. Al Mirqab Exchange, Qatar
b. Crosspay Ltd., U.K.
c. G.S. Cashline Ltd. Cyprus
d. Hong Lan Services, Inc., U.S.A.
e. GCC Exchange UK Ltd., U.K.
f. Golden Money Transfer, Inc., U.S.A.
g. Granstar Global Services Pty. Ltd., Australia
h. Hatari Express Holdings Ltd., Hong Kong
i. Jiou Lai Cheng, Taiwan
j. Kabayan Capital (Canada), Inc., U.K.
k. Kabayan Capital Ltd.
l. Khalil Al Fardan Exchange, UAE
m. Oman Exchange Company WLL, Kuwait
n. Pinoy NZ Limited, New Zealand
o. Tranglo SDN.BHD
p. Universal Exchange Center, UAE

2018 - Local Remittance Tie-Ups

a. 2Queens Maritime Services, Inc.
b. Eurasian Maritime Corporation
c. Mitsui O.S.K. Lines (MOL) Training Center (Phils.), Inc.

3. ATMs

All of Metrobank's 2,300+ ATMs are full-featured and allow a wide array of financial and non-financial transactions for its clients and those of Bancnet member banks. Apart from being the first bank to secure EMV-chip (Euro MasterCard VISA) certification in the Philippines, it has deployed 179 Cash Accept Machines to allow clients to make real-time cash deposits to their accounts. We have installed security device in machines, thus providing more secure and convenient solutions to meet its clients' banking needs.

4. Metrophone

Metrophone is the Bank's Interactive Voice Response System ("IVRS") banking platform, and one of the first electronic banking channels made available to Metrobank customers. MBT continues to pursue improvements by exploring the development of more features and functionalities that will further enhance the channel's overall user experience.

5. Mobile Banking

Mobile Banking is an electronic banking channel that caters to feature phones that fill up the majority of the mobile market. It now has its own Apple iOS and Android mobile banking applications for use in the increasingly popular smart phones that have flooded the market.

6. Metrobank*direct*

Metrobank*direct* is MBT's internet browser-based banking platform that allows its clients to access their accounts and make financial transactions at their own personal convenience. With more features to enhance a user's experience, such as online enrollment, Metrobank*direct* now makes internet banking a truly online experience for its clients.

7. Metrobankdirect Corporate is an integrated platform that provides companies with online and real-time access to their accounts. It also helps them manage their business needs through efficient, flexible and secured designs of the best cash management solutions.

8. E-Government Facilities
   - Taxdirect is a web-based payment facility of Metrobank that allows both retail and corporate clients to pay their dues on tax returns filed through the Bureau of Internal Revenue's ("BIR") Electronic Filing and Payment System ("EFPS") website.
   - Bancnet's eGov Payment facility is a highly convenient online service that allows clients to electronically remit their monthly Social Security System (SSS), Philippine Health Insurance Corporation (Philhealth) and Pag-ibig Fund (PAG-IBIG) contributions and loan payments.

Innovations and Promotions

In 2018, Metrobank continued to introduce campaigns and promotions to address the market's needs.

- Recognized as The Asian Banker's Best Trade Finance Bank in the Philippines for 2018, Metrobank established an online platform specifically designed for trade finance.

- Metrobank partnered with various merchants to provide discounts and treats for its Debit and Prepaid MasterCard cardholders. OFWs and their beneficiaries were also rewarded with MetroRemit's Premyo sa Padala promo.

- Metrobank and PSBank enabled over 2,300+ ATMs nationwide for Cardless Withdrawal. Both banks also added an interbank fund transfer feature via InstaPay and PESONet in Metrobank Mobile app, PSBank Online and PSBank Mobile app.

- PSBank introduced Flexi Personal Loan with Prime Rebate, the first and only collateral-free personal loan product with a revolving credit line and a fixed term loan. PSBank also started offering Home Loan 1-day Credit Decision which highlights one of the fastest loan approvals in the industry, convenient housing loan terms and rewards. In addition, PayPal accounts can now transfer funds to PSBank accounts.

- For its credit cardholders, MCC continued to offer premium deals and various treats through its partner merchants with up to 50% discount from retailers, online booking sites, top restaurants and hotels. It also digitalized its promotions with its partner merchants. Additionally, MCC tapped China's top digital payment providers, Alipay and WeChat Pay, enabling a number of local merchants using MCC's payment platform to accept mobile payments from thousands of visiting Chinese consumers in the country.

- Maintaining its title as Interbrand's No. 1 Global Insurance Brand for the 10th consecutive year, AXA Philippines offered new products including *Asset Master*, a single-pay, investment-linked insurance plan which allows customers to build a diversified investment portfolio of local and global investments; and *MyAXA Café*, AXA's online insight community which won silver at the prestigious Efma-Accenture

Innovation in Insurance Awards. Other promotions included *Choose AXA*, a marketing campaign communicating the new proposition that the company now offers both life and general insurance products. It also inaugurated its newest state-of-the art facilty – the *AXA Academy*, the training facility that aims to produce better equipped insurance professionals who can provide outstanding service to its clients.

- FAMI started offering the *First Metro Consumer Fund*, a jointly-constructed index with world-renowned index provider MSCI, Inc. that is designed to capture the Philippine consumption-led growth story.

- FMSBC launched *First Metro Sec* PRO, by far the most advanced online stock trading platform available for the Philippine Stock Market. It also conducted a series of promotions and roadshows nationwide to introduce this, as well as guide the investors on how to use it. Among the venues were major cities like Baguio City, Davao City and Cebu City. In line with its financial literacy advocacy, FMSBC continued to hold its Guided Investor, Fearless Trader (G.I.F.T.) Learning Series and B.E.S.T. (Basic Education on Stock Trading) seminars all over the country and even in Netherlands, Belgium, and Qatar.

- Metrobank Trust Banking Group launched three geographically focused funds in 2018. First, the *Metro$ S&P 500 Feeder Fund* which aims to provide market returns from a portfolio of stocks that comprise the US Equity Market. Second, the *Metro$ MSCI Eurozone Feeder Fund* which intends to provide market returns from a portfolio of stocks that comprise the European Equity Market. Third, the *Metro$ MSCI Japan Feeder Fund* which seeks to provide market returns from a portfolio of stocks that comprise the Japan Equity Market. Another fund launched in *2018 is the Metro$ US Investment Grade Corporate Bond Feeder Fund* which aims to provide market returns from a representative portfolio of US Dollar-denominated, investment grade corporate bonds that comprise the US Investment Grade Corporate Market.

Competition

MBT faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the Government in 1994 and again in 2014. The 2014 Foreign Bank Liberalization Act now allows foreign banks to own up to 100% voting stock of an existing bank, new subsidiary or a branch, and up to 40% of the banking industry's total assets (previously 30%). Foreign banks have generally focused their operation on the larger corporations for specific products like cash management and trade finance and selected consumer finance products.

As of December 31, 2018, the Philippine universal and commercial banking sector consisted of 45 banks, including 23 foreign bank entities. In terms of classification, there were 21 universal banks and 24 commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 24 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 17 were branches of foreign banks. The ten largest commercial banks in the country accounted for over 80% of both total assets and total deposits of the universal and commercial banking system based on published statements of condition as of September 30, 2018.

Products and services offered by the larger commercial banks are fairly similar, and banks have used competitive pricing to attract clients. Customer coverage, accessibility and customer experience also act as other key differentiating factors. The smaller domestic banks and foreign banks, on the other hand usually operate in smaller niche markets.

The BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidations may result in greater competition as it strengthens the financial capabilities of a smaller group of "top tier" banks. In December 2016, the Central Bank issued a memorandum providing regulatory incentives for mergers, consolidations and acquisition of majority or all outstanding shares of stock of a bank or quasi bank.

Transactions with and/or Dependence on Related Parties

Transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) are discussed in Note 31 of the audited financial statements of Metrobank as presented in the accompanying Index to Exhibits.

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions, and Royalty Agreements Held

MBT's major products and service lines are sold through Metrobank trade names or trademarks, among others:

1. For ATMs: Metrobank Debit Card or Metrobank Prepaid Card
2. For credit cards: Metrobank Visa/MasterCard Classic; Visa/MasterCard Gold; Femme Signature Visa/Femme Visa; Platinum Visa/MasterCard; World MasterCard; Dollar MasterCard; Metrobank ON Internet MasterCard; M Free MasterCard; M Lite MasterCard; MasterCard Corporate Card; Toyota MasterCard; The Bistro Group Visa 10 and Robinsons Classic/Gold MasterCard. Features: Cash2Go; Balance Transfer; Bills2Pay; M Here (Shopping Perks & Privileges); M Swipe (Acquiring); Design My Card; and Rewards.
   Prepaid Card: Yazz card and Victory Premiere Prepaid Card
3. For phone banking: Metrophone Banking
4. For internet banking: Metrobank*Direct*
5. For mobile banking: Metrobank Mobile Banking
6. For remittance services: Metrobank Superbilis Padala, World Cash Card, MetroRemit, PayStation, CollectAnywhere, PayAnywhere and Payroll Plus
7. For consumer lending: MetroHome and MetroCar
8. For special current account: MetroChecking Extra, Account One
9. For special savings account for kids below 18 years old: Fun Savers Club (FSC) Regular and Spark Savings Account
10. For Trust products: Metro Money Market Fund; Metro Short Term Fund; Metro Max-3 Bond Fund; Metro Max-5 Bond Fund; Metro Corporate Bond Fund; Metro Balanced Fund; Metro Unit Paying Fund; Metro Equity Fund; Metro PSEi Tracker Fund; Metro High Dividend Yield Fund; Metro $ Money Market Fund; Metro $ Short Term Fund; Metro $ Max-3 Bond Fund; Metro $ Max-5 Bond Fund; Metro $ Asian Investment Grade Bond Fund; Metro World Equity Feeder Fund; Metro $ MSCI Eurozone Feeder Fund; Metro $ MSCI Japan Feeder Fund; Metro $ S&P 500 Feeder Fund; Metro $ US Investment Grade Corporate Bond Feeder Fund; Metro Aspire Bond Feeder Fund; Metro Aspire Balanced Feeder Fund and Metro Aspire Equity Feeder Fund.

Corporate licenses include the following:

1. For Metrobank: expanded commercial banking license, FCDU license, license for trust operations, type 2 limited dealer authority, Government Securities Eligible Dealer (GSED) with broker-dealer of securities functions
2. For PSBank: thrift banking license, FCDU license, license for trust operations, GSED (non-market maker) as dealer-broker, type 3 limited user authority and quasi-banking license
3. For FMIC: investment house, investment company adviser (ICA) and quasi banking
4. For ORIX Metro: financing company and quasi-banking license
5. For MCC: quasi-banking license, finance company, electronic money issuer license and general insurance agency
6. For Metropolitan Bank China Ltd. ("MBCL"): business license to expire on January 13, 2040

All MBT's trademark registrations are valid for 10 years. MBT closely monitors the renewal dates of registrations to protect and secure its rights to these trademarks. Corporate licenses issued by different regulatory bodies have no specific expiration dates except for the GSED licenses of Metrobank and PSBank which is renewable annually every November.

On January 19, 2017, the BSP had approved the surrender of the trust license of FMIC and had issued the Revocation of Authority to Conduct Trust and Fiduciary Business. On January 10, 2019, FMIC renewed its ICA license with SEC as fund manager for FMSLEFI.

Government Approval of Principal Products or Services

The MBT Group regularly obtains approvals and permits from regulatory bodies and agencies, as applicable, prior to the offering of its products and services to the public.

Effect of Existing or Probable Government Regulations

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 Philippine Financial Reporting Standards ("PFRS") in some respects.

The MBT 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% at 11% of CET1 capital and Total Capital Adequacy Ratio (CAR) at 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.

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

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 be no lower than 100.00%. Compliance with the LCR minimum requirement will commence on January 1, 2018 with the prescribed minimum initially set at 90.00% for 2018 and 100.00% effective January 1, 2019.

Applicable Tax Regulations

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 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.

The applicable taxes and tax rates for the foreign branches of the Bank are discussed in Note 28 of the audited financial statements of MBT as presented in the accompanying Index to Exhibits.

Research and Development Costs

For the last three fiscal years, MBT has not incurred any expenses for research and development.

Employees

Metrobank Parent Company had 12,851 employees as at December 31, 2018. By year-end 2019, the Bank projects to have 13,408 employees.

	Officers	**Rank and File**	**Total**
As of year-end 2018:			
AVPs and up:	479		479
Senior Managers and down:	5,503	6,869	12,372
	5,982	6,869	12,851
By year-end 2019 (projected):			
AVPs and up:			
Senior Managers and down:	612		612
	6,271	6,525	12,796
	6,883	**6,525**	**13,408**

Majority of the registrant's rank and file employees are members of the employees' union. Benefits or incentive arrangements of the rank and file employees are covered by the Collective Bargaining Agreement (CBA) that is effective for three years. MBT continues to ensure that its employees are properly compensated. The latest CBA that is effective for three years beginning January 2019 will end in December 2021. MBT has not experienced any labor strikes and the management of MBT considers its relations with its employees and the Union to be harmonious.

Risk Management

The MBT Group has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks. Detailed discussions and analysis on Risk Management of MBT are disclosed in Note 4 of the Audited Financial Statements as presented in the accompanying Index to Exhibits.

Risk Management Framework
The BOD has overall responsibility for the oversight of MBT'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 Bank'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 Bank's Risk Management framework which involves the identification, assessment, control, monitoring and reporting of risks.

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

Credit Risk

Credit risk is the risk of financial loss to the MBT Group if a counterparty to a financial instrument fails to meet its contractual obligations. The MBT 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 IAG and RSK, respectively.

Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from MBT Groups's inability to meet its obligations when they become due. This may be caused by the inability to liquidate assets or to obtain funding to meet liquidity needs. The MBT 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 MBT 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 MBT Group's assets, liabilities and off-balance sheet items to time bands based cash flow expectation 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 flow 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, MBT 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 MBT 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. MBT generates and monitors daily its MCO. The subsidiaries generate at least monthly their respective MCO reports. The liquidity profile of MBT Group is reported monthly to the MBT's ROC. To supplement the business-as-usual scenario parameters reflected in the MCO report, MBT also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to MBT Group's liquidity profile. Liquidity stress testing is performed quarterly

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 its 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. The RSK serves under the ROC and performs daily market risk analyses to ensure compliance with the MBT'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, MBT 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 MBT Group Trading Value-at-Risk (VaR) and Earnings-at-Risk (EaR).

Market Risk - Trading Book
In measuring the potential loss in its trading portfolio, MBT 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. MBT measures and monitors the Trading Book VaR daily and this value is compared against the set VaR limit. Meanwhile, the MBT Group VaR is monitored and reported monthly. 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 MBT on a quarterly basis and the results are reported to the ALCO and, subsequently, to the ROC and BOD. On a MBT Group-wide perspective, stress testing is done, at least, on an annual basis. These results are reported by MBT’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
MBT and its subsidiaries have in place their risk management system and processes to quantify and manage their respective market risks in the banking book.

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

Interest Rate Repricing Gap is a tool that distributes rate-sensitive assets and liabilities into predefined 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.

MBT 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 EaR figures.

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 MBT Group’s FCDU account. Foreign currency deposits are generally used to fund the MBT 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 MBT Group’s policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Federal Land, Inc.

Federal Land was incorporated on May 28, 1997, primarily to acquire, develop and sell properties of every kind and description including but not limited to real estate and bonds, debentures, promissory notes, shares of capital stock, or other securities or obligations. On the other hand, the main principal activities of the Federal Land Group (i.e. Federal Land and its subsidiaries) are to acquire, develop, lease and sell properties of every kind and description and to act as a marketing agent for and in behalf of any real estate development company or companies. The

Federal Land Group is also engaged in the business of trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintains a petroleum service station and engaged in the food and restaurant service.

Federal Land's registered office is at 20th Floor, GT Tower International, Ayala Ave. cor. H.V. Dela Costa Street, Makati City. Federal Land is a wholly-owned subsidiary of GT Capital.

Products and Services/Customers/Clients

Federal Land's primary products and services are residential sales and commercial and office leasing. Below is a listing of types of Federal Land's projects.

Property Development Projects
Federal Land has a diverse portfolio of property development projects that focus on master-planned communities and residential developments. Many of Federal Land's residential development projects are components of Federal Land's master-planned communities. However, Federal Land also develops stand-alone residential projects. Residential properties are developed and sold while commercial and retail properties are generally developed and leased to generate recurring income. Prior to its formation, the Ty family property companies were historically focused on developing stand-alone residential condominiums and commercial properties.

Master-planned Community Developments
Federal Land and its affiliates own substantial tracts of land in prime areas in Metro Manila and its periphery. Federal Land develops these properties into fully master-planned communities consisting of residential condominium towers, supporting amenities and complementing commercial, retail and institutional establishments. Federal Land believes that by creating a core mix of residential and commercial properties, it can create self-sustaining communities that are attractive places in which to live, work, and enjoy recreational activities.

Residential Developments
Federal Land has historically focused on the development of upper-middle and high-end market residential condominiums. Taking into consideration factors such as location, competitive landscape and target market in the areas where a project will be located, Federal Land's current and future planned residential projects focus on three types of residential developments: township condominium, stand-alone condominium, and house and lot subdivision.

Commercial Developments
Federal Land has a portfolio of commercial buildings and properties that include office properties and retail centers that Federal Land leases to various tenants. In most cases, Federal Land is also the property manager for these projects. The leases and management fees are sources of recurring income that enhance the company's revenues and strengthens its cash flows. Federal Land will continue to contribute to its sources of recurring income by identifying and developing properties that are apt for such uses in areas where demand for leasing spaces are identified.

Retail Buildings
Federal Land is currently developing retail centers in Pasay City, Marikina City, and Taguig City. These centers are in addition to the existing "Blue Bay Walk," an outdoor shopping center located at Metro Park in Pasay City that was opened in March 2014.
Aside from the retail centers, Federal Land owns and operates various retail spaces located at the podium / ground floor spaces of the various residential towers. An enclosed mall called Met Live that is also located in Metro Park, is slated to open in 2018.

Office Buildings
The major office properties that generate lease income for Federal Land are the GT Tower International and the Philippine AXA Life Centre. Both are high-rise office buildings located in Metro Manila's Makati Central Business District. The company continues to grow the office portfolio with the completion of its first PEZA accredited BPO Building in the Metro Park development called iMet, which became operational in July 2017.

Contribution to Sales/Revenues

Please refer to Part II Item 7 – Management Discussion and Analysis (MD&A) on Property Development.

Competition

The Philippine real estate development industry is highly competitive. With respect to township developments in Metro Manila and high rise condominiums, Federal Land's major competitors are Ayala Land, Inc., Filinvest Land, Inc., Megaworld Corporation, Century Properties, SM Development Corp., DMCI and, Robinsons Land Corporation and Rockwell Land Corporation. Federal Land believes that it is a strong competitor in the mid-high end market due to the quality of its products and the materials used in construction and finishing. Federal Land also believes that its association with the GT Capital group allows it to reach a wider network of potential customers, including the lucrative overseas-based investor market.

Sources and Availability of Raw Materials and the Names of Principal Suppliers

	Name of Contractor	Nature of Works
1	DM Consunji, Inc. (DMCI)	General Construction
2	EEI Corporation	General Construction
3	C-E Construction	General Construction
4	Steel Asia	Owner Supplied Rebars
5	Torque Builders	Electrical
6	Millennium Erectors	General Construction
7	Golden Fortune Techno Built	General Construction
8	Aga & Sons Construction	General Construction
9	S & H Electrical	Electrical
10	Irvine Construction	Sanitary/Plumbing
11	Armstrong Plumbing Corp	Sanitary/Plumbing

Transactions with and/or Dependence on Related Parties

Federal Land, in its regular conduct of its business, has entered into transactions with its associate and other related parties principally consisting of cash advances and reimbursement of expenses, leasing agreements, acquisition of undeveloped land and management agreements.

1) *Land for Development*
In 2015, Federal Land purchased four parcels of land all located at Macapagal and five parcels of land in the Ortigas area from Hill Realty and Metrobank, respectively, for a total consideration of Php6.7 billion. These parcels of land were acquired at their fair market values at the time of the acquisition.

2) *Real Estate Sales*
In 2016, Horizon Land sold a parcel of land to Toyota Cubao, Inc. (TCI) located at Sumulong Highway, Marikina for Php187.5 million.

   In 2018, Federal Land sold parcels of land in BGC area to Sunshine Fort North Bonifacio Realty Development Corporation and North Bonifacio Landmark Realty Development Inc. for Php5.6 billion and Php1.5 billion, respectively.

   In 2018, Topsphere Realty Development Co. Inc. sold a parcel of land located in Laguna to Alveo-Federal Land Communities Inc. for Php419 million.

3) *Management Fees*
Management fee pertains to the income received from a joint venture of Federal Land with Federal Land Orix Corporation (FLOC), Bonifacio Landmark Realty Development Corporation (BLRDC), Sunshine Fort North Bonifacio Development Realty Corporation, North Bonifacio Landmark Realty Development, Inc. and Metrobank.

4) *Lease agreements*
In 2018, Federal Land also leased its mall and offices to some of its associates and affiliates. The lease term ranged from 1 to 5 years.

Effect of Existing or Probable Government Regulations

Federal Land ensures compliance with the new and existing government regulations. The effect of government regulations in Federal Land's operations has been taken into consideration in making business decisions.

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions, and Royalty Agreements Held

Federal Land has intellectual property rights on the use of the various trademarks and names for its development projects. Most of Federal Land's projects have been issued a Certificate of Registration by the Intellectual Property Office. Federal Land believes that its trademark and the names of its development projects play a significant role in its effort to create brand recall and strengthen its position in the real estate industry.

Below are Federal Land's trademarks and the names of its development projects:

Registered logo / Brand
Federal Land – GT Capital Holdings (keeping you in mind)
Veritown Fort
Park West ("PW" logo)
Park West of Hyatt ("PW" logo)
Park East Residences
Central Park West
Madison Park West
Times Square West (with "TS" logo)
Park Avenue
"Landmark" Landmark Bonifacio Realty and Dev't Corp.
Riverview Mansion – Where new beginnings flow
One Wilson Square ("W" logo)
Villa Valencia (the bamboo silhouette logo
SixSenses Residences
Palm Beach Villas
Blue Bay Walk
Club Le Pav
Club MET
Park Metro
Paseo de Roces (with a crown logo)
Oriental Garden Makati
One Lilac Place
The Capital (with the letter "C" logo)
The Oriental Place (with the letter "TP" logo)
Peninsula Garden Midtown Homes
Marquinton Residences
Tropicana Garden City – Your New Garden City in the East
Florida Sun Estate – The Newest Sunshine State in the East
The Plaza at Florida Sun Estates
One Xavier Mansion
Santa Monica South
Tropicana Promenada
Kew ("Q" logo)
Rio
One Bloomberg Place
Omni Orient – A Federal Land Subsidiary)
My HOBS
Metropolitan Technological Complex
Shanghai Park Towers
Oriental Garden Heights

Federal Land – GT Capital Holdings (keeping you in mind)
Veritown Fort
Park West (”PW” logo)
Park West of Hyatt (”PW” logo)
Park East Residences
Central Park West
Madison Park West
Times Square West (with ”TS” logo)

Federal Land has pending applications for intellectual property rights relating to its various development and projects. Several applications have already been processed but await the release of the certificate of registration from the Philippine Intellectual Property Office. Among the project names currently submitted for certification include: FEDS City, Four Season Riviera, The MET, Embarcadero, my HOBS, The Big Apple, One Xavier Mansion, Marco Polo Parkview and Grand Central Park, among others.

Government Approval of Principal Products or Services

As part of the normal course of its business, Federal Land has secured various government approvals such as Board of Investments (BOI) registrations, development permits and licenses to sell, among others.

Research and Development Costs

Federal Land's research and development activities focus on construction materials, engineering, sales and marketing. Federal Land does not consider the expense for such research and development activities to be material.

Employees

As of December 31, 2018, full-time employees of Federal Land totaled to 480. The table below provides a breakdown of Federal Land's employees.

Type of Employee	Number of Employees
Senior and Junior Officers	242
Staff	238
Total	**480**

Risks

- Substantially all of Federal Land's business activities are conducted in the Philippines and all of its assets are located in the country, which exposes Federal Land to risks associated with the Philippines, including the performance of the domestic economy.
- Federal Land faces risks relating to its commercial and residential property development businesses, including risks relating to project cost and completion.
- Federal Land faces certain risks related to the cancellation of sales involving its residential projects and if it were to experience a material number of sales cancellations, its historical revenues would be overstated.
- Fluctuations in interest rates, changes in Government regulations could have a material adverse effect on Federal Land's and its customers' ability to obtain financing.
- Federal Land's reputation may be affected if projects are not completed on time or if projects do not meet customers' requirements.
- Independent contractors may not complete projects on time.
- Given the current geographic concentration of Federal Land's real estate sales, its results of operations would suffer if the residential development industry in its current markets were to decline.
- Natural or other catastrophes, including severe weather conditions, may materially disrupt Federal Land's projects and may not complete on time.
- Federal Land has a number of related-party transactions with affiliated companies.

- Federal Land is exposed to risks associated with the operation of its commercial and retail leasing businesses.
- Adoption of new accounting rules may result in a restatement of Federal Land's financial statements.

Property Company of Friends, Inc.

Property Company of Friends, Inc., more popularly known as Pro-Friends, was incorporated on February 23, 1999 as a real estate development company primarily to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds. Pro-Friends was founded on a common vision of creating communities and transforming lives by providing quality and affordable homes.

The Company's initial projects consisted of small pocket developments catering to the affordable and middle income markets, offering house and lot packages ranging from Php700,000–Php3.3 million. It has since expanded operations to include the construction of medium-rise buildings, as well the development of larger, master planned estates, complete with lifestyle amenities for the convenience of its residents.

Pro-Friends' registered office is at Pro-Friends Center, 55 Tinio St, Barangay Addition Hills, Mandaluyong City. As of December 31, 2018, Pro-Friends is a 51% owned subsidiary of GT Capital.

Products and Services/Customers/Clients
Pro-Friends primary products and services are residential sales and commercial and office leasing. Below is a listing of types of Pro-Friends projects.

Master-planned Community Developments
Pro-Friends owns land in prime areas in Cavite and Iloilo. Pro-Friends develops these properties into fully master-planned townships, consisting of residential subdivisions, together with supporting amenities and complementing commercial, retail and institutional establishments.

Residential Developments
Pro-Friends focuses on the development of affordable housing subdivisions for the low to mid-income markets. Taking into consideration factors such as location, competitive landscape and target market in the areas where a project will be located, Pro-Friends' current and future planned residential projects focus on horizontal house and lot developments within master-planned townships.

Commercial Developments
Pro-Friends' commercial developments complement its residential offerings and serve as sources of recurring income.

Pro-Friends owns and operates a 25-hectare commercial-retail project within Lancaster New City in Imus, Cavite called Lancaster Square.

Within this commercial-retail project, Pro-Friends also owns and leases out office buildings in Suntech iPark, a low-rise building complex located in Lancaster New City in Imus, Cavite.

Contribution to Sales/Revenues
Please refer to Part II Item 7 – Management Discussion and Analysis (MD&A) on Property Development.

Competition
The Philippine real estate development industry is highly competitive. With respect to township developments in Cavite and Iloilo, Pro-Friends major competitors are Ayala Land, Inc. (Bella Vita Land, Inc., Amaia Land, Corp. and Avida Land, Inc.), Vista Land and Lifescapes, Inc. (Lumina Homes and Camella Homes), Megaworld Corporation (Suntrust Properties) and 8990 Housing Development. Pro-Friends believes that the Company is a strong competitor in the low-cost to mid-end market due to the strategic location, design, quality and price of its products. Pro-Friends also believes that its association with the GT Capital group allows it to reach a wider network of potential customers, including the overseas-based market.

Sources and Availability of Raw Materials and the Names of Principal Suppliers (as of December 2018)

	Name of Contractor	Nature of Works
1	Ahnex Builders and Ready Mix Corporation	Supplier – Ready Mix Concrete
2	Somico Steel Mill Corp.	Supplier – Deformed Bars
3	Advantage Paints Company	Supplier – Paints
4	Alu Holdings Limited Hong Kong	Supplier- Powder Coated Windows & Doors, Steel Doors
5	Boss Nik Enterprise	Supplier- Sand, Gravel and CHB
6	E.V.Y. Construction & Development	Supplier- Cement and Boards
7	Kaerus Enterprises	Supplier- Purlins and Steel Framing
8	Steelzone Corporation	Supplier- Steel Bars
9	8 Dragon Construction Supply Inc.	Supplier- Purlins and Boards
10	Union Galvasteel Corporation	Supplier- Pre-painted Roofings

Effect of Existing or Probable Government Regulations

Pro-Friends ensures compliance with the new and existing government regulations. The effect of government regulations in Pro-Friends' operations has been taken into consideration in making business decisions.

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions, and Royalty Agreements Held

Pro-Friends has intellectual property rights on the use of the various trademarks and names for its development projects, including the following brand names: Ilustrata Residences, Property Company of Friends, Inc., Amicus Holdings, Inc., Micara Land, Inc., Monticello Villas, Parc Regency Residences, Lancaster New City Cavite, Downtown Lancaster, The Square, Central Greens, and Suntech iPark.

Pro-Friends has a pending application for intellectual property rights relating to one of its projects: Parc Regency Greens and ProFriends Group, Inc.

Government Approval of Principal Products or Services

As part of the normal course of its business, Pro-Friends has secured various government approvals such as Board of Investments (BOI) registrations, development permits, license to sell, etc.

Research and Development Costs

Pro-Friends research and development activities focus on construction materials, engineering, sales and marketing. Pro-Friends does not consider the expense for such research and development activities to be material.

Employees

As of December 31, 2018, full-time employees of Pro-Friends totaled to 1,524. The following table provides a breakdown of Pro-Friends' employees.

Type of Employee	Number of Employees
Executives (AVP's up)	59
Supervisors-Managers	351
Officers	569
Rank & File	545
Total	**1,524**

Risks

- Substantially all of Pro-Friends' business activities are conducted in the Philippines and all of its assets are located in the country, which exposes Pro-Friends to risks associated with the Philippines, including the performance of the domestic economy.
- Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on Pro-Friends and its customers' ability to obtain financing.
- Pro-Friends operates in a highly-regulated environment and it is affected by the development and application of regulations in the Philippines.

- Environmental and taxation laws applicable to Pro-Friends projects could have a material adverse effect on its business, financial condition and results of operations.
- The loss of certain tax exemptions and incentives will increase the Group's tax liability and decrease any profits the Group might have in the future.
- A portion of the demand for Pro-Friends' products is expected to come from OFWs, expatriate Filipinos and former Filipino residents who have returned to the Philippines ("Balikbayans"), which exposes Pro-Friends to risks relating to the performance of the economies of the countries where these potential customers are based.
- Natural or other catastrophes, including severe weather conditions, may materially disrupt Pro-Friends operations, affect its ability to complete projects and result in losses not covered by its existing insurance policies.
- Construction defects and other building-related claims may be asserted against Pro-Friends, and it may be subject to liability for such claims.

Toyota Motor Philippines Corporation

Incorporated on August 3, 1988, TMP is the leading and largest automotive company in the Philippines. Established through a joint venture among GT Capital, Toyota Motor Corporation (TMC), and Mitsui & Co. Ltd., TMP has been a part of the country's automotive industry for more than 25 years. Through its wide array of vehicle models and enormous span of sales distribution and service network, TMP achieved its 17th consecutive Triple Crown in 2018, topping the industry in overall passenger car and commercial vehicle sales.

Principal Products or Services and their Markets Indicating the Relative Contribution to Sales/Revenues

TMP is authorized to distribute Toyota products that are approved for distribution in the Philippines by TMC and Toyota Motor Asia Pacific (TMAP) according to their Toyota Distributor Agreement. TMP's products are divided into three categories: (1) vehicle sales, (2) local sales of service parts and (3) export sales of original equipment manufacturer (OEM) parts and service parts.

Vehicle Sales

Vehicle sales are divided into locally-manufactured vehicles using both imported and locally-manufactured parts and components, as well as Completely Built Units (CBU) vehicles, which are wholly imported. TMP sells two models of locally-assembled vehicles, or Completely Knocked Down (CKD) units, the passenger car Vios and the commercial vehicle Innova. All other vehicle models sold by TMP are imported CBU vehicles. In addition to the sub-compact-sized Vios, the other Toyota passenger car models sold in the Philippines are the low-cost Wigo, hatchback Yaris and Prius C, compact-sized Prius and Corolla, the mid-sized Camry and the sport/specialty 86. The Lexus passenger car line-up includes the CT 200H, IS 350, ES 350, GS 350, GS 450H, GS F, RC 350, RC F, LC 500, LS 500, and LS 500H.

Aside from the Innova, TMP's commercial vehicles include pick-ups, SUVs, multi-purpose vehicles, vans and minibuses such as Hilux, RAV4, Rush, Fortuner, LC200, Prado, FJ Cruiser, Avanza, Hiace, Alphard, Previa, and Coaster. Lexus sells the NX 300T, NX 300H, RX 350, RX 450H, GX 460, LX 570, and UX 200.

Local Sales of Service Parts

TMP offers a wide range of after-sales parts consisting of service parts, oils and chemicals and accessories. A substantial portion of the service parts that TMP sells locally are sourced from TMC and Toyota Daihatsu Engineering & Manufacturing (TDEM), with the remaining portion manufactured by both TMP and local suppliers.

Export Sales

Parts manufactured by local suppliers is exported to Toyota subsidiaries and affiliates abroad through Toyota Motor Philippines Logistics, Inc., a wholly-owned subsidiary by Toyota Motor Philippines Corporation.

The table below shows the sales breakdown by vehicle sales, local sales of service parts and export sales, and their respective contribution to total revenue, for each of the last three years:

	2016		2017		2018	
	Sales (Php mn)	% of Total Revenues	Sales (Php mn)	% of Total Revenues	Sales (Php mn)	% of Total Revenues
Vehicle sales						
Locally-manufactured vehicles	38,424.8	25%	45,466.6	25%	33,880.6	22%
Imported CBU vehicles	102,748.2	67%	122,871.3	67%	109,152.9	69%
Local sales of service parts	5,221.9	3%	6,020.4	3%	6,875.6	4%
Export sales of OEM parts and service parts	7,912.1	5%	7,956.0	5%	8,212.3	5%
Total	**154,307.0**	**100%**	**182,314.4**	**100%**	**158,121.4**	**100%**

Distribution Methods of Products and Services
The table below sets out the geographic breakdown of TMP's retail vehicle sales for the periods indicated.

	2016		2017		2018	
Sales in units	Sales	% of Total	Sales	% of Total	Sales	% of Total
Metro Manila	85,046	54%	89,366	49%	63,831	42%
Provincial	73,682	46%	94,542	51%	89,173	58%
Total	**158,728**	**100%**	**183,908**	**100%**	**153,004**	**100%**

As of December 31, 2018, the Toyota and Lexus dealer network in the Philippines consisted of 69 dealers, of which 18 dealers are in Metro Manila. TMP owns direct interests in four dealerships: 100% of Toyota Makati, Inc., 55% of Toyota San Fernando Pampanga, Inc., 100% of Toyota Santa Rosa, Inc., and 75% of Lexus Manila, Inc. Approximately 42% of TMP's sales in 2018 were in Metro Manila while 58% of total sales in 2018 were made outside of Metro Manila. GT Capital has a 58.10% interest in Toyota Manila Bay Corporation dealership and has incorporated GTCAD in 2016 as a holding entity for TSB and other future auto dealerships, while the remaining dealerships are independent companies who have entered into dealership agreements with TMP. TMP enters into dealership agreements based on criteria set out in the Toyota Distributor Agreement. TMP provides each Toyota dealer with periodic performance reviews, training and education. In addition, TMP sets individual sales and operational targets for each dealership.

Competition

Industry Trends
Automotive sales in the Philippines can be classified either as sales of locally-assembled or CKD vehicles or imported CBU vehicles. The overall market growth has been reflected in positive absolute trends for both segments, but over the past five years, imported CBU vehicles have captured an increasingly larger share of the market. CBU market share was 74.2% in 2018 as compared to 56.0% in 2010 according to Chamber of Automotive Manufacturers in the Philippines, Inc. (CAMPI) and Association of Vehicle Importers and Distributors (AVID). This trend is attributable to increasing number of imported models available versus locally-produced models, which is expected to continue with further tariff reduction in imported CBU vehicles under upcoming and current Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs) such as the Philippines-US FTA, Japan-Philippines Economic Partnership Agreement, and ASEAN-Korea FTA.

New vehicles have recently accounted for an increasingly larger share of the Philippine automotive market. Rising income levels and changing consumption preferences have contributed to this shift. The regulation is also considered to have supported the trend over recent years, such as the stricter implementation of the prohibition on importation of second-hand vehicles.

Part of industry/geographic area in which the business competes
Please see **Distribution Methods of the Products or Services.**

Principal methods of competition (price, service, warranty or product performance)
Competition has a direct effect on selling price of vehicles. In general, vehicle price setting is based on specification differences. However, upward or downward price adjustments may be made to respond to competitors' pricing

strategy and the target market's purchasing behavior. It may sometimes be necessary to maintain the current prices of some vehicle models despite increasing costs in order to narrow the gap with competitors or maintain market share. In an effort to mitigate the effects of competitive pricing, TMP pushes high-profit models or variants and introduces limited or special edition models.

For after-sales services, the main competitors of Toyota are the presence of three-star garages like Rapide, Motech, Yokohama, Goodyear Servitek, gasoline stations and to some extent, emerging mobile garage such as MyCasa. These workshops offer services that are, on the average, 15% to 30% lower than Toyota rates primarily due to the use of non-genuine parts and lower overhead expense.

Compared to other brands, Toyota still offers the lowest service rates, i.e., Php450/hour for Periodic Maintenance and Php500/hour for General Job (GJ). These rates are at least 25% lower than the service centers of other brands. In terms of service parts, average prices of Toyota Genuine Parts are 10% lower than other brands, based on 2018 parts price review.

Principal Competitors (including relative size and financial and market strengths of competitors)
TMP's major competitors in the Philippines are Mitsubishi, Hyundai, Ford, Honda and Isuzu. Based on industry data compiled by CAMPI and AVID, the top six automotive companies in the Philippines accounted for 84.4% of total vehicles sold in 2018. Toyota has been the top selling brand measured by units sold in the Philippines for passenger and commercial vehicles since 2002, with a 38.2% market share in 2018, which is 21.3 percentage points higher than its closest competitor, Mitsubishi with 16.9%. Hyundai and Ford had market shares of 8.8% and 5.9% in 2018, respectively. Aside from Toyota, other multinational automotive companies also have manufacturing and assembly plants in the Philippines, such as Mitsubishi, Isuzu, and Honda. Ford closed its manufacturing and assembly plant in December 2012 but the facility was later acquired by Mitsubishi to strengthen their assembly operations and to accommodate press plant operations.

Advantage over competitors
Given the tight competition in the Philippine automotive market, TMP believes that four key factors have contributed to TMP being the most preferred car manufacturer in the Philippines:

- Product: quality, durability and reliability;
- Value for money: affordable vehicles that command high resale values in the market;
- Worry-free ownership: personalized maintenance programs and high standards of customer care; and
- Pioneering technologies: sustainable innovation from a global leader in manufacturing technology.

Raw Materials

Sources and availability of raw materials and dependence on one/limited number of suppliers
The parts and components requirement of TMP are sourced from Japan and ASEAN countries through TDEM and from local suppliers. TMP purchases raw materials, parts, components, equipment and other supplies from TMC, foreign subsidiaries of TMC, affiliates and other foreign and local suppliers authorized by TMC. TMP has full responsibility to ensure compliance of all localized parts and components in accordance with TMC's standards.

The table below shows the sources of parts for each of the last three years:

Source	2016	2017	2018
TMC/TDEM			
Japan-sourced	13%	10%	10%
Multi-sourced	54%	58%	58%
Local Suppliers	33%	32%	32%
TOTAL	**100%**	**100%**	**100%**

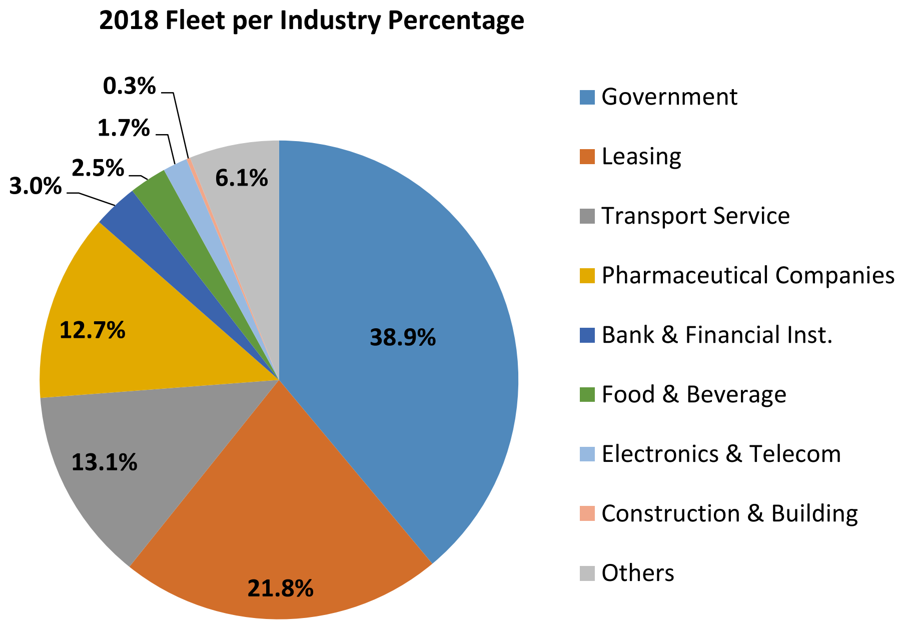
TMP established its supply chain based on Toyota standards in terms of supplier capability, cost competitiveness and economies of scale, which are the reasons for single-sourced commodities. Being aware of the supply chain risks in the auto parts manufacturing industry, TMP has put in place supply risk management programs such as a back-up supply database to immediately identify back-up source (local or regional) for each part, financial risk management and labor risk management.

Names of principal suppliers	:	Toyota Daihatsu Engineering & Manufacturing Co., Ltd.,
Major existing supply contracts	:	Overseas OE Parts Import Agreements

Customers

In addition to general consumer sales, TMP's products are also sold to fleet accounts such as pharmaceutical companies, taxi companies and government entities. In 2018, 10.2% of TMP's products were sold to fleet account customers.

The chart below provides a breakdown of TMP's fleet account customers by category for the year ended December 31, 2018:



Major existing sales contracts
Not applicable

Transactions with and/or Dependence on Related Parties

As a member of the GT Capital Group, TMP continues to benefit from this affiliation in several ways. GT Capital has a 40% interest in TFSPH, which is a joint venture between GT Capital and Toyota Financial Services Corporation of Japan. TFSPH provides financing to both the general public and Toyota dealerships for the purchase of cars and the acquisition of vehicle inventories, respectively. While TMP does not have any ownership interest in TFSPH, TFSPH's financing promotions for retail and wholesale customers help to support sales of TMP's products. MBT's credit card subsidiary, MCC, and TMP have also developed a Toyota Mastercard, a loyalty and credit card in one, where rewards earned on purchases made with the Toyota Mastercard can be used to purchase items at any Toyota dealership. In addition, certain GT Capital companies maintain fleet accounts for the purchase of Toyota cars for their business operations. In terms of management, TMP is also able to draw upon the significant managerial experience of the GT Capital companies to complement its own managerial resources.

Principal Terms and Expiration Dates of All Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions and Royalty Agreements Held

TMP acquired the rights to use the "Toyota" and "Lexus" brand names through the Toyota Distributor Agreement and Lexus Distributor Agreement, respectively, with TMC and Toyota Motor Asia Pacific (TMAP).

These distributor agreements, which are renewable every 3 years, will be renewed for another 3 years upon its expiration on November 30, 2021. According to the distributor agreements: (i) TMC and TMAP have agreed to grant TMP an exclusive distributorship of Toyota and Lexus products in the Philippines, thereby supplying TMP with

Toyota and Lexus vehicles, parts and accessories, non-exclusive rights to use Toyota and Lexus trademarks and service marks, including the use of such trademarks by local Toyota and Lexus dealerships, solely in connection with the distribution, sale and service of Toyota and Lexus products; and (ii) TMP has agreed to continuously purchase Toyota and Lexus products from TMC, TMAP, and/or other such suppliers designated by TMC, and to obtain any governmental approvals or certifications necessary for the import, sales, service, use, registration, and/or homologation of Toyota and Lexus products in the Philippines.

TMP has also entered into a Technical Assistance Agreement with TMC, whereby TMP is licensed to manufacture Toyota vehicles and parts of proper and specified quality and obtain technical assistance from TMC. This agreement will expire on April 30, 2019, subject to renewal. Under this agreement, TMP pays TMC royalties on all licensed products and such amount shall be fixed in accordance with the agreement.

Government Approval of Principal Products or Services

TMP regularly obtains approvals, certifications and permits from regulatory bodies and agencies, as applicable, prior to the offering of its products and services to the public.

Effect of Existing or Probable Governmental Regulations on the Business

The Philippine automotive industry is subject to various laws and government regulations. These include: (a) standards and technical regulations that affect vehicle performance such as safety, environment and energy standards; and (b) regulations governing environmental performance of manufacturing companies. The Government also imposes tariffs, taxes and other levies. TMP has incurred, and expects to incur in the future, significant costs in complying with these regulations.

Employees

The following table provides a breakdown of TMP's employees as of December 31, 2018.

	2018
Regular	**1,925**
Senior Officers	79
Junior Officers	524
Rank and File	1,322
Temporary	**1,638**
Trainees	267
Outsourced Services	1,341
TMP Exclusive Services	30
Total	**3,563**

Note:

Senior Officers include all Assistant Vice Presidents and up.

Junior Officers include all Supervisors up to Section Managers.

Rank and File are all other Team Members

Expiration dates of Collective Bargaining Agreements (CBA)

TMP has two certified and recognized labor unions, one for rank-and-file employees known as Toyota Motor Philippines Corporation Labor Organization (TMPCLO) and one for supervisory employees known as Toyota Motor Philippines Corporation Supervisory Union (TMPCSU).

The 3-year Collective Bargaining Agreement (CBA) on economic provisions for both TMPCLO and TMPCSU will expire in June 2019. The next round of CBA negotiations will commence in July 2019 for both TMPCLO and TMPCSU, covering the period July 1, 2019 to June 30, 2021.

Supplemental benefits or incentive arrangements

TMP applies a progressive benefit structure with a set of base benefits applicable to all employees and a supplementary, variable scheme where individual employees choose from a menu of benefits appropriate to their individual needs/situational preferences, subject to level of entitlement. TMP has also funded a non-contributory defined benefit retirement plan covering all of its regular employees. The plan is administered by trustees. The benefits are based on the years of service and percentage of final basic salary. TMP's normal retirement age is 55 years. Early retirement is allowed at 50 years of age.

Major Risks

The Philippine automotive industry is highly volatile.
The Philippine automotive market has been subject to considerable volatility in demand and TMP's business is highly sensitive to sales volume. Demand for vehicles depends to a large extent on general, social, political and economic conditions in the Philippines. Demand may also be affected by factors directly impacting vehicle prices or the cost of purchasing and operating vehicles such as sales and financing incentives, prices of raw materials and parts and components, and the cost of fuel, exchange rates and governmental regulations (including tariffs, import regulations and other taxes). Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in higher selling expenses per vehicle and could materially and adversely affect TMP's business, financial condition and results of operations.

The Philippine automotive market is highly competitive.
The Philippine automotive market is highly competitive. TMP faces strong competition from vehicle manufacturers and importers in the Philippines. TMP's competitors also have relationships with joint venture partners and recognized international auto brands. Factors affecting competition include product quality and features, innovation and development time, production capacity, pricing, reliability, safety, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales and increased inventory, which may result in higher selling expenses and may adversely affect TMP's financial condition and results of operations. Further, under the ASEAN-Korea free trade agreement, tariffs on vehicles from Korea were reduced to 15% from 20% in 2012 and was further reduced to 5% beginning January 2016 leading to greater competition from Korean brands. Competition has a direct effect on selling prices of vehicles. In general, vehicle price setting is based on specification differences. However, upward or downward price adjustments may be made to respond to competitors' pricing strategy and the target market's purchasing behavior. TMP's ability to maintain its competitiveness will be fundamental to its future success in existing and new markets and its market share. In addition, under the terms of the Toyota Distributor Agreement with TMC and TDEM, TMP is required to meet certain business targets including, among others, annual sales plan and market share. Should TMP fail to meet its expected business targets, its right to distribute Toyota brands in the Philippines may be terminated. There can be no assurance that TMP will be able to compete successfully in the future, which could materially and adversely affect TMP's business, financial condition and results of operations.

The Philippine automotive industry is subject to various governmental regulations.
The Philippine automotive industry is subject to various laws and government regulations. These include: (a) standards and technical regulations that affect vehicle performance such as safety, environment and energy standards; and (b) regulations governing environmental performance of manufacturing companies. The Government also imposes tariffs, taxes and other levies. TMP has incurred, and expects to incur in the future, significant costs in complying with these regulations. New legislation or changes in existing legislation may also subject TMP to additional costs in the future and could materially and adversely affect TMP's business, financial condition and results of operations.

TMP's success depends on its ability to continue offering innovative, new, price-competitive products and services that meet and satisfy customer demand on a timely basis.
Meeting and satisfying customer demand with attractive new vehicles and reducing product development time are critical elements to the success of automotive manufacturers. The timely introduction of new vehicle models at competitive prices and meeting rapidly changing customer preferences and demands are fundamental to TMP's success. There is no assurance that TMP may adequately perceive and identify changing customer preferences and demands with respect to quality, styling, reliability, safety and other features in a timely manner. Even if TMP succeeds in perceiving and identifying customer preferences and demands, there is no assurance that TMP will be capable of manufacturing and introducing new, price-competitive products in a timely manner with its available technology, intellectual property, sources of raw materials and parts and components, and production capacity. Further, there is no assurance that TMP will be able to implement capital expenditures at the level and periods planned by management. TMP's inability to develop and offer products that meet customer demand in a timely manner could result in a lower market share and reduced sales volumes and margins, and could materially and adversely affect TMP's business, financial condition and results of operations.

TMP's success depends on its ability to market and distribute effectively, and to maintain its brand image.
TMP's success in the sale of vehicles depends on its ability to market and effectively distribute based on distribution networks and sales techniques tailored to the needs of its customers, as well as its ability to maintain and further

cultivate the Toyota brand image. There is no assurance that TMP will be able to develop sales techniques and distribution networks that effectively adapt to customer preferences or changes in the regulatory environment in the Philippines. Nor is there assurance that TMP will be able to cultivate and protect the Toyota brand image. Toyota's inability to maintain well-developed sales techniques and distribution networks or a positive brand image may result in decreased sales and market share and could materially and adversely affect TMP's business, financial condition and results of operations.

TMP's ongoing success depends on the non-termination and repeated renewal of distributor agreements with TMC and TMAP.
TMP acquired the rights to use the "Toyota" and "Lexus" brand names through the Toyota Distributor Agreement and the Lexus Distributor Agreement, respectively, with TMC and TMAP. These distributor agreements were last renewed on December 1, 2018 with an expiration date of November 30, 2021. According to the distributor agreements: (i) TMC and TMAP have agreed to grant TMP an exclusive distributorship of Toyota and Lexus products in the Philippines, thereby supplying TMP with Toyota and Lexus vehicles, parts and accessories, non-exclusive rights to use Toyota and Lexus trademarks and service marks, including the use of such trademarks by local Toyota and Lexus dealerships, solely in connection with the distribution, sale and service of Toyota and Lexus products; and (ii) TMP has agreed to continuously purchase Toyota and Lexus products from TMC, TMAP, and/or other such suppliers designated by TMC, and to obtain any governmental approvals or certifications necessary for the import, sales, service, use, registration, and/or homologation of Toyota and Lexus products in the Philippines.

The distributor agreements can be terminated at the option of TMC upon the occurrence of various events which include:

- breach of any material provision of the distributor agreement by TMP;
- discontinuation of a material part of the business activities of TMP as a Toyota or Lexus authorized distributor;
- issuance of an order by any relevant government authority for TMP to discontinue, or the cancellation or withdrawal of any license or permission to operate, a material part of TMP's business activities as a Toyota or Lexus authorized distributor;
- the election by TMC to terminate the agreement, after consultation with TMAP, in the event that: (a) TMP fails in any material respect to achieve any of the business targets; and (b) TMP fails to make significant progress in achieving such business targets within six months after TMAP has given guidance or advice to TMP to improve its performance; and (c) TMAP deems that there is no justifiable reason for such failure;
- the election by TMC to terminate a distributor agreement in the event that:
  - (a) TMP has implemented, without prior notification to TMC and TMAP, any of the following significant changes in its organization: (i) merger or acquisition of any company or organization; (ii) assignment or disposition of all or a substantial portion of its assets or business to any third party; (iii) change of its executives or high-ranked employees, such as department/division general managers and above; (iv) relocation, expansion, reduction, or closing down of its head offices or other important facilities; (v) change of its main shareholders or any person or entity which has substantial control over TMP as well as listing all or a part of its shares on any stock exchange; and (vi) any other significant change in its business or organization; or
  - (b) failure by TMP to satisfy the request of TMC and/or TMAP for TMP to suspend such significant changes or to modify the contemplated organization scheme such as to prevent or reduce possible impairment of TMC and/or TMAP's interests or TMP's performance or the ability to perform as a Toyota or Lexus authorized distributor.

If either of the Toyota Distributor Agreement or Lexus Distributor Agreement were to be terminated, TMP shall be required to: (i) immediately and fully settle all of its outstanding liabilities to the other parties in relation to the relevant agreement; (ii) immediately terminate all dealership agreements and any other contracts concluded between TMP and any third party in relation to the relevant agreement; (iii) collect and remove all data, facility signs, signboards, posters, advertising or technical materials and printed matters related to Toyota or Lexus products, software for the sale and service of Toyota or Lexus products, and all tools and implements designed for servicing Toyota or Lexus products located in the facilities of TMP and/or the dealers, and deliver at its own cost and expense to TMC and/or TMAP or dispose of a part or a whole of them in accordance with the instructions of TMC and/or TMAP; (iv) remove from its facilities and cease using the name of TMC and any of the trademarks, service marks, and any mark confusingly similar thereto, cancel the relevant registrations thereof, and cause all dealers to do the same; (v) refrain from conducting itself and cause each dealer to refrain from conducting itself in such manner as would lead a third party to believe that TMP or any dealer is still an authorized distributor or dealer of Toyota or Lexus brand products in the Philippines; (vi) in the event that TMP fails to comply with the above obligations, TMP shall allow TMC and TMAP to enter its premises at any time for the removal and disposal of all items bearing Toyota or Lexus trademarks and any marks confusingly similar thereto, as well as all items that should have been delivered to TMC and/or TMAP or disposed of by TMP, wherein TMP shall reimburse TMC and TMAP for all expenses incurred in exercising such right if so requested by TMC and TMAP; (vii) allow TMC and TMAP to repurchase Toyota or Lexus products which are new, unused, undamaged, and in good and saleable condition or dispose of such products in accordance with instructions of TMC and/or TMAP in the event that the products are not repurchased.

Further, any decreases in product quality, negative allegations or negative events associated to the Toyota group of companies outside of the Philippines could tarnish the image of the brands and may cause consumers to choose other vehicles. Further, there can be no assurance that these brand names will not be adversely affected in the future by events such as actions that are beyond TMP's control and which could materially and adversely affect TMP's business, financial condition and results of operations.

A third party could inappropriately use the trademark and trade name "Toyota" or any of the trademarks and trade names that TMP uses.

TMP has a license to use the "Toyota" name and logo in the Philippines. There is no assurance that the steps taken by TMP or TMC will prevent misappropriation or infringement of the intellectual property rights of TMC. In addition, policing unauthorized use of intellectual property rights is difficult and sometimes practically infeasible. The Philippine automotive industry has experienced unauthorized copies of vehicles and auto parts from time to time. Such misappropriation or infringement could materially and adversely affect TMP's business, financial condition and results of operations.

Product recalls could materially adversely affect TMP's reputation and financial condition.

TMP may recall its products to address performance, compliance, or safety-related issues. While no recalls on TMP manufactured automobiles have occurred in the past, there can be no assurance that such recalls will not occur in the future. The costs TMP would incur in connection with such recalls typically include the cost of the part being replaced and labor to remove and replace the defective part. If the defective part or vehicle is the fault of TMP, it will be responsible for such costs. Otherwise, costs are claimed from TDEM. In addition, if not handled properly by TMP, TDEM and TMC, product recalls can harm TMP's reputation and cause it to lose customers, particularly if those recalls cause consumers to question the safety or reliability of TMP's products. Any costs incurred or lost sales caused by future product recalls could materially and adversely affect TMP's business, financial condition and results of operations. Conversely, not issuing a recall or not issuing a recall on a timely basis can harm TMP's reputation and cause it to lose customers.

Dealer misconduct is difficult to detect and could harm TMP's reputation or lead to litigation costs.

TMP sells its vehicles to a dealer network consisting primarily of third-party dealers over which it has limited direct supervision. Dealer misconduct could result in negative publicity for TMP and the other dealers in the network and result in reputational or financial harm to TMP and the other dealers. Misconduct could include:

- engaging in misrepresentation or fraudulent activities and statements when marketing or selling vehicles, parts or services to customers;
- hiding unauthorized or unsuccessful activities, resulting in unknown and unmanaged risks or losses; or
- not complying with laws or TMP's control policies or procedures.

TMP cannot always deter or detect dealer misconduct, and the precautions it takes to detect and prevent these activities may not be effective in all cases. There can be no assurance that agent or employee misconduct will not materially and adversely affect TMP's business, financial condition and results of operations.

TMP may be unable to maintain its current distributor network or attract new distributors.

TMP is heavily dependent on its distribution network. The success of TMP's business depends on maintaining good relations with existing distributors as well as attracting new ones. Although TMP believes it has good relations with its existing distributors, there can be no assurance that its distributors will continue to do business with TMP or that TMP will be able to attract new quality distributors. If TMP does not succeed in maintaining its current distribution network or in attracting new distributors to support future growth, TMP's market share may decline and could materially and adversely affect TMP's business, financial condition and results of operations.

The continued competitiveness of TMP may be adversely affected if it fails to successfully reduce its costs.
TMP believes that competition has led to, and will likely continue to lead to, an increase in selling expenses. At the same time, prices of raw materials, including steel, as well as energy costs, are increasing due to high demand. Therefore, despite relatively high levels of consumer demand for vehicles in the Philippines, it has become necessary for automotive manufacturers in the Philippines to reduce costs in order to remain competitive. TMP has taken various measures to reduce costs in connection with its operations. However, the effectiveness of such measures is not assured. If TMP is unable to reduce overall costs, its competitive position may suffer, which in turn could materially and adversely affect TMP's business, financial condition and results of operations. TMP's ability to maintain its competitiveness will be fundamental to its future success in existing and new markets. There can be no assurance that TMP will be able to compete successfully in the future.

Unfavorable foreign currency rate fluctuations would have an adverse impact upon TMP's financial condition and results of operations.
TMP imports CBU vehicles, parts, and raw materials. The costs of such imported items are mainly denominated in U.S. dollars and Japanese Yen. Depreciation of the Philippine peso could adversely affect TMP's financial condition and results of operations.

TMP is subject to a number of risks associated with its supply chain.
Any interruption in the supply of raw materials, parts and components from any key suppliers could materially and adversely affect TMP's business, results of operations and financial condition. TMP obtains a significant proportion of its raw materials from a limited number of suppliers in the Philippines and abroad. In addition, inexpensively re-sourced from another supplier due to long lead times and new contractual commitments may be required by another supplier in order to provide the components or materials.

In 2011, TMP's supply chain was impacted by the earthquake and tsunami that struck Japan in March 2011 as well as the floods in Thailand which occurred during the second half of 2011. Both events impacted TMP's ability to source parts and imported vehicle units, thereby reducing TMP's production and sales figures for 2011. TMP also experienced an increase in costs for its supplies as a result of these two natural disasters. While TMP believes production and sales forecasts have since returned to normal following these events and countermeasures were done to improve TMP's and its suppliers' risk management plan, there can be no assurance that similar supply chain disruptions will not occur in the future. Any future supply chain disruptions caused by natural disasters and other incidents could have a material adverse impact on TMP's business, financial condition and results of operations. Increases in prices for raw materials that TMP and its suppliers use in manufacturing their products or parts and components, such as steel and plastic parts, may lead to higher production costs for parts and components. This could, in turn, negatively impact TMP's future profitability because TMP may not be able to pass all those costs on to its customers or require its suppliers to absorb such costs. As a response to the increasing competition in the market, TMP conducts extensive programs to continuously improve local parts suppliers' overall competitiveness in terms of safety, quality, delivery, and cost.

The manufacturing activities and operations of TMP could be adversely affected if it fails to obtain raw materials and CKD parts in a timely fashion or at a reasonable price.
Raw materials and CKD parts used by TMP are, and will continue to be, sourced from suppliers located in the Philippines, Japan and other ASEAN countries, including TMC and TDEM. If TMP's suppliers fail to meet their commitments or to enter into agreements with TMP on commercially reasonable terms, and TMP is unable to locate alternative suppliers in a timely fashion, the manufacturing activities and operations of TMP could be materially adversely affected. This may be the case where TMP is dependent on a sole supplier or a limited number of suppliers for a critical input, and it may find it difficult to replace such supplier in a timely manner and at a reasonable market price.

TMP relies heavily on the technology and processes of TMC which TMP uses under its Toyota Technical Assistance Agreement with TMC.
TMP has acquired the right to use TMP's Toyota Production System ("TPS"), which is based on just-in-time production and quality control processes and feedback mechanisms. Under the Technical Assistance Agreement, which was last renewed on May 1, 2014 and is valid until April 30, 2019, TMP may request assistance for technical know-how on manufacturing, engineering and other know-how and information relating to licensed products. TMC is paid royalties based on the value added by TMP in the manufacture of each vehicle or part. If the Technical Assistance Agreement were to expire, or if TMP or TMC were to terminate the agreement, TMP would no longer be

permitted to use TMC's processes or produce the licensed vehicles or parts, which would materially and adversely affect TMP's business, financial condition and results of operations.

TMP's success depends on its ability to attract and retain senior management and key technical personnel.
TMP relies on experienced, capable and talented senior managers and highly-skilled technical personnel to operate its business. TMP expects increased competition for such employees not only from other automotive companies but also from other industries in the Philippines and abroad. TMP's business, results of operations and financial condition could be adversely affected if such experienced and talented senior managers and skilled technical personnel are not retained by TMP.

Philippine AXA Life Insurance Corporation

GT Capital has interests in the life insurance business through its 25.33% ownership of shares in AXA Philippines, the Philippines' second largest insurance company in terms of total net insurance premium amounting to P29.4 billion in 2018. AXA Philippines is a joint venture between the AXA Group, one of the world's largest insurance groups, and the MBT Group, one of the Philippines' largest financial conglomerates. To complement its life insurance business, AXA Philippines announced in April 2016 the completion of the acquisition of 100% interest in Charter Ping An Insurance Corporation ("Charter Ping An"), the fifth largest non-life insurance company in terms of Gross Premiums Written in the Philippines as of 2017. With such acquisition, AXA Philippines and Charter Ping An are now a provider of a comprehensive suite of products, personal and group insurance in the Philippines, covering life insurance and investment-linked insurance products, savings and investment, health coverage, property and casualty insurance. Together, AXA Philippines and Charter Ping An distribute its products in the Philippines through a multi-channel distribution network comprised of agents, bancassurance, and corporate solutions.

AXA Philippines is part of the AXA Group, one of the world's largest insurance groups and asset managers. With its headquarters in Paris, the AXA Group operates in Western Europe, North America, the Asia Pacific region and in certain regions of Africa and the Middle East. The AXA Group conducts its operations in the Philippines through its 45% interest in AXA Philippines. The AXA Group's remaining joint venture partners are GT Capital, with a 25.3% shareholding and FMIC, which owns 28.2%, with 1.5% held by other shareholders.

Over the past years, AXA Philippines has developed into a multi-line, multi distribution channel company offering traditional and unit-linked products for individual and group clients with a nationwide coverage through 957 MBTC and PSBank branches, being serviced by 1,001 salaried financial executives and 44 AXA Philippines branch offices that are home to its growing network of 5,272 exclusive financial advisors as of December 31, 2018.

Products
AXA Philippines and Subsidiary offers a range of life, non-life and investment-linked insurance products in the Philippines.

Life Insurance
Life insurance contracts offered by AXA Philippines primarily include: (i) traditional whole life participating policies; (ii) investment-linked products; and (iii) various non-participating products mostly catering to start-up life protection and savings needs.

Type	*Features*
Life-traditional and investment-linked	Ensures that the family will continue to live in comfort even after the sudden loss of the breadwinner
Health and critical illness	Covers the cost of unexpected critical illness and major health-related expenses
Retirement	Secures funds for the worry-free retirement
Education, Savings and investments	Helps you achieve your future goals and ensure your needs for the years to come

Non-life Insurance
Charter Ping An offers a wide array of insurance products designed to provide protection or indemnification to counterparties against financial loss, damage or liability arising from an unknown or contingent event. These insurance products are as follows:

Type	*Features*
Motor Car Insurance	Provides comprehensive coverage for vehicles. Standard coverage includes Own Damage (OD)/Theft, Excess Bodily Injury (EBI) and Third Party Property Damage (TPPD).
Fire Insurance	Provides coverage for property/ies (i.e., building, contents, improvements, etc.) against unforeseen losses due to perils. It is a product that is designed to protect hard-earned investments in the midst of the vulnerability of modern society to natural catastrophes.
Personal Accident Insurance	Provides monetary compensation for death or bodily injury as a result of accidental, violent, external and visible means. It provides financial security in case of unforeseen events or accidents.
Engineering Insurance	Provides a comprehensive and adequate protection to contract works/erection works, construction plant and equipment and/or machinery, and computer data and equipment. It also covers third-party claims for property damage and bodily injury in connection with the construction and erection works.
Marine Insurance	Covers losses or damages of cargo regardless of the nature of the mode of conveyances (be it by land, sea or air), acquired or held between the point of origin and final destination.
Offer Bond	Bond is a three-party agreement where Charter Ping An (i.e., the surety company) assures the performance of an obligation of the Bond Applicant (Principal/Obligor) to a Third Party (Obligee/Bond Beneficiary), by virtue of contract or as required by law.
Liability Insurance	Pays, on behalf of the insured, all sums which the insured shall be legally liable to pay for all reason of liability imposed on the insured by law for compensation due to bodily injury and/or property damage occurring during the period of insurance within the geographical limits as a result of the occurrence and happening in connection with the insured's business.

Contribution to Sales/Revenues

Life Insurance
AXA Philippines posted an Annualized Premium Equivalent of Php6.3 billion and Php7.1 billion for 2017 and 2018, respectively. Net insurance premium amounted to Php26.2 billion and Php29.4 billion for 2017 and 2018, respectively.

Non-life Insurance
Charter Ping An posted Php5.7 billion Gross Premiums Written in 2017 and 2018, respectively. Net Premiums Earned amounted to Php3.5 billion and Php3.8 billion in 2017 and 2018, respectively.

Distribution Methods of Products and Services

Life Insurance
The distribution network is the starting point of AXA Philippines' relationship with its customers. AXA Philippines' distribution strategy focuses on strengthening traditional channels and developing new ones, such as the internet and strategic partnerships. Staff hiring, retention, market conduct, streamlined sales techniques and presentations, and sales performance metrics are the main initiatives to strengthen distribution channels. AXA Philippines believes the diversification of its distribution channels can help develop new relationships with potential AXA customers.

AXA Philippines distributes its products through three main channels: traditional agency, bancassurance, and corporate solutions that include brokers and in-house distribution channels for corporate accounts.

Agents
Direct written premiums are generated through exclusive agents, as only exclusive agents are allowed for life insurance distribution under Philippine regulations. Exclusive agents are prohibited from distributing insurance products for any other life insurance companies. Exclusive agents accounted for approximately 31% and 35% of AXA Philippines' total new business in 2017 and 2018, respectively. AXA Philippines have agents throughout its 44 branches located in strategic locations in Metro Manila, Cebu and Davao, as well as elsewhere throughout the Philippines. In addition to the 44 branches owned or leased by AXA Philippines, there are also several franchise branches that are owned and operated by exclusive agents and co-branded under the AXA Philippines name. AXA Philippines believes that its agency distribution channel is important to its future success and intends to increase its current total number of 5,272 agents as of December 31, 2018 to 7,085 by 2020.

All of AXA Philippines' agents are required to enter into agency agreements before distributing AXA Philippines products. Agents are not considered to be AXA Philippines employees. These agreements set out the terms under which agents act for AXA Philippines, the activities they are authorized to carry out on AXA Philippines' behalf, prohibited activities, types of products they are authorized to sell and the criteria for payment of commission. In addition, agents are required to be licensed by the Philippine Insurance Commission. Agents are responsible for submitting a customer's information and their application for an insurance policy to be processed by the head office.

Bancassurance
Bancassurance refers to the sales of insurance through banking institutions. AXA Philippines utilizes financial executives, who are AXA Philippines employees placed within key MBT branches throughout the Philippines, to provide insurance advisory services to bank-sourced clients. AXA Philippines' bancassurance related products are aimed at complementing MBT's existing line of financial products, thereby providing MBT customers with a complete set of financial and insurance solutions. MBT and AXA Philippines also cross-market their products through joint advertising campaigns and promotional offers, such as tie-ups with MCC. MBT-based financial executives accounted for 69% and 65% of AXA Philippines' total new business premiums in 2017 and 2018, respectively. The cross-marketing of AXA Philippines products at MBT branches is the main component of AXA Philippines' marketing efforts.

Non-life Insurance
Charter Ping An's interactions with its clients or policyholders are through its distribution networks, sales channels, partners and those with mutual business interests:

Branches
Charter Ping An has 24 branches nationwide, located in Manila, Quezon City, Muntinlupa, Caloocan, Calamba (Laguna), Batangas, Naga, Tarlac, Dasmariñas (Cavite), Bulacan, Cabanatuan, San Fernando (Pampanga), Baguio City, Dagupan (Pangasinan), Isabela, Iloilo, Bacolod, Cebu, Cagayan de Oro, Davao and General Santos.

Sales Channels
Charter Ping An's products and services are sold through its intermediaries, namely licensed agents, licensed brokers, MBT and PSBank (through the Bancassurance platform) and synergy with the GT Capital group.

Partners
Several service providers and partners are necessary for product enhancements, including car dealers, accredited repair shops and adjusters for claims.

Competition

Life Insurance
AXA Philippines faces competition in the Philippines for its products. Competition in the life insurance industry is based on many factors. AXA Philippines believes the principal competitive factors that affect its business are distribution channels, quality of sales force and advisors, price, investment management performance, historical performance of investment-linked insurance contracts and quality of management. AXA Philippines' major competitors in the Philippines are also affiliated with international insurance companies. Many insurance companies in the Philippines offer products similar to those offered by AXA Philippines and in some cases, use similar marketing techniques and banking partnership support. AXA Philippines' principal competitors are Philippine American Life, Sun Life of Canada, PruLife of the UK and Manufacturers Life.

The tables below show the total premium income and percentage of total market share for AXA Philippines and its principal competitors as of December 31, 2017:

Amounts in Php millions, except for percentage	**2017**	
	Amount	**% of total**
1. Sun Life of Canada	32,108.65	15.86%
2. AXA Philippines	26,184.55	12.93%
3. BPI Philam Life	20,329.49	10.04%
4. Philippine American Life (AIA)	19,896.35	9.83%
5. Pru Life of the UK (Prudential plc)	19,221.21	9.49%
6. Manufacturers Life	17,698.45	8.71%
7. Insular Life	11,675.27	5.77%
8. BDO Life (Generali Pilipinas)	9,871.46	4.87%
9. Manulife Chinabank Life	8,211.13	4.05%
10. United Coconut Planters Life Assce. Corp	6,645.38	3.21%

Source: Philippine Insurance Commission (based on 2017 Annual Statements)

The total market premium income in 2017 amounted to Php202.8 billion.

Non-life Insurance
Based on the Insurance Commission's released non-life industry GPW results, the average industry growth for the past five years (2013-2017) was 9.9% while Charter Ping An's average growth was 14.6%. This resulted to an increase in market share to 7.4% in 2017 from 7.0% in 2016. Charter Ping An maintained its fifth ranking in the GPW, and improved from fourth to second ranking in the NPW in terms of 2017 industry performance.

The Philippine insurance industry has generated stable results despite high exposure to natural catastrophes. The government drives a national and natural catastrophe protection schemes. The issues on capital requirements, regulatory requirements, tax and consolidation remain. There is an increasing consciousness and demand for microinsurance which contributed to the stable growth of the insurance industry.

Primary products sold in the country are the traditional lines. Motor Car and Fire insurance, remain to be the main driver in terms of premium volume.

As of December 2018, the Philippine insurance industry is composed of 59 non-life insurance companies, 5 of which are deemed composite life and non-life companies.

Transactions with and/or Dependence on Related Parties

Life Insurance
Transactions between related parties are based on terms similar to those offered to non-related parties. Parties are 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 and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions as of December 31, 2018 consist mainly of the following:

Entities with joint control over the Company	**Terms**	**Conditions**
AXA Asia		
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
Accounts payable	Interest-free, settlement in cash	Unsecured, no impairment
GT Capital Holdings, Inc.		
Premiums – group life insurance	Interest-free, settlement in cash	Unsecured, no impairment
Investment in equity securities	Interest-free, settlement in cash	Unsecured, no impairment
First Metro Investment Corporation		

Entities with joint control over the Company	Terms	Conditions
Interest income – bonds	3.25% to 7.87%	Unsecured, no impairment
Investment in debt securities	3 months to 9 years, 3.25% to 7.87%	Unsecured, no impairment
Accrued interest on debt securities	3.25% to 7.87%	Unsecured, no impairment
Subsidiary		
CPAIC		
Shared service costs	Interest-free, settlement in cash	Unsecured, no impairment
Accounts receivable	Interest-free, settlement in cash	Unsecured, no impairment
Premiums – group life insurance	Interest-free, settlement in cash	Unsecured, no impairment
Accounts payable	Interest-free, settlement in cash	Unsecured, no impairment
Insurance expense	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties		
Metropolitan Bank and Trust Company		
Time deposits placements	1 to 90 days, 6% to 7.25%	Unsecured, no impairment
Accrued interest on time deposits	1 to 90 days, 6% to 7.25%	Unsecured, no impairment
Interest income – time deposits	6% to 7.25%	Unsecured, no impairment
Unit investment trust funds	At NAV, settlement in cash	Unsecured, no impairment
Savings and current deposits	0.125% to 0.25%	Unsecured, no impairment
Premiums – group life insurance	Interest-free, settlement in cash	Unsecured, no impairment
Referral fees	Interest-free, settlement in cash	Unsecured, no impairment
Accrued referral fees	Interest-free, settlement in cash	Unsecured, no impairment
Investment in equity securities	Interest-free, settlement in cash	Unsecured, no impairment
Dividend income	Interest-free, settlement in cash	Unsecured, no impairment
Rental income	Interest-free, settlement in cash	Unsecured, no impairment
Philippine Savings Bank		
Time deposits placements	30 to 60 days, 4.62%	Unsecured, no impairment
Accrued interest on time deposits	30 to 60 days, 4.62%	Unsecured, no impairment
Interest income – time deposits	4.62%	Unsecured, no impairment
Savings and current deposits	0.25% to 0.50%	Unsecured, no impairment
Premiums – group life insurance	Interest-free, settlement in cash	Unsecured, no impairment
Referral fees	Interest-free, settlement in cash	Unsecured, no impairment
Accrued referral fees	Interest-free, settlement in cash	Unsecured, no impairment
Federal Land		
Rental deposits	Interest-free, settlement in cash	Unsecured, no impairment
Rent expense	Interest-free, settlement in cash	Unsecured, no impairment
Premiums – group life insurance	Interest-free, settlement in cash	Unsecured, no impairment
Orix Auto Leasing Philippines Corporation		
Rent expense	Interest-free, settlement in cash	Unsecured, no impairment
Toyota Motor Philippines Corporation		
Premiums – group life insurance	Interest-free, settlement in cash	Unsecured, no impairment
Metrobank Card Corporation		
Premiums – group life insurance	Interest-free, settlement in cash	Unsecured, no impairment
AXA Shared Services Centre Philippines Inc.		
Rent income	Interest-free, settlement in cash	Unsecured, no impairment
Shared service costs	Interest-free, settlement in cash	Unsecured, no impairment
Accounts receivable	Interest-free, settlement in cash	Unsecured, no impairment
AXA France Vie		
Premiums ceded to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Due to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
AXA Globe Re		
Premiums ceded to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Due to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Reinsurance recoverable on paid/unpaid losses	Interest-free, settlement in cash	Unsecured, no impairment
AXA PPP		

Entities with joint control over the Company	Terms	Conditions
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
Reinsurance recoveries	Interest-free, settlement in cash	Unsecured, no impairment
Reinsurance recoverable on paid/unpaid losses	Interest-free, settlement in cash	Unsecured, no impairment
Premiums ceded to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Due to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
AXA Malaysia		
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
AXA HK		
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
AXA Paris		
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
Architas		
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
AXA Healthcare Management		
Management fees	Interest-free, settlement in cash	Unsecured, no impairment

Non-life insurance
Charter Ping An, in its usual conduct and course of business, has entered into transactions with its associate and other related parties principally consisting of cross selling activities, service requirements and leasing agreements as of December 31, 2018.

Entity with control over the Company	Terms	Conditions
Philippine AXA Life Insurance corporation		
Direct Premiums	-	-
Premiums receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Shared service cost	-	-
Accounts payable	-	-
Group life insurance coverage	-	-
Other related parties		
Metropolitan Bank and Trust Company		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Investment in equity securities	Common Shares	Unsecured; no impairment
Time deposit placements	1 to 40 days, 3% to 7%	-
Accrued Interest on time deposits	3% to 7%	-
Interest income – time deposits	3% to 7%	-
Savings and current deposits	0.125% to 0.25%	-
Interest Income – savings deposits	0.125% to 0.25%	-
Rent Expense	-	-
Security deposits	-	-
Dividend income	-	-
Metrobank Card Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Time deposit placements	90 days, 4%	-
Interest income – time deposits	4%	-
First Metro Investment Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Investment in debt securities	4 years, 5.75%	Unsecured; no impairment
Accrued interest on debt securities	5.75%	-

Entities with joint control over the Company	Terms	Conditions
Interest income – debt securities	5.75%	-
Philippine Savings Bank		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Time deposit placements	30 to 44 days, 1% to5%	-
Accrued Interest on time deposits	30 to 44 days, 1% to5%	-
Interest Income – time deposits	1% to5%	-
Investment in debt securities	10 years, 5.50%	-
Accrued interest on debt securities	5.50%	Unsecured; no impairment
Interest income – debt securities	5.50%	-
Savings deposit	0.25% to 0.50%	-
Interest income – savings deposit	0.25% to 0.50%	-
Acquisition of transportation equipment	-	-
Federal Land Inc.		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Rent Expense	-	-
Security deposits	-	-
Metro Pacific Investments Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Investment in Stocks	Common Shares	-
Dividend Income	-	-
ORIX Auto Leasing Philippines Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Rent Expense	-	-
ORIX Rental Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Toyota Financial Services Philippine Corp.		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Toyota Manila Bay Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Toyota Motors Philippines Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Cathay International Resources Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Property Company of Friends Inc.		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment

Entities with joint control over the Company	Terms	Conditions
GT Capital Holdings		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Investment in equity securities	Common shares	-
Investment in debt securities	10 years, 5.09%	Unsecured; no impairment
Accrued interest on debt securities	5.09%	-
Interest income – debt securities	5.09%	-
Dividend income	-	-
AXA Global RE		
Ceded premiums – treaty	-	-
Commission Income	-	-
Premium reserve withheld for reinsurer – treaty	-	-
Reinsurance recoverable on paid/unpaid losses – treaty	-	-
Premiums due to reinsurer – treaty	-	-
AXA Technology Services Asia (HK) Limited		
Service fees	-	-
AXA Shared Services Centre Philippines Inc.		
Direct Premiums	-	-
First Metro Securities Brokerage Corporation		
Brokerage Fees	-	-
Premiums receivable	Due and demandable; non- interest bearing	Unsecured; no impairment
Direct premiums	-	-

Effect of Existing or Probable Government Regulations

Fixed capitalization requirements
On August 5, 2014, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2015 up to December 31, 2022.

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

Networth	Compliance Date
₱550,000,000	December 31 ,2016
₱900,000,000	December 31, 2019
₱1,300,000,000	December 31, 2022

As of December 31, 2017 and 2018, the Group has complied with the minimum net worth requirements.

RBC requirements
In 2006, the IC issued Memorandum Circular (IMC) No. 6-2006 and IMC No. 7-2006 adopting a risk-based capital framework to establish the required amounts of capital to be maintained by life and non-life insurance companies, respectively, in relation to their investment and insurance risks. The RBC ratio of a company shall be calculated as Net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commissioner.

In 2016, the IC issued Circular Letter No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework,* pursuant to Section 437 of the Amended Insurance Code. The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis (e.g. Capital Stock, Statutory Deposit, Capital Stock Subscribed, Contributed Surplus, etc.). Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer [e.g. Reserve for Appraisal Increment – Property and Equipment, Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation), etc.]. Tier 2 Capital shall not exceed 50% of Tier 1 Capital.

The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test.

The following table shows how the RBC ratio was determined by the Group based on its calculations:

Life Insurance

	2017	2018
Total available capital	**₱4,883,848,140**	**₱5,680,645,357**
RBC requirement	**1,271,532,846**	**1,200,230,804**
RBC Ratio	**384%**	**473%**

Non-life Insurance

	2017	2018
Total available capital	**₱1,885,838,586**	**₱938,185,104**
RBC requirement	**922,257,801**	**865,786,834**
RBC Ratio	**204%**	**108%**

The final amount of the RBC ratio can be determined only after the accounts of the Group have been examined by the IC.

New regulatory framework
Pursuant to the powers vested in the Insurance Commissioner by Sections 189, 200, 437 and 438 of Republic Act (RA) No. 10607, otherwise known as the Insurance Code, as amended, the following regulatory requirements and actions for the new regulatory framework are hereby adopted and promulgated:

(a) Circular Letter No. 2016-65, *Financial Reporting Framework under Section 189 of the Amended Insurance Code (Republic Act No. 10607)*, prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies. This circular was further amended by CL No. 2018-54 to clarify the provisions of Section 6.1 ("Miscellaneous Provisions").

(b) Circular Letter No. 2016-66, *Valuation Standards for Life Insurance Policy Reserves*, provides a change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) which now considers other assumptions such as morbidity, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation. This CL was further amended by CL 2018-75, *Discount Rates for Life Insurance Policy Reserves as of 31 December 2018*, which prescribes the use of PHP BVAL Reference rates from Bloomberg for Philippine Peso policies.

(c) Circular Letter 2018-18, *Valuation Standards for Non-Life Insurance Policy Reserves*, prescribes the new valuation methodology for the non-life insurance companies. This CL supersedes CL No. 2016-67 and amends CL No. 2015-06 *"New Reserves Computation for the Compulsory Insurance Coverage for Migrant Workers."* CL No. 2018-18 was further supplemented by CL No. 2018-76, *Discount Rates for Non-Life Insurance Policy Reserves as of 31 December 2018*, prescribing the use of Peso spot and forward rates derived from the PHP BVAL Reference rates from Bloomberg and the Dollar spot and forward rates derived from the International Yield Curve from Bloomberg for Peso-denominated and US Dollar-denominated policies, respectively.

(d) Circular Letter No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement.

Implementation requirements and transition accounting

(e) Circular Letter No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-based Capital (RBC2) Framework*. The new regulatory requirements under Circular Letters 2016-65, 2016-66, 2016-67 and 2016-68 shall take effect beginning January 1, 2017.

This circular was further amended by CL No. 2018-19 allowing companies to set the Margin for Adverse Deviation (MfAD) as follows:

Period Covered	Percentage (%) of company specific MfAD
2017	0%
2018	50%
2019 onwards	100%

(f) Circular Letter No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*. The cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016-67, shall be recognized in Retained Earnings – Transition Adjustments account except for items listed in Section 2.1 . All changes in valuation shall be measured net of any tax effect.

(g) Circular Letter No. 2017-30, *Regulatory Requirements and Actions for the New Regulatory Framework (Life Insurance Business)*. The cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the change in the valuation basis from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) as well as any change in assumptions under GPV computed based on the new valuation standards for life insurance policy reserves as provided under CL No. 2016-66, shall be recognized in Retained Earnings – Transition Adjustments account except for items listed in Section 2.1. All changes in valuation shall be measured net of any tax effect.

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions, and Royalty Agreements Held

Life Insurance

Under the terms of the joint venture agreement between AXA SA and other shareholders, AXA Philippines has the right to use the "AXA" name in the Philippines and does not own any intellectual property rights.

Non-life Insurance

AXA Philippines acquired 100% interest in Charter Ping An in April 2016. In January 2017, AXA Philippines and Charter Ping An secured the approval of the Insurance Commission to co-brand and use the "AXA" name for both the life and general insurance lines.

Government Approval of Principal Products or Services

Life and Non-life Insurance

The development of new products is organized, managed and coordinated primarily within AXA Philippines and duly approved by the Insurance Commission.

Research and Development Costs

Life and Non-life Insurance

The development of new products is organized, managed and coordinated primarily within AXA in the Philippines. Any related costs to product development pertain to the salaries and training expenses incurred for the product team who manages the product development cycle.

Employees

Life Insurance
As of December 31, 2018, AXA Philippines had 726 full-time employees and 1,067 sales employees as shown below:

Type	No. of Employees
Senior Officers	87
Managers and Officers/Supervisors	217
Rank and File	422
Sales	1,067
Total	**1,793**

AXA Philippines has no collective bargaining agreements with its employees and none of its employees belong to a labor union. AXA Philippines believes its relationships with its employees are generally good. Currently, AXA Philippines has no plans for additional hiring except in the ordinary course of business expansion.

Non-life Insurance
As of December 31, 2018, Charter Ping An had 626 full-time employees and 11 consultants. The breakdown of full-time employees is provided below:

Type	No. of Employees
Seconded and Senior Officer	15
Junior Officers and Supervisors	178
Rank and File	433
Total	**626**

Risks

Life Insurance

- AXA's growth is dependent on its ability to attract and retain individual agents;
- If AXA is unable to develop other distribution channels for its products, its growth may be materially and adversely affected;
- AXA's business and prospects would be materially and adversely affected to the extent its bancassurance activities are impaired;
- Agent and employee misconduct could harm AXA's reputation or lead to regulatory sanctions or litigation costs;
- AXA's business and prospects may be adversely affected by changes in consumers' preferences or purchasing power;
- Defaults on AXA's debt investments may materially and adversely affect its profitability;
- Economic and financial markets may change to affect the relative attractiveness of AXA's products;
- Economic and financial market volatility may reduce the demand for investment-linked products;
- Fund manager performance may reduce the return on investment-linked products and the demand for such products;
- Future actual claims may not be consistent with the assumptions used in pricing AXA's products and establishing reserves for its obligations, which could materially and adversely affect its earnings;
- AXA requires certain regulatory approvals in the ordinary course of its business and the failure to obtain such approvals in a timely manner or at all may adversely affect its business and results of operations;
- AXA may be exposed to various risks as AXA expands its range of products and services;
- AXA's business is dependent on its ability to attract and retain key personnel, including senior management, underwriting personnel, actuaries, information technology specialists, investment managers and other professionals;
- AXA depends on efficient, uninterrupted and secure operation of its information technology system;
- AXA may need additional capital in the future, and there is no assurance that it will be able to obtain such capital on acceptable terms or at all.

Non-life Insurance

- CPA continues to launch new products to give its clients a comprehensive and cost effective insurance protection for themselves and their properties;
- CPA competes to secure accounts, even captive markets, i.e. accounts or clients of companies that belong to the group;
- CPA's business and prospects would be materially and adversely affected to the extent its distribution channels are impaired;
- CPA requires certain regulatory approvals in the ordinary course of its business and the failure to obtain such approvals in a timely manner or at all may adversely affect its business and results of operations;
- CPA must be consistent in submitting reportorial reports as required by the Insurance Commission. Any default would result in a penalty for each day of delay;
- CPA must uphold its assurance to policyholders that any claim will be treated in a professional manner and, when meritorious, settled immediately without undue delay. Since claims payment is one of the key factors in advertising the strength of CPA, any default or wrongdoing would impair the ability of CPA to solicit business;
- CPA fund managers must be conservative regarding investments since their decisions could result in heavy losses;
- CPA and other insurance companies are required by the Insurance Commission to protect their policyholders against Catastrophic (CAT) Events. Costs for CAT protection trend upward every year due to climate change;
- CPA operation and reportorial requirements are dependent on the reliability of its Information Technology (IT) system, thus, effectiveness must be reviewed and updated regularly. This IT system must be adaptable to changes in reportorial requirements;
- CPA consistently complies with its tax obligations since any failure to do so would result in heavy penalties or even the revocation of CPA's license to operate;
- CPA's business is dependent on its ability to attract and retain key personnel, including senior management, underwriting personnel, actuaries, information technology specialists, investment managers and other professionals; and,
- CPA must continuously review its Underwriting Guidelines to eliminate avoidable losses. For unavoidable losses like catastrophic events, CPA should ensure that all payments to policy holders are in accordance with its self-imposed guidelines.

Toyota Manila Bay Corporation

TMBC was incorporated on July 15, 1996 and its registered address is Central Business Park, Roxas Boulevard, Brgy. 076, Pasay City. TMBC also does business under the names Toyota Dasmarinas-Cavite (TDM) and Toyota Abad Santos, Manila (TAS). On June 15, 2012, TMBC became a joint venture between the Metrobank Group, comprised of Titan Resources Corporation, FMIC and Toyota Cubao Inc. (TCI); and Mitsui & Co., Ltd. (Mitsui), one of Japan's largest general trading companies with the latter acquiring 40% share of the company.

TCI was incorporated on January 19, 1989 and its registered address is 926 Aurora Boulevard, Cubao, Quezon City. TCI also does business under the name Toyota Marikina Service Station (TMK).

On March 7, 2016, the SEC approved the merger of TMBC and TCI. Consequently, TMBC became the surviving entity and absorbed all of TCI's assets and liabilities. The consolidation of resources resulted in economies of scale, cost reduction, and better span of control. Prior to the merger, GT Capital owned 53.8% majority stake of TCI, with Mitsui owning 40%, the balance of the remaining TCI shares was held by individual stockholders. As of December 31, 2018, TMBC is 58.10% owned by GT Capital.

TMBC is authorized by TMP to distribute and retail Toyota products in the Philippines. TMBC's business fields are mainly divided into three categories: (1) vehicle sales, (2) parts sales and (3) after-sales services.

Principal Products and Services

Vehicle sales
As of December 31, 2018, TMBC sells a full line-up of Toyota models, sub-divided between passenger car and commercial vehicles category, as seen below:

Type	Models
Passenger Cars (PC)	Vios, Yaris, Wigo, Prius, Corolla Altis, Camry, 86
Commercial Vehicles (CV)	Innova, Avanza, Hiace, Previa, Alphard, Coaster, Hilux, Land Cruiser, FJ Cruiser, Fortuner, Rav4, Rush

Parts sales
TMBC offers genuine Toyota parts, accessories, oils and chemicals. Toyota Genuine Parts and Accessories are made to the same exacting standards of the Toyota vehicles and are designed specifically for each model.

After-sale services
TMBC's aftersales services include general job, preventive maintenance, express maintenance, body work and other ancillary businesses provided to Toyota car owners.

The table below shows the pro-forma consolidated breakdown of vehicle sales, parts sales and aftersales services, and their respective contribution to total revenue, for each of the last three years:

	As of December 31					
	2016		2017		2018	
Category	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*
Vehicle sales	22,445	93.5%	24,211	93.0%	18,591	90.7%
Parts sales	942	3.9%	1,101	4.2%	1,228	6.0%
After-sales services	609	2.5%	711	2.7%	670	3.3%
Total	**23,996**	**100.0%**	**26,023**	**100.0%**	**20,489**	**100.0%**

Distribution Methods of Products and Services
TMBC provides its products and services to customers through the following dealers:

2018 Data	TMB	TDM	TAS	TCI	TMK
Started Operations	Aug. 6, 1999	Oct. 24, 2003	Jan. 27, 2011	Jan. 19, 1989	Aug. 19, 1998
Location	Pasay City, Metro Manila	Dasmariñas, Cavite	Manila City	Quezon City	Marikina City
Brand New Vehicles Sold	4,532	2,848	2,544	3,709	2,598
Units Received for Service	35,079	33,804	16,845	20,753	18,408

GT Capital owns these five dealers out of the 69 Toyota outlets across the Philippines.

The table below sets out the geographic breakdown of the revenue for the periods indicated.

	As of December 31					
	2016		2017		2018	
Outlet	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*
TMB	7,099	29.6%	7,442	28.6%	5,919	28.9%
TDM	4,120	17.2%	4,752	18.3%	3,459	16.9%
TAS	3,648	15.2%	3,914	15.0%	3,163	15.4%
TCI	5,493	22.9%	5,925	22.8%	4,506	22.0%
TMK	3,636	15.2%	3,990	15.3%	3,442	16.8%
Total	**23,996**	**100.0%**	**26,023**	**100.0%**	**20,489**	**100.0%**

Components and Raw Materials
TMBC's inventory of Toyota vehicles and genuine parts is principally supplied by Toyota Motor Philippines Corporation. Likewise, TMBC does not have any major existing supply contracts.

Competition

Market Trends
TMBC believes its direct and principal competitors are other Toyota dealers in the geographic areas in which they operate. As of December 31, 2018, Toyota Motor Philippines have 18 dealerships in Metro Manila and 51 dealerships in the provinces. Out of the total vehicles sold by these dealerships, TMBC accounted for 10.6% share as of December 31, 2018.

TMBC also competes with three-star workshops and to some extent, gasoline stations in offering after-sales service.

Advantage over competitors
TMBC boasts of its financial strength and wide marketing network within the GT Capital group. Aside from TFS, majority of the business are client referrals from MBT and PSBank, which serve also as financing partners of the company. Moreover, TMBC enjoys the benefits of having a strong Toyota brand name, and the dominant position of Toyota in the Philippine automotive market.

Customers
The customers of TMBC can be divided into retail and fleet customers. Retail or individual clients are normally comprised of walk-in clients, referrals from banks, and repeat customers.

For the year 2018, TMBC's retail customer base is comprised of:

First time car buyers	37.0%
First time Toyota buyers	19.6%
Repeat Toyota buyers	23.0%
Repeat TMBC clients	20.4%
Total	**100.0%**

In addition to general consumer sales, fleet accounts consist of taxi companies and corporate accounts purchasing vehicles in bulk.

The table below shows the TMBC's customer statistics per dealer outlet, respectively.

Outlet	**As of December 31, 2017**			
	Sales Volume to Fleet	*% to Total Sales Volume*	*Sales Volume to Retail*	*% to Total Sales Volume*
TMB	1,435	6.3%	5,033	22.0%
TDM	362	1.6%	3,751	16.4%
TAS	872	3.8%	2,735	12.0%
TCI	539	2.4%	4,719	20.6%
TMK	582	2.5%	2,842	12.4%
TOTAL	**3,790**	**16.6%**	**19,080**	**83.4%**

Outlet	**As of December 31, 2018**			
	Sales Volume to Fleet	*% to Total Sales Volume*	*Sales Volume to Retail*	*% to Total Sales Volume*
TMB	1,332	8.2%	3,200	19.7%
TDM	227	1.4%	2,621	16.1%
TAS	594	3.7%	1,950	12.0%
TCI	653	4.0%	3,056	18.8%
TMK	516	3.2%	2,082	12.8%
TOTAL	**3,322**	**20.5%**	**12,909**	**79.5%**

Financing Terms
Customers are usually required to pay a 20% down payment, with the remaining balance payable in three to five years. They can either choose between bank financing or through GT Capital's financing arm, TFSPH. With a more

aggressive "all-in" financing package and promotions from banks, financing the purchase of brand-new vehicles becomes accessible to a wide array of customers.

Innovation and Promotion

Most advertisements of vehicles on mass media are conducted by TMP on behalf of the dealerships of Toyota. Also TMBC independently conducts campaigns such as displays at shopping malls and other commercial areas as well as thru social media.

Intellectual Property

TMBC acquired the rights to use the "Toyota" brand names through the Toyota Dealership Agreement with TMP. If TMBC's annual performance can meet TMP's requirements, the dealership agreement is renewed every February of each year. TMBC's dealership agreement was renewed in February 2018, and is expected to be renewed for an additional year in accordance with TMP's annual performance target.

TMBC has also registered its logo with the Intellectual Property Office last March 26, 2013 with a validity of 10 years but is expected to be renewed upon expiration.

Regulatory and Environmental Matters

The Philippine automotive industry is subject to various laws and government regulations. These regulations include environmental protection and conservation rules that regulate the levels of air, water, noise and solid waste pollution produced by automotive manufacturing activities of TMP. If TMP complies with these regulations by spending more costs, TMBC may be affected indirectly. With regards to its general operations as a business entity, TMBC is also subject to the general trade related laws and policies, enforced through the Department of Trade and Industry. Moreover, Toyota Manila Bay is also subject to the enacted Presidential Directives and Issuances, the most recent of which is the "Philippine Lemon Law", an act strengthening consumer protection in the purchase of brand new motor vehicles, approved in July 15, 2014.

Employees

The following table provides a breakdown of TMBC's employees for the periods indicated.

	2018
Regular	**887**
Officers	54
Team Members	833
Probationary	**96**
Outside Contractors	**325**
Agency-contracted	103
Fixed term employee	222
TOTAL	**1,308**

Currently, TMBC has no plans for additional hiring except in the ordinary course of business expansion.

Risks

The Philippine automotive market has been subject to considerable volatility in demand. Demand for vehicles depends to a large extent on general, social, political and economic conditions in the Philippines. Demand may also be affected by factors directly impacting vehicle prices or the cost of purchasing and operating vehicles such as sales and financing incentives, prices of raw materials and parts and components, and the cost of fuel, exchange rates and governmental regulations (including tariffs, import regulations and other taxes). Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in higher selling expenses per vehicle and could materially affect TMBC's business.

<u>Toyota Financial Services Philippines Corporation</u>

Toyota Financial Services Philippines Corporation (TFSPH) was established on August 16, 2002 and started operations in October 2002. TFSPH became a joint-venture between GT Capital and Toyota Financial Services (TFS)

Japan with the former acquiring 40% share of TFSPH from Metrobank and PSBank. Its principal office is located at 32nd Floor GT Tower International, Ayala Avenue Corner H.V. dela Costa Street, Makati City.

Principal Products or Services and their Markets indicating the Relative Contribution to Sales/Revenues
TFSPH primary purpose is to engage in, carry on and undertake the general business of financing by extending credit facilities to (i) customers of Toyota vehicles dealers in the Philippines and (ii) commercial or industrial enterprise, including distributors and dealers, who are engaged in the distribution and sale of Toyota vehicles in the Philippines, through (a) purchasing, discounting, rediscounting or factoring commercial papers, account receivables or negotiable instruments, (b) inventory financing, (c) leasing, (d) sale-back arrangements, (e) hire purchase agreements, (f) direct lending with or without security, as well as to engage in quasi-banking operations with prior approval by the Bangko Sentral ng Pilipinas and any other business of financing company that maybe directly or indirectly necessary, or useful for the accomplishment and furtherance of its primary purpose.

Currently, TFSPH offers retail loans and finance lease to its individual and corporate clients for the acquisition of brand-new and/or certified pre-owned Toyota vehicles.

The table below shows the breakdown of the net interest income derived from lending/financing and other operating income (consisting of interest on deposits, service charges, fees, and gain or loss on sale of assets held for sale) and their respective contribution to total revenue for the last three years:

Category	**As of December 31**					
	2016		**2017**		**2018**	
	Amount (PhP M)	*% to Total Revenues*	*Amount (PhP M)*	*% to Total Revenues*	*Amount (PhP M)*	*% to Total Revenues*
Interest Income (Retail Loans)	653.6	17.8%	835.0	16.5%	963.0	15.4%
Interest Income (Finance Lease)	2,968.7	80.7%	4,064.6	80.4%	5,073.9	81.3%
Other Income	57.8	1.6%	153.0	3.0%	207.9	3.3%
Total	**3,680.1**	**100.0%**	**5,052.6**	**100.0%**	**6,244.8**	**100%**

Distribution Methods of Products and Services
The table below sets out the geographic breakdown of units financed by TFSPH for the periods indicated.

Location	**2016**		**2017**		**2018**	
	Units	*%*	*Units*	*%*	*Units*	*%*
Metro Manila	14,067	48.3%	16,884	46.4%	11,905	37.4%
Outside Metro Manila	15,034	517%	19,481	53.6%	19,922	62.6%
TOTAL	29,101	100.0%	36,365	100.0%	31,827	100%

Competition

Geographic area in which the business competes
Please see *Distribution Methods of Products and Services.*

Principal methods of competition
TFSPH offers competitive interest rates and attractive financing products. TFSPH also focuses on efforts to significantly reduce loan processing time to enhance customer service. TFSPH continues to innovate products and services to make Toyota vehicle ownership more affordable to its customers.

Principal Competitors
Based on company data, the top six financing companies accounted for 83.4% of the total financed Toyota vehicles in 2018. TFSPH has the highest market share at 37.9% which is 24.4 percentage points higher than its closest competitor, PSBank at 13.5%. East West Bank and BDO have market shares of 12.8% and 11.0%, respectively.

Advantage over competitors

Products

- TFSPH is the only financing company that offers Finance Lease to retail customers where they can enjoy lower cash out lay – no chattel mortgage fees.
- TFSPH offers lower rates for Toyota Certified Used Vehicles compared to banks' used car rates in support of the Toyota Certified Used Vehicles program of TMP.

Relationship with Distributor (TMP) and Dealers

- TFSPH has joint sales programs with both TMP and dealers through exclusive promos and packages.

Transactions with and/or dependence on related parties:
- Toyota Dealers (nationwide) – Auto sales financing
- Toyota Motor Philippines Corporation – Auto sales and financing product packages

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions, and Royalty Agreements Held
Corporate licenses issued by SEC and BSP (Quasi Bank) have no specific expiration date.

Government Approval of Principal Products or Services
TFSPH obtains approvals and permits from regulatory bodies and agencies, as applicable, prior to the offering of its products and services to the public.

Effect of Existing or Probable Government Regulations

Capital Adequacy
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 risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. TFSPH has complied with all externally imposed capital requirements throughout the year.

In December 2010, the Basel Committee for Banking Supervision published the Basel III framework (revised in June 2011) to strengthen global capital standards, with the aim of promoting a more resilient banking sector. On January 15, 2013, the 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 6.0% and Tier 1 capital ratios of 7.5%. It also introduced a capital conservation buffer of 2.5% comprised of CET1 capital. BSP existing requirement for Total CAR remained unchanged at 10% and these ratios shall be maintained at all times. TFSPH is required to comply with this Circular effective on January 1, 2014.

TFSPH has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis. As of December 31, 2018, CET1 and Tier 1 capital ratios are 13.28% and 14.16%, respectively.

Applicable Tax Regulations
Under Philippine tax laws, TFSPH is 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% 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% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of Entertainment, Amusement and Recreational (EAR) expenses 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 TFSPH, 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 TFSPH's income tax liability and taxable income, respectively, over a three year period from the year of inception.

Research and Development Costs
For the last three fiscal years, TFSPH has not incurred any expenses for research and development.

Employees
The following table provides the breakdown of TFSPH employees for the periods indicated.

	2018
Senior Officers (AVPs and up)	14
Officers (SM and down)	124
Rank and File	279
Sub total	**417**
Outsourced Services	20
Total	**437**

TFSPH continues to ensure that its employees are properly compensated. TFSPH has not experienced any labor strikes and the management of TFSPH considers its relations with its employees to be harmonious.

Risk Management
TFSPH has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

Risk Management Framework
The BOD has overall responsibility for the oversight of TFSPH's risk management process. 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 Credit Committee (CRECOM).

Credit Risk
Credit risk is the risk of financial loss to TFSPH if a counterparty to a financial instrument fails to meet its contractual obligations. TFSPH manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related groups of borrowers, for market segmentation, and industry concentrations, and by monitoring exposures in relation to such limits. The same is true for treasury-related activities. Each business unit is responsible for the quality of the overall credit portfolio and for monitoring and controlling all portfolio-wide credit risk. Regular reviews of business units and credit processes are undertaken by Risk Management Department (RMD) through the Credit Risk Review Unit and periodic audits are conducted by Internal Audit Department (IAD).

Liquidity Risk
Liquidity risk is defined as the current and prospective risk to earnings or capital arising from TFSPH's inability to meet its obligations when they become due. TFSPH manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. To ensure

that funding requirements are met, TFSPH manages its liquidity risk by holding sufficient liquid assets of appropriate quality.

Market Risk
Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market factors. ALCO is a decision-making body for the management of all related market risks. TFSPH enforces a set of risk limits to properly monitor and manage the market risks. The risk limits are approved by the BOD.

Metro Pacific Investments Corporation

(A) Business Development

Metro Pacific Investments Corporation (MPIC) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on March 20, 2006 as an investment holding company. MPIC's common shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). On August 6, 2012, MPIC launched Sponsored Level 1 American Depositary Receipt (ADR) Program with Deutsche Bank as the appointed depositary bank in line with MPIC's thrust to widen the availability of its shares to investors in the United States. MPIC and its subsidiaries are collectively referred to as "the MPIC Group".

Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued common shares (or 42.0% of the total outstanding common shares) of MPIC as at December 31, 2018 and 2017. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2018 and 2017.

MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH; 60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL; 13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries Intalink B.V, and FPIL, holds 40.0% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

MPIC is a leading infrastructure holding company in the Philippines. MPIC's intention is to maintain and continue to develop a diverse set of infrastructure assets through its investments in water, toll roads, power generation and distribution, healthcare services, light rail and logistics. MPIC is therefore committed to investing through acquisitions and strategic partnerships in prime infrastructure assets with the potential to provide synergies with its existing operations.

(B) MPIC's Business and Significant Subsidiaries

For management purposes, MPIC is organized into the following segments based on services and products:

- *Power*, which primarily relates to the operations of Manila Electric Company (MERALCO) in relation to the distribution, supply and generation of electricity and Global Business Power Corporation (GBPC) in relation to power generation. The investment in MERALCO is held both directly and indirectly through Beacon Electric Asset Holdings, Inc (Beacon Electric) while the investment in GBPC is held through Beacon Electric's wholly-owned entity, Beacon PowerGen Holdings Inc. (BPHI).

- *Toll operations,* which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries NLEX Corporation (NLEX Corp; formerly Manila North Tollways Corporation), Cavitex Infrastructure Corporation (CIC), and foreign investees, CII Bridges and Roads Investment Joint Stock Company (CII B&R), Don Muang Tollway Public Ltd (DMT) and PT Nusantara Infrastructure Tbk (PT Nusantara).

- *Water,* which relates to the provision of water and sewerage services by Maynilad Water Holding Company, Inc. (MWHC) and its subsidiaries Maynilad Water Services, Inc. (Maynilad) and Philippine Hydro, Inc. (PHI), and other water-related services by MetroPac Water Investments Corporation (MPW).

- *Healthcare*, which primarily relates to operations and management of hospitals and nursing colleges and such other enterprises that have similar undertakings by Metro Pacific Hospital Holdings, Inc. (MPHHI) and subsidiaries.

- *Rail*, which primarily relates to Metro Pacific Light Rail Corporation (MPLRC) and its subsidiary, Light Rail Manila Corporation (LRMC), the concessionaire for the operations and maintenance of the Light Rail Transit – Line 1 (LRT-1) and construction of the LRT-1 south extension.

- *Logistics*, which primarily relates to MPIC's logistics business through MetroPac Logistics Company, Inc. (MPLC) and its subsidiaries.

- *Others,* which represent holding companies and operations of subsidiaries and other investees involved in real estate and provision of services.

The following table shows the breakdown of the MPIC Group's revenues, core income and reported net income by major segment with Logistics included in others as it is too small to report separately:

Year Ended December 31, 2018 (in Php Mn)

	Power	Toll operations	Water	Healthcare	Rail	Total	HO and Others	Consolidated
Total revenue from external sales	**27,026**	**15,486**	**22,575**	**12,950**	**3,310**	**81,347**	**1,682**	**83,029**
MPIC's share in the Core Income	**10,823**	**4,423**	**3,794**	**771**	**394**	**20,205**	**(5,145)**	**15,060**
Operating companies contribution (%)	*54%*	*22%*	*19%*	*4%*	*2%*	*100%*	–	–
Non-recurring income (charges)	**280**	**(176)**	**(307)**	**138**	**(62)**	**(127)**	**(803)**	**(930)**
Segment Income (Loss)	**11,103**	**4,247**	**3,487**	**909**	**332**	**20,078**	**(5,948)**	**14,130**

Year Ended December 31, 2017 (in Php Mn)

	Power	Toll operations	Water	Healthcare	Rail	Total	HO and Others	Consolidated
Total revenue from external sales	**13,042**	**13,107**	**21,327**	**10,737**	**3,155**	**61,368**	**1,144**	**62,512**
MPIC's share in the Core Income	**9,378**	**3,901**	**3,733**	**685**	**283**	**17,980**	**(3,876)**	**14,104**
Operating companies contribution (%)	*52%*	*22%*	*21%*	*4%*	*1%*	*100%*	–	–
Non-recurring income (charges)	**260**	**1,118**	**(428)**	**4**	**(3)**	**951**	**(1,904)**	**953**
Segment Income (Loss)	**9,638**	**5,019**	**3,305**	**689**	**280**	**18,931**	**(5,780)**	**13,151**

While the Company's geographic focus is still predominantly the Philippines, MPIC has started increasing its presence in Southeast Asia with its investments in Indonesia (PT Nusantara, which was consolidated beginning July 2018), Thailand (DMT) and Vietnam (CII B&R, Tuan Loc Water Resources Investment Joint Stock Company and BOO Phu Ninh Water Treatment Plant Joint Stock Company).

Except as stated in the succeeding paragraphs and in the discussion for each of MPIC's significant subsidiaries, there has been no other business development such as bankruptcy, receivership or similar proceeding not in the ordinary course of business that affected MPIC for the past three years.

(B.1a) Power - MERALCO

Business Development

Investment in MERALCO is held directly by MPIC at 10.5% and held indirectly through Beacon Electric at an effective interest of 35.0% as at December 31, 2018 and 2017, respectively.

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to more than 6.0 million customers in 36 cities and 75 municipalities including the whole of Metro Manila, provinces of Rizal, Cavite, and Bulacan, and parts of Pampanga, Batangas, Laguna and Quezon. Business establishments in the franchise area account for about 50% of the country's Gross Domestic Product.

Through Clark Electric Distribution Corporation (Clark Electric), a 65%-owned subsidiary, MERALCO holds the power distribution franchise of Clark Special Economic Zone in Clark, Pampanga. Clark Electric's franchise area covers 320 square kilometers and 1,987 customers as at December 31, 2018.

MERALCO is organized into two major operating segments, namely, power (distribution, generation and retail electricity supply) and other services.

Electricity distribution

This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the MERALCO and the Clark Electric franchise areas in Luzon. Electricity distribution within the MERALCO franchise area accounts for approximately 55% of the power requirements of the country.

Power generation

MERALCO PowerGen Corporation (MGen), a wholly-owned subsidiary of MERALCO, was organized as MERALCO's vehicle for re-entry into power generation. MGen has a 14% equity interest in Global Business Power Corporation (GBPC) effective June 30, 2016. GBPC owns a coal and diesel-fired power plants (B.1b) Power - GBPC.

MGen owns an effective 28% equity in PacificLight Power Pte Ltd. (PacificLight Power) in Jurong Island, Singapore. PacificLight Power owns and operates a 2 x 400 MW liquefied natural gas (LNG) power plant which began commercial operations in February 2014.

MGen, through San Buenaventura Power Ltd. Co. (SBPL), is constructing a 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon. The Power Supply Agreement (PSA) with MERALCO was approved by the ERC on May 19, 2015. The plant is expected to be completed in mid 2019.

MGen is developing a 2 x 600 MW (net) ultra supercritical pulverized coal-fired power plant in Atimonan, Quezon through Atimonan One Energy, Inc. (A1E). The PSA with MERALCO was submitted to the Energy Regulatory Commission (ERC) in April 2016. ERC approval is pending.

Evaluation of the EPC bids from contractors is essentially concluded. A Mandate Letter of up to ₱107.5 billion from a group of seven banks has been signed. The A1E project is ready for construction and awaits ERC approval to reach its target completion by 2022.

MGen is also developing (i) a 2 x 300 (net) MW Circulating Fluidized Bed (CFB), coal-fired power plant in the Subic Freeport Zone through Redondo Peninsula Energy, Inc. (RP Energy), and (ii) a 2 x 350 MW (net) sub-critical pulverized coal-fired power plant in Calaca, Batangas through St. Raphael Power Generation Corporation (St. Raphael), and among others.

MGen has 49% equity interest in Mariveles Power Generation Corporation (Mariveles Power) which is developing a 4 x 132 MW coal-fired power plant in Bataan. On April 29, 2016, the Joint Application for approval of said PSA was filed with the ERC. In its Order dated August 9, 2016, the ERC held the processing of the application in abeyance. On September 30, 2016, Mariveles Power filed a Motion for Reconsideration (MR) of the said ERC Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, MERALCO received a copy of a Motion filed by several consumers with the ERC on July 14, 2017 seeking the dismissal of the case, to which MERALCO filed an Opposition. In an Order dated March 20, 2018, ERC directed MERALCO and Mariveles Power to submit a written explanation on the status of the ECC application, or in the alternative, should the ECC be ready, to submit the same to the ERC. Mariveles Power filed a pleading explaining status of the ECC application. As at March 5, 2019, further ERC action is pending.

MERALCO has a 50% equity interest in Pure Meridian Hydropower Corporation, which is primarily engaged in the development of mini hydroelectric power projects.

Retail Electricity Supply (RES)

This covers the sourcing and supply of electricity to qualified contestable customers. MERALCO serves as a local retail electricity supplier within its franchise area under a separate business unit, MPower. Under Retail Competition and Open Access (RCOA), qualified contestable customers who opt to switch to contestability and elect to be among the contestable customers, may source their electricity from any retail electricity supplier, including MPower.

Other Services

The other services segment is involved principally in electricity-related services, such as; electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy.

Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract

MERALCO holds a congressional franchise under Republic Act (RA) No. 9209 effective June 28, 2003. RA No. 9209 grants MERALCO a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the ERC, granted MERALCO a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of MERALCO's congressional franchise. MERALCO's participation in Retail Electricity Supply (RES) is through its local RES unit, MPower. In 2017, the ERC granted MERALCO's wholly owned subsidiary, Vantage Energy Solutions and Management, Inc. (VESM), Solvre, Inc., a wholly owned subsidiary of MGen, and MeridianX Inc., a wholly owned subsidiary of Comstech Integration Alliance, Inc., distinct RES licenses to operate as retail electricity suppliers in Luzon and Visayas.

Principal Products or Services

MERALCO's and Clark Electric's markets are categorized into four sectors and the consolidated relative contributions to sales of each are as follows:

	Contribution in terms of Sales Volume	
	2018	2017
Commercial	39.41%	39.42%
Residential	30.59%	31.02%
Industrial	29.69%	29.24%
Streetlights	0.31%	0.32%
Total	100.00%	100.00%

Dependence on Licenses and Government Approval

MERALCO was among the first entrants to the Performance-Based Regulation (PBR). Rate-setting under PBR is governed by the Rules for Setting Distribution Wheeling Rates (RDWR). The PBR scheme sets tariffs based on the regulated asset base of the Distribution Utility (DU), and the required operating and capital expenditures to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, growth of all customer classes in the in the franchise area as approved by the ERC. PBR also employs a mechanism that penalizes or rewards a DU depending on its network and service performance. Rate filings and setting are done every regulatory period (RP) where one RP consists of four regulatory years. A regulatory year (RY) begins on July 1 and ends on June 30 of the following year.

5th RP Reset Application
As MERALCO is approaching the end of its 4th RP on June 30, 2019, it filed a Petition for the Adoption of the Proposed Issues Paper and Revised RDWR for the 5th RP of the First Entry Group under PBR of December 21, 2018. As at March 5, 2019, the ERC has yet to act on MERALCO's Petition.

4th RP Reset Application
The last year of MERALCO's 3rd RP ended on June 30, 2015. The 4th RP for Group "A" entrants commenced on July 1, 2015 and shall end on June 30, 2019. To initiate the reset process, the ERC posted in its website on April 12, 2016 the following draft issuance for comments, to wit:

a) Draft "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities (DUs) Operating under Performance Based Regulation, First Entry Group: Fourth Regulatory Period";
b) Draft "Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019 Fourth Regulatory Period for the First Entry Group of Privately Owned DUs subject to Performance Based Regulation"; and
c) Draft "Commission Resolution on the Issues on the Implementation of PBR for Privately Owned DUs under the RDWR".

Under ERC Resolution No. 25, Series of 2016 dated July 12, 2016, the ERC promulgated a Resolution modifying the RDWR for Privately-Owned DUs Entering PBR.
On December 2, 2016, the ERC released a Notice of Proposed Rule-Making setting the petition filed by a consumer group for initial hearing on January 9, 2017. All interested parties were given until December 26, 2016 to file their comments on said Petition.

In the Petition, the consumer group seeks a repeal of the PBR rate-setting methodology for setting distribution wheeling rates. In a subsequent Order and Notice of Public Hearing, the ERC reset the hearing to January 23, 2017 and gave interested parties until January 9, 2017 to file their respective comments to the Petition. MERALCO filed its Comment to the Petition on January 9, 2017. Hearings were scheduled on May 15 and June 21, 2017. The ERC Order for the date of the next public consultation is pending.

In a Notice dated November 16, 2016, the ERC approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" (RAB Handbook) for posting in its website. All interested parties were given until December 19, 2016 to submit their respective comments to the draft RAB Handbook. Thereafter, during the public consultation on January 9, 2017, the parties were given until February 9, 2017 to file their comments to the draft RAB Handbook. In an Omnibus Motion filed on February 9, 2017, MERALCO submitted its initial comments to the draft RAB Handbook but moved for the deferment of the proceedings until the consumer group Petition has been resolved. As at March 5, 2019, the ERC has yet to resolve MERALCO's Omnibus Motion.

Interim Average Rate for RY 2016
On June 11, 2015, MERALCO filed its application for the approval of its proposed Interim Average Rate of ₱1.3939 per kilowatt-hour (kWh) and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved the Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. MERALCO has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (FOE) after the ERC rules on pending motions. As at March 5, 2019, the ERC's ruling on these motions is pending.

CAPEX for 4th RP
Absent the release by the ERC of the final rules to govern the filing of its 4th RP reset, MERALCO filed its applications for approval of authority to implement its CAPEX program pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Application for Recoveries
MERALCO also files with the ERC its applications for recoveries of advances for pass-through costs. These advances consist mainly of unrecovered or differential generation and transmission charges technically referred to as under-recoveries, which are recoverable from the customers, as allowed by law.

Customers
MERALCO's customers are mass-based such that the loss of a few customers would not have a material adverse effect on MPIC and its subsidiaries taken as a whole. There is also no single customer that accounts for twenty percent (20%) or more of the segment's sales.

Competition
Distribution of electricity at its usable voltage to end-consumers is performed by investor-owned electric utilities, notably MERALCO and Clark Electric, a few local government-owned utilities and numerous electric cooperatives which sell to households as well as commercial and industrial enterprises located within their franchise areas at retail rates regulated by the ERC. Given that distributors are assigned franchise areas, as well as the significant investment involved in the setting-up of a distribution network, MERALCO and Clark Electric have no significant competition in their franchise areas.

At 42 months since the start of RCOA, a good number of contestable customers have so far decided to wait for mandatory contestability and have therefore remained as captive customers, which continue to be served by the DU. In terms of demand, however, almost half of the estimated contestable customer demand has opted to switch into the competitive market. This comprises mostly large customers with high load factors, who were able to obtain competitively priced energy from competing retail electricity suppliers. Of the 431 qualified and registered contestable customers, 237 or nearly 55% in terms of number of accounts have opted to be served by MPower, the MERALCO RES unit. MPower, with a group of highly competent engineers and commercial executives with broad experience in the power industry, including load profiling and forecasting, energy operations and management, and its customer-centric product and price offerings, among others, has created significant value for its customers through its service offerings and reliable supply portfolio.

Distribution
MERALCO and Clark Electric have transmission and distribution facilities comprising of land, various buildings and improvements, as well as property and equipment such as towers, poles, underground conduit and conductors and overhead conductors and devices.

Source and availability of raw materials
MERALCO and Clark Electric do not operate their own generation capacity. Both purchase all of the power they distribute from the power generators under PSA and Power Purchase Agreements (PPA) or through the Wholesale Electricity Sport Market (WESM). WESM is a venue where suppliers and buyers trade electricity as a commodity.

(B.1b) Power - GBPC

Business Development/ Products and Services
GBPC is an independent power producer with operations in the Visayas, Mindoro and Mindanao. Its generation facilities provide power to fast-growing, dynamic regions, ramping up economic growth and transforming communities.

The largest clean coal-fired power plants located in Iloilo City, with a combined capacity of 314 MW, are operated by Panay Energy Development Corporation (PEDC), in which GBP holds an 89.3% beneficial interest. PEDC has operated a 164 MW clean coal-fired power plant to serve the energy requirement of Panay and the rest of the Visayas region since 2011. A new 150 MW coal-fired circulating fluidized bed (CFB) plant in Panay began commercial operations during the first quarter of 2017. Upon completion of rectification works, the plant was accepted on May 31, 2018.

The second largest power generation facility is the 246 MW clean coal-fired power plant in Toledo City, Cebu, which is operated by Cebu Energy Development Corporation (CEDC). CEDC is a joint venture between Abovant Holdings, Inc. and Global Formosa Power Holdings, Inc. (GFPHI) with GFPHI having 56.0% beneficial interest. GBPC, having 93.2% ownership stake in GFPHI, effectively has 52.2% interest in CEDC. This facility is the first commercial clean coal power plant in the Philippines.

Both the PEDC and CEDC plants utilize circulating fluidized bed boiler technology that produces very low levels of sulfur dioxide and nitrogen oxide and captures most solid emissions.

GBPC's other power generation facilities consist of a 60 MW coal facility, an 82 MW coal facility and a 40 MW fuel oil facility operated by Toledo Power Co. (TPC); a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 7.5 MW fuel oil facility and a 5 MW fuel oil facility operated by Panay Power Corporation (PPC); and a 7.5 MW fuel oil facility operated by GBH Power Resources Inc. (GPRI).

In 2017, GBPC expanded to Mindanao, gaining a foothold in the island through a 50% equity in Alsons Thermal Energy Corporation (ATEC), which has thermal power plants in Sarangani.

Distribution Methods of Products and Services

GBPC, through its power generation companies, sells electricity through its bilateral power supply agreements or through WESM.

GBPC enters into bilateral off-take arrangements through Electric Power Purchase Agreements (EPPA) between its generation subsidiaries and the power-off-takers such as DUs, electric cooperatives and other industrial off-takers. An EPPA provides for a specific amount of capacity to be allocated to each customer, with provisions that allow for the periodic revision of the amounts in the agreement.

GBPC, through its Global Energy Supply Corporation (GESC), a retail electricity supplier accredited by the ERC, provides power to big-load customers also known as "Contestable Customers". This was made possible through the execution of Retail Supply Contracts.

New Products and Services

As a committed partner to nation building, the company explores expansion projects that support the development of high growth and emerging markets. Through subsidiary PEDC, GBPC commenced commercial operations of its 150MW clean coal-fired expansion project in Iloilo City on January 26, 2017, in time for the ongoing property development projects of Megaworld, Ayala Land, Gaisano, and Double Dragon Properties in Iloilo.

In 2017, GBPC has also embarked on a partnership with Alsons Consolidated Resources, Inc. (ACR) through acquisition of a 50% stake in Alsons Thermal Energy Corporation (ATEC), the holding company for ACR's baseload coal-fired power plant assets. ATEC owns 75% stake in the 2x105 MW baseload coal-fired plant of Sarangani Energy Corporation (SEC) located in Maasim, Sarangani Province. ATEC also holds 100% equity in San Ramon Power, Inc. (SRPI) which is developing a 105 MW baseload coal-fired plant in Zamboanga City.

Competition

GBPC's power generation facilities are subject to competition from existing and future power generation plants that supply electricity to the Visayas grid. GBPC believes that its experience in designing, building and operating power plant projects in Visayas and Mindoro is stronger than any of its competitors in the region.

The key competitor in the region is the Unified Leyte Geothermal Power Plants, which were operated by the Philippine Government through National Power Corporation (NPC). These power plants are now privatized. The Leyte plants service both the Luzon and Visayas grids. Geothermal power plants are significant competitors because they can produce power at a relatively lower cost than fossil-fuel and coal-based producers. In addition, the newly constructed coal-fired power plant of Palm Concepcion Power Corporation in the Municipality of Concepcion, Iloilo increased the coal supply mix of the region by 135MW since 2016.

GBPC will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as the financing for these activities. Factors such as the performance of the Philippine economy and the possibility of a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects in the Philippines. Accordingly, competition for and from new non-renewable and renewable power projects have increased in line with the expected long-term economic growth of the Philippines. For instance, in Toledo City, Cebu, Therma Visayas Inc. is developing a 340 MW coal-fired power plant and is undergoing testing and commissioning. As for GBPC, it is looking at several projects to expand its energy portfolio through investments in renewable technologies.

Sources and Availability of Raw Materials and the Names of Principal Suppliers
GBPC has local and imported long-term Coal Supply Agreements with selected suppliers. GBPC gets majority of local coal supplies from Semirara Mining, while imported coal come from international partners in Indonesia and Russia.

Coal Sources	**Principal Suppliers**
Semirara	Semirara Mining and Power Corporation
Indonesia	PT Adaro Indonesia PT Sakti Nusantara Bakti Samtan Co., Ltd.
Russia	Samsung C&T Corporation

Coal prices under the agreements are indexed to Global Newcastle Coal prices and are adjusted if the guaranteed coal qualities are not met but within the rejection limits. These coal qualities include calorific value, moisture, sulphur, ash and volatile matter. Coal procurement is being handled by GBPC's Fuel Management Group.

Major Customers
Eighty nine percent (89%) of GBPC's total electricity sales in 2018 were earned from its contracted power off-taker customers.

A summary of power off-taker customers having EPPAs with the generation subsidiaries as of December 31, 2018 is as follows:

Cebu Energy Development Corporation (CEDC)
- Visayan Electric Company, Inc. (VECO)
- Philippine Economic Zone Authority - Mactan Economic Zone I (PEZA-MEZ 1)
- Mactan Electric Company (MECO)
- Bohol I Electric Cooperative, Inc. (BOHECO 1)
- CEBU I Electric Cooperative, Inc. (CEBECO 1)
- CEBU II Electric Cooperative, Inc. (CEBECO 2)
- Balamban Enerzone Corporation (BEZ)
- National Grid Corporation of the Philippines (NGCP)
- Global Energy Supply Corp. (GESC) - Contestable Customers

Panay Energy Development Corporation (PEDC)
- Panay Electric Company, Inc. (PECO)
- Aklan Electric Cooperative, Inc. (AKELCO)
- Capiz Electric Cooperative, Inc. (CAPELCO)
- Antique Electric Cooperative, Inc. (ANTECO)
- Iloilo I Electric Cooperative, Inc. (ILECO 1)
- Iloilo II Electric Cooperative, Inc. (ILECO 2)
- Iloilo III Electric Cooperative, Inc. (ILECO 3)
- Iloilo Provincial Capitol
- Guimaras Electric Cooperative, Inc. (GUIMELCO)
- National Grid Corporation of the Philippines (NGCP)
- Manila Electric Company (MERALCO)
- Global Energy Supply Corp. (GESC) - Contestable Customers

Toledo Power Co. (TPC)
- Carmen Copper Corporation (Carmen Copper)
- CEBU III Electric Cooperative, Inc. (CEBECO 3)
- MPower
- Philippine Mining Service Corp. (PMSC) – Bohol Facility
- Global Energy Supply Corp. (GESC) - Contestable Customers

Panay Power Corporation (PPC)
- Panay Electric Company (PECO)[(1)]

- Iloilo I Electric Cooperative, Inc. (ILECO 1)(2)
- Aklan Electric Cooperative (AKELCO)(2)
- Negros Occidental Electric Cooperative, Inc. (NOCECO)(1)

GBH Power Resources Inc. (GPRI)
- Oriental Mindoro Electric Cooperative, Inc. (ORMECO)

Notes:
(1) For peak power only
(2) For intermediary and peak power requirements

Effect of Existing or Probable Government Regulations on the Business
The following regulations may have significant impact on GBPC's business operations:

Wholesale Electricity Spot Market (WESM)
The WESM provides a venue through which independent power producers may sell power, and at the same time, distributors and wholesale consumers can purchase electricity where no bilateral contract exists between the two. In June 2002, the Department of Energy (DOE), in cooperation with electric power industry participants, promulgated detailed rules for the WESM thereby allowing the creation of the Philippine Electricity Market Corporation (PEMC) which will operate the market and provide a framework for the establishment of the WESM. These rules set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each trading period. The WESM began market operations in 2006 for Luzon and 2010 for Visayas. GBPC's subsidiaries, PEDC, CEDC, PPC and TPC, have been registered participants of the WESM since 2011. On June 26, 2017, PEMC commenced trial operations of WESM in Mindanao and is targeted to be fully-operational by first semester of 2019.

Below are various circulars, issuances and proposed amendments affecting WESM members:
- To further enhance the design and operation of WESM, DOE Circular No. 2015-10-001 series of 2015 called for a number of changes which included a shorter trading and dispatch interval from one (1) hour to five (5) minutes.
- Substituting PEMC as Applicant, the Independent Electricity Market Operator of the Philippines, Inc. (IEMOP), also filed an Application on 16 May 2017 for the approval of the Price Determination Methodology for the WESM under ERC Case No. 2017-042 RC. Some enhancements in the proposed rule are the shortening of scheduling and pricing intervals from one hour to five minutes and ex ante only pricing, automatic pricing re-run, and preferential scheduling in the event that dispatch targets need to be restricted.
- On April 20, 2017, DOE issued DC 2017-04-006 amending the timeline for the filing of claim for additional compensation from within two weeks to one year from the time the affected Trading Participant complied with dispatch instructions as Must Run Unit.
- In July 2017, DOE issued Department Order No. 2017-07-2010 for the creation of a transition committee for the interim management of PEMC and WESM while the independent market operator (IMO) is being created. When PEMC was incorporated in 2003, under the Electric Power Industry Reform Act (EPIRA) of 2001, it was constituted as the autonomous group market operator (AGMO) to oversee market governance and perform the functions of market operator in the WESM. Among the EPIRA provisions is also the creation of an IMO no later than one year after WESM operations. Once the IMO is in place, PEMC will cease as the AGMO but will remain as the governing body of the WESM.

  On 18 January 2018, DOE issued Department Circular No. 2018-01-0002 entitled "Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market" which endorsed the transition from AGMO to an IMO.

  PEMC and IEMOP, a non- stock, non- profit private corporation have executed the Operating Agreement on 19 September 2018, to formalize the transfer of all functions, assets and liabilities associated with market operations from PEMC to the IEMOP to be effective on 26 September 2018. Prior the signing of the Operating Agreement, the market operations of the WESM is being performed by PEMC.

  Upon the effectivity of the Operating Agreement, IEMOP will run the electricity market and, among other things, manage the registration of market participants, receive generation offers, come out with market prices and dispatch schedules of the generation plants, and handle billing, settlement, and collections. Under the policy and regulatory oversight of the DOE and the ERC, PEMC will remain as governing body for WESM to monitor compliance by the market participants with the market rules.

- DOE has drafted a Policy for the Effective Utilization of Ancillary Services in the Grid through Causer Pays Mechanism which has yet to be formalized in a memorandum circular. The proposed policy seeks to recover equitably the cost from the WESM member that requires or caused to require the use of Ancillary Services. The NGCP, for its part, filed a Petition for the Approval of Amended Ancillary Services – Cost Recovery Mechanism (AS-CRM) on September 14, 2018. The amendment aims to reflect the new provision on Ancillary Services under the 2016 Philippine Grid Code and for AS-CRM to be consistent with the Open Access Transmission Service (OATS) Rules.
- Other notable DOE Circulars affecting WESM are DC 2018-04-007 and DC 2018-04-001 which adopt amendments to the WESM Rules and Market Manual on Dispatch Protocol for the Implementation of Enhancements to WESM Design and Operations and amendments to the WESM Market Manuals on Price Determination Methodology and Constraint Violation Coefficients and Pricing Re-Run for the Implementation of Enhancements to WESM Design and Operations, respectively.

Retail Competition and Open Access
The EPIRA likewise provides for a system of open access on transmission and distribution wires, under which the NGCP is the transmission operator, and the DUs may not refuse the use of their wires for the delivery of electricity by qualified persons, subject to the payment of transmission or distribution wheeling charges. Conditions for the commencement of the Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the Independent Power Producers administrators.

In a decision dated June 6, 2011, the ERC declared that all conditions to retail competition and open access had been complied with and stated that open access would start on December 26, 2011 in Luzon. However, certain issues still needed to be resolved, therefore, the Philippine Government postponed the implementation of open access and declared December 26, 2012 as the new open access date, with the first six months from the open access date as the transition period. Commercial operations of the retail competition and open access commenced on June 26, 2013.

Later on, the ERC saw it fit to revise the rules on contestability to be able to address implementation issues for the retail market and to adjust the threshold level for the Contestable Market. It thus issued ERC Resolution No. 10, series of 2016 on May 12, 2016 which contained the Revised Rules on Contestability. Under said rules, the Threshold Reduction Date was set to June 26, 2016, where end-users with demand of at least 750kW shall be allowed to contract with any RES. On the other hand, for end-users with demand of at least 1MW, mandatory contestability was set to December 26, 2016. Lastly, the lowering of the threshold to cover end-users with demand of at least 500kW was set to June 26, 2018. However, the date for mandatory contestability for end-users with demand of at least 1MW was later moved to February 26, 2017 through ERC Resolution No. 28, series of 2016, issued on November 15, 2016, due to various issues on implementation of mandatory contestability.

The implementation of mandatory contestability has further been suspended by the issuance of a Temporary Restraining Order (TRO) on February 21, 2017 by the Supreme Court (SC). Acting on a petition filed by the Philippine Chamber of Commerce and Industry (PCCI), San Beda College Alabang, Inc., Ateneo de Manila University, and the Riverbanks Development Corp., the SC ruled that there was no legal basis for the mandatory migration being ordered under RCOA, and that EPIRA only provides for voluntary migration of end-users to the contestable market.

In response, the ERC has filed a motion seeking to lift the TRO and clarify the scope of the SC's ruling. Particularly, the ERC asked if it can lower the threshold to 750 kW for contestable customers, and if it can still issue new RES licenses to qualified energy industry players. To date, no further resolutions have been issued by the SC.

Notwithstanding above pending case before the SC, the DOE issued Department Circular 2017-12-0013 on November 29, 2017 which provides policy on RCOA that allows voluntary participation of CCs with lower threshold.

CCs with monthly average peak demand of 750 kW and above allows participation in the retail market on a voluntary basis upon the effectivity of the circular, with 500 kW to 749 kW monthly average peak demand effective June 26, 2018 and with no less than 500 kW monthly average peak demand effective December 26, 2018 or an earlier date set by the ERC.

GBPC, through its wholly-owned subsidiary GESC, is able to participate in the retail competition open access initiative to directly supply electricity to end users, including major industrial customers.

Tax Reform for Acceleration and Inclusion Act (TRAIN)
The first package of the government's tax reform package, TRAIN, was signed into law by President Rodrigo R. Duterte last December 19, 2017.

The TRAIN Law, or Republic Act No. 10963, introduces sweeping tax reforms, including the restructuring of excise tax base on mineral products, particularly coal. The tax reform increased the excise tax of coal from ₱10 to ₱50 per metric ton effective January 1, 2018; ₱100 effective January 1, 2019; and ₱150 effective January 1, 2020. Likewise, 12-percent value added tax (VAT) will be added on the NGCP's wheeling charge.

The latest version of the second package of the administration's TRAIN program is House Bill (HB) No. 8083, otherwise known as "The Tax Reform for Attracting Better and High-Quality Opportunities" or "TRABAHO"

TRABAHO was approved and endorsed to the Senate on 10 September 2018. It proposes to cut corporate income and take away fiscal incentives, including tax exemption, from hundreds of businesses in export processing zones.

Renewable Energy Act of 2008 (RE Law)
The RE Law is a landmark legislation and is considered the most comprehensive renewable energy law in Southeast Asia. The RE Law was signed by then President Gloria M. Arroyo on December 16, 2008 and took effect on January 30, 2009.

One of the main objectives of the RE Law is to accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve synergy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy.

The RE Law also offers key fiscal and non-fiscal incentives to developers of renewable energy facilities, including hybrid systems, subject to certification from DOE and in consultation with the Board of Investments (BOI). All fiscal incentives apply to all RE capacities upon the RE Law becoming effective. Key incentives are as follows:

- income tax holiday for the first seven years of operation;
- duty-free importations of RE machinery, equipment and materials, effective within ten years upon issuance of certification, provided that the said machinery, equipment and materials are directly, exclusively and actually used in the RE facilities;
- special realty property tax rates on equipment and machinery not exceeding 1.5% of the net book value;
- net operating loss carry-over for a period of seven years;
- corporate income tax rates of 10% after the income tax holiday;
- accelerated depreciation for the purposes of computing taxable income;
- zero percent value-added tax on the sale of fuel or power generated from emerging energy sources and purchases of local supply of goods, properties and services of renewable energy facilities;
- cash incentives for renewable energy developers for missionary electrification;
- tax exemption, applicable to both value-added tax and corporate income tax, on carbon emission credits; and
- tax credits on domestic purchases of capital equipment and services.

The non-fiscal incentives or market mechanism include the Renewable Portfolio Standard (RPS), which sets a minimum percentage of generation from eligible renewable energy resources; the Feed-in Tariff System, which authorizes a fixed tariff for electricity produced from emerging renewable energy resources; the Renewable Energy Market (REM), which will operate in the WESM to facilitate compliance with the RPS; and the Green Energy Option, which allows end-users to contract their energy requirements directly from renewable energy facilities. On December 22, 2017, DOE issued Department Circular No. DC2017-12-0015 "Promulgating the Rules and Guidelines

Governing the Establishment of the RPS for On-Grid Areas" and on August 24, 2018, DOE issued Department Circular No. DC2018-08-0024 "Promulgating the Rules and Guidelines Governing the Establishment of the RPS for Off-Grid Areas." On July 18, 2018, DOE issued Department Circular No. DC2018-07-0019 "Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program." To date, DOE has not yet issued REM Rules but a draft was published on January 15, 2018 for all interested parties to submit their comments on the draft.

GBPC is reviewing opportunities in renewable energy facilities, such as hydro, biomass and solar facilities, to complement its existing portfolio and bring down its average cost of generation.

Licenses
Under the EPIRA, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a Certificate of Compliance (COC) from the ERC to operate facilities used in the generation of electricity.

The power generation companies of GBPC possess the required COCs.

Government Approval Process
As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.
In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

Upon the introduction of retail competition and open access, the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, permits, approvals and consents (including environmental licenses) must be obtained from relevant national, provincial and local government authorities relating to site acquisition, construction and operation.

Energy Investment Coordination Committee (EICC)
In June 2017, President Rodrigo R. Duterte signed Executive Order (EO) No. 30 creating the EICC which aims to streamline the regulatory procedures affecting energy projects of national significance. The EICC is an inter-agency group to be chaired by a representative from the DOE.

A salient provision of EO 30 is that it classifies energy projects with capital investment of at least ₱3.5 billion as Energy Projects of National Significance (EPNS), and government agencies are required to act upon such applications within a 30-day period. Other criteria for energy projects to be classified as EPNS include significant contribution to the country's developments, significant potential contribution to the country's balance of payments, significant impact on the environment, complex technical processes and engineering designs, and significant infrastructure requirements.

Costs and Effects of Compliance with Environmental Laws
The operations of GBPC's power generation facilities are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, the storage, handling, discharge and disposal of fuel, chemicals and wastes, the employee exposure to hazardous substances and other aspects of the operations. GBPC has incurred operating costs and capital expenditures and will continue to do so to comply with safety, health and environmental laws and regulations.

GBPC has undertaken carbon sink projects and has allocated funds for Energy Regulation No. 1-94 to finance reforestation, watershed management, as well as health and environment enhancement projects.

Environmental Laws
GBPC's power generation operations follow laws, regulations and policies that concern environmental protection and sustainability. Each plant consistently submits periodic Self-Monitoring Report (SMR), Compliance Monitoring Report (CMR) and Compliance Monitoring and Validation Reports (CMVR) to the Environmental Management Bureau Central and Regional Offices to ensure that its operations, which include but are not limited to water discharges and air emissions, comply with the requirements of R.A.9275 Clean Water Act and R.A. 8749 Clean Air Act. These monitoring reports are performed in the presence of Multi-Partite Monitoring Team (MMT). The MMT is composed of representatives from various government and non-government institutions who are tasked to conduct regular monitoring of potential sources of pollution and help recommend solutions.

On October 8, 2018, the DENR-EMB Office of the Regional Director of Region VI issued interim guidelines in handling, storage, transport, and offsite utilization of coal combustion residual. Currently, PEDC under the jurisdiction of DENR Region VI has faithfully complied with the requirements mentioned in the guidelines. It is expected that the same guidelines be adopted by all power plants outside Region VI.

(B.1c) Others – Energy-from-Waste

Dependence on Licenses and Government Approval
With no comparable proposals to challenge the Quezon City Solid Waste Management Facility Project, the MPIC-led consortium with Covanta Energy, LLC and Macquarie Group, Ltd. expects to receive the Notice of Award by 1st half of 2019. The waste treatment facility will convert up to 3,000 metric tons a day of municipal waste into 36 MW (net) of electricity.

Status of any publicly announced product or services
In November 2018, MPIC through its wholly owned subsidiary Metpower Venture Partners Holdings, Inc. signed agreements with Dole Philippines Inc. (Dole) to design, construct and operate integrated waste-to-energy (WTE) facilities specifically for Dole. This project uses the derived biogas from the anaerobic digestion of fruit waste to supply a portion of the diesel and power requirements of Dole's canneries located in South Cotabato. The biogas facilities, with construction completion expected by first quarter of 2020, will have a capacity of 5.7 MW of clean energy for Dole and reduce its CO2 emission by 100,000 tons per year.

(B.2) Toll Operations

Business Development
MPIC Group holds its toll road assets through MPTC.

As at December 31, 2018, MPTC's subsidiaries hold the following concession rights:

- Through its 75.1% effective interest in NLEX Corp:
    - Construction, operation and maintenance of the North Luzon Expressway (NLEX)
    - Management, operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEX).
    - Construction, operation and maintenance of the NLEX-SLEX Connector Road.
- Through CIC, which holds the concession rights for the operation and maintenance of the Manila-Cavite Toll Expressway (CAVITEX).
- Through its wholly owned subsidiary, MPCALA Holdings, Inc. (MPCALA), which was granted the concession to design, finance, construct, operate and maintain the 47-km Cavite Laguna Expressway (CALAEX).

- Through its wholly owned subsidiary, Cebu Cordova Link Expressway Corporation (CCLEC), which holds the concession rights for the construction, the operation and maintenance of the Cebu-Cordova Link Expressway (CCLEX).

MPTC also has the following foreign investments:

- *29.5% stake in DMT.* DMT is a major toll road operator in Bangkok, Thailand. The concession for DMT runs until 2034 for the operation of a 21.9-kilometer six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument, north of Bangkok, Thailand.
- *44.9% effective interest in CII B&R.* CII B&R has various road and bridge projects in and around Ho Chi Minh City and its current portfolio includes 106.7 kilometers of roads operating at approximately 49,000 vehicles per day and roads under pre-construction or on-going construction covering a total of 38.1 kilometers. MPTC acquired CII B&R in 2015 through an equity investment and financing transaction with Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII) of Vietnam that effectively provided MPTC a 44.9% minority equity interest in CII B&R.
- *75.9% effective interest in PT Nusantara.* PT Nusantara is a leading infrastructure company in Indonesia. Nusantara's areas of operations comprise of toll roads, ports, water and energy which serve over 103 million customers, 550,000 households, 266 factories and 210 vessels.

Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract

The toll segment's concession comprise of the rights, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income.

NLEX Corp holds the concession for the largest toll road in the Philippines, the NLEX Project. The NLEX currently spans approximately 89 kilometers and services an average of 250,000 vehicles per day. The NLEX is the main infrastructure backbone that connects Metro Manila to 15 million people in Central and Northern Luzon. NLEX Corp has been in commercial operations since February 2005 and has since established the NLEX brand as the standard for toll road operations and management excellence in the Philippines.

On February 9, 2015, NLEX Corp received the Notice of Award from the Bases Conversion and Development Authority (BCDA) for the management, operation and maintenance of the 94-kilometer SCTEX. On February 26, 2015, NLEX Corp and BCDA entered into a Business Agreement involving the assignment of BCDA's rights and obligations relating to the management, operation and maintenance of SCTEX as provided in the SCTEX concession (Toll Operation Agreement or "TOA"). The assignment includes the exclusive right to use the SCTEX toll road facilities and the right to collect toll until October 30, 2043. The management, operation and maintenance of the SCTEX was officially turned over to NLEX Corp on October 27, 2015.

NLEX Corp also holds the concession right for the Connector Project. The Connector Road is a four (4) lane toll expressway structure with a length of eight (8) kilometers all passing through and above the right of way of the Philippine National Railways (PNR) starting NLEX Segment 10 in C3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project. The concession period shall commence on the commencement date and shall end on its thirty-seventh (37^{th}) anniversary, unless otherwise extended or terminated in accordance with the Concession Agreement. The Connector Project is expected to be completed by 2021.

CIC holds the concession for the operation and maintenance of the CAVITEX. The first phase of the CAVITEX is a 14-km long toll road built in two segments running from Airport Road to Cavite. The concession period extends to 2033 for the originally built road and to 2046 for a subsequent extension. The second phase of the CAVITEX, which will connect the C5 road in Taguig to one of the segments in the CAVITEX, had commenced construction in June 2017 and is expected to be fully completed by 2021.

MPCALA was granted the concession to design, finance, construct, operate and maintain the CALAEX. On July 10, 2015, MPCALA signed the Concession Agreement for the CALAEX Project with the DPWH. Under the Concession Agreement, MPCALA is granted the concession to design, finance, construct, operate and maintain the CALAEX, including the right to collect toll fees, over a 35-year concession period. The CALAEX is a closed-system tolled expressway connecting the CAVITEX and the SLEX. The groundbreaking of the CALAEX was held on June 19, 2017. Construction is ongoing with expected full completion by 2022.

CCLEC is granted the concession to design, finance, construct, operate and maintain the CCLEX, including the right to collect toll fees over a 35-year concession period. CCLEX, consists of the main alignment starting from the Cebu South Coastal Road and ending at the Mactan Circumferential Road, inclusive of interchange ramps aligning the Guadalupe River, the main span bridge, approaches, viaducts, causeways, low-height bridges, at-grade road, toll plazas and toll operations center. CCLEC's groundbreaking ceremony for the CCLEX was held on March 2, 2017. Construction of the project is ongoing and is estimated to be completed by 2021.

PT Nusantara's concession assets comprise of toll roads and water concession rights. Toll road concession rights cover the following toll road sections: (a) Tallo-Hasanuddin Airport; (b) Soekarno Hatta Harbor – Pettarani; (c) Pondok Ranji and Pondok Aren. The water concession rights pertain to right to treat and distribute clean water in the Serang District, Banten in Indonesia.

Dependence on Licenses and Government Approval
Necessary government approvals in relation to the operation of the toll roads have been secured and documented in the related concession agreements. The concession agreements establish a toll rate formula and adjustment procedure for setting the appropriate toll rate.

Effect of Existing or Probable Governmental Regulations on the Business
There are no anticipated changes to government regulations that will significantly affect the toll business of the Group.

However, the main variable affecting the extent or likelihood of earnings growth at MPTC is the ability of the subsidiaries to secure the tariff adjustments they are owed under the regulatory frameworks that govern their concessions. NLEX Corp and CIC derive substantially all of their revenues from toll collections from the users of the toll roads.

On October 18, 2017, the Toll Regulatory Board (TRB) provisionally approved the ₱0.25/km Petition for Add-on Toll rate adjustment for the NLEX Closed System in relation with MPTC's investment on the NLEX Lane Widening Project. The company started collecting the add-on toll rate adjustment on November 6, 2017.

On March 5, 2019, NLEX Corp received the TRB order to publish the adjusted toll rates for the NLEX System (the Order). The Order contains the adjusted authorized toll prices for the entire NLEX system, incorporating the first tranche of the approved final periodic adjustments for the whole NLEX system due in 2013 and 2015 constituting 50% of the approved adjustment (with the remaining adjustments to be implemented in subsequent years), and the provisional add-on toll rate for the NLEX open system due to the opening of the NLEX Harbor Link Project (Segments 9 and 10).

Customers
The toll road business of MPIC enjoys sole concession as provided for in the concession agreements. Moreover, this segment is mass-based such that the loss of a few customers would not have a material adverse effect on MPIC and its subsidiaries taken as a whole. There is also no single customer that accounts for twenty percent (20%) or more of the segment's sales.

Sales contributed by foreign sales
Revenue contribution from the tollroads operated by PT Nusantara amounted to ₱1.1 billion from the date of business combination, July 2, 2018.

Foreign contribution from investments in CII B&R, DMT and PT Nusantara (prior to business combination) through share in equity in net earnings, contributed approximately 0.4% of MPIC's consolidated income before tax.

Distribution
Tollroads revenues are from manual toll fee payment, electronic toll collection and badges/cards for buses, trucks and jeepneys.

Competition
While NLEX Corp and CIC were granted sole right to operate and maintain toll roads under their respective concession agreements with the Philippine Government, alternative routes and roads are the toll roads' competitors:

- NLEX. A viable alternative road to North Luzon is the MacArthur Highway, a road extending from Manila to Pangasinan that passes through small towns. The NLEX has historically served as the main artery between Metro Manila and Central and Northern Luzon and as such, it has a long and stable track record of traffic volume. Further, the NLEX has a stable service area, which is characterized by the lack of comparable competing traffic routes and the resilience of the user profile.

- CAVITEX. The free alternative routes to the R1 Expressway and R1 Extension are Quirino Avenue, Aguinaldo Highway, Tirona Highway and Evangelista Road. While these roads are complementary to the R1 Expressway and R1 Extension, they do not offer the same direct and contiguous route from northern Cavite to Metro Manila and vice-versa. The alternative roads have limited capacity and narrow lanes and are controlled by traffic lights and stop signs which are heavily congested at peak times.

Traffic volumes on the tollroads are likewise affected by competition from alternative modes of transportation and there can be no assurance that existing modes of transport will not significantly improve their services.

MPTC continues to promote traffic growth on these tollroads by providing more entry and exit points along the expressway. Likewise, the Company continues to boost the value proposition of the NLEX and CAVITEX by implementing measures to enhance customer satisfaction, safety, and convenience. While there is insignificant threat posed by competing toll roads in the area covered by NLEX Corp and CIC's concessions, there is competition elsewhere from Ayala Corporation, which was awarded the contract to build the Daang Hari-SLEX Link, and San Miguel Corporation, which invested in the controlling shareholders of Metro Manila Skyway, South Luzon Expressway, Tarlac-Pangasinan-La Union Expressway and NAIA Expressway.

Source and availability of raw materials
NLEX Corp's main supply contract consists of the O&M Agreement with Tollways Management Corporation. The SEC approved the merger on November 29, 2018 with effectivity date of December 14, 2018. A similar agreement is in effect between CIC and PEA Tollway Corporation (PEATC) for the operations and maintenance of CAVITEX.

On October 1, 2016, CIC and Metro Pacific Tollways Management Services Inc. (MPTMSI, a wholly-owned subsidiary of MPTC) entered into a Toll Collection Services Agreement to facilitate the toll collection function of CIC. Tollways Management Corporation, PEATC and MPTMSI provide NLEX Corp and CIC, respectively, with the following operations and maintenance services:
- Collection of toll fees from motorists at toll plazas, both in cash and electronic form;
- Routine maintenance and repairs of the road and equipment; and
- Management of NLEX and CAVITEX in order to, among other things, improve traffic flows, maintain road safety, and enhance the facilities and services along NLEX and CAVITEX.

Costs and effects of compliance with environmental laws
Prior to the commencement of construction activities, the grantee must obtain an Environmental Compliance Certificate (ECC) from the DENR. An ECC typically requires the grantee to submit its proposed policies for, among others, (1) relocation and compensation of individuals and families who are affected by the toll road project, (2) mitigation of the effects of the toll road project on the natural environment, (3) environmental monitoring, and (4) public information and education regarding the toll road project. In addition, the ECC typically requires the grantee to submit a quarterly report of its environmental monitoring activities.

NLEX Corp and CIC have dedicated teams that regularly monitor compliance with its ECCs and ensure measurement of significant environmental metrics for purposes of compliance with the reporting requirements under its loan agreements. Quarterly air quality sampling is conducted to measure the level of pollutants and harmful particulates along the toll roads. A solid and hazardous waste management system is also in place to ensure proper waste disposal and compliance with the Ecological Solid Waste Management Act of 2001 and Toxic Substances and Hazardous Wastes Control Act of 1990. All required areas for reclamation and re-vegetation are regularly monitored and maintained to prevent soil erosion and scouring along river banks and slope areas.

Status of any publicly announced product or services
Certain toll projects are either under pre-construction or on-going construction. Status of the other projects as follows:

	Length *(In Km)*	Construction Cost *(In Billions)*	Target Completion	Right of Way Progress
Expansions to existing roads				
NLEX Harbour Link (Segment 10)	5.8	₱10.5	Opened (Feb 2019)	100%
NLEX Harbour Link (Radial Road 10)	2.6	6.7	2019	92%
NLEX Lane Widening Phase 2	N/A	2.1	2020	N/A
CAVITEX Segment 4 Extension	1.2	1.2	2021	85%
CAVITEX - C5 South Link	7.7	12.7	2021	97%
NLEX Citi Link	11.5	15.0	2024	0%
Stand-alone road projects				
NLEX-SLEX Connector Road	8.0	23.3	2021	63%
Cebu Cordova Link Expressway	8.5	26.6	2021	100%
Cavite Laguna Expressway	45.4	16.5	2022	40%
TOTAL	**90.7**	**₱114.6**		

(B.3a) Water - Maynilad

Business Development
MWHCI's main activity is the holding of controlling shares in Maynilad, which holds the exclusive concession granted by the Metropolitan Waterworks and Sewerage System (MWSS), on behalf of the Philippine Government, to provide water and sewerage services in the West Service Area of Metro Manila. MPIC's effective ownership in Maynilad was at 52.8% as at December 31, 2018, 2017 and 2016.

Maynilad's subsidiaries are PHI and Amayi Water Solutions, Inc. (Amayi). PHI, which was acquired by Maynilad on August 3, 2012 through a Share Purchase Agreement (SPA) with a third party, is engaged in waterworks construction, engineering and engineering consulting services. PHI has 25-year Bulk Water Supply Agreements with various provincial municipalities outside the West Service Area and a Memorandum of Agreement with certain provincial municipality for the construction and operation of water treatment facilities for water distribution services. Amayi, incorporated on July 18, 2012, was established for the purpose of operating, managing, maintaining and rehabilitating waterworks, sewerage and sanitation system and services outside Maynilad's concession area.

Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract
In February 1997, Maynilad entered into a concession agreement with MWSS, with respect to the MWSS West Service Area. Under the concession agreement, MWSS grants Maynilad, the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required to provide water and sewerage services in the West Service Area for 25 years ending in 2022. In September 2009, MWSS approved an extension of its concession agreement with Maynilad for another 15 years to 2037.

Maynilad's subsidiary, PHI, is granted the sole right to distribute water in a certain part of Bulacan under concession agreements granted by the Philippine government for 25 years to 2035.

On November 29, 2018, Maynilad received the Notice of Award for the financing, rehabilitation, development, expansion, improvement, operation and maintenance of the Boac's water supply system. Maynilad decided to assign the award to its subsidiary, Amayi Water Solutions, Inc. (Amayi). On February 19, 2019, Amayi entered into a concession agreement with the Municipality of Boac, Marinduque. The concession agreement shall be effective for a period of 25 years beginning on the commencement date.

Dependence on Licenses and Government Approval
Necessary government approvals in relation to the operation of the water business have been secured and documented in the related concession agreements.

Under Maynilad's concession agreement with the Philippine Government, Maynilad is entitled to tariff rate adjustments based on movements in the Philippine consumer price index, foreign exchange currency differentials, and following a rate rebasing process conducted every five years (Rate Rebasing) and certain extraordinary events. Any rate adjustment requires approval by MWSS and the Regulatory Office (RO). Any tariff adjustments that are not granted, in a timely manner, in full or at all, could have a material adverse effect on the Maynilad's results of operations and financial condition as well as MPIC. However, the Republic of the Philippines has provided Maynilad with a "make whole" guarantee in respect of any interference by any government agency in the setting of the tariff.

Effect of Existing or Probable Governmental Regulations on the Business
The matter of the Maynilad tariff implementation remains unresolved as does the related claim on the Republic of the Philippines.

On December 29, 2014, Maynilad's water tariff under the rate rebasing for the period from 2013 to 2017 (the Rebasing Period) received a favourable award in arbitration proceedings in the Philippines. However, the MWSS has not implemented the awarded tariff increase.

Maynilad subsequently proceeded to arbitration in Singapore and the final hearing was completed in December 2016. On July 24, 2017, the three-person Arbitral Tribunal (the Tribunal) unanimously upheld the validity of Maynilad's claim against the undertaking letter issued by the Republic, through the Department of Finance (DOF), to compensate Maynilad for the delayed implementation of its relevant tariffs for the Rebasing Period.

The Tribunal ordered the Republic to reimburse Maynilad ₱3.4 billion (subsequently adjusted to ₱3.2 billion) for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against the MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016. On February 9, 2018, the Republic filed an application with the High Court of Singapore to set aside the arbitration award issued on July 24, 2017 and seeks to have a sealed hearing rather than an open court process.

On September 4, 2018, the High Court of Singapore dismissed the Republic's application to set aside the Second Award, and awarded S$40,000.00 in favor of Maynilad by way of costs. The Republic did not appeal the decision to the Singapore Court of Appeal within the prescribed 30-day period, hence, the dismissal of the Republic's application became final on October 4, 2018.

As at December 31, 2018, Maynilad has an outstanding claim against the Republic of the Philippines (ROP), through the DOF, in relation to the decision of the Arbitral Tribunal to compensate Maynilad for the delayed implementation of its relevant tariffs for the rebasing period 2013 to 2017 in the amount of ₱3.18 billion and cost of litigation amounting to S$40,000.

On September 13, 2018, the MWSS issued Resolution No. 2018-136-RO adopting RO Resolution No. 2018-09-CA dated September 7, 2018 granting Maynilad a partial rate adjustment of ₱5.73/cu.m. for the Fifth Rate Rebasing Period (2018 to 2022), to be implemented on an uneven staggered basis of (i) ₱0.90/cu.m. effective October 1, 2018; (ii) ₱1.95/cu.m. effective January 1, 2020, (iii) ₱1.95/cu.m. effective January 1, 2021, and (iv) ₱0.93/cu.m. effective January 1, 2022. The approved rate adjustment still does not include the corporate income tax (CIT) component to which Maynilad is entitled by virtue of the First Award. In their Resolutions, the MWSS and RO stated that the inclusion of the CIT in Maynilad's tariff is subject to the SC's resolution of MWSS's Petition for Review.

To preserve its right to the CIT which has already been adjudged in its favor in the First Award, and pursuant to Article 12 of the Concession Agreement, Maynilad, on October 12, 2018, filed a Dispute Notice, signaling the start of another arbitration.

Customers
The water business of MPIC, through Maynilad enjoys a sole concession of Metro Manila's West Service Area. This segment is mass-based such that the loss of a few customers would not have a material adverse effect on MPIC and its subsidiaries taken as a whole. There is also no single customer that accounts for twenty percent (20%) or more of the segment's sales.

Distribution
Water is distributed through Maynilad's network of pipelines, pumping stations and mini-boosters. As at December 31, 2018, Maynilad's network consisted of around 7,691 kms of total pipeline.

Competition
Maynilad has no direct competition given that it has right to provide water and sewerage services to the West Service Area under its concession agreement with the Philippine Government.

Under Maynilad's Concession Agreement, MWSS grants Maynilad (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the Charter), the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required (except certain retained assets of MWSS) to provide water and sewerage services in the West Service Area up to 2037.

Source and availability of raw materials
Under Maynilad's Concession Agreement, MWSS supplies raw water to Maynilad's distribution system and is required to supply a minimum quantity of raw water. Maynilad currently receives substantially all of its water from MWSS.

Maynilad has some supply side risk in that: (i) it secures most of its supply from a single source – the Angat dam; and (ii) this water source is shared by another water concessionaire, a hydroelectric plant, and the needs of farmers for irrigation. A water usage protocol is in place to ensure all users receive water as expected within the constraints of available supply. Following significant water supply disruption in late 2009 arising indirectly from typhoons, the business entered 2010 with less water supply available than allowed for in its concession. Maynilad has worked to moderate its reliance on Angat by developing the Putatan Water Treatment Plant while continuing to reduce leakage and theft rates.

Transactions with related parties
Maynilad, entered into certain construction contracts with D.M. Consunji, Inc., a subsidiary company of DMCI Holdings, Inc. (DMCI, a non-controlling shareholder in MWHCI), in relation to the provision of engineering, procurement and construction services to Maynilad.

Costs and effects of compliance with environmental laws
Maynilad's wastewater facilities are required to be maintained in compliance with environmental standards set primarily by the Department of Environment and Natural Resources (DENR) regarding effluent quality. All projects are assessed for their environmental impacts, and, where applicable, must obtain an ECC from the DENR prior to construction or expansion. Subsequent to construction, effluents from facilities, such as sewage and septage treatment plants, are routinely sampled and tested against DENR standards using international quality sampling and testing procedures.

Maynilad has made efforts to meet and exceed all statutory and regulatory standards. Maynilad's regular maintenance procedures involve regular disinfection of service reservoirs and mains and replacement of corroded pipes. Maynilad believes all wastewater treatment processes and effluents meet the current standards of the DENR.

Maynilad's Dagat-Dagatan Sewage and Septage Treatment Plant in Caloocan is the first facility of its kind in the Asia-Pacific Region to attain triple international standard accreditations on Quality Management (ISO 9001:2008) and Environmental Management (ISO 14001:2004) in January 2007, and Occupational Safety and Health Management (OHSAS 18001:2007).

(B.3b) Water - MPW

Business Development
MPIC's wholly-owned subsidiary, MPW is pursuing water infrastructure projects and other water-related investments across the Philippines. As at December 31, 2018, MPW had interests in the following companies:

- *Effective interest of 95% in Cagayan De Oro Bulk Water Inc. (COBI) through its wholly-owned subsidiary, MetroPac Cagayan De Oro Holdings, Inc. (MCOH).* COBI holds a 30-year 100 million liters per day (MLD) Bulk Water Supply Project (CDO Project). The CDO Project involves (i) the delivery of at least 40 MLD of bulk treated water within the eastern sector of Cagayan De Oro, and (ii) the supply of at least 60 MLD of bulk treated water to service the requirements of the western sector. At COBI's option, the CDO Project may be implemented through (i) the design and construction of water production and transmission facilities with a capacity of approximately 100 MLD, (ii) the acquisition of ownership or leasehold rights to such production and transmission facilities and water rights, or (iii) the purchase of bulk treated water for supply to the western sector. Operations commenced effective December 31, 2017.

- *Effective interest of 80% in Metro Iloilo Bulk Water Supply Corporation (MIBWSC) through its wholly-owned subsidiary, MetroPac Iloilo Holdings Corp. (MILO).* MIBWSC holds a 25-year 170 MLD Bulk Water Supply Project (Metro Iloilo Project). The Metro Iloilo Project covers (i) the rehabilitation and upgrading of Metro Iloilo Water District's (MIWD) existing 46 MLD water production facilities to 55 MLD, (ii) the expansion and construction of new water production facilities to increase production to up to 115 MLD; and (iii) delivery of contracted water demand to MIWD in accordance with the bulk water supply agreement. On July 5, 2016, MIBWSC officially took over water production operations from the MIWD.

- *Effective interest of 27% in Laguna Water District Aquatech Resources Corp. (LARC) through its direct ownership of 30% in EquiPacific HoldCo Inc. (EquiPacific).* In September 2015, the Consortium of Equi-Parco Construction Co. (EPCC), TwinPeak Hydro Resources Corporation (THRC), and MPW was awarded the Joint Venture Project (JV Project) for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Water Supply System of the Joint Venture Area covering the municipalities of Los Banos, Bay, Calauan and Victoria of the Province of Laguna. The Consortium organized EquiPacific as a special purpose company to implement the JV Project. Laguna Water District Aquatech Resources Corporation (LARC) commenced the operation and management of the distribution network of the Laguna Water District (LWD) on January 1, 2016.

- *Effective economic interest of 27% in Cebu Manila Water Development, Inc. (CMWD) through its direct ownership of 39% in Manila Water Consortium Inc. (MWCI).* CMWD holds a 20-year Water Purchase Agreement (WPA) for the supply of 18 MLD =3or the first year and 35 MLD of water for the 2nd to 20th year to Metropolitan Cebu Water District (MCWD).

- *Effective interest of 49% in Cavite Business Resources Inc. (CBRI) through its direct ownership of 49% in Watergy Business Solutions, Inc. (WBSI).* On December 16, 2015, MPW completed the acquisition of 49% of the capital stock of WBSI. WBSI is a party to the Contractual Joint Venture Agreement which purpose was to develop a bulk water supply project to be sourced from the Maragondon River. The agreement shall be for a period of 25 years from the commencement date. Commencement date has not taken place as at December 31, 2018.

- *Direct ownership stake of 65% Eco-System Technologies International, Inc. (ESTII).* On June 16, 2016, MPW completed the acquisition of 65% of the outstanding capital stock of ESTII. ESTII is engaged in the business of designing, supplying, constructing, installing, and operating and maintaining wastewater and sewage treatment plant facilities. The transaction allows MPIC, through MPW, to diversify its water sector investment holdings and invest in the high growth wastewater Engineering, Procurement and Construction (EPC) and Operation & Maintenance (O&M) markets.

- *Effective interest of 49% in Tuan Loc Water Resources Investment Joint Stock Company (TLW) through its wholly-owned subsidiary, Metro Pacific TL Water International Limited.* TLW is one of the largest water companies in Vietnam, with 310 MLD of installed capacity. TLW's main project assets are the: (1) Song Lam Raw Water Plant, a 50-year Build-Own-Operate (BOO) with an installed capacity of 200 MLD expandable to 300 MLD. It supplies raw water to the Nghe An Water Supply JSC and surrounding industrial parks. Nghe An Province is the largest province in Vietnam by area and has a population of about 3.1 million people; (2) Ho Cau Moi Water Treatment Plant, a 50-year BOO with an installed capacity of 90 MLD expandable to 120 MLD. It supplies treated water to Dong Nai Water Company and surrounding industrial parks. Dong Nai Province is the manufacturing satellite of Ho Chi Minh City and will be the location of the Long Thanh International Airport – the new 100 million passenger airport of HCMC. Dong Nai Province has a population of about 2.9 million; and (3) Nhon Trach 6A Sewage Treatment Plant, a 50-year BOO with an installed capacity of 20 MLD expandable to 40 MLD. It is the wastewater treatment facility for the 400-hectare Nhon Trach 6 Industrial Park in Dong Nai Province.

- *Effective interest of 45% in B.O.O Phu Ninh Water Treatment Plant Joint Stock Company (PNW) through its wholly-owned subsidiary, Metro Pacific Water International Limited.* Pursuant to a 50-year BOO contract with the Chu Lai Open Economic Zone Authority, PNW is licensed to develop a water supply system that will meet clean water demand in the Chu Lai Open Economic Zone, and urban areas, industrial zones and adjacent rural areas in Quang Nam province. PNW has substantially completed the construction and commissioning of a water treatment plant with capacity of 25 MLD and has potential to increase its capacity to 300 MLD.

Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract
COBI is the holder of the 100 MLD Cagayan De Oro Bulk Water Supply Project. The CDO Project has an initial term of 30 years commencing on December 31, 2017, the Initial Delivery Date, and renewable for another 20 years.

MIBWSC holds the 170 MLD Metro Iloilo Bulk Water Supply Project, which has a term of 25 years from the latter of the Target Initial Delivery Date and the Initial Delivery Date and shall be extended for another 25 years from the completion of the agreed upon expansion obligation, but in no event have an aggregate term of more than 50 years.

LWD granted LARC the sole and exclusive right to rehabilitate, improve, expand, operate and maintain the water supply system and provide water supply services in the Joint Venture Area within Laguna.

MPW's subsidiary, ESTII owns certain patents and utility models relating to water/wastewater treatment, the use of which are governed by an exclusive and perpetual license.

Dependence on Licenses and Government Approval
Various government agencies and regulatory bodies require the possession of certain licenses and permits with respect to water extraction, treatment and distribution. Maynilad maintains compliance with the requirements and conditions for obtaining and maintaining such licenses and permits.

The guidelines implemented by the National Water Resources Board (NWRB) and/or the Local Water Utilities Administration (LWUA) regulate the water tariffs that may be charged by water distribution companies to customers. Maynilad maintains adequate operational and financial documentations, conducts robust studies and implementation plans, and maintains regular dialogue with local government and regulatory authorities to ensure compliance with the requirements and conditions needed for the approval of proposed water tariff adjustments.

Customers
MPW's investees were granted sole right to supply and/or distribute water to districts/areas as per their respective joint venture agreements with the local water districts (see "Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract").

For the year ended December 31, 2018, revenues from these customers do not represent a significant percentage of MPIC's consolidated water revenues.

Foreign contribution from investments in PNW and TLW is under share in equity in net earnings.

Distribution
MPW, through its subsidiaries and associates, delivers treated water to customers through a system of transmission and distribution pipelines, reservoirs and pumping stations

Competition
The water supply agreements that are in place, and the significant cost of putting up competing water production and distribution facilities in the same service area generally restrict other private water operators' from supplying to customers currently being served by MPW through its subsidiaries and associates.

Source and availability of raw materials
MIBWSC currently sources a significant portion of its raw water requirement from the Maasin Dam and treats close to around eighty percent (80%) of its water requirement through the Sta. Barbara water treatment plant. MIBWSC is undertaking preparatory activities for the development of additional water sources and the construction of new water treatment facilities for the expansion phases.

LARC sources around ninety percent (90%) of its water requirement from groundwater, and the balance from a bulk water supplier.

The Song Lam Raw Water Plant, Ho Cau Moi Water Treatment Plant and PNW Water Treatment Plant source their raw water requirements from single sources, namely the Lam River, Cau Moi Lake, and Phu Ninh Lake, respectively.

Transactions with related parties
ESTII, a subsidiary of MPW, entered into contracts with Maynilad for the construction of wastewater treatment plants. MIBWSC also has a technical services agreement with Maynilad for the provision of technical and specialized services relating to maintenance, operation, expansion, rehabilitation of facilities, and other related works and also entered into a management services agreement with MPW for the provision of accounting, treasury, branding, corporate governance, information technology and other management services. Transaction with Maynilad are eliminated in the process of consolidation.

Costs and effects of compliance with environmental laws
All projects are assessed for their environmental impacts, and, where applicable, must obtain an ECC from the DENR prior to construction or expansion.

Status of any publicly announced products and services
Metro Iloilo Water District Water (MIWD) Concession Joint Venture Project. On December 20, 2017, MPW officially received from Metro Iloilo Water District the Notice of Award for the rehabilitation, operation, maintenance, and expansion of MIWD's existing water distribution system and the construction of wastewater facilities. MPW and MIWD entered into a joint venture agreement (JVA) on November 13, 2018. A joint venture corporation shall be organized pursuant to the provisions set in the JVA. The joint venture corporation shall implement this project including the right to bill and collect tariff for the water supply and wastewater services provided to the customers in the service area of MIWD. Commencement has not taken place as at December 31, 2018.

MIWD's service area includes Iloilo City and seven municipalities specifically Pavia, Oton, Maasin, Cabatuan, Sta. Barbara, Leganes, and San Miguel.

Dumaguete City Water District (DCWD) Water Concession Joint Venture Project. On May 16, 2018, MPW officially received from DCWD the Notice of Award for the rehabilitation, operation, maintenance, and expansion of DCWD's existing water distribution system and development of wastewater facilities.

MPW and DCWD shall enter into a joint venture agreement upon completion of the post award activities. A joint venture corporation shall be organized pursuant to the provisions set in the JVA. The joint venture corporation shall implement the project and will have the right to bill and collect tariff for water supply and wastewater services provided to the customers in the service area of DCWD.

DCWD serves Dumaguete City and portion of the Municipalities of Valencia, Sibulan, and Bacong. As at December 31, 2018, the completion of conditions for the execution of Project Agreements are ongoing.

(B.4) Healthcare

Business Development
MPIC's Hospital group comprises of full-service hospitals and a mall-based diagnostic and surgical center and is the largest private provider of premier hospital services in the Philippines. It delivers medical services including diagnostic, therapeutic and preventive medicine services in all three major island groupings in the country.

MPHHI completed the following acquisitions in 2018, 2017 and 2016:

- From August to October 2018, MPHHI purchased 132,975 shares of DDH for aggregate consideration of Php669 million which increased its ownership from 35.16% to 49.91%.

- On October 5, 2017, MPHHI completed the acquisition of a 54% stake in St. Elizabeth Hospital, Inc. (SEHI), a 248-bed tertiary level hospital located in General Santos City on December 8, 2017, MPHHI made an additional cash infusion in SEHI through subscription of primary shares that increased its interest in SEHI to

80%. The cash infusion from MPHHI will allow SEHI to expand and improve its facilities and purchase additional medical equipment.

- On January 31, 2017, MPHHI infused approximately ₱133.5 million of cash into Delgado Clinic Inc. (DCI), owner and operator of the Dr. Jesus C. Delgado Memorial Hospital (JDMH) via a subscription to preferred shares representing approximately 65% of the total expanded capital stock of DCI. The cash infusion from MPHHI will enable the 68-year-old JDMH to upgrade its equipment and facilities to improve its ability to serve its community.

- On July 29, 2016, MPHHI completed its acquisition of 469,077 shares, representing approximately a 93% stake in Marikina Valley Medical Center Inc. (MVMC) for ₱2,117.8 per share. MVMC is a prominent tertiary hospital along Sumulong Highway in Marikina. With the completion of the new 7-storey Medical Arts Building, MVMC increased its bed capacity to 140 beds.

- On March 7, 2016, MPHHI completed its acquisition of a 51% stake in Sacred Heart Hospital of Malolos Inc. (SHHM), a 47-year-old Level Two hospital in the capital city of Bulacan for ₱150 million. The proceeds funded the increase in patient beds and acquisition of new medical equipment.

Customers
As at December 31, 2018, MPHHI had interest in fourteen (14) hospitals with approximately 3,000 beds throughout the country:

- Eight (8) in Metro Manila: Makati Medical Center (MMC), Cardinal Santos Medical Center (CSMC), Our Lady of Lourdes Hospital (OLLH), Asian Hospital (AHI), De Los Santos Medical Center (DLSMC), Manila Doctors Hospital (MDH), MVMC and JDMH; and
- Six (6) in other parts of the country: Davao Doctors Hospital (DDH), Riverside Medical Center (RMCI) in Bacolod, Central Luzon Doctors Hospital (CLDH) in Tarlac, West Metro Medical Center (WMMC) in Zamboanga, Sacred Heart Hospital of Malolos Inc. (SHHM) in Bulacan and SEHI in General Santos City.

In addition, MPHHI has also invested in mall-based primary care clinics in MegaClinic in SM Megamall and TopHealth in SM San Lazaro, and opened Metro Sanitas in Met Live Pasay; newly-built cancer centers in joint venture with Lipa Medix in Batangas and with our own hospitals, CLDH in Tarlac and RMCI in Bacolod; and has indirect ownership in two healthcare colleges, Davao Doctors College in Davao and Riverside College Inc. in Bacolod.

This segment is mass-based such that the loss of a few customers would not have a material adverse effect on MPIC and its subsidiaries taken as a whole. There is also no single customer that accounts for twenty percent (20%) or more of the segment's sales.

Dependence on Licenses and Government Approval
The Department of Health (DOH) through the Health Facilities and Services Regulatory Bureau (HFSRB) exercises the regulatory functions over hospitals. The HFRSB's functions included standards setting for regulation of health facilities and services; and issuances of (i) permit to construct (PTC), (ii) license to operate (LTO), (iii) clearance to operate (CTO), (iv) Health Maintenance Organizations (HMOs), and (v) certificate of accreditation (COA).

Hospitals are required to obtain the following permits or licenses from the HFSRB: (1) prior to the construction of the hospital, the operators must have its plans approved and acquire a Permit to Construct; and (2) prior to its operation, it must be registered and the operators must obtain a License to Operate. The Permit to Construct is required for the construction of a new hospital, substantial alteration, expansion or renovation of an existing hospital, a change in its classification, or an increase in bed capacity. It is a prerequisite for a license to operate. The license to operate is required for the operation of a hospital. It is secured after the construction and completion of the hospital. In order for a hospital to be registered and issued a license, it must comply with the minimum standards as well as other rules and regulations prescribed by the HFSRB. The license to operate a hospital shall be automatically renewed every year upon the submission of certain requirements.

Under Presidential Decree No. 1586, ''Environmental Impact Statement (EIS) System'' (PD 1586), hospitals are required to secure an Environmental Compliance Certificate (ECC) prior to the construction and operation of new hospital buildings or expansion of existing hospitals as well as or the installation and operation of health care waste treatment systems like pyrolosis, autoclave, microwave, landfills, and other similar treatment technology.

The Company's hospitals are fully compliant with these regulations and have secured necessary ECCs and licenses to operate.

Competition
Major competitors in the healthcare business include other tertiary hospitals. However, increasing health awareness creates unsatisfied demand in the industry.

MPHHI uses its skill as a corporate manager to enhance operating efficiency and streamline the business models of its hospitals. Additionally, MPHHI continues to realize economies of scale through group purchasing and the sharing of technical and human resources.

Transactions with related parties
Colinas Healthcare, Inc. (CHI) (a wholly-owned subsidiary of Colinas Verdes Hospital Managers Corporation) operates and manages the MERALCO Corporate Wellness Center (Wellness Center), an outpatient diagnostic and consultation center for its employees and their dependents.

Effect of Existing or Probable Government Regulations on the Business
The Universal Healthcare Act was enacted into law on February 21, 2019 as Republic Act 11223. The law seeks to ensure that every Filipino citizen is entitled to healthy living, working and schooling conditions and access to a comprehensive set of health services without financial hardship.

The salient features of the RA 11223 include: (i) automatic coverage of every Filipino to the National Health System Program; (ii) immediate eligibility and access to health services (population-based health services; (iii) licensing of Primary Care Providers (PCP); and (iv) mandatory registration by every Filipino with a PCP of choice. Under the law, IRR must be crafted by the Department of Health (DOH) and Philhealth in coordination with the national government agencies and civil society organizations not later than 180 days upon effectivity of the law.

The Hospital Group is currently evaluating the impact and shall enforce the implementation and compliance of entities covered by RA 11223.

(B.5) Rail

Business Development
MPIC operates its rail business through its wholly-owned subsidiary, MPLRC. MPLRC's main activity is the holding of shares both at Light Rail Manila Holdings Inc. (LRMH) as well as LRMC. LRMC holds the exclusive concession granted by the Department of Transportation (DOTr) and Light Rail Transit Authority (LRTA), on behalf of the Philippine Government to operate and maintain the existing LRT Line 1, as well as to extend the south line from Baclaran to Niog, Cavite. LRMH holds shares in LRMC. MPLRC's effective stake at LRMC (directly and through LRMH) as at December 31, 2018 and 2017 was 55%.

Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract
On October 2, 2014, LRMC entered into a concession agreement with DOTr and LRTA. Under the concession agreement, DOTr and LRTA granted LRMC the exclusive right to operate and maintain the existing LRT-1 and construct an 11.7-kilometer extension from the present end-point at Baclaran to the Niog area in Bacoor, Cavite. LRMC was formally awarded the project by the DOTr and LRTA following the submission of a lone bid with a premium of ₱9.35 billion. The concession period is for 32 years from takeover date and ends in 2047.

DOTr granted an Operating Franchise to LRMC on September 11, 2015. LRMC took over the operations and maintenance of LRT-1 the next day, September 12, 2015.

Dependence on Licenses and Government Approval
Necessary government approvals in relation to the operation of the rail business and the related non-rail revenues have been secured and documented in the related concession agreement.

In July 30, 2014, the Supreme Court issued a temporary restraining order on the commencement of the construction of common station at the vicinity of the existing MRT-3 North Avenue Station along EDSA. Although the common station is a deliverable of the Philippine Government, LRMC's business is materially impacted by any potential delays because ridership is expected to increase materially with the completion of common station. Under the concession agreement, the Philippine Government is obligated to hand over the common station to LRMC by October 1, 2018. The memorandum of agreement for the Common Station Project was signed on January 18, 2017 by the DOTr, the DPWH and relevant rail and mall operators. The completion of the common station is now expected to be in 2020.

LRMC is entitled to be compensated by the Grantors for the failure of meeting certain conditions and mechanisms set in the concession agreement, including existing system requirement (ESR) costs, structural defect restoration (SDR) costs, LRV shortfall, and Grantor's compensation payment. All these claims to be recovered through the "Balancing Payments" mechanism. These claims are still undergoing discussion as at December 31, 2018.

LRMC also depends on the Philippine Government approvals for the acceptance and the funding of any potential liquidated damages resulting from unfulfilled obligations.

Effect of Existing or Probable Governmental Regulations on the Business
The main variable affecting the extent or likelihood of earnings growth at MPIC is the ability of LRMC to secure the fare adjustments and ability to collect the liquidated damages under the concession agreement that governs LRMC's concession.

The concession agreement establishes an initial fare rate and an adjustment formula for setting the appropriate fares. The fare adjustment is scheduled every two calendar years beginning in August 1, 2016 with a starting initial fare supposedly implemented on August 1, 2014. If the fares approved by the government is lower than the fares stipulated in the concession agreement, the Philippine Government is obligated to pay the difference and keep LRMC whole.

As at December 31, 2018, LRMC continues to await approval by the Philippine Government of the full initial fares as stipulated in the concession agreement.

Congress has passed a Student Fare Discount Act. It is currently awaiting the signature of the President. If enacted into law, students who ride LRT-1 will be entitled to a 20% discount on their fare. As a noticeable percentage of LRT-1 riders are students, the law would have some negative effect on revenues. This would be slightly offset by tax benefits under the law. Moreover, the LRT-1 concession agreement would characterize the law as a "Material Adverse Government Action (Change in Law)" for which LRMC would be entitled to compensation.

Customers
The rail business of LRMC enjoys a sole concession of the LRT-1. This segment is mass-based such that the loss of a few customers would not have a material adverse effect on MPIC. There is also no single customer that accounts for twenty percent (20%) or more of the segment's sales.

Distribution
Rail farebox revenues are from manual fare payment through single journey tickets and usage of pre-paid credits on stored value cards. Non-farebox revenues are primarily from direct payments by tenants and advertising partner.

Competition
While LRMC was granted the sole right to operate and maintain LRT-1, customers have non-rail alternatives such as buses and jeepneys.

Source and availability of raw materials
LRMC purchases spare parts from various suppliers, including foreign suppliers from Germany and Japan, for the rehabilitation of the existing LRVs.

Transactions with related parties
In 2014, AF Payments Inc. (AFPI), in which MPIC has a stake of 20%, was granted the rights and obligations to design, finance, construct, operate, and maintain the Automated Fare Collection System Project (AFCS Project) for LRT-1, LRT-2, and Metro Railway Transport 3 (MRT-3). The AFCS Project, which was founded under the Build-Operate-Transfer Law, accommodates a contactless smartcard technology for stored value and single journey ridership. When AFPI bid for the AFCS Project, AFPI won the bid because it will not be charging public transport offices fees for the use of its system. As such, LRMC is not paying AFPI for the use of its system.

In 2017, LRTA and MERALCO entered into a memorandum of agreement for the relocation of electrical sub-transmission and distribution facilities which will be affected by the construction works of the Cavite Extension. LRTA shall pay MERALCO all costs and expenses to be incurred for the relocation of its facilities (relocation charge). The agreement requires LRTA to enter into an Escrow Agreement to facilitate its payment of relocation charges. MERALCO may suspend the implementation of the relocation activities should LRTA fail to settle such charges. Since LRTA will only pay upon completion of the activities and MERALCO wants to receive advance payment for the costs to be incurred, LRMC has entered into a memorandum of agreement with MERALCO to pay in advance such charges to enable execution of the relocation activities. MERALCO shall reimburse LRMC of the relocation charges upon receipt from the Escrow Agent of LRTA.

Other transactions with related parties (Meralco, Maynilad, PLDT, Smart and others) were made in the ordinary course of business and are for daily operation and general administration.

Costs and effects of compliance with environmental laws
LRMC's facilities are required to be maintained in compliance with the environmental standards set primarily by the DENR. ECC have been issued previously to LRTA, namely ECC 0801004-7110 issued 2008, and ECC-O-8507-078-208 issued 1987 for the existing LRT-1 rail system.

For the commencement of the construction of the Cavite extension, LRTA has already obtained an ECC from the DENR under reference no. ECC-CO-1305-0018 issued in 2013. The ECC requires the proponent to abide by the following conditions: (1) Implementation of a Solid Waste Management Program, (2) Implementation of a dust control system at the construction site, (3) Construction and Installation of drainage structures, (4) Implementation of a social development program including priority employment for local residents within the direct impact areas, (5) Conduct and submit a Traffic Impact Assessment and a Traffic Management Program, (6) Submit evidence of compliance to all pertinent environmental regulations, (7) Set up an Environmental Guarantee Fund (EGF), a Multipartite Monitoring Team (MMT) and an Environmental Monitoring Fund (EMF), (8) Establish an Environmental unit, and (9) Submit a joint undertaking between Grantor and Concessionaire. Regulations require the grantee to submit a quarterly report of its environmental monitoring activities and a semi-annual report of its compliance to the above stated ECC.

LRMC has a dedicated environmental team that regularly monitors compliance with its ECCs and ensures measurement of significant environmental metrics for purposes of compliance with the reporting requirements. In addition, the presence of the MMT, established in January 2016, validates all the environmental activities and measurements of LRMC.

(B.6) Logistics

Business Development
MPIC through MMI provides services in warehousing, trucking, freight forwarding and e-commerce fulfillment. MMI completed the following acquisitions in 2018, 2017 and 2016:

- On December 19, 2018, MMI signed an agreement with Rolando Valmeo, Rosalina Vasallo, and Others (Sellers) for the acquisition of parcels of land with an aggregate size of 219,000 square meters. The property, with a total cost of ₱204 million (exclusive of applicable input and withholding taxes), shall be used by MMI to develop and manage distribution centers for its existing and potential clients in the fast moving consumer goods, consumer durables, automotive and e-commerce spaces. The parties also entered into a deed of absolute sale with MMI paying ₱206 million (inclusive of VAT net of EWT) of the acquisition cost. The remaining outstanding portion shall be settled upon completion of the transfer documents.

- On June 14, 2018, MMI signed an agreement with The Property Company of Friends, Inc. (Seller) for the acquisition of parcels of land with an aggregate size of 202,000 square meters. The property, with a total cost of ₱1.015 billion (exclusive of applicable input and withholding taxes), shall be used by MMI to develop and manage distribution centers for its existing and potential clients in the fast moving consumer goods, consumer durables, automotive and e-commerce spaces. On July 13, 2018, the parties entered into a deed of absolute sale with MMI paying ₱556 million (inclusive of VAT net of EWT) of the acquisition cost. The remaining outstanding portion shall be settled upon completion of the transfer documents.

- On April 4, 2017, Premier, a subsidiary of MMI, completed the purchase of the businesses and assets, including key customer contracts of Ace Logistics Inc. (Ace) for an aggregate purchase price of ₱280 million. Ace is engaged in the business of logistics, including warehousing, courier express and parcel delivery, e-commerce delivery, trucking, freight forwarding, customs brokerage and domestic shipping. Ace also has a strong presence in pre-delivery inspection in the automotive industry, which Premier intends to expand. The assets and business that was acquired in the transaction will be utilized to further expand MPIC's logistics business.

- On May 19, 2016, MMI completed the purchase of the businesses and assets (including certain contracts) of Basic Logistics Inc., A1Move Logistics, Inc., Philflash Logistics, Inc. and BasicLog Trade and Marketing Enterprises (Basic Group), all of which are involved in the logistics business. The transaction involves the acquisition by MMI of the logistics businesses and assets (including certain contracts) of Basic Group for a total purchase price consideration of ₱2.2 billion, inclusive of applicable value-added taxes. The transaction was carried out through an asset purchase agreement involving, among others: (a) the sale by Basic Group of identified logistics assets, (b) the novation of certain key contracts of the Basic Group with their respective clients, (c) the execution of new contracts required to ensure continued operations of the business under MMI, and (d) the transfer of certain key officers and employees of Basic Group to MMI.

Dependence on Licenses and Government Approval
The MMI Group relies on government permits to be able to operate its warehouses, trucks and freight forwarding services.

Civil Aeronautics Board
MMI and PLI have obtained a Civil Aeronautics Board certification to engage in business of International and Domestic Freight Forwarding.

Domestic Freight Forward License (Department of Trade and Industries)
The MMI Group is currently obtaining its domestic freight forward license to operate pick-up and delivery transactions in the Philippines. The group expects that issuance within first quarter of 2019.

Courier License (General Authority – Department of Information and Communications Technology)
The MMI Group is currently obtaining its license to operate private express and/or messenger delivery services. The group expects that issuance within first quarter of 2019.

Land Transportation Franchising Regulatory Board (LTFRB)
The Group utilizes trucks to deliver customer's products from MMI's warehouses to agreed delivery locations. These delivery trucks are required to be registered with the Land Transportation Franchising and Regulatory Board (LTFRB). MMI has obtained provisional approval from LTFRB to operate its trucks. MMI expects to receive all the relevant franchises from LTFRB within first quarter of 2019.

Dependence on a Single Customer
The logistics business' primary customers are top local manufacturers of fast-moving consumer goods. No single customer accounts for 20% or more of the Company's revenues.

Source of Raw Materials
Sources of its cost of services are from realtors for leasing of warehouses and purchase of land for Mega DC Projects; manpower, warehouse and trucking service providers; transportation equipment vendors for trucks to complement temporary lacking manpower, warehouse and trucking services; material handling vendors such as forklifts and racks.

Competition
The logistics business competes against multiple service providers, mostly global companies and locally established logistics companies varying in sizes. These companies include Fast Logistics, DHL, DB Schenker, Royal Cargo and Li & Fung and 2GO Supply Chain and Freight Forwarding.

The MMI Group has already exceeded those companies on the total capital expenditures in 2018 and potentially in 2019 and 2020 with the Mega DC Project (North and South).

Transactions with related parties
The MMI Group acts together when servicing a client, such as the Trucking group is serving the clients of PLI and MMI and MLCI is servicing MMI and PLI. MMI treats the transactions as normal operating transactions.

MMI also had transactions with other related companies such as Philex Mining for its Brokerage, and Cignal for its brokerage and distribution.

(B.7) Others

On July 18, 2012, the stockholders and BOD of Neo Oracle Holdings Inc. (NOHI) resolved to amend its Articles of Incorporation to reflect (1) the change in name from Metro Pacific Corporation to Neo Oracle Holdings, Inc.; (2) shortened corporate life until December 31, 2013; and (3) reduce its BOD members from 11 to 5. Hence, NOHI is deemed dissolved as at December 31, 2013 and can no longer conduct business except with respect to transactions in furtherance of its liquidation. With the shortening of the corporate life, NOHI is not currently active but holds investments in lands and properties. NOHI continues to implement measures geared towards generating liquidity to meet maturing obligations which include settlement of the remaining third party debts via debt-for-asset swap arrangements, negotiation for discounts on principal and waiver of interests and penalties.

(C) MPIC Parent Company's present employees

As at December 31, 2018, the MPIC Parent Company has a total headcount of 52 employees (Administrative: 40, Rank and File: 12), who are neither unionized nor covered by special incentive arrangements. It expects to increase its headcount in the next twelve months to 59.

(D) MPIC Parent Company's Major risks

As an investment and management company, MPIC undertakes risk management both within the holding company and within the operating companies:

(D.1) On entering new investments
Prior to making a new investment, any business to be acquired is subject to an extensive due diligence including financial, operational, regulatory, environmental and risk assessment as well as dispute resolution mechanisms. Risks to investment returns are then calibrated and specific measures to manage these risks are determined. MPIC is highly selective in the investment opportunities it examines. Due diligence is conducted on a phased basis to minimize costs of evaluating opportunities that may ultimately not be pursued.

MPIC's investments involve to varying degrees, a partnership approach with MPIC co-investing with partners that provide operational and technological input, thereby mitigating risks associated with new business areas.

Financing for new investments is through a combination of debt and/or equity by reference to the underlying strength of the cash flow of the target business and the overall financing position of MPIC itself.

MPIC's geographic focus is predominantly the Philippines but with some additional assets in Indonesia, Thailand, and Vietnam. MPIC is mitigating its foreign investment risk through partnerships with reputable and influential local firms in these countries and engaging strong and reputable advisers.

(D.2) On ongoing Management of the Financial Stability of the Holding Company
MPIC does not guarantee the borrowings of its investee companies and there are no cross-default provisions from one investee operating company to another. Financial stability of the holding company, including its dividend commitment to shareholders, is managed by reference to the ability of the investee companies to remit dividends to MPIC to cover operating costs and service borrowings. MPIC avoids currency and investment cycle mismatches by borrowing mostly in Pesos using primarily long-term instruments with fixed rates.

MPIC sets the level of debt on its Parent Company's balance sheet so as to withstand variability of dividend receipts from its operating companies associated with regulatory and other risks.

Item 2. **Properties**

As of December 31, 2018, GT Capital leases its office space at GT Tower International located at 43/F GT Tower International, 6813 Ayala Avenue corner H. V. Dela Costa St., Makati City, Metro Manila, Philippines. Any possible future acquisitions of real property within the next twelve (12) months are still under review, depending on the finalization of various factors.

Descriptions of the properties of each of the GT Capital companies are listed below:

Metrobank

MBT's head office is located at Metrobank Plaza, Sen. Gil J. Puyat Avenue, 1200 Makati City. MBT owns the premises occupied by its head office, including most of its branches. The following table provides a geographic breakdown of MBT's Philippine branch network as of December 31, 2018:

Location	**No. of Branches**
Metro Manila	440
Luzon (excluding Metro Manila)	284
Visayas	135
Mindanao	98
Total	**957**

Federal Land

Land Bank
As of December 31, 2018, Federal Land owned a total land bank with an area of 110.40 hectares. The table below provides a breakdown of Federal Land's land bank.

Location	**Area (in hectares)**
Macapagal, Pasay City	9.64
Fort Bonifacio, Taguig	1.62
Marikina	15.91
Mandaluyong	3.42
Iloilo	0.29
Kalaw, Manila	0.56
San Juan City	0.11
Parañaque	0.28
Binan, Laguna	50.94
Gen. Trias, Cavite	18.30
Sta. Rosa, Laguna	7.92
Pasig City	1.42
	110.40

Federal Land's major real properties that generate lease income from lease of commercial and office spaces are the GT International Tower (GT Tower) and the Philippine AXA Life Centre (Phil AXA Centre). GT Tower has 41 floors, and 536 parking slots, with an aggregate area of 46,458.21 square meters. One floor is used as Federal Land's principal headquarters, measuring 1,168 square meters As of December 31, 2017. GT Tower's occupancy rate is at 97%. The office property at Phil AXA Centre measures 7,335 square meters of floor area, comprising 25 units. The units are owned by Horizon Land, a wholly-owned subsidiary of Federal Land. As of December 31, 2017, the Phil AXA Centre occupancy rate is at 89%.

Bluebay Walk has a total area of 13,687 square meters which is being leased out to various tenants. Rent is paid on a fixed per square meter basis and/or variable rent based on a certain percentage of sales of the retail tenant.

Lease contracts provide for a pre-agreed annual increase over the term of the lease. As of December 31, 2017, the occupancy rate is at 98.0%.

iMet is a 10-storey office/BPO building located at the Bay Area in Pasay City. It has a floor plate of 2,029 square meters per office floor, making up a total of approximately 21,000 square meters. There are 5 retail spaces at the ground level.

Mitusikoshi Mall is the retail component of the joint venture among Federal Land, Normura Real Estate, and Mitsukoshi Isetan. It sits on the retail podium of the 4-tower Seasons Residences. The mall is slated to open in 2021, and will house largely Japanese world-class establishments, with the renowned Mitsukoshi supermarket and beauty sections as anchor, and junior anchor tenants.

The Met Live offices, which sit on top of Phase 2 of Met Live Mall in Metro Park at the Bay area, has a total of 11,292 sqm. Construction will be completed by the 1st quarter of 2019, and will be ready for turnover to tenants by the start of the second quarter. Due to the strong demand for office spaces in the Bay Area, Federal land continues to identify opportunities to build and add spaces to its office inventory

<u>Pro-Friends</u>

Pro-Friends head office is located in Tinio St., Mandaluyong City and has other offices in Col. Bonny Serrano Ave., Quezon City, Cavite, Iloilo and Cagayan de Oro. Pro-Friends landbank as of December 31, 2018 is as follows:

Project/Location	**Area (in hectares)**		
	Undeveloped	**Developed**	**Total**
Lancaster	1,129.88	519.04	1,648.92
Iloilo	122.26	84.92	207.18
Micara	0	73.52	73.52
Bellefort	90.33	25.28	115.61
Carmona	20.13	11.50	31.63
Others	153.06	1.30	154.36
	1,515.66	**715.57**	**2,231.23**

<u>Toyota Motor Philippines</u>

TMP is the owner/developer of the Toyota Special Economic Zone (TSEZ) in Santa Rosa City, Laguna, Philippines. Its principal office and manufacturing facilities are located within TSEZ. TMP also leases office space at GT Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City, Philippines.

TMP also owns the land along the South Luzon Expressway in Bicutan, Parañaque City, Philippines, where its head office was previously located. A portion of the property is currently leased to Toyota Bicutan, Parañaque, a branch of Toyota Makati, Inc., which is a wholly-owned subsidiary of TMP.

<u>Philippine AXA Life Insurance Corporation and Subsidiary</u>

AXA Philippines
AXA Philippines' head office is currently under lease at the 30th, 33rd, 34th and 35th floor of GT Tower International. AXA continues to own the premises occupied by its customer relation and training offices at the ground floor of the Phil AXA Centre in Makati.

AXA owns certain investment properties including office space, seven condominium units and 16 parking slots at the Skyland Plaza in Makati.

Charter Ping An

Charter Ping An's head office is located at 29th floor of GT Tower International, Ayala cor H.V. Dela Costa St. Makati City. It owns the premises except for a portion of the Executive Office located at the ground floor which it leases from FMIC and Skyland Plaza Condominium Corporation.

Charter Ping An has 24 branches nationwide: 6 in Metro Manila; 12 in Luzon; 3 in Visayas; and 3 in Mindanao. It owns the premises where its Binondo office is located and the rest of the branches are leased either from Metrobank or from other lessors. The term of the lease ranges from three to five years renewable under mutually-acceptable terms and conditions.

Metro Pacific Investments Corporation

Power Segment. GBPC's generation subsidiaries owned power generation facilities, buildings, land and other land improvements and property and equipment for the operation of its power generation business. The power plant complexes of the generation subsidiaries have been mortgaged and/or pledged as security for their long-term debt.

Toll Operations Segment. NLEX Corp and CIC own their head office buildings in Balintawak, Caloocan City and Paranaque City, respectively. Other equipment, which is relatively insignificant, consists of transportation equipment and office equipment primarily located in their respective head offices. NLEX Corp and CIC do not own the parcels of land over which the toll roads have been built as these are owned by the Republic of the Philippines. In 2017 and 2016, NLEX Ventures Corporation (NVC), a wholly-owned subsidiary of NLEX Corp, acquired parcels of land located in Valenzuela City. A parcel of land acquired in 2016 is presently the site of a service facility under a lease agreement, while the other parcels of land are being developed as a property for lease with business proponents.

Water Segment. Maynilad is tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area. The legal title to these assets remains with MWSS. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the expiration date (or on early termination date) at which time, all rights, titles and interest in such assets will automatically vest to MWSS.

Maynilad leases the office space and branches where service outlets are located, equipments and service vehicles, renewable under certain terms and conditions to be agreed upon by the parties.

MPW, through its subsidiaries and associates, took over the operations of certain assets from the counterparty water districts upon the commencement of the Projects. Legal title to such assets remains with these water districts. The legal title to assets acquired and constructed during the term of the Projects accrues to the joint venture companies until the expiration date (or the early termination date), after which all rights, titles and interest in such assets automatically vest to these water districts.

Rail Segment. Under the LRT-1 concession agreement, the ownership of the existing LRT-1 system taken over by LRMC remains with the Grantors (the LRTA and DOTr). This includes the existing depot, railway system, rolling stock, stations and track. Moreover, the ownership of all items procured by the Grantors after LRMC's takeover, including any new LRVs, will remain with the Grantors. The ownership of the planned railway infrastructure extension (south of the Baclaran station) and new signaling system will vest to the Grantors upon the final commissioning and acceptance. LRMC does not own the parcels of land over which the railway system lies as these are owned by the Grantors.

Logistics. MMI owned land in San Rafael, Bulacan and General Trias, Cavite with a total combined area of 421,000 sqm for developing into covered warehouses. MMI also owned a fleet of trucks and other equipment.

Healthcare Segment. MPHHI is developing the Philippines' first nationwide chain of leading hospitals to deliver comprehensive in-patient and out-patient hospital services, including medical and surgical services, diagnostic, therapeutic intensive care, research and training facilities in strategic locations in the Philippines:

- MMC is a multi-specialty tertiary medical centre situated in the central business district of Makati, Metro Manila.
- AHI is a hospital located in Alabang, Muntinlupa in Southern Metro Manila.

- DLSMC is a mid-market teaching and training hospital in Quezon City, the largest city in Metro Manila.
- MDH, a tertiary hospital located in the City of Manila.
- MVMC is a prominent tertiary hospital along Sumulong Highway in Marikina City.
- JDMH is a tertiary general hospital is located in Kamuning Road, Quezon City
- SHHM is a level two hospital in Malolos, Bulacan.
- DDH is considered to be the largest and one of the best medical facilities offering modern diagnostic, therapeutic and intensive care services in Southern Philippines.
- RMCI, also known as Dr. Pablo O. Torre Memorial Hospital, is the largest and a leading medical facility in Bacolod in the island of Negros, Western Visayas.
- CLDH is the largest tertiary hospital in Tarlac.
- SEHI is the largest hospital in SOCCSKSARGEN region.
- WMMC is a secondary-level private hospital in Zamboanga City.
- MegaClinic, TopHealth and Metro Sanitas Metlive are mall-based diagnostic and ambulatory care centers located in Metro Manila.
- Lipa Medix Cancer Center Corporation, Metro CLDH Cancer Center Corporation and Metro RMCI Cancer Center Corporation are radiotherapy facilities located in Batangas, Tarlac and Bacolod, respectively.

Lease Arrangements. East Manila Hospital Managers Corp. (EMHMC) and CVHMC entered into lease agreements with Servants of the Holy Spirit, Inc. and Roman Catholic Archbishop of Manila for the management and operation of OLLH and CSMC, respectively. The lease of EMHMC and CVHMC are for a period of 20 years, renewable for successive periods of 10 years upon the mutual consent of both parties. As consideration for the lease agreement fixed and variable monthly rates are paid where the variable rate is based on the prior year's net revenues.

Toyota Manila Bay

The following table provides a breakdown of TMBC outlets' properties as of December 31, 2018.

Outlet	Leases or Owned	Lot Area	Remarks
TMB	Owned Leased	5, 000.0 sqm 3,000.0 sqm	Showroom, Service and Stockyard Service Parking and Stockyard
TDM	Owned	8,891.1 sqm 1,000.0 sqm 1,000.0 sqm 7,954.0 sqm	Stockyard and Service Showroom and Service Showroom and Service Stockyard
TAS	Leased	4,631.28 sqm 1,802.2 sqm 4,000.0 sqm	Showroom and Service Service and Stockyard Stockyard
TCI	Owned Leased	3,542.0 sqm 9,721.5 sqm 2,534.0 sqm	Showroom and Service Service and Stockyard Stockyard
TMK	Owned Leased	5,000.0 sqm 2,310.2 sqm	Showroom, Service and Stockyard Stockyard

TFSPH

As of December 31, 2018, TFSPH leases its offices at the following locations:

Head Office:

- 32/F and 42/F GT Tower International, 6813 Ayala Avenue corner H. V. Dela Costa St., Makati City, Metro Manila, Philippines.

Business Hubs:

- Cebu Business Center - Esperanza Building, AC Cortes Ave., Ibabao, Mandaue City
- Davao Business Center - Manuel Morales Building 109 J/P Laurel Avenue, Bajada brgy. 12-B Davao City
- Lipa Business Center - Unit 6 GF Seasons Mall Building, JP Laurel Highway, Tambo, Lipa City Batangas

- San Fernando Business Center - Aria Place, GF Building, Unit 112 Jose Abad Santos Ave., Dolores San Fernando City, Pampanga

TFSPH stockyards under lease, which contains repossessed assets, are as follows:

Stockyard	Address	LOT AREA
1	JP Rizal St., Brgy. Sala, Cabuyao, Laguna (5 warehouses)	8197 sqm
2	Seahawk Business Complex Pitogo, Consolacion, Cebu City (2 warehouses)	600 sqm
3	#6 Dona Procesa Street, Bacolod City	1,521 sqm
4	Purok 10, Nacilla Village, Brgy. Ma-a, Davao City	1,100 sqm
5	National Highway Kausawagan, Cagayan de Oro City	800 sqm

Item 3. **Legal Proceedings**

Except as disclosed herein or in the Information Statements of the Company and its subsidiaries and affiliates, there have been no material pending legal proceedings, bankruptcy petitions, convictions by final judgment, orders, judgments or decrees, or violations of a securities or commodities law for the past five years and the preceding years to which GT Capital or any of its subsidiaries or affiliates or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

In any event, below are the legal proceedings involving the Company and its subsidiaries and affiliates that may be significant:

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

Toyota Motor Philippines
In the normal course of business, TMP may be subject to labor and customer claims. Based on record, there are no major outstanding claims against the Company that would have a material adverse effect on its financial position, operating results or cash flows.

Philippine AXA Life Insurance Corporation and Subsidiary

AXA Philippines
The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position.

Charter Ping An
Currently, there are ten (10) major cases which can materially affect Charter Ping An. However, Charter Ping An has strong legal positions in these cases and the outstanding amount of claims involved is not material to GT Capital Group.

TMBC
Pending litigations of all branches of TMBC are all within its normal course of operations and has no imminent threat that will substantially disturb its business or create a situation that might probably lead to a stoppage of the operations.

TFSPH
TFSPH is not involved in any legal actions arising in the ordinary course of business.

Fed Land

Fed Land is not involved in any significant pending legal proceedings.

PCFI

ProFriends is subject to various civil lawsuits and legal actions arising in the ordinary course of business. However, the Company does not consider any of these as material as they will not affect the daily operations of its business, nor will they exceed 10% of the current assets of the Company or have any material effect on the Company's financial position.

MPIC

Water

Rate Rebasing: 2013-2017

2013-2017 Rate Rebasing - Domestic Arbitration

- Metropolitan Waterworks and Sewerage (MWSS) released Board of Trustees Resolution No. 2013-100-RO dated September 12, 2013 and Regulatory Office (RO) Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 (Fourth Rate Rebasing Period) reducing Maynilad's 2012 average all-in basic water charge by 4.82% or ₱1.46 per cubic meter (cu.m.) or ₱0.29/cu.m. over the next five years.
- On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel. This Dispute Notice is a referral to the Appeals Panel for Major Disputes of the dispute between Maynilad, on the one hand, and MWSS and the RO, on the other. The Dispute relates to the determination by the RO, in accordance with Section 9.4.2 of the Concession Agreement, of the Rebasing Adjustment as embodied in Resolution No. 13-010-CA.
- On December 17, 2013, the RO released Resolution No. 13-011-CA regarding the implementation of a status quo for Maynilad's Standard Rates and Foreign Currency Differential Adjustments (FCDA) for any and all its scheduled adjustments until such time that the Appeals Panel has issued its arbitral award.
- On January 5, 2015, Maynilad officially received the Appeals Panel's award dated December 29, 2014 upholding Maynilad's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41% or its equivalent of ₱4.06 per cu.m. (the First Award). This increase has effectively been reduced to ₱3.06 per cu.m. following the integration of the ₱1.00 Currency Exchange Rate Adjustment (CERA) into the basic water charge. To mitigate the impact of the tariff increase on its customers, Maynilad offered to stagger its implementation over a three-year period.
- The First Award, being final and binding on the parties, Maynilad asked the MWSS to cause its Board of Trustees to approve the 2015 Tariffs Table so that the same can be published and implemented 15 days after its publication.
- However, the MWSS and the RO have chosen, over Maynilad's repeated objections, to defer the implementation of the First Award despite it being final and binding on the parties. In its letter dated February 9, 2015, the MWSS and RO, who received their copy of the First Award on January 7, 2015, informed Maynilad that they have decided to await the final outcome of their arbitration with the other concessionaire, Manila Water, before making any official pronouncements on the applicable resulting water rates for the two concessionaires.

2013-2017 Rate Rebasing - International Arbitration

- On February 20, 2015, Maynilad wrote the Philippine Government, through the DOF, to call on the Undertaking Letters which the ROP issued in favor of Maynilad on July 31, 1997 and March 17, 2010. On March 9, 2015, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking Letters. The letters dated February 20 and March 9, 2015 are collectively referred to as the "Demand Letters".
- Maynilad demanded that it be paid, immediately and without further delay, the ₱3.4 billion in revenue losses that it had sustained as a direct result of the MWSS's and the RO's refusal to implement its correct Rebasing Adjustment from January 1, 2013 (the commencement of the Fourth Rate Rebasing Period) to February 28, 2015.

- On March 27, 2015, Maynilad served a Notice of Arbitration and Statement of Claim upon the ROP, through the DOF. Maynilad gave notice and demanded that the ROP's failure or refusal to pay the amounts required under the Demand Letters be, pursuant to the terms of the Undertaking Letters, referred to arbitration before a three-member panel and conduct proceedings in Singapore in accordance with the 1976 United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules.
- On April 21, 2015, the MWSS Board of Trustees, in its Resolution No. 2015-004-CA dated March 25, 2015 approved to partially implement the First Award of a tariff adjustment of ₱0.64/ cu.m. which, net of the ₱ 1.00 CERA, actually translates to a tariff adjustment of negative ₱0.36/cu.m. as opposed to the First Award of ₱3.06/cu.m. tariff adjustment, net of CERA. For being contrary to the First Award as well as the provisions of the Concession Agreement, Maynilad did not implement this tariff adjustment.
- On May 14, 2015, the MWSS Board of Trustees in its Resolution No. 2015-060-RO approved a 7.52% increase in the prevailing average basic charge of ₱31.25/cu.m. or an upward adjustment of ₱2.35/cu.m. as Consumer Price Index adjustment. With the discontinuance of CERA, the net adjustment in average water charge is 4.32% or ₱1.35/cu.m.
- In the fourth quarter of 2015, the Arbitral Tribunal was constituted. On February 17, 2016, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking Letters and to update its claim. Evidentiary hearings were completed in December 2016.
- On July 24, 2017, the Arbitral Tribunal unanimously upheld the validity of Maynilad's claim against the Undertaking Letter issued by the ROP, through the DOF, and ordered the ROP to compensate Maynilad for the delayed implementation of its relevant tariffs for the Fourth Rate Rebasing Period (the Second Award). The Tribunal ordered the ROP to reimburse Maynilad the amount of ₱3.4 billion for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016 onwards. In case a disagreement on the amount of such losses arises, Maynilad may revert to the Tribunal for further determination.
- Subsequently, Maynilad agreed with the ROP's corrected computation of Maynilad's revenue losses from March 11, 2015 to August 31, 2016 in the amount of ₱3.18 billion (with cost of money as of August 31, 2016).
- Starting April 22, 2017, adjusted water rates which included increase in the FCDA, as well as an adjustment to cover the 1.9% Consumer Price Index were implemented.
- On February 13, 2018, Maynilad received an email from the ROP's Singapore counsel advising that the ROP had filed an application with the High Court of Singapore to set aside the Second Award dated July 24, 2017 (the Setting Aside Application).
- The ROP also filed an interlocutory application for sealing which required, among others, that the proceedings be heard in-camera or otherwise than in open court, that there to be no publication of the identities of the parties to the proceedings or of any matter that would reasonably enable the public to deduce the identities of the parties
- On September 4, 2018, immediately following the conclusion of the hearings before the Singapore High Court, the presiding Justice dismissed the Republic's Setting Aside Application and awarded $40,000.00 in favor of Maynilad by way of costs. The Republic did not appeal the decision to the Singapore Court of Appeal within the prescribed 30-day period and so, the dismissal of the Setting Aside Application became final on October 4, 2018.
- As at December 31, 2018, Maynilad has an outstanding claim against the Republic of the Philippines (ROP), through the Department of Finance (DOF), in relation to the decision of the Arbitral Tribunal to compensate Maynilad for the delayed implementation of its relevant tariffs for the rebasing period 2013 to 2017 in the amount of ₱3.18 billion and cost of litigation of litigation amounting to $40,000.

2013-2017 Rate Rebasing - Domestic Court Actions

- In a decision dated August 30, 2017, the Regional Trial Court (RTC), Branch 93 of Quezon City granted the Petition for Confirmation and Enforcement of the First Award which petitioner, Maynilad, filed in July 2015 (the RTC Decision) following the refusal of MWSS and the MWSS Regulatory Office to implement the First Award. As stated above, the First Award upheld the 13.41% Rebasing Adjustment that Maynilad proposed for the Fourth Rate Rebasing Period.
- The MWSS filed a Motion for Reconsideration of the RTC Decision which the RTC denied in an Order dated November 23, 2017 (RTC Order). The MWSS filed a Petition for Review with the Court of Appeals (CA) on December 27, 2017 asking for a reversal of the RTC Decision and Order. In its Comment to the Petition for

Review, Maynilad prayed for the Petition for Review's dismissal and for the immediate enforcement of the RTC Decision and the First Award.

- As a consequence of the issuance of the RTC Decision, Maynilad filed, on October 18, 2017, a Motion for Execution of the First Award (MotEx). However, the RTC, on February 6, 2018, denied the MotEx.
- In its decision dated May 30, 2018, the CA denied MWSS's Petition for Review, and affirmed the RTC Decision and Order confirming the Final Award (CA Decision).
- On June 14, 2018, Maynilad filed with the CA a Motion for Clarification (on the CA Decision) for the CA to confirm that the RTC and CA Decisions are immediately executory, and that MWSS should therefore implement the Final Award without any further delay (Motion for Clarification).
- In the meantime, on July 11, 2018, Maynilad received MWSS's Petition for Review on Certiorari with the SC (under Rule 19.37 of the Special Rules of Court on Alternative Dispute Resolution) with Manifestation dated July 4, 2018 (the Petition). MWSS prayed that the SC (i) reverse and set aside the CA Decision, and (ii) grant MWSS's counter-petition and declare MWSS as legally released or excused from implementing or enforcing the Final Award or, in the alternative, declare the Final Award as unenforceable.
- On July 30, 2018, the CA issued a Resolution noting, without action, the Motion for Clarification that Maynilad filed "in view of the pending Petition for Review" which the MWSS filed with the SC.

Rate Rebasing: 2018-2022

On September 13, 2018, the MWSS issued Resolution No. 2018-136-RO adopting RO Resolution No. 2018-09-CA dated September 7, 2018 granting Maynilad a partial rate adjustment of ₱5.73/cu.m. for the Fifth Rate Rebasing Period (2018 to 2022), to be implemented on an uneven staggered basis of (i) ₱0.90/cu.m. effective October 1, 2018; (ii) ₱1.95/cu.m. effective January 1, 2020, (iii) ₱1.95/cu.m. effective January 1, 2021, and (iv) ₱0.93/cu.m. effective January 1, 2022. The approved rate adjustment still does not include the CIT component to which Maynilad is entitled by virtue of the First Award. In their Resolutions, the MWSS and RO stated that the inclusion of the CIT in Maynilad's tariff is subject to the SC's resolution of MWSS's Petition for Review.

To preserve its right to the CIT which has already been adjudged in its favor in the First Award, and pursuant to Article 12 of the Concession Agreement, Maynilad, on October 12, 2018, filed a Dispute Notice, signaling the start of another arbitration.

As at March 5, 2019, Maynilad cannot determine with reasonable certainty the probable outcome of the discussions with the Government with respect to the implementation of the Second Award. As such, the consolidated financial statements do not include any adjustments that might result from arbitration proceeding.

Disputes with MWSS

In prior years, Maynilad has been contesting certain charges billed by MWSS relating to: (a) the basis of the computation of interest; (b) MWSS cost of borrowings; and (c) additional penalties. Consequently, Maynilad has not provided for these additional charges. These disputed charges were effectively reflected and recognized by Maynilad as Tranche B Concession Fees amounting to $30.1 million by virtue of the Debt and Capital Restructuring Agreement (DCRA) entered into in 2005. Maynilad also paid $6.8 million in 2005 as an additional amount of Tranche B Concession Fees determined by the Receiver. As at December 31, 2015 and 2014, Maynilad had recognized Tranche B Concession Fees of $36.9 million.

Maynilad reconciled its liability to MWSS with the confirmation and billings of MWSS. The difference between the amount confirmed by MWSS and the amount recognized by the Maynilad amounted to ₱5.1 billion as at December 31, 2018 and 2017. The difference mainly pertains to disputed claims of MWSS consisting of additional Tranche B Concession Fees, borrowing cost and interest penalty under the Concession Agreement (prior to the DCRA). Maynilad's position on these charges is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court.

Following the issuance of the Rehabilitation Court's Order on December 19, 2007 disallowing the MWSS' disputed claims and the termination of Maynilad's rehabilitation proceedings, Maynilad and MWSS sought to resolve the matter in accordance with the dispute resolution requirements of the Transitional and Clarificatory Agreement (TCA).

Prior to the DCRA, Maynilad has accrued interest on its payable to MWSS based on the terms of the Concession Agreement, which was disputed by MWSS before the Rehabilitation Court. These already amounted to ₱985 million as at December 31, 2011 and have been charged to interest expense in prior years. Maynilad maintains that the accrued interest on its payable to MWSS has been adequately replaced by the Tranche B Concession Fees discussed above. Maynilad's position is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court. With the prescription of the TCA and in light of Maynilad's outstanding offer of $14 million to fully settle the claim of MWSS, Maynilad reversed the amount of accrued interest in excess of the $14.0 million settlement offer. The remaining balance of ₱607 million as at December 31, 2018 and December 31, 2017, which pertains to the disputed interest penalty under the Concession Agreement prior to DCRA, has remained in the books pending resolution of the remaining disputed claims of MWSS.

Real Property Taxes Assessment
On October 13, 2005, Maynilad and Manila Water Company, Inc. (the Concessionaires) were jointly assessed by the Municipality of Norzagaray, Bulacan for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357 million. It is the position of the Concessionaires that these properties are owned by the ROP and therefore, exempt from taxation.

The supposed joint liability of the Concessionaires for real property tax, including interests, as at December 31, 2018 and December 31, 2017 amounted to ₱1.0 billion.

After the Local Board of Assessment Appeals (LBAA) ruled in favor of the Municipality of Norzagaray, Bulacan, the Concessionaires elevated the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA) by filing separate appeals.

On May 23, 2018, Court of Tax Appeals' (CTA) Notice of Decision dated May 11, 2018 was received, denying Petitioner's Petition for Certiorari (for an interlocutory order) ("CTA Decision"). Thus, the CTA ordered that the case be remanded to CBAA and for the proceedings to continue.

On September 3, 2018, Maynilad received the CTA's Resolution dated June 4, 2018 noting the compliance of Maynilad and MWSS informing the CTA of their respective dates of receipt of the CTA Decision.

Others
Maynilad is a party to various civil and labor cases relating to breach of contracts with damages, illegal dismissal of employees, and nonpayment of backwages, benefits and performance bonus, among others. Other disclosures required by PAS 37 were not provided as it may prejudice Maynilad's position in on–going claims, litigations and assessments.

Toll Operations

Toll Rate Adjustments - NLEX Corp. NLEX Corp, as petitioner-applicant, filed the following petitions for the approval of Periodic Toll Rate Adjustment (PTRA) with the Toll Regulatory Board (TRB) praying for the adjustments of the toll rates:

- In June 2012, for the NLEX PTRA effective January 1, 2013 (2012 Petition);
- In September 2014, for NLEX PTRA effective January 1, 2015 (2014 Petition); and
- In September 2016, for the PTRA for the NLEX and SCTEX effective January 1, 2017 (2016 Petition).
- In September 2018, for the PTRA for the NLEX effective January 1, 2019 (2018 Petition)
- In January 2019, for the PTRA covering the adjustment in the toll rate of the NLEX Open System effective February 15, 2019 upon completion of the NLEX Segments 9 and 10 (Segment 10 Add-on Toll Rate Petition)

Under the SCTEX Toll Operations Agreement, toll rate adjustment petitions shall be filed with the TRB yearly. Prior to NLEX Corp's take-over of the SCTEX operations, the Bases Conversion and Development Authority (BCDA) filed petitions for toll rate adjustment that should have been effective in 2012, 2013, 2014, and 2016. Thereafter, in September 2016, NLEX Corp, as petitioner-applicant, filed a petition for toll rate adjustment effective January 1, 2017.

As of December 31, 2018, total amount of compensation for TRB's inaction on lawful toll rate adjustments for NLEX and SCTEX, are approximately at ₱8.0 billion and ₱1.5 billion (net of both VAT and Government share), respectively. The estimated amount of compensation for NLEX covers the 2012, 2014 and 2016 Petitions.

Updates on the 2012 and 2014 Petitions are provided below. NLEX Corp has yet to receive regulatory approval for the 2016 Petition and 2018 Petition.

<u>2012 and 2014 Petitions and Segment 10 Add-on Toll Rate Petition</u>. In August 2015, NLEX Corp wrote the ROP, acting by and through the TRB, a Final Demand for Compensation based on overdue toll rate adjustments that should have been effective January 1, 2013 and January 1, 2015 (Final Demand). However, the ROP/TRB failed to heed on the Final Demand and as such, NLEX Corp sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes). STOA Clause 19.1 states that the parties shall endeavor to amicably settle the dispute within sixty (60) calendar days. The TRB sent several letters to NLEX Corp requesting the extension of the amicable settlement period. However, NLEX Corp has not received any feasible settlement offer from the ROP/TRB.

Accordingly, on April 4, 2016, NLEX Corp was compelled to issue a Notice of Arbitration and Statement of Claim (Notice of Arbitration) to the ROP, acting by and through the TRB, consistent with STOA Clause 19 in order to preserve its rights under the STOA.

In May 2016, TRB through Office of the Solicitor General (OSG) nominated their arbitrator for NLEX and their preferred venue for arbitration. In a letter dated June 1, 2016, NLEX Corp proposed that the arbitration be held in Singapore which is the seat of arbitration that the ROP has chosen for its various PPP projects, and proposed the Singapore International Arbitration Center as the Appointing Authority. In a letter dated July 13, 2016, the ROP, acting by and through the OSG, stated that it accepts Singapore as the venue of arbitration, but reiterated its previous proposal that a Philippine-based institution/person be the Appointing Authority.

On June 27, 2017, the initial case management conference was held in Singapore. On December 11, 2017, NLEX Corp submitted its Updated Statement of Claim. On December 27, 2017, the ROP/TRB filed request for bifurcation, which was accordingly granted, i.e., the proceedings were divided into two parts: first, the issue on whether or not the tribunal has jurisdiction over NLEX Corp's claim, and second, the main merits of the claim as set forth in the Updated Statement of Claim. In January 2018, the ROP/TRB and NLEX Corp. have submitted their respective statements on the matter of jurisdiction. In July 2018, the Arbitral Tribunal issued Procedural Order No. 2 whereby the Arbitral Tribunal declined to dismiss the claim on the basis of the ROP/TRB's objections to jurisdiction and ordered the ROP/TRB to submit its Statement of Defense. In September 2018, the ROP/TRB submitted its Statement of Defense. In October to November 2018, NLEX Corp and the ROP/TRB submitted their respective Requests for Production of Documents, Objections to the Request for Production of Documents, and Reply to the Objections to the Request for Production of Documents. In December 2018 and January 2019, the Arbitral Tribunal resolved NLEX Corp.'s and the ROP/TRB's Request for Production of Documents.

On February 15, 2019, NLEX Corp received a Consolidated Resolution dated October 2018 issued by the TRB which approved and allowed NLEX Corp. to implement the toll rate adjustment indicated therein on a staggered basis. On the same date, the TRB issued an Order finding NLEX Corp's subject Petition to be sufficient in form and directed NLEX Corp to publish in full the contents of the Petition in a newspaper of general circulation, in accordance with applicable rules and laws, with a notice that all interested tollway users may file a petition for review of the proposed adjusted toll rates. In full compliance with the Order and TRB Rules, NLEX Corp caused the publication of the Petition in a newspaper of general circulation, once a week for three consecutive weeks in February and March 2019. On March 5, 2019, the TRB issued a letter to NLEX Corp stating that the TRB (a) conditionally approved the subject Petition and granted NLEX Corp provisional authority to collect the add-on tolls for the Open System of the NLEX and (b) allowing the implementation of the new authorized toll price for the NLEX (Integrated Toll Fee Matrix) which is attached to the said letter. The Integrated Toll Fee Matrix includes both: (a) the first tranche of the approved adjusted toll rates in the 2012 and 2014 Petitions stated in the TRB's Consolidated Resolution dated October 2018; and (b) the provisionally approved add-on toll rates in the Segment 10 Add-on Toll Rate Petition. In the same letter, the TRB instructed NLEX Corp to: (a) cause the publication of the Integrated Toll Fee Matrix in accordance with the provisions of the TRB Rules and (b) post the required bond amounting to ₱530.0 million or the equivalent of one (1) year collection of add-on rate. In full and complete compliance with the instructions of the TRB, NLEX Corp. (a) submitted the original of the Surety Bond issued by the Prudential Guarantee and Insurance Inc. in favor of the Republic of the Philippines, acting by and through the TRB, and (b) caused the publication of the Integrated Toll Fee Matrix in a newspaper of general circulation once a week for three (3) consecutive weeks in March 2019. Start of collection is expected before end of the March 2019.

In February 2019, the ROP/TRB informed the Arbitral Tribunal that it has released a Consolidated Resolution on NLEX Corp's pending 2012 and 2014 petitions for toll rate adjustment. In the Consolidated Resolution, the TRB approved and allowed the implementation of toll rates on a staggered basis in 2018, 2020, 2021, and 2023. In February to March 2019, NLEX Corp. filed its Reply, Supplemental Reply, and Addendum to the Supplemental Reply while the ROP/TRB filed its Rejoinder.

Toll Rate Adjustments - CIC. CIC filed the following petitions for the approval of the PTRA with the TRB:

- On the R-1 Expressway:
    - In September 2011, for the PTRA effective January 1, 2012 (2011 Petition);
    - In September 2014, for the PTRA with an Application for Provisional Relief with toll rates effective January 1, 2015 (2014 Petition); and
    - In November 2016, for the PTRA effective January 1, 2017 (2016 Petition).

- On R-1 Extension:
    - In September 2013, for the PTRA effective January 1, 2014 (2013 Petition);
    - In September 2016, for the PTRA effective January 1, 2017 (2016 Petition).

In August 2015, for failure to implement toll rate adjustments, CIC filed notices with the TRB demanding settlement of the past due tariff increases amounting to ₱719.0 million based on the overdue toll rate adjustments as at July 31, 2015 for the CAVITEX.

In April 2016, CIC issued a Notice of Arbitration and Statement of Claim to the ROP, acting by and through the TRB, consistent with the dispute resolution procedures under its Toll Operation Agreement (TOA) to obtain compensation in the amount of ₱877 million (as of March 27, 2016) for TRB's inaction on lawful toll rate adjustments which were due January 1, 2012, January 1, 2014, and January 1, 2015. Singapore shall be the venue of arbitration. In February 2017, CIC received notice from the Permanent Court of Arbitration that the authority who will appoint the chairperson of the Arbitration Panel has been designated.

As at March 5, 2019, CIC has yet to receive regulatory approval for all the petitions filed on the PTRA. CIC, however, is in constructive discussions with Government to resolve this.

As of December 31, 2018, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2012 for both R1 and R1-Extension is approximately at ₱1.9 billion (VAT-exclusive and net of Philippine Reclamation Authority's share).

Value-Added Tax (VAT). NLEX Corp received the following VAT assessments from the BIR:
- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,011 million for taxable year 2006.
- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp deficiency VAT plus penalties amounting to ₱558 million for taxable year 2007.
- The BIR issued a Notice of Informal Conference dated October 5, 2009 assessing NLEX Corp for deficiency VAT plus penalties amounting to ₱471 million for taxable year 2008. On May 21, 2010, the BIR issued another notice increasing the deficiency VAT for taxable year 2008 to ₱1,209 million (including penalties). On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.
- The BIR issued a Notice of Informal Conference on May 21, 2010 assessing NLEX Corp deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

On April 3, 2014, the BIR accepted and approved the NLEX Corp's application for abatement and issued a Certificate of Approval for the cancellation of the basic output tax, interest and compromise penalty amounting to ₱1,011 million and ₱585 million for taxable years 2006 and 2007, respectively.

Notwithstanding the foregoing, management believes, in consultation with its legal counsel, that in any event, the STOA among NLEX Corp, ROP, acting by and through the Toll Regulatory Board (TRB), and Philippine National Construction Corporation (PNCC), provides NLEX Corp with legal recourse in order to protect its lawful interests in case there is a change in existing laws, which makes the performance by NLEX Corp of its obligations materially more expensive.

Real Property Tax (RPT). In July 2008 and April 2013, NLEX Corp filed Petitions for Review under Section 226 of the Local Government Code with the Local Board of Assessment Appeals (LBAA) of the Province of Bulacan seeking to declare as null and void tax declarations issued by the Provincial Assessor of the Province of Bulacan. The said tax declarations were issued in the name of NLEX Corp as owner/administrator/beneficial user of the NLEX and categorized the NLEX as a commercial property subject to RPT. The LBAA has yet to conduct an ocular inspection to determine whether the properties, subject of the tax declarations, form part of the NLEX, which NLEX Corp. argues is property of the public dominion and exempt from RPT.

In September 2013, NLEX Corp. received notices of realty tax delinquencies for the years 2006 to 2012 and 2013 issued by the Provincial Treasurer of Bulacan stating that if NLEX Corp. fails to pay or remit the alleged delinquent taxes, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. In September 27, 2013, the Bureau of Local Government Finance of the Department of Finance (DOF-BLGF) wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency. In October 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance. In January 2017, the Provincial Treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes.

The outcome of the claims on real property tax cannot be presently determined. The management of NLEX Corp believes that these claims will not have a significant impact on the Company's consolidated financial statements and believes that the STOA also provides NLEX Corp with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by NLEX Corp of its obligations materially more expensive.

Others. The companies in the toll operations segment are also parties to other cases and claims arising from the ordinary course of business filed by third parties, which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on the Company's consolidated financial statements.

Power

4th Regulatory Period Reset Application. MERALCO was among the first entrants to the Performance-Based Regulation (PBR). Rate setting under PBR is governed by the Rules for Setting Distribution Wheeling Rates (RDWR). The PBR scheme sets tariffs based on the regulated asset base of the DU, and the required operating and capital expenditures once every regulatory period (RP), to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, growth of all customer classes in the franchise area as approved by the ERC. PBR also employs a mechanism that penalizes or rewards a DU depending on its network and service performance. Rate filings and setting are done every RP where one RP consists of four regulatory years. A regulatory year (RY) begins on July 1st and ends on June 30th of the following year.

The last year of MERALCO's 3rd RP ended on June 30, 2015. The 4th RP for Group "A" entrants commenced on July 1, 2015 and shall end on June 30, 2019. To initiate the reset process, the ERC posted in its website on April 12, 2016 the following draft issuance for comments, to wit:

- Draft "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities (DUs) Operating under Performance Based Regulation, First Entry Group: Fourth Regulatory Period";
- Draft "Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019 Fourth Regulatory Period for the First Entry Group of Privately Owned DUs subject to Performance Based Regulation"; and
- Draft "Commission Resolution on the Issues on the Implementation of PBR for Privately Owned DUs under the RDWR".

Under ERC Resolution No. 25, Series of 2016 dated July 12, 2016, the ERC promulgated a Resolution modifying the RDWR for Privately-Owned DUs Entering PBR.

On December 2, 2016, the ERC released a Notice of Proposed Rule-Making setting the petition filed by a consumer group for initial hearing on January 9, 2017. All interested parties were given until December 26, 2016 to file their comments on said Petition.

In the Petition, the consumer group seeks a repeal of the PBR rate-setting methodology for setting distribution wheeling rates. In a subsequent Order and Notice of Public Hearing, the ERC reset the hearing to January 23, 2017 and gave interested parties until January 9, 2017 to file their respective comments to the Petition. MERALCO filed its Comment to the Petition on January 9, 2017. Hearings were scheduled on May 15 and June 21, 2017. The ERC Order for the date of the next public consultation is pending.

In a Notice dated November 16, 2016, the ERC approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" (RAB Handbook) for posting in its website. All interested parties were given until December 19, 2016 to submit their respective comments to the draft RAB Handbook. Thereafter, during the public consultation on January 9, 2017, the parties were given until February 9, 2017 to file their comments to the draft RAB Handbook. In an Omnibus Motion filed on February 9, 2017, MERALCO submitted its initial comments to the draft RAB Handbook but moved for the deferment of the proceedings until the consumer group Petition has been resolved. As at March 5, 2019, the ERC has yet to resolve MERALCO's Omnibus Motion.

5th Regulatory Period Reset Application. As MERALCO is approaching the end of its 4th RP on June 30, 2019, it filed a Petition for the Adoption of the Proposed Issues Paper and Revised RDWR for the 5th RP of the First Entry Group under PBR of December 21, 2018. As at March 5, 2019, the ERC has yet to act on MERALCO's Petition.

Interim Average Rate for RY 2016. On June 11, 2015, MERALCO filed its application for the approval of its proposed Interim Average Rate of ₱1.3939 per kilowatt-hour (kWh) and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved the Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. MERALCO has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (FOE) after the ERC rules on pending motions. As at March 5, 2019, the ERC's ruling on these motions is pending.

Capital Expenditures (*CAPEX*) *for 4th RP*. Absent the release by the ERC of the final rules to govern the filing of its 4th RP reset, MERALCO filed its applications for approval of authority to implement its CAPEX program pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

RY	**MERALCO's application date**	**Proposed CAPEX amount**	**Status of applications as at March 5, 2019**
2016	February 9, 2015	₱17.7 billion	On June 15, 2016, MERALCO received a copy of the ERC Decision dated April 12, 2016 which partially approved MERALCO's CAPEX program for RY 2016 amounting to ₱ 15.5 billion out of the total RY 2016 CAPEX of ₱17.7 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration ("MR") on the Decision which is pending before the ERC. On July 25, 2016, MERALCO filed its opposition to the MR. As at March 5, 2019, the ERC ruling on the MRs is pending.
2017	March 8, 2016	₱15.4 billion	On July 26, 2016, MERALCO received the Order dated May 5, 2016, which partially approved MERALCO's CAPEX program for RY 2017 amounting to ₱8.8 billion, subject to certain conditions. On August 10, 2016, MERALCO filed a Motion for Partial Reconsideration on the requirement to submit an accounting of the depreciation fund. Hearings on the application have been completed. On September 14, 2016, MERALCO filed a Motion for Resolution. Subsequently, on April 25, 2017, MERALCO filed a Very Urgent Motion for Resolution of the application. Thereafter, on October 18, 2017, MERALCO filed a Manifestation and Urgent Motion for Resolution. On November 9, 2017, MERALCO filed a Manifestation with Third Urgent Motion to Resolve the

RY	MERALCO's application date	Proposed CAPEX amount	Status of applications as at March 5, 2019
			Application. MERALCO is awaiting the final decision of the ERC.
2018	April 3, 2017	₱18.8 billion	On May 26, 2017, MERALCO received the Order dated May 15, 2017, which set the case for initial hearing. Hearings were conducted on June 22 and August 1, 2017, August 25, 2017 and September 22, 2017. A conference was also conducted with the ERC technical staff and the intervenor on October 12, 2017. On November 9, 2017, MERALCO filed its FOE. MERALCO also filed Manifestations on November 9, 2017 and March 28, 2018, informing the ERC that it was constrained to implement several projects in order to avert service interruptions to its customers and maintain a robust distribution infrastructure. The case has been submitted for decision.
2019	April 30, 2018	₱21.0 billion	Hearings on the case are ongoing.

Supreme Court (SC) Temporary Restraining Order (TRO) on December 2013 Increase in MERALCO Billing Rate. On December 9, 2013, the ERC gave clearance to the request of MERALCO to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as value added tax, local franchise tax, transmission charge, and system loss charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the Wholesale Electricity Spot Market (WESM) charges on account of the non-compliance with WESM Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field, shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against MERALCO, ERC and the DOE before the SC, questioning the ERC clearance granted to MERALCO to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the Electric Power Industry Reform Act (EPIRA), which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the Automatic Generation Rate Adjustment (AGRA) that the ERC had promulgated. Both petitions prayed for the issuance of TRO, and a Writ of Preliminary Injunction.

On December 23, 2013, the SC consolidated the two (2) Petitions and granted the application for TRO effective immediately and for a period of 60 days, which effectively enjoined the ERC and MERALCO from implementing the price increase. The SC also ordered MERALCO, ERC and DOE to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the SC ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the SC. MERALCO complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another 60 days or until April 22, 2014, the TRO that it originally issued against MERALCO and ERC last December 23, 2013. The TRO was also similarly applied to certain generating companies, the NGCP, and the Philippine Electricity Market Corporation (PEMC; the administrator of WESM and market operator) who were all enjoined from collecting from MERALCO the deferred amounts representing the ₱4.15 per kWh price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, MERALCO filed an Omnibus Motion with Manifestation with the ERC for the latter to direct PEMC to conduct a re-run or re-calculation of the WESM prices for the supply months of

November to December 2013. Subsequently, on February 17, 2014, MERALCO filed with the ERC an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the ERC issued an Order voiding the Luzon WESM prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. PEMC was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned DUs in Luzon. PEMC's recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the WESM by ₱9.3 billion. Due to the pendency of the TRO, no adjustment was made to the WESM bill of MERALCO for the November 2013 supply month. The timing of amounts to be credited to MERALCO is dependent on the reimbursement of PEMC from associated generator companies. However, several generating companies have filed motions for reconsideration questioning the Order dated March 3, 2014. MERALCO has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the ERC denied the motions for reconsideration. The generating companies have appealed the Orders with the CA. MERALCO has filed a motion to intervene and a comment in intervention. The CA consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the CA set aside ERC Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid WESM prices for the November and December 2013 supply months. MERALCO and the ERC have filed their respective motions for reconsideration. Several consumers also intervened inhe case and filed their respective motions for reconsideration. The CA has yet to resolve the motions for reconsideration filed by MERALCO and ERC.

In view of the pendency of the various submissions before the ERC and mindful of the complexities in the implementation of ERC's Order dated March 3, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days to comply with the settlement of their respective adjusted WESM bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their WESM bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the ERC deemed it appropriate to hold in abeyance the settlement of PEMC's adjusted WESM bills by the market participants.

On April 22, 2014, the SC extended indefinitely the TRO issued on December 23, 2013 and February 18, 2014 and directed generating companies, NGCP and PEMC not to collect from MERALCO. As at March 5, 2019, the SC has yet to resolve the various petitions filed against MERALCO, ERC, and DOE.

ERC and DOE Resolutions on Retail Competition and Open Access Prohibiting the Operations of the Local Retail Electricity Supply business segment. On March 8, 2016, the ERC promulgated Resolution No. 05 Series of 2016 entitled "A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers (RES) and Prescribing the Requirements and Conditions Therefor". The Resolution removed the term Local RES as one of the entities that may engage in the business of supplying electricity to the Contestable Market without need of obtaining a license therefor from the ERC. Moreover, while an affiliate of a DU is allowed to become a RES, the allowance is "subject to restrictions imposed by the ERC on market share limits and the conduct of business activities".

On May 12, 2016, the ERC issued Resolutions No. 10 and 11, Series of 2016, which:

- Provided for Mandatory contestability. Failure of a Contestable Customer to switch to RES upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) MW and June 26, 2017 for at least 750 MW) shall result in the physical disconnection from the DU system unless it is served by the Suppliers of Last Resort (SOLR, or, if applicable, procures power from the WESM);
- Prohibits DUs from engaging in the Supply of electricity to the Contestable Market except in its capacity as a SOLR;
- Mandates Local RESs to wind down their supply businesses within a period of three (3) years;
- Imposes upon all RESs, including DU-affiliate RESs, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,
- Prohibits RESs from transacting more than 50% of the total energy transactions of its Supply business, with its affiliate Contestable Customers.

On May 27, 2016, MERALCO filed a Petition before Pasig RTC, praying that : (a) a TRO and subsequently a Writ of Preliminary Injunction (WPI) enjoining the DOE and ERC from implementing the Assailed Rules be issued; and the Assailed Rules be declared null and void for being contrary to the EPIRA and its IRR. In an Order dated July 13, 2016, RTC-Pasig granted a WPI, which became effective on July 14, 2016, and shall be effective for the duration of the pendency of the Petition.

Meanwhile, ERC filed a Petition for Certiorari and Prohibition with prayer for TRO and/or WPI before the SC (SC Petition), which asserted that RTC-Pasig has no jurisdiction to take cognizance of MERALCO's Petition, citing Sec. 78 of the EPIRA. A similar petition was subsequently filed by the DOE before the SC.

On October 10, 2016, the SC, in relation to the Petition filed by DOE, issued a TRO that restrained, MERALCO, the RTC Pasig, their representatives, agents or other persons acting on their behalf from continuing the proceedings before the RTC Pasig, and from enforcing all orders, resolutions and decisions rendered in Special Civil Action No. 4149 until the petition before the SC is finally resolved. In a Resolution dated November 9, 2016, the SC denied MERALCO's MR.

On November 2, 2016, in relation to the Petition filed by the ERC, the SC issued a Resolution dated September 26, 2016, which partially granted the ERC Petition. While the SC allowed the RTC to proceed with the principal case of declaratory relief, it nonetheless issued a Preliminary Mandatory Injunction (PMI) against RTC Pasig to vacate the preliminary injunction it previously issued, and Preliminary Injunction (PI) ordering the RTC Pasig to refrain issuing further orders and resolutions tending to enjoin the implementation of EPIRA. On November 14, 2016, MERALCO filed a Motion for Partial Reconsideration with Very Urgent Motion to lift PMI/ PI.

On November 24, 2016, the ERC promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) MW from December 31, 2016 to February 26, 2017. On January 17, 2017, MERALCO, through counsel, received an SC Resolution dated December 5, 2016, which consolidated the SC DOE Petition with the SC ERC Petition. The same resolution also denied the Motion for Partial Reconsideration filed by MERALCO.

In relation to the ERC and DOE Petitions, a separate Petition for Certiorari, Prohibition and Injunction was filed by Philippine Chamber of Commerce and Industry ("PCCI"), San Beda College Alabang, Inc., Ateneo de Manila University and Riverbanks Development Corporation. In said Petition PCCI et. al sought to declare as null and void, as well as to enjoin the DOE and ERC from implementing DOE Circular No. 2015-06- 0010, Series of 2015, ERC Resolution Nos. 5, 10, 11 and 28, Series of 2016. Acting on the Petition, the Supreme Court en banc through a Resolution dated February 21, 2017, issued a TRO enjoining the DOE and the ERC from implementing DOE Circular No. 2015-06- 0010 Series of 2015, ERC Resolution Nos. 5, 10, 11 and 28 Series of 2016. Pursuant to the foregoing, PEMC has taken the position that the TRO enjoined the voluntary contestability of 750 kW to 999 kW customers and has not allowed them to switch to the contestable market. The DOE, in a press release, has advised that it is in the process, together with PEMC and ERC, of drafting a general advisory for the guidance of RCOA stakeholders. The PCCI petition was consolidated with two other separate petitions filed by Siliman University and several distribution utilities. The DOE and ERC have also filed a consolidated comment on these petitions.

On November 29, 2017, the DOE issued two (2) DOE Circulars, namely, DC 2017-12-0013, entitled, Providing Policies on the Implementation of RCOA for Contestable Customers in the Philippine Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of RCOA for RES in the Philippine Electric Power Industry. The DOE Circulars became effective on December 24, 2017.

Under the DOE Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under RCOA Phase 2 shall now be allowed upon effectivity of the said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 50 kW to 749 kW for preceding 12 months and demand aggregation for electricity end-users within a contiguous area with an aggregate average peak demand of not less than 500 kW for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 22, 2017, MERALCO wrote ERC and DOE seeking guidance on the impact of the DOE Circulars in the light of the TRO issued by the SC. The DOE responded on January 18, 2018 that there is no legal impediment to the implementation of the DOE Circulars but it defers to the OSG for guidance on the legal aspect of the issuances. As at March 5, 2019, the ERC has yet to respond to MERALCO's letter.

Others. MERALCO and its subsidiaries are subject to various pending or threatened legal actions in the ordinary course of business which, if the conclusion is unfavorable to MERALCO and subsidiaries, may result in the payout of substantial claims and/or the adjustment of electricity distribution rates. These contingencies substantially represent the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested. Other disclosures required by PAS 37 were not provided as it may prejudice MERALCO's position in on–going claims, litigations and assessments.

Rail

Claims with Grantors. In accordance with Schedule 5 of the LRT-1 Concession Agreement, LRMC is entitled to claim ESR costs and LRV shortfall, fare deficit, SDR costs and Grantor's compensation payment. As at March 5, 2019, LRMC has submitted 14 letters (first to fourteenth Balancing Payments) to the DOTr representing its claims. Total claims up to the thirteenth Balancing Payment amounted to ₱5,428 million.

All claims are still undergoing discussion as at March 5, 2019.

Others

Donor's Tax. NOHI received on January 14, 2011 a Final Assessment Notice (FAN) demanding the payment of approximately ₱170.2 million as deficiency donor's tax (comprising of the basic tax due and 25% surcharge) on the excess of the book value over the selling price of several shares of stock in Bonifacio Land Corporation (BLC) which NOHI sold to a third party. The assessment was based on the finding of the Bureau of Internal Revenue–Large Taxpayer Service (BIR–LTS) that the transaction is subject to donor's tax as a "deemed gift" transaction under Section 100 of the 1997 National Internal Revenue Tax Code (the Tax Code).

On February 14, 2011, NOHI filed its formal protest to the FAN raising several factual and legal arguments. However, this was denied by the BIR through the letter it has delivered to NOHI stating its Final Decision on Disputed Assessment (FDDA). NOHI then filed a Petition for Review with the Second Division of the Court of Tax Appeals (CTA) to challenge the FDDA.

On May 4, 2016, the CTA En Banc promulgated its decision, which was received on May 13, 2016, denying the company's Petition for Review dated October 21, 2014 and affirming the adverse decision of the Second Division of the Court dated June 11, 2014 and Resolution of the Second Division dated September 16, 2014 which denied NOHI's Motion for Reconsideration. On October 28, 2016, NOHI received a copy of the Resolution of the CTA En Banc dated
October 18, 2016 denying NOHI's Motion for Reconsideration.

On December 12, 2016, NOHI filed with the SC the required Petition for Review as appeal from the decision and resolution of the CTA En Banc. On March 14, 2017, NOHI received a copy of the Resolution dated January 23, 2017 of the Supreme Court denying NOHI's Petition for Review on the decision of the Court of Tax Appeals en banc which affirmed the decision of the CTA Second Division ordering NOHI to pay donor's tax. On March 28, 2017, NOHI filed a Motion for Reconsideration on the aforesaid Resolution of the Supreme Court. On October 3, 2017, NOHI received the Resolution dated July 26, 2017 of the SC denying the Motion for Reconsideration.

As at December 31, 2018, NOHI partially settled amount due to BIR of ₱397 million. As at March 5, 2019, NOHI is awaiting BIR's decision on the company's request for abatement of delinquency interest given that the company is no longer operating and already undergoing liquidation.

Item 4. **Submission of Matters to a Vote of Security Holders**

There were no matters submitted during the fourth quarter of the fiscal year to the vote of security holders, through the solicitation of proxies or otherwise. The Annual Meeting of the Stockholders of GT Capital was held on May 9, 2018, and the results thereof were submitted to the Securities and Exchange Commission in the corresponding SEC Form 17-C and disclosed through the Philippine Stock Exchange and the Philippine Dealing and Exchange Corporation.

PART II.

OPERATIONAL AND FINANCIAL INFORMATION

Item 5. **Market for Issuer's Common Equity and Related Stockholder Matters**

Market Information

The Company's common shares have been listed and traded at the PSE since April 20, 2012. The high and low sales prices for each period within the last two calendar years are as follows:

In Php	High	Low
	2017	
1st Quarter (Jan 1 to Mar 31)	1,381	1,145
2nd Quarter (Apr 1 to June 30)	1,300	1,120
3rd Quarter (July 1 to Sept 30)	1,257	1,105
4th Quarter (Oct 1 to Dec 31)	1,293	1,127
	2018	
1st Quarter (Jan 1 to Mar 31)	1,401	1,100
2nd Quarter (Apr 1 to June 30)	1,138	840
3rd Quarter (July 1 to Sept 30)	1,010	764
4th Quarter (Oct 1 to Dec 31)	1,010	661
	2019	
1st Quarter (Jan 1 to Mar 29)	1,131	920

Source: Bloomberg

As of December 28, 2018, the closing price of the Company's shares of stock is Php975.00 per share.

Holders

As of December 31, 2018, the Company had 80 stockholders of record, including PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Non-Filipino).

The top 20 stockholders of the Corporation's Common Shares as of March 31, 2019 are as follows:

NAME OF STOCKHOLDER	NO. OF SHARES *	RATIO (%) TO TOTAL AMOUNT SUBSCRIBED
1. GRAND TITAN CAPITAL HOLDINGS, INC.	111,494,128	55.932%
2. PCD NOMINEE CORP. (NON-FILIPINO)	61,515,879	30.860%
3. PCD NOMINEE CORP. (FILIPINO)	25,698,749	12.892%
4. TY, GEORGE SIAO KIAN	207,000	0.104%
5. TY, ARTHUR VY	103,500	0.052%
TY, ALFRED VY	103,500	0.052%
6. TY, MARY VY	102,465	0.051%
7. BLOOMINGDALE ENTERPRISES, INC.	31,723	0.016%
8. DE CASTRO, SALUD D.	20,000	0.010%
9. CHAN, ASUNCION C.	6,210	0.003%
10. CHOI, ANITA C.	4,140	0.002%
11. MAR, PETER OR ANNABELLE C. MAR	3,105	0.002%
12. BAGUYO, DENNIS G.	2,329	0.001%
13. TY, ALESSANDRA VY ITF ADAM ZACHARY	2,243	0.001%
TY, ALESANDRA T. ITF ALEXA MARIE T. TY	2,243	0.001%
14. CHOI, DAVIS C.	2,070	0.001%
CHOI, DENNIS C.	2,070	0.001%
CHOI, DIANA C.	2,070	0.001%
CROSLO HOLDINGS, CORP.	2,070	0.001%
15. CHUA, JOSEPHINE TY	1,827	0.001%
16. CHUA, ROBERT S.	1,242	0.001%
17. SYCIP, ANNA Y.	1,125	0.001%
18. ANG, GERRY G.	1,035	0.001%

BAUTISTA, CARMELO MARIA LUZA	1,035	0.001%
BELMONTE, MIGUEL	1,035	0.001%
CUA, SOLOMON	1,035	0.001%
PARAS, WILFREDO A.	1,035	0.001%
PUNO, RODERICO	1,035	0.001%
VALENCIA, RENATO C.	1,035	0.001%
19. TSUMURA, ELEONOR OR MARY HARTIGAN-GO	776	0.000%
20. CHAM, MARGARET T. ITF INIGO	725	0.000%
CHAM, MARGARET T. ITF MARGARITA	725	0.000%
CHAM, MARGARET T. ITF PAOLO	725	0.000%
CHUA, ALEXANDER GABRIEL TY ITF AARON	725	0.000%
CHUA, ALEXANDER GABRIEL TY ITF ANDREW	725	0.000%
CHUA, KENNETH GABRIEL TY ITF MEGAN	725	0.000%
CHUA, KENNETH GABRIEL TY ITF LAWRENCE	725	0.000%
DY BUNCIO, ANJANETTE TY ITF NICHOLAS JAMES	725	0.000%
DY BUNCIO, ANJANETTE TY ITF ANDREA ROSE	725	0.000%
DY BUNCIO, ANJANETTE TY ITF MATTHEW MARTIN	725	0.000%
TY, ALFRED VY ITF ANDREI	725	0.000%
TY, ALFRED VY ITF ARYANE	725	0.000%
TY, ALFRED VY ITF AUGUSTO	725	0.000%
TY, ARTHUR VY ITF ALISA	725	0.000%
TY, ARTHUR VY ITF ANDREW RYAN	725	0.000%
TY, ARTHUR VY ITF ARIC JUSTIN	725	0.000%

** Fully subscribed and paid up*

Dividends

As a policy, the Corporation has a target annual dividend payout of Php3.00 per share, payable out of its unrestricted retained earnings. Such declaration will take into consideration factors such as restrictions that may be imposed by current and prospective financial covenants; projected levels of operating results, working capital needs and long-term capital expenditures; and regulatory requirements on dividend payments, among others.

In 2016, 2017 and 2018, the Company paid cash dividends to its stockholders as follows:

Year	Common stock	Total	Voting Preferred Stock	Total	Record Date	Payment Date
2016	Php3.00 per share (regular) Php3.00 per share (special)	Php522.9 million (regular) Php522.9 million (special)	3.77% PDST-R2 3Y rate as of April 13, 2015 (regular)	Php657,111.0 (regular)	April 8, 2016	May 4, 2016
2017	Php3.00 per share (regular) Php2.00 per share (special)	Php522.9 million (regular) Php348.6 million (special)	3.77% PDST-R2 3Y rate as of April 13, 2015 (regular)	Php657,111.0 (regular)	April 4, 2017	April 20, 2017
2018	Php3.00 per share (regular)	Php577.8 million	3.77% PDST-R2 3Y rate as of April 13, 2015 (regular)	Php657,111.0 (regular)	April 4, 2018	April 13, 2018

On March 16, 2018, the Board of Directors approved the declaration of a 3.5% stock dividend in favor of GT Capital's stockholders of common stock as of record date equivalent to approximately 6,740,884 shares. On May 9, 2018, stockholders' approval has been obtained during the Annual Stockholders' Meeting. The record and payment dates were set on July 9, 2018 and August 2, 2018, respectively.

On August 2, 2018, the 3.5% stock dividend equivalent to 6,740,899 common shares were issued and listed in the Philippine Stock Exchange.

On March 26, 2019, the Board of Directors of the Company approved the declaration of cash dividends for common and voting preferred stockholders as follows. There are no restrictions limiting payment of dividends on common shares. Cash dividends for common and voting preferred stockholders are as follows:

Year	Common stock	Total	Voting Preferred Stock	Total	Record Date	Payment Date
2019	Php3.00 per share (regular)	Php598.0 million	3.77% PDST-R2 3Y rate as of April 13, 2015 (regular)	Php657,111.0 (regular)	April 10, 2019	April 25, 2019

On March 26, 2019, the Board of Directors also approved the declaration of an 8.0% stock dividend, subject to shareholders' approval.

Any stockholder with less than one-half (1/2) share shall not receive any share nor shall any cash payment be made to them, while stockholders with one-half (1/2) or more than one-half (1/2) share shall receive a full share.

Recent Sale of Unregistered or Exempt Securities
On June 7, 2017 GT Capital issued 18,296,685 common shares out of its unissued common shares in favor of Grand Titan Capital Holdings, Inc. increasing its issued and outstanding common shares from 174,300,000 to 192,596,685 for approximately Php21.69 billion. No underwriter was engaged for this transaction. This transaction is exempt under SRC Rule 10.1(e), sale to existing shareholders.

The approved declaration of a 3.5% stock dividend on March 16, 2018 (as stated above) in favor of GT Capital's stockholders of common stock is exempt under SRC Rule 10.1 (d), declaration of stock dividends.

Item 6. Market of Issuer's Securities Other Than Common Equity
On October 14, 2016, the Philippine SEC approved the offering of up to 12.00 million cumulative, non-voting, non-participating, non-convertible, redeemable peso-denominated perpetual preferred shares (the Offer) with a par value of Php100.00 per share at an offer price of Php1,000.00 per share for a total offer price of Php12.00 billion. The Offer consists of Series A and Series B with dividend rates per annum of 4.6299% and 5.0949%, respectively. Both series of said perpetual preferred shares were listed on the PSE on October 27, 2016. The proceeds from the Offer will be used to refinance short-term loans and fund strategic acquisitions.

The closing price of both Perpetual Preferred Shares Series A and Series B is Php900 per share, as of December 31, 2018

Dividends
On December 6, 2018, the Board of Directors of the Company approved the declaration of cash dividends for Perpetual Preferred Shares. Details of the Parent Company's dividend distributions to preferred shareholders are as follows:

Series A

Year	Perpetual Preferred Stock (GTPPA)	Total	Record Date	Payment Date
2017	Php11.57475 per share	Php56.01 million	January 3, 2018	January 29, 2018
2017	Php11.57475 per share	Php56.01 million	April 3, 2018	April 27, 2018
2017	Php11.57475 per share	Php56.01 million	July 3, 2018	July 27, 2018
2017	Php11.57475 per share	Php56.01 million	October 3, 2018	October 29, 2018
2018	Php11.57475 per share	Php56.01 million	January 3, 2019	January 28, 2019
2018	Php11.57475 per share	Php56.01 million	April 3, 2019	April 29, 2019
2018	Php11.57475 per share	Php56.01 million	July 3, 2019	July 29, 2019
2018	Php11.57475 per share	Php56.01 million	October 3, 2019	October 28, 2019

Series B

Year	Perpetual Preferred Stock (GTPPB)	Total	Record Date	Payment Date
2017	Php12.73725 per share	Php91.21 million	January 3, 2018	January 29, 2018
2017	Php12.73725 per share	Php91.21 million	April 3, 2018	April 27, 2018
2017	Php12.73725 per share	Php91.21 million	July 3, 2018	July 27, 2018
2017	Php12.73725 per share	Php91.21 million	October 3, 2018	October 29, 2018
2018	Php12.73725 per share	Php91.21 million	January 3, 2019	January 28, 2019
2018	Php12.73725 per share	Php91.21 million	April 3, 2019	April 29, 2019
2018	Php12.73725 per share	Php91.21 million	July 3, 2019	July 29, 2019
2018	Php12.73725 per share	Php91.21 million	October 3, 2019	October 28, 2019

Item 7. Management's Discussion and Analysis or Plan of Operation
CALENDAR YEAR ENDED DECEMBER 31, 2018 VERSUS YEAR ENDED DECEMBER 31, 2017

GT Capital Consolidated Statements of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2018**	2017	**Amount**	**Percentage**
CONTINUING OPERATIONS				
REVENUE				
Automotive operations	**179,117**	211,692	(32,575)	(15%)
Real estate sales and Interest income on real estate sales	**19,717**	15,406	4,311	28%
Equity in net income of associates and joint venture	**11,517**	8,699	2,818	32%
Rent income	**1,257**	940	317	34%
Interest income on deposits and investments	**873**	771	102	13%
Sale of goods and services	**778**	640	138	22%
Commission income	**108**	56	52	93%
Other income	**2,458**	1,607	851	53%
	215,825	239,811	(23,986)	(10%)
COSTS AND EXPENSES				
Cost of goods and services sold	**129,849**	147,713	(17,864)	(12%)
Cost of goods manufactured and sold	**31,809**	39,635	(7,826)	(20%)
General and administrative expenses	**14,040**	12,899	1,141	9%
Cost of real estate sales	**12,609**	10,035	2,574	26%
Interest expense	**4,965**	3,394	1,571	46%
Cost of rental	**476**	360	116	32%
	193,748	214,036	(20,288)	(9%)
INCOME BEFORE INCOME TAXES	**22,077**	25,775	(3,698)	(14%)
PROVISION FOR INCOME TAX	**4,171**	4,524	(353)	(8%)
NET INCOME	**17,906**	21,251	(3,345)	(16%)
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**13,390**	14,182	(792)	(6%)
Non-controlling interests	**4,516**	7,069	(2,553)	(36%)
	17,906	21,251	(3,345)	(16%)

GT Capital Holdings, Inc. ("GT Capital" or the "Company" or the "Parent Company") consolidated net income attributable to equity holders of the Parent Company declined by 6% from Php14.18 billion in 2017 to Php13.39 billion in 2018. The decline in net income growth was principally due to a 10% decline in total revenues.
The decline in revenue came from the following component companies:

(1) lower auto sales from Toyota Motor Philippines Corporation ("TMP") and Toyota Manila Bay Corporation ("TMBC") as combined sales decreased by 15% from Php211.69 billion to Php179.12 billion accounting for 83% of total revenue; offset by:
(2) higher real estate sales and interest income on real estate sales from Federal Land Inc. (Fed Land) and Property Company of Friends, Inc. ("PCFI") which grew by 28% from Php15.41 billion to Php19.72 billion; and
(3) higher equity in net income of associates and joint venture which grew by 32% from Php8.70 billion to Php11.52 billion.

Core net income attributable to equity holders of the Parent Company reached Php13.66 billion in 2018 from Php15.02 billion in 2017. Core net income for 2018 amounted to Php13.66 billion after adding back the Php0.27 billion amortization of fair value adjustments arising from business combinations, taxes-related to lot sales, and non-recurring expenses, net of non-recurring gains. Core net income for 2017 amounted to Php15.02 billion after adding back the Php0.84 billion amortization of fair value adjustments arising from business combinations and non-recurring expenses.

The financial statements of Fed Land, PCFI, TMP, TMBC and GT Capital Auto Dealership Holdings, Inc. ("GTCAD") are consolidated in the financial statements of the Company. The other component companies Metro Pacific

Investments Corporation ("MPIC"), Metropolitan Bank & Trust Company ("Metrobank" or "MBT'), Philippine AXA Life Insurance Corporation ("AXA Philippines), Toyota Financial Services Philippines Corporation ("TFSPH") and Sumisho Motor Finance Corporation ("SMFC") are accounted for through equity accounting.

Of the ten (10) component companies, Metrobank, PCFI, MPIC, TFSPH, AXA Philippines, and SMFC posted growths in their respective net income. TMP, TMBC, and Fed Land, reported declines in their respective net income for the year. GTCAD commenced commercial operations in November 2018.

Automotive operations comprising the sale of assembled and imported auto vehicles and spare parts declined by 15% from Php211.69 billion to Php179.12 billion principally driven by the 15% decrease in wholesales volume from 183,209 units to 155,508 units.

Real estate sales and interest income on real estate sales rose by 28% from Php15.41 billion to Php19.72 billion. Fed Land contributed approximately 54% of total sales, mostly from middle-market development projects. PCFI's low cost and economic housing projects contributed the remaining balance.

Equity in net income of associates and jointly-controlled entities increased by 32% from Php8.70 billion to Php11.52 billion primarily due to increases in:

(1) net income of Metrobank which increased by 21% from Php18.22 billion to Php22.01 billion given full year impact of increased ownership from 26.47% to 36.09% effective May 1, 2017 and further increasing to 36.36% effective April 1, 2018;
(2) net income of MPIC which increased by 7% from Php13.15 billion to Php14.13 billion;
(3) net income of AXA Philippines which increased by 25% from Php2.47 billion to Php3.08 billion; and
(4) net income of TFSPC which increased by 14% rom Php0.69 billion to Php0.79 billion.

Rent income, mainly from Fed Land's GT Tower International office building and Blue Bay Walk, increased by 34% from Php0.94 billion to Php1.26 billion driven by rate escalation and higher occupancy for IMET.
Interest income on deposits and investments grew by 13% from Php0.77 billion to Php0.87 billion due to higher level of time deposit placements.

Sale of goods and services, consisting of the sale of petroleum products on a wholesale and retail basis, in the Blue Wave and Blue Baywalk malls and Roxas Boulevard situated in Pasay City and Marikina City, rose by 22% from Php0.64 billion to Php0.78 billion due an increase in retail fuel prices and new franchises.

Commission income increased by Php0.05 billion from Php0.06 billion to Php0.11 billion due to an increase in booked sales from Grand Hyatt Residences I.

Other income grew by 53% from Php1.61 billion to Php2.46 billion with: (1) Federal Land contributing Php0.87 billion comprising real estate forfeitures, management fees and other income; (2) TMP contributing Php0.61 billion consisting of gain on sale of fixed assets, and subscription and ancillary income from its dealer subsidiaries; (3) TMBC contributing Php0.44 billion consisting of ancillary income on finance and insurance commissions and other income; and (4) PCFI contributing Php0.33 billion consisting of management income and commercial recoveries. The remaining balance of Php0.21 billion came from GT Capital's dividend income from investments in Toyota Motor Corporation (TMC) and gain on FVPTL investments.

Consolidated costs and expenses decreased by 9% from Php214.04 billion to Php193.75 billion with the following breakdown:

(1) Php148.95 billion from TMP comprising cost of goods manufactured, cost of goods and services sold, general and administrative expenses and interest expenses;
(2) Php20.37 billion from TMBC consisting of cost of goods and services sold, general and administrative expenses and interest expenses;
(3) Php11.29 billion from Fed Land consisting of cost of real estate sales, cost of goods sold, cost of rental, general and administrative expenses and interest expenses;
(4) Php8.94 billion from PCFI comprising cost of real estate sales, general and administrative expenses and interest expenses; and
(5) Php4.20 billion from GT Capital representing interest expenses and general and administrative expenses.

Cost of goods and services sold decreased by 12% from Php147.71 billion to Php129.85 billion with TMP, TMBC and GTCAD's completely built-up units (CBU) and spare parts accounting for Php110.25 billion, Php18.73 billion and Php0.20 billion, respectively. The balance of Php0.67 billion came from Federal Land's petroleum service station business.

Cost of goods manufactured and sold comprising cost of materials, labor and overhead incurred in the assembly of vehicles from TMP declined by 20% from Php39.64 billion in 2017 to Php31.81 billion in 2018.

General and administrative expenses grew by 9% from Php12.90 billion to Php14.04 billion. TMP accounted for Php6.49 billion consisting of salaries and wages, taxes and licenses, advertisements and promotional expenses, and delivery and handling expenses. PCFI contributed Php3.37 billion consisting of salaries and wages, advertising and promotional expenses, commission expenses, taxes and licenses and outside services. Federal Land accounted for Php2.37 billion composed of salaries and wages, commission expenses, taxes and licenses and repairs and maintenance expenses; and TMBC contributed Php1.54 billion representing salaries and wages, commission expenses and taxes and licenses and advertising and promotional expenses. GT Capital contributed Php0.24 billion consisting of salaries and wages, professional fees and taxes and licenses. The remaining Php0.03 came from GTCAD which consists mainly of salaries and wages, depreciation and amortization, and taxes and licenses.

Cost of real estate sales increased by 26% from Php10.04 billion to Php12.61 billion arising from the increase in real estate sales. Fed Land contributed 59% of the cost while PCFI accounted for the remaining 41%.

Interest expense increased from Php3.39 billion to Php4.97 billion with GT Capital, PCFI, Fed Land, TMP, and TMBC accounting for Php3.95 billion, Php0.40 billion, Php0.33 billion, Php0.19 billion, and Php0.10 billion, respectively.

Cost of rental grew by 32% from Php0.36 billion to Php0.48 billion due to an increase in operating expenses incurred in the leasing business such as depreciation, utilities and other overhead expenses.

Provision for income tax declined by 8% from Php4.52 billion to Php4.17 billion due to lower taxable income.

Net income attributable to non-controlling interest decreased by 36% from Php7.07 billion to Php4.52 billion due decline in net income of non-wholly owned subsidiaries.

Consolidated net income attributable to equity holders of the Parent Company declined by 6% from Php14.18 billion in 2017 to Php13.39 billion in 2018.

Consolidated Statements of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)		2017		
	2018	(As restated)	**Amount**	**Percentage**
ASSETS				
Current Assets				
Cash and cash equivalents	**14,353**	20,155	(5,802)	(29%)
Short-term investments	**65**	1,666	(1,601)	(96%)
Financial assets at fair value through profit or loss	**3,181**	-	3,181	100%
Available-for-sale investments	**-**	611	(611)	(100%)
Receivables	**15,153**	24,374	(9,221)	(38%)
Contract asset	**8,329**	-	8,329	100%
Inventories	**77,469**	74,872	2,597	3%
Due from related parties	**666**	166	500	301%
Prepayments and other current assets	**9,790**	10,417	(627)	(6%)
Total Current Assets	**129,006**	132,261	(3,255)	(2%)
Noncurrent Assets				
Receivables – net of current portion	**932**	4,720	(3,788)	(80%)
Contract asset – net of current portion	**6,886**	-	6,886	100%
Financial assets at fair value through other comprehensive income	**10,948**	-	10,948	100%
Available-for-sale investments	-	2,103	(2,103)	(100%)
Investment properties	**17,728**	17,392	336	2%
Investments and advances	**163,739**	124,892	38,847	31%
Property and equipment	**13,638**	11,671	1,967	17%
Goodwill and intangible assets	**12,955**	13,012	(57)	(0%)
Deferred tax asset	**1,024**	731	293	40%
Other noncurrent assets	**2,894**	909	1,985	218%
Total Noncurrent Assets	**230,744**	175,430	55,314	32%
TOTAL ASSETS	**359,750**	307,691	52,059	17%
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	**25,411**	25,983	(572)	(2%)
Contract liabilities	**8,787**	-	8,787	100%
Short-term debt	**10,500**	6,033	4,467	74%
Current portion of long-term debt	**820**	2,467	(1,647)	(67%)
Current portion of liabilities on purchased properties	**416**	582	(166)	(29%)
Current portion of bonds payable	**2,994**	-	2,994	100%
Customers' deposits	**563**	4,941	(4,378)	(89%)
Dividends payable	**1,198**	589	609	103%
Due to related parties	**204**	189	15	8%
Income tax payable	**601**	777	(176)	(23%)
Other current liabilities	**843**	1,229	(386)	(31%)
Total Current Liabilities	**52,337**	42,790	9,547	22%

Consolidated Statements of Financial Position	Audited December 31		Increase (Decrease)	
(In Million Pesos, Except for Percentage)	**2018**	2017	**Amount**	**Percentage**
Noncurrent Liabilities				
Long term debt – net of current portion	**94,349**	57,021	37,328	65%
Bonds payable	**18,913**	21,877	(2,964)	(14%)
Liabilities on purchased properties - net of current	**2,877**	3,152	(275)	(9%)
Pension liabilities	**859**	1,399	(540)	(39%)
Deferred tax liabilities	**5,959**	5,594	365	7%
Other noncurrent liabilities	**2,169**	2,167	2	0%
Total Noncurrent Liabilities	**125,126**	91,210	33,916	37%
TOTAL LIABILITIES	**177,463**	134,000	43,463	32%
Equity attributable to equity holders of Parent Company				
Capital stock	**3,211**	3,143	68	2%
Additional paid-in capital	**85,592**	78,940	6,652	8%
Retained earnings				
Unappropriated	**53,459**	48,582	4,877	10%
Appropriated	**17,000**	19,000	(2,000)	(11%)
Other comprehensive loss	**(4,207)**	(5,975)	1,768	30%
Other equity adjustments	**2,322**	2,322	-	0%
	157,377	146,012	11,365	8%
Non-controlling interests	**24,910**	27,679	(2,769)	(10%)
TOTAL EQUITY	**182,287**	173,691	8,596	5%
TOTAL LIABILITIES AND EQUITY	**359,750**	307,691	52,059	17%

The major changes in GT Capital's consolidated statement of financial position from December 31, 2017 to December 31, 2018 are as follows:

Consolidated assets increased by 17% or Php52.06 billion from Php307.69 billion as of December 31, 2017 to Php359.75 billion as of December 31, 2018. Total liabilities increased by 32% or Php43.46 billion from Php134.00 billion to Php177.46 billion while total equity increased by 5% or Php8.60 billion from Php173.69 billion to Php182.29 billion.

Cash and cash equivalents declined by Php5.80 billion from Php20.16 billion to Php14.35 billion with TMP, GT Capital-Parent Company, PCFI, Federal Land, TMBC and GTCAD accounting for Php7.58 billion, Php3.67 billion, Php1.63 billion, Php1.24 billion, Php0.20 billion and Php0.03 billion, respectively.

Short-term investments declined by 96% from Php1.67 billion to Php0.07 billion comprising short-term money market placements of TMP.

Financial assets at fair value through profit or loss (FVTPL) amounting to Php3.18 billion pertaining to the Parent Company's investment in Unit Investment Trust Fund (UITF) following the classification under Philippine Financial Reporting Standards (PFRS) 9 effective January 1, 2018. Under the old standard, investments in UITF are classified under Available for sale (AFS) investments.

Receivables-current decreased by 38% or Php9.22 billion from Php24.37 billion to Php15.15 billion with TMP contributing Php8.15 billion consisting of trade and non-trade receivables; PCFI contributing Php2.78 billion comprising of installment contract receivables and other receivables; Federal Land contributing Php1.74 billion, a majority of which were installment contract receivables, rent receivable and other receivables; TMBC and GTCAD accounting for Php2.35 billion and Php0.12 billion, respectively, representing trade receivables from the sale of automobiles and after-sales maintenance services, and GT Capital contributing the remaining balance of Php0.01 billion.

Contract assets-current amounting to Php8.33 billion are initially recognized for revenue earned from real estate sales as receipt of consideration is conditional on successful completion of installation. Upon completion of performance obligation and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade residential and office development receivables.

Inventories grew by 3% from Php74.87 billion to Php77.47 billion with Federal Land contributing Php38.58 billion comprising land and improvements, condominium units for sale and inventory with construction-in-progress; PCFI contributing Php29.66 billion comprising land and improvements, material inventory, ongoing construction of house inventory and condominium units for sale; TMP contributing Php8.43 billion mostly finished goods; and the balance of Php0.69 billion and Php0.11 billion coming from TMBC and GTCAD, respectively, representing automobiles and spare parts.

Due from related-parties increased by Php0.50 billion from Php0.17 billion to Php0.67 billion mainly Fed Land's related-parties.

Prepayments and other current assets decreased by 6% from Php10.42 billion to Php9.79 billion comprising advances to contractors and suppliers, prepaid expenses, deposit to land owners, input VAT, and creditable withholding taxes from Federal Land, (Php4.85 billion); PCFI, (Php3.61 billion); TMP, (Php1.22 billion); TMBC, (Php0.04 billion); and GT Capital, (Php0.07 billion).

Receivables - net of current portion decreased by Php3.79 billion from Php4.72 billion to Php0.93 billion mainly due to reclassification to non-current contract asset following the provisions of PFRS 15.

Contract assets - net of current portion amounting to Php6.89 billion pertain to the non-current portion of the excess of progress of work over the right to an amount of consideration that is unconditional.

Financial assets at fair value through other comprehensive income (FVOCI) amounted to Php10.95 billion mainly the Parent Company's acquisition of Toyota Motor Corporation common shares in the Tokyo Stock Exchange following the reclassification under PFRS 9 effective January 1, 2018. Under the old standard, investments in equity shares were classified under AFS investments.

Investments and advances increased by 31% from Php124.89 billion to Php163.74 billion primarily due to the following:

1) Php29.63 billion additional and initial investments broken down as follows:
    - Php22.45 billion additional investment in Metrobank arising from the latter's stock rights offering;
    - Php4.33 billion additional investment in Sunshine Fort of Federal Land;
    - Php1.58 billion initial investment in North Bonifacio Landmark Realty Development Corporation (NBLRDI), net of Php0.11 billion advances in 2017 converted to equity in 2018 of Federal Land ;
    - Php0.72 billion additional investment in TFSPC arising from its equity call;
    - Php0.47 billion additional investment in ST 6747 of Federal Land; and
    - Php0.08 billion initial investment in Magnificat and HSL South Food, Inc. of Federal Land.
2) Php11.52 billion share in net income of associates and joint ventures in 2018;
3) Php3.73 billion share in other comprehensive income arising from the adoption of PFRS 9 in January 1, 2018.

These were offset by the following:

1) Php2.44 billion share in other comprehensive loss of associates;
2) Php2.11 billion dividend income received from Metrobank, MPIC, AXA Philippines, and Crown Central; and
3) Php1.48 billion impact of intra-group elimination.

Property and equipment grew by 17% from Php11.67 billion to Php13.64 billion mostly from the newly completed building of TMP and TMBC (Marikina facility).

Deferred tax asset increased by 40% from Php0.73 billion to Php1.02 billion with TMP, Fed Land, TMBC and PCFI accounting for Php0.45 billion, Php0.43 billion, Php0.08 billion and Php0.06 billion, respectively.

Other noncurrent assets increased by Php1.98 billion from Php0.91 billion to Php2.89 billion comprising long-term deposits, non-current input tax, derivative asset, non-current prepaid rent and other assets from TMP, (Php1.55 billion), PCFI, (Php0.82 billion); Federal Land, (Php0.43 billion); GTCAD, (Php0.06 billion); TMBC, (Php0.02 billion); and GT Capital, (Php0.01 billion).

Contract liabilities amounting to Php8.79 billion consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition and excess of collections over the recognized receivables and contract assets based on percentage of completion.

Short-term debt increased by Php4.47 billion from Php6.03 billion to Php10.50 billion due to loan availments of GT Capital, (Php10.75 billion); Federal Land, (Php9.20 billion); TMP, (Php2.42 billion); TMBC, (Php5.92 billion); PCFI, (Php3.85 billion); and GTCAD (Php0.17 billion). These were offset by loan payments by GT Capital, (Php10.75 billion); Federal Land, (Php7.61 billion); TMBC, (Php5.65 billion); TMP, (Php2.33 billion); and PCFI, (Php1.50 billion).

Current portion of long-term debt declined by 67% from Php2.47 billion to Php0.82 billion primarily due to loan payment by PCFI (Php3.51 billion) offset by reclassification from noncurrent portion of long-term debt (Php1.85 billion) and amortization of deferred financing cost and fair value adjustment (Php0.01 billion).

Current portion of liabilities on purchased properties decreased by 29% from Php0.58 billion to Php0.42 billion due to a reclassification from non-current to current for the loan portion due within one year.

Current portion of bonds payable increased by Php2.99 billion due to reclassification from noncurrent portion of bonds payable maturing in November 2019.

Customers' deposits pertaining to reservation deposits and collections for accounts which do not qualify for revenue recognition decreased by 89% from Php4.94 billion to Php0.56 billion.

Dividends payable increased by Php0.61 billion from Php0.59 billion to Php1.20 billion due to cash dividends payable to noncontrolling shareholders of non-wholly owned subsidiaries.

Due to related parties increased by 8% from Php0.19 billion to Php0.20 billion primarily due to Federal Land's related parties.

Income tax payable decreased by 23% from Php0.78 billion to Php0.60 billion due to decrease in taxable income in 2018 as compared to the taxable income in 2017.

Other current liabilities declined by Php0.39 billion from Php1.23 billion to Php0.84 billion primarily due to the settlement of withholding taxes and output tax as of December 31, 2017 which were paid in the first quarter of 2018.

Long-term debt increased by Php37.33 billion from Php57.02 billion to Php94.35 billion primarily due to the: 1) Php25 billion long-term loan availment by the Parent Company to fund its participation in the Metrobank stock rights offering, net of Php0.19 billion documentary stamp tax of, 2) P11.05 billion long-term loan availment by Parent Company denominated in foreign currency, net of Php0.09 billion transaction cost; 3) Php3.25 billion long term loan availment by Federal Land, net of Php0.03 billion transaction cost; 4) Php0.19 billion translation loss of foreign currency-denominated loans; and 5) Php0.07 billion amortization of deferred financing cost; offset by the 1) Php1.85 billion reclassification to current portion of long-term debt; and 2) the Php0.07 billion loan payments.

Non-current portion of bonds payable decreased by Php2.96 billion due to reclassification to current portion of bonds payable maturing in November 2019.

Non-current portion of liabilities on purchased properties declined by Php0.27 billion from Php3.15 billion to Php2.88 billion mainly due to reclassification to current portion.

Pension liabilities declined by 39% from Php1.40 billion to Php0.86 billion mainly due to increased funding in 2018. Deferred tax liabilities grew by 7% from Php5.59 billion to Php5.96 billion due to an increase in taxable temporary differences.

Capital stock increase of Php67.41 million pertain to the par value of the 6.74 million common shares representing 3.5% stock dividends declared and issued by GT Capital in 2018.

Additional paid in capital increase of Php6.65 billion pertain to the excess over par value of the 3.5% stock dividends declared and issued by GT Capital in 2018 at Php997.00 per share.

Unappropriated retained earnings increased by Php4.88 billion from Php48.58 billion to Php53.46 billion due to the (1) Php13.39 billion net income attributable to equity holders of the Parent Company; and (2) Php19.00 billion retained earnings reverted back to unappropriated retained earnings from appropriated retained earnings; partially offset by the (1) Php1.17 billion cash dividends declared to shareholders of common and preferred stock; (2) Php6.72 billion stock dividends; (3) Php17.00 billion appropriation of retained earnings for strategic investment in financial services; (4) Php2.58 billion effect of the adoption of PFRS 9 and 15; and (5) and Php0.04 billion realized loss on sale of financial assets at FVOCI.

The Php17.00 billion appropriated retained earnings as of December 31, 2018 pertains to the appropriation of retained earnings earmarked for strategic investments in property development in 2019.

Other comprehensive loss improved by Php1.77 billion from a negative Php5.98 billion to a negative Php4.21 billion primarily due to the (1) Php5.54 billion equity in other comprehensive income of associates arising from adoption of PFRS 9; (2) Php0.07 bilion gain on remeasurement of cash flow hedge reserve; (3) Php0.13 billion gain on remeasurement of pension liabilities; and (4) Php0.04 billion effect of adoption of PFRS 9; offset by (1) Php2.44 billion equity in other comprehensive loss of associates; and (2) Php1.57 billion mark-to-market loss on FVOCI investments.

Non-controlling interest (NCI) declined by 10% from Php27.68 billion to Php24.91 billion due to the Php4.52 billion net income attributable to NCI, Php0.17 billion other comprehensive income attributable to NCI, Php0.04 billion share of NCI in capital call; offset by Php6.93 billion NCI share in dividends declared by majority-owned subsidiaries and Php0.57 billion effect of adoption of PFRS 9 and 15.

Key Performance Indicators of the Company and its component companies

The following are the key performance indicators of the Company for the years ended December 31, 2016, 2017 and 2018.

	In Million Pesos, except for percentages		
Income Statement	**2016**	**2017**	**2018**
Total Revenues	202,124	239,811	215,825
Net Income attributable to Equity Holders of GT Capital Holdings	14,634	14,182	13,390
Balance Sheet			
Total Assets	265,446	307,691	359,750
Total Liabilities	124,208	134,000	177,463
Equity attributable to GT Capital Holdings, Inc.	114,805	173,691	182,287
Return on Equity *	11.99%	12.10%	9.32%

**Core net income attributable to GT Capital's common stockholders divided by the average equity where average equity is the sum of equity attributable to GT Capital's common stockholders at the beginning and end of the year divided by 2.*

Banking

Metrobank

In Billion Pesos, except for percentages and ratios			
	2016	**2017**	**2018**
Net income attributable to equity holders	18.1	18.2	22.0
Net interest margin on average earning assets	3.5%	3.8%	3.8%
Operating efficiency ratio	56.7%	56.8%	58.5%
Return on average assets	1.0%	0.9%	1.02%
Return on average equity	9.3%	9.2%	9.1%

	2016	**2017**	**2018**
Total assets	1,876.0	2,080.3	2,243.7
Total liabilities	1,670.5	1,876.2	1,953.0
Equity attributable to equity holders of the parent company	196.0	202.0	283.0
Tier 1 capital adequacy ratio	12.5%	11.8%	14.6%
Total capital adequacy ratio	15.5%	14.4%	17.0%
Non-performing loans ratio	0.9%	1.0%	1.2%
Non-performing loans coverage ratio	113.0%	89.0%	105.0%

Notes:

(1) Operating efficiency ratio is the ratio of total operating expenses (excluding provisions for credit and impairment loss and income tax) to total operating income (excluding share in net income of associates and joint venture).

(2) Return on average asset is the net income attributable to equity holders of the parent company divided by the average total assets

(3) Return on average equity is the net income attributable to equity holders of the parent company divided by the average total equity attributable to equity holders of the parent company

(4) Capital adequacy ratios as of December 31, 2016, 2017 and 2018 were computed based on Basel III standards.

(5) Non-performing loans ratio is the ratio of net non-performing loans divided by total loans – excluding interbank loans.

(6) Non-performing loans coverage ratio is the ratio of the total allowance for probable losses on loans divided by gross non-performing loans

Metrobank consolidated net income grew by 20.8% from Php18.2 billion in 2017 to Php22.0 billion in 2018. This was primarily due to the 9.9% growth in loans and receivables, and acquisition of the remaining 20% in Metrobank Card Corporation (MCC) from ANZ.

Net interest income grew by 12.1% from Php61.4 billion in 2017 to Php68.8 billion in 2018, comprising 74.0% of total operating income. This was driven by strong loan demand from the commercial and consumer segments. CASA ratio maintained at 62.0% of total deposits, thereby, improving net interest margin by 7 basis points to 3.8%.

Non-interest income grew by 3.4% from Php22.1 billion in 2017 to Php22.9 billion in 2018 driven by increases in service charges, fees and commissions and miscellaneous income offset by lower trading and securities, and foreign exchange gains.

Total assets grew by 7.9% from Php2.1 trillion as of December 31, 2017 to Php2.2 trillion as of December 31, 2018 primarily due to increases in loans and receivables, investment securities, Interbank Loans Receivable and Securities Purchased Under Resale Agreements, and Due from Other Banks offset by a decrease in due from Bangko Sentral ng Pilipinas.

Total liabilities, likewise, grew by 4.1% from Php1.9 trillion as of December 31, 2017 to Php2.0 trillion as of December 31,2018 trillion due to increases in deposit liabilities, bills payable, Securities Sold Under Repurchase Agreement and bonds payable offset by a decrease in other liabilities. CASA grew by 1.5% from Php950.2 billion to Php964.9 billion. On August 9, 2018 and October 4, 2018, PSBank and Metrobank issued Php5.1 billion and Php8.7 billion of Long-term Negotiable Certificate of Deposits (LTNCD), respectively. As of December 31, 2018, outstanding LTNCD amounted to Php43.8 billion. Further, Metrobank issued Php10.0 billion fixed rate bonds on November 9, 2018 and additional Php18.0 billion fixed rate bonds on December 17, 2018. Both bonds bear an interest rate of 7.15% and will mature on November 9, 2020.

Equity attributable to equity holders of the parent company grew by 40.1% from Php202.0 billion as of December 31, 2017 to Php283.0 billion as of December 30, 2018 due to the Php60.0 billion stock rights, net income earned and effect of adoption of PFRS 9 offset by Php3.7 billion cash dividends, and Php5.1 billion translation adjustment from settlement of non-controlling interest.

Property Development

Federal Land and Property Company of Friends

	In Million Pesos, except for percentages and ratios		
	2016*	**2017**	**2018**
Real Estate Sales*	14,218.4	15,406.4	20,074.4
Revenues	17,285.1	18,226.5	23,766.2
Net income attributable to equity holders of the parent	2,995.0	2,104.9	2,382.7
	2016*	**2017**	**2018**
Total assets	107,936.9	115,683.2	124,369.7
Total liabilities	48,214.0	55,791.4	65,082.9
Total equity attributable to equity holders of the parent	59,618.3	59,781.5	59,181.0
Current ratio	5.0x	4.0x	3.3x
Debt to equity ratio	0.5x	0.6x	0.7x

** GT Capital invested an additional 28.32% increasing its direct equity stake to 51% in PCFI as of June 30, 2016*

Notes:

(1) Current ratio is the ratio of total current assets divided by total current liabilities.
(2) Debt to equity ratio is the ratio of total loans divided by total equity attributable to equity holders of the parent company

GT Capital's property companies recorded a 30.4% growth in consolidated revenues from Php18.2 billion in 2017 to Php23.8 billion in 2018. Of total revenues, Federal Land accounted for 56%, while the balance came from PCFI. Consolidated real estate sales grew by 30.3% from Php15.4 billion to Php20.1 billion, as booked sales of Federal Land grew by 16.4% and PCFI by 50.2% on a year-on-year basis. Together, the two property developers reported a 13.2% growth in consolidated net income from Php2.1 billion in 2017 to Php2.4 billion in 2018.

Consolidated assets of the property companies grew by 7.5% from Php115.7 billion as of December 31, 2017 to Php124.4 billion as of December 31, 2018. For Federal Land, the growth mainly came from increases in investments in associates and joint ventures, and receivables from real estate sales. For PCFI, total assets grew mainly due to an increase in receivables arising from higher real estate sales recognized during the period.

In 2018, Federal Land launched six (6) projects namely: (i) Palm Beach West – Baler, a vertical residential condominium project located in Macapagal Boulevard, Pasay City; (ii) Peninsula Garden Midtown Homes – Mimosa, a vertical residential condominium project located in Paco, Manila; (iii) Florida Sun Estates – Orlando, a horizontal residential condominium project located in General Trias, Cavite; (iv) Quantum Residences – Aqua, a vertical residential condominium project located in Taft Avenue, Pasay City; (v) Four Season Riviera – Peony, a vertical residential condominium project located in Binondo, Manila; and (vi) Valencia Hills – Tower E, a vertical residential condominium project located in N. Domingo St., Quezon City .

In addition, Federal Land successfully launched two (2) joint venture projects, both in located in Grand Central, Bonifacio Global City, Taguig City. The first project was the second tower of Grand Hyatt Gold Residences (South Tower) in October 2018, a joint venture with Orix of Japan; and the second was the first tower of The Seasons Residences (Haru), a joint venture with Nomura Real Estate Development Co. Ltd.

Federal Land's average overall percentage-of-completion of ongoing development projects declined from 53.0% in 2017 to 46.0% in 2018.

For PCFI, new retail outlets such as Shopwise, HealthWealth (Medical Clinics and Diagnostics) and Turks Shawarma were opened in Lancaster New City (LNC), another flagship project. MC Home Depot will open a branch in LNC in 2019. As of December 31, 2018, commercial and retail establishments reached an aggregate of 64 outlets.

Life and Non-Life Insurance

Philippine AXA Life Insurance Corporation and Subsidiary (AXA Philippines)

The following are the major performance measures used by AXA Philippines for the period ended 2016, 2017 and 2018.

In Million Pesos, except ratios				
	AXA Philippines			Consolidated 2018
	2016	2017	2018	
Gross Premiums	21,624.9	26,359.1	29,708.4	35,374.1
Net income after tax	1,666.0	2,360.6	2,745.9	3,084.1
Net Profit Margin (%)[1]	7.2%	8.4%	8.7%	
Total Assets	90,316.7	114,378.6	116,107.2	126,794.1
Total Liabilities	83,853.2	106,814.5	106,580.4	117,559.5
Total Equity	6,463.5	7,564.2	9,526.8	9,234.7
Solvency ratio[2]	220%	341%	473.0%	

Notes:

(1) Net profit margin (%) is the ratio of Net profit over Total Revenues.

(2) Solvency ratio is calculated as the insurance company's net worth divided by the Risk-based Capital (RBC) requirement of the Insurance Commission based on Memorandum Circular (IMC) No. 6-2006. Net worth shall include the company's paid-up capital, contributed and contingency surplus, and unassigned surplus.

New business from the life insurance sector of AXA Philippines grew by 13.2% expressed in Annualized Premium Equivalent (APE) from Php6.3 billion in 2017 to Php7.1 billion in 2018. The increase in APE was driven by the growth in Regular Premium and Single Premium of 16.5% and 3.7%, respectively. The reported sales mix of life insurance premium income was changed to 52%/48% in 2018 from the previous 56%/44% in 2017 (Single Premium vs. Regular Premium). By distribution platform, bancassurance and sales agency accounted for 71% and 29% of premium revenues, respectively. On the other hand, gross written premiums from the non-life sector is flat in 2018 at Php5.7 billion.

Consolidated net income reached Php3.1 billion in 2018. Excluding CPAIC, AXA Philippines grew its net income by 16.4% from Php2.4 billion in 2017 to Php2.7 billion in 2018. The net income growth is primarily driven by the: (1) improvement in the life insurance sector's premium margins by 33.7% equivalent to Php8.2 billion and (2) increase in asset management fees by 16.1% reaching Php1.8 billion.

Infrastructure and Utilities

Metro Pacific Investments Corporation (MPIC)

In Million Pesos, except for Percentage			
	2016	2017	2018
Core net income	12,106	14,104	15,060
Net income attributable to equity holders	11,456	13,151	14,130
	2016	2017	2018
Total assets	351,602	503,751	557,946
Total liabilities	163,521	288,072	318,943
Total equity attributable to owners of Parent Company	152,032	161,244	173,311

MPIC's share in the consolidated operating core income increased by 10% from Php17.8 billion in 2017 to Php19.6 billion in 2018, primarily reflecting the following:

- Expanded power portfolio through the increase in effective shareholding in Meralco from 32.48% to 41.22% (beginning May 30, 2016) and investment in GBPC representing 47.78% effective interest (acquired last May 27, 2016); Effective July 1, 2017, MPIC acquired the remaining 25% stake in Beacon Electric Asset Holdings, Inc. (Beacon Electric) from PLDT Communications and Energy Ventures (PCEV) bringing its effective stake in Meralco from 41.22% to 45.5% and in GBPC from 47.78% to 62.5%; Core net income contribution from Meralco and GBPC in 2018 increased by 15% from Php9.4 billion in 2017 to Php10.8 billion

- Increased share in the Tollway business arising from strong traffic growth on all domestic roads held by Metro Pacific Tollways Corporation (MPTC); Core net income contribution of MPTC increased by 13% from Php3.9 billion in 2017 to Php4.4 billion in 2018

- Steady volume growth coupled with inflation-linked tariff increase in Maynilad; Core net income contribution of Maynilad increased by 2% from Php3.7 billion in 2017 to Php3.8 billion in 2018

Reported net income attributable to equity holders grew by 7% from Php13.2 billion in 2017 to Php14.1 billion in 2018. Excluding head office, interest, forex and non-recurring income or expenses, core income grew by 7% from Php14.1 billion to Php15.1 billion.

Automobile Assembly and Importation, Dealership and Financing

Toyota Motor Philippines (TMP)

	In Million Pesos, except for ratios		
	2016	**2017**	**2018**
Sales	155,832.5	185,337.1	159,150.1
Gross Profit	21,072.3	23,058.8	16,694.7
Operating Profit	15,669.0	16,798.2	10,377.5
Net income attributable to Parent	11,929.0	13,186.1	7,952.4
	2016	**2017**	**2018**
Total Assets	36,003.4	42,158.3	36,427.5
Total Liabilities	18,511.1	23,010.7	21,189.8
Total Equity	17,492.3	19,147.6	15,237.6
Total Liabilities to Equity ratio*	1.1x	1.2x	1.4x

**Total Liabilities to Equity ratio is a measure of the company's financial leverage which is calculated by dividing total liabilities by total equity*

TMP's consolidated sales declined by 14.1% from Php185.3 billion in 2017 to Php159.2 billion in 2018 as wholesales volume declined by 15% from 183,209 units to 155,508 units. TMP retail sales volume, likewise, declined by 17% from 183,908 units to 153,004 units, while industry retail sales volume declined by 15% from 473,376 units to 400,298 units. As a result, TMP market share slightly declined from 38.9% in 2017 to 38.2% in 2018 as demand slowed down attributed to the new auto excise tax law implementation, suspension of the issuance for new franchise to TNVS effective August 2017, supply limitation for commercial vehicles in the first quarter of 2018 and run-out of old Vios effective May 2018.

TMP launched two models in 2018: i) All-New Rush, leading the subcompact SUV segment in May 2018; and ii) the Full Model Change Vios, it's official entry to the government's CARS program in July 2018.

As of December 2018, TMP increased its auto dealership complement from 63 to 69 outlets. Last November 8, 2018, TMP inaugurated its 69th dealership - Toyota Subic, Inc., situated in Marshaling Yard, Subic Gateway District, Subic Bay Freeport Zone, Olongapo City, Zambales.

The lower sales volume, unfavorable foreign exchange for the Philippine Peso vis-à-vis the US dollar, higher sales of low profit models and increased operating and overhead costs, resulted in a decline in gross profit, operating profit, net income margins, from 12.4%, 9.3% and 7.2% to 10.5%, 6.9% and 5.1%, respectively. Likewise, consolidated net income attributable to equity holders declined by 39.7% from Php13.2 billion to Php8.0 billion mainly due to the above mentioned profit decreasing factors.

As of December 31, 2018, TMP directly owns seven (7) dealer outlets namely Toyota Makati with one (1) branch Toyota Bicutan, Toyota San Fernando in Pampanga with two (2) branches in Plaridel Bulacan and Toyota Tarlac in Tarlac City, Lexus Manila, situated in Bonifacio Global City, Taguig City and Toyota Santa Rosa, situated in Sta. Rosa, Laguna, which commenced operations in August 2017.

Toyota Financial Services Philippines Corporation (TFSPC)

	In Million Pesos, except for ratios		
	2016	**2017**	**2018**
Gross Interest Income	3,641.7	4,920.6	6,164.7
Net Interest Income	2,148.8	2,860.8	3,254.7
Net Income	555.1	687.6	786.8
Finance Receivable	43,789.9	60,412.6	67,427.4
	2016	**2017**	**2018**
Total Assets	55,581.4	58,742.0	83,509.3
Total Equity	4,941.5	5,051.7	7,656.5

TFSPC recorded a 25.3% growth in gross interest income from Php4.9 billion in 2017 to Php6.2 billion in 2018, as loans and receivables increased by 12% from Php60.4 billion to Php67.4 billion on a year-on-year basis.

Booking volume, however, declined from 36,365 units to 31,827 units in 2018 attributable to the overall demand slowdown in the auto industry. This, however, resulted in slightly improved penetration rate from 20% to 21%.

Net income increased by 14.4% from Php687.6 million to Php786.8 million due to the 16.4% growth in operating income from Php995.9 million to Php1.2 billion, as provisions for credit and impairment losses merely increased by 1.7% driven by the change in provisioning policy and shift to the IFRS 9 model, higher ROPA reversals and written off accounts and improvement in delinquency ratio.

Toyota Manila Bay Corporation (TMBC)

	In Million Pesos, except for ratios		
	2016	**2017**	**2018**
Net Sales	23,995.6	26,312.0	20,488.8
Gross Profit	1,421.8	1,787.9	1,438.4
Net Income	297.4	390.2	176.7
	2016	**2017**	**2018**
Total Assets	4,896.7	6,059.9	6,563.9
Total Liabilities	3,551.6	3,839.8	4,084.6
Total Equity	1,345.1	2,220.1	2,289.2

Consolidated sales, comprising of vehicle sales, spare parts and maintenance services, declined by 22.1% from Php26.3 billion in 2017 to Php20.5 billion in 2018. Vehicle sales, accounting for 90.7% of TMBC's revenues, decreased by 23.2% from Php24.2 billion to Php18.6 billion arising from lower sales booking.

Retail sales volume declined by 29.0% from 22,870 units to 16,231 units due to overall market slowdown attributed to the implementation of the new auto excise tax, suspension of the issuance for new franchise to TNVS effective August 2017, low supply of commercial vehicles in the first quarter of 2018 and old Vios model run-out effective

May 2018. Sales from spare parts and maintenance services, accounting for a combined 9.3% of revenues, increased by 4.7%.

Consolidated net income in 2018 decreased by 54.7% from Php390.2 million to Php176.7 million, as gross profit on vehicle sales declined by 33.3%, along with the decline in ancillary income by 20.3% and interest expense increased by 37.3% due to the outright recognition of interest expenses arising from the start of commercial operations of the new Manila Bay and Marikina dealership facilities, inaugurated last October 2017 and May 2018, respectively and working capital financing.

TMBC currently owns five (5) dealer outlets namely Toyota Manila Bay, Toyota Abad Santos, Toyota Cubao and Toyota Marikina, all situated within Metro Manila; and Toyota Dasmariñas in Cavite.

Sumisho Motor Finance Corporation (SMFC)

	In Million Pesos, except for ratios		
	2016	**2017**	**2018**
Gross Interest Income	597.4	836.7	1,153.4
Net Interest Income	588.3	804.7	1,064.9
Net Income	86.0	205.5	262.2
Finance Receivable	2,405.40	3,292.9	4,758.8
	2016	**2017**	**2018**
Total Assets	2,606.75	3,533.5	5,053.6
Total Equity	1,509.52	2,024.0	2,304.8

On August 9, 2017, GT Capital completed the acquisition of a 20% direct equity stake in SMFC from Philippine Savings Bank ("PS Bank") and the PS Bank Retirement Fund for a total consideration of Php379.92 million. The acquisition was GT Capital's entry into micro-financing, specifically motorcycle financing, a high growth sector in the Philippines. The investment will also strengthen the Group's strategic relationship with Sumitomo Corporation, one of Japan's leading conglomerates.

SMFC recorded a 37.8% growth in gross interest income from Php836.7 million in 2017 to Php1.2 billion in 2018, as finance receivable increased by 44.5% from Php3.3 billion to Php4.8 billion on a year-on-year basis. Bookings also grew by 39.9% from 37,421 units to 52,356 units in 2018. This outperformed the strong performance of the Philippine motorcycle industry, which increased by 20.6% from 1,319,084 to 1,590,333 units, as disclosed by the Motorcycle Development Program Participants Association, Inc. ("MDPPA") in the Federation of Asian Motorcycle Industries ("FAMI") website.

Net income increased by 27.6% from Php205.5 million to Php262.2 million, despite the increase in provisions for credit losses due to loan portfolio increase.

Except for (ii), (vi) and (vii), the Company does not know of:

(i) Any known trends or any known demands, commitments, events, uncertainties that will result or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way;

(ii) Any events that would trigger direct or contingent financial obligation (including contingent obligation) that is material to the Company, including any default or acceleration of an obligation except those disclosed in the notes to the financial statements;

(iii) Any material off balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons created during the reporting period;

(iv) Any material commitments for capital expenditures, their purpose and sources of funds for such expenditures;

The GT Capital Group's 2019 capital expenditures ("capex") budget is presented as follows:

Component Company	In Php Billion	Nature	Funding source
Metrobank	2.0	IT system upgrades, expansion of electronic banking channels, ATM installation, and renovation/relocation of branch premises	Internal
Federal Land[1]	12.0	Land bank and Office buildings	Internal and Debt
PCFI	2.3	Php1.9B for Land & Others, and balance for commercial and retail	Internal and Debt
TMP	6.8	New models and logistics expansion	Internal
TMBC	0.3	Dealership expansion and renovation	Internal and Debt
TFS	0.2	Automation projects and leasehold improvements	Internal
SMFC	0.1	Branch expansion, leasehold improvements and IT upgrade	Debt
AXA Philippines[2]	0.2	Computer and IT upgrade, Office equipment	Internal
GTCap-Parent	27.8	Auto Value Chain and other potential investments	Internal and Debt
Total	**51.7**		

(1) Excludes construction of vertical residential buildings and house construction
(2) Includes CPAIC

(v) Any known trends, events or uncertainties that have had or are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations;

(vi) Any significant elements of income or loss that did not arise from the Company's continuing operations except those disclosed in the audited financial statements;

(vii) The causes of any material change from period to period including vertical and horizontal analysis of any material item, the causes of material changes are discussed in the MD & A; and

(viii) Any seasonal aspects that had a material effect on financial condition or results of operation of the Company.

CALENDAR YEAR ENDED DECEMBER 31, 2017 VERSUS YEAR ENDED DECEMBER 31, 2016

GT Capital Consolidated Statements of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2017**	2016	**Amount**	**Percentage**
REVENUE				
Automotive operations	**211,692**	177,709	33,983	19%
Real estate sales and Interest income on real estate sales	**15,406**	13,731	1,675	12%
Equity in net income of associates and joint venture	**8,699**	6,366	2,333	37%
Sale of goods and services	**640**	620	20	3%
Rent income	**940**	826	114	14%
Interest income on deposits and investments	**771**	969	(198)	(20%)
Commission income	**56**	192	(136)	(71%)
Gain on revaluation of previously held interest	**-**	125	(125)	(100%)
Other income	**1,607**	1,586	21	1%
	239,811	202,124	37,687	19%
COSTS AND EXPENSES				
Cost of goods and services sold	**147,713**	122,060	25,653	21%
Cost of goods manufactured and sold	**39,635**	33,792	5,843	17%
General and administrative expenses	**12,899**	12,837	62	0%
Cost of real estate sales	**10,035**	7,586	2,449	32%
Interest expense	**3,394**	3,326	68	2%
Cost of rental	**360**	326	34	10%
	214,036	179,927	34,109	19%
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**25,775**	22,197	3,578	16%
PROVISION FOR INCOME TAX	**4,524**	4,586	(62)	(1%)
INCOME FROM CONTINUING OPERATIONS, NET OF TAX	**21,251**	17,611	3,640	21%
NET INCOME FROM DISCONTINUED OPERATIONS	**-**	4,916	(4,916)	(100%)
NET INCOME	**21,251**	22,527	(1,276)	(6%)
ATTRIBUTABLE TO:				
Equity holders of the parent company				
Profit for the year from continuing operations	**14,182**	10,631	3,551	33%
Profit for the year from discontinued operations	**-**	4,003	(4,003)	(100%)
	14,182	14,634	(452)	(3%)
Non-controlling interest				
Profit for the year from continuing operations	**7,069**	6,980	89	1%
Profit for the year from discontinued operations	**-**	913	(913)	(100%)
	7,069	7,893	(824)	(10%)
	21,251	22,527	(1,276)	(6%)

GT Capital Holdings, Inc. (“GT Capital” or the “Company” or the “Parent Company”) consolidated net income attributable to equity holders of the Parent Company declined by 3% from Php14.63 billion in 2016 to Php14.18 billion in 2017. The decline was principally due to the recognition of non-recurring gains from the sale of investments in 2016. Despite this, revenues still grew by 19% from Php202.12 billion in 2016 to Php239.81 billion in 2017.

The revenue growth came from the following component companies:

(1) auto sales from Toyota Motor Philippines Corporation (“TMP”) and Toyota Manila Bay Corporation (“TMBC”) as combined sales increased from Php177.71 billion to Php211.69 billion accounting for 88% of total revenue;

(2) higher real estate sales and interest income on real estate sales from Federal Land Inc. (Fed Land) and Property Company of Friends, Inc. ("PCFI") which grew by 12% from Php13.73 billion to Php15.41 billion; and
(3) higher equity in net income of associates and joint venture which grew by 37% from Php6.37 billion to Php8.70 billion.

Core net income attributable to equity holders of the Parent Company improved by 29% from Php11.67 billion to Php15.03 billion. Core net income for 2017 amounted to Php15.03 billion, after adding back the (1) Php0.70 billion amortization of fair value adjustments arising from various business combinations; and (2) Php0.15 billion non-recurring gains. Core net income for 2016 amounted to Php11.67 billion, after excluding the Php3.20 billion one-time gains from the sale of investments in shares of stock of Global Business Power Corporation (GBPC) and Charter Ping An Insurance Corporation ("CPAIC"), among others, net of related taxes and expenses; and adding back the (1) Php0.20 billion non-recurring reinsurance cost of CPAIC; and (2) Php0.04 billion amortization of fair value adjustments arising from various business combinations.

The financial statements of Fed Land, PCFI, TMP, TMBC and GT Capital Auto Dealership Holdings, Inc. ("GTCAD") are consolidated in the financial statements of the Company. The other component companies Metro Pacific Investments Corporation ("MPIC"), Metropolitan Bank & Trust Company ("Metrobank" or "MBT'), Philippine AXA Life Insurance Corporation ("AXA Philippines), Toyota Financial Services Philippines Corporation ("TFSPH") and Sumisho Motor Finance Corporation ("SMFC") are accounted for through equity accounting.
Of the ten (10) component companies, TMP, TMBC, Metrobank, MPIC, TFSPH, AXA Philippines, and SMFC posted growths in their respective net income. Fed Land, and PCFI, reported declines in their respective net income for the year. GTCAD has not commenced commercial operations.

Automotive operations comprising the sale of assembled and imported auto vehicles and spare parts grew by 19% from Php177.71 billion to Php211.69 billion principally driven by the 13% increase in wholesales volume from 162,085 units to 183,209 units and continued expansion in the dealer outlets from 52 to 63.
Real estate sales and interest income on real estate sales rose by 12% from Php13.73 billion to Php15.41 billion. Fed Land contributed approximately 59% of total sales, mostly from middle-market development projects. PCFI's low cost and economic housing projects contributed the remaining balance.

Equity in net income of associates and joint venture, increased by 37% from Php6.37 billion to Php8.70 billion due to increases in: (1) net income of MPIC increasing by 15% from Php11.46 billion to Php13.15 billion which contributed full year in 2017 as compared to seven (7) months in 2016; (2) net income of Metrobank increasing by 1% from Php18.09 billion to Php18.22 billion with increased ownership from 26.47% to 36.09% effective May 1, 2017; and (3) net income of AXA Philippines more than doubled from Php1.13 billion to Php2.47 billion.

Rent income, mainly from Fed Land's GT Tower International office building and Blue Bay Walk, increased by 14% from Php0.83 billion to Php0.94 billion.

Interest income on deposits and investments declined by 20% from Php0.97 billion to Php0.77 billion due to a decline in cash available for short-term placements by GT Capital and subsidiaries.

Commission income declined by Php0.14 billion from Php0.19 billion to Php0.05 billion due to a decline in booked sales of Grand Hyatt Residences.

Gain on revaluation of previously-held interest in 2016 amounted to Php0.12 billion, representing one-time gains arising from the re-measurement of GT Capital's investment in TMBC, (Php0.07 billion); and Fed Land's investment in Federal Land Orix Corporation (FLOC), (Php0.05 billion), which were previously accounted for as investment in jointly-controlled entities.

Consolidated costs and expenses increased by 19% from Php179.93 billion to Php214.04 billion with the following breakdown:
(1) Php169.34 billion from TMP comprising cost of goods manufactured, cost of goods and services sold, general and administrative expenses and interest expenses;
(2) Php25.91 billion from TMBC consisting of cost of goods and services sold, general and administrative expenses and interest expenses;

(3) Php9.29 billion from Fed Land consisting of cost of real estate sales, cost of goods sold, cost of rental, general and administrative expenses and interest expenses;
(4) Php6.62 billion from PCFI comprising cost of real estate sales, general and administrative expenses and interest expenses; and
(5) Php2.88 billion from GT Capital representing interest expenses and general and administrative expenses.

Cost of goods and services sold increased by 21% from Php122.06 billion to Php147.71 billion with TMP's and TMBC's completely built-up units and spare parts accounting for Php147.15 billion and the balance of Php0.56 billion from Fed Land's petroleum service station business.

Cost of goods manufactured and sold comprising cost of materials, labor and overhead incurred in the assembly of vehicles from TMP grew by 17% from Php33.79 billion in 2016 to Php39.63 billion in 2017.

Cost of real estate sales increased by 32% from Php7.59 billion to Php10.04 billion arising from the increase in real estate sales. Fed Land contributed 61% of the cost while PCFI accounted for the remaining 39%.

Interest expenses increased from Php3.33 billion to Php3.39 billion with GT Capital, PCFI, TMP, Fed Land, and TMBC accounting for Php2.61 billion, Php0.47 billion, Php0.12 billion, Php0.12 billion and Php0.07 billion, respectively.

General and administrative expenses grew from Php12.84 billion in 2016 to Php12.90 billion in 2017. TMP accounted for Php6.66 billion consisting of salaries and wages, advertisements and promotional expenses, taxes and licenses and delivery and handling expenses. PCFI contributed Php2.24 billion consisting of salaries and wages, commission expenses, advertising and promotional expenses, outside services and taxes and licenses. Fed Land accounted for Php2.13 billion composed of salaries and wages, commission expenses, taxes and licenses and repairs and maintenance expenses. TMBC contributed Php1.60 billion representing salaries and wages, commission expenses and advertising and promotional expenses and taxes and licenses and GT Capital contributed Php0.27 billion consisting of salaries and wages, professional fees and taxes and licenses.

Cost of rental grew by 10% from Php0.33 billion to Php0.36 billion due to an increase in depreciation of the building leased out.

Income from discontinued operations in 2016 amounted to Php4.92 billion consisting of non-recurring gains from sale of the Parent Company's investment in GBPC and CPAIC amounting to Php3.44 billion and Php0.25 billion, respectively, and net income contribution of GBPC amounted to Php1.39 billion offset by Php0.16 billion losses incurred by CPAIC.

Net income attributable to non-controlling interest decreased by 10% from Php7.89 billion to Php7.07 billion due to the sale of GBPC in 2016, which is a majority-owned subsidiary.

Consolidated net income attributable to equity holders of the Parent Company declined by 3% from Php14.63 billion in 2016 to Php14.18 billion in 2017.

Consolidated Statements of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2017**	2016	**Amount**	**Percentage**
ASSETS				
Current Assets				
Cash and cash equivalents	**20,155**	20,954	(799)	(4%)
Short-term investments	**1,666**	1,598	68	4%
Available-for-sale investments	**611**	1,284	(673)	(52%)
Receivables	**24,374**	22,798	1,576	7%
Inventories	**56,594**	52,060	4,534	9%
Due from related parties	**166**	80	86	108%
Prepayments and other current assets	**10,417**	6,992	3,425	49%
Total Current Assets	**113,983**	105,766	8,217	8%
Noncurrent Assets				

Consolidated Statements of Financial Position	Audited December 31		Increase (Decrease)	
(In Million Pesos, Except for Percentage)	**2017**	2016	**Amount**	**Percentage**
Available-for-sale investments	**2,103**	1,443	660	46%
Receivables – net of current portion	**4,720**	7,141	(2,421)	(34%)
Land held for future development	**18,278**	18,464	(186)	(1%)
Investment properties	**17,392**	14,314	3,078	22%
Investments and advances	**124,892**	94,828	30,064	32%
Property and equipment	**11,671**	9,367	2,304	25%
Goodwill and intangible assets	**13,012**	12,802	210	2%
Deferred tax asset	**731**	540	191	35%
Other noncurrent assets	**909**	781	128	16%
Total Noncurrent Assets	**193,708**	159,680	34,028	21%
TOTAL ASSETS	**307,691**	265,446	42,245	16%
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	**25,983**	21,177	4,806	23%
Short term debt	**6,033**	6,697	(664)	(10%)
Current portion of long term debt	**2,467**	1,581	886	56%
Current portion of liabilities on purchased properties	**582**	166	416	251%
Customers' deposits	**4,941**	3,839	1,102	29%
Dividends payable	**589**	589	-	0%
Due to related parties	**189**	195	(6)	(3%)
Income tax payable	**777**	202	575	285%
Other current liabilities	**1,229**	638	591	93%
Total Current Liabilities	**42,790**	35,084	7,706	22%
Noncurrent Liabilities				
Long term debt – net of current portion	**57,021**	56,475	546	1%
Bonds payable	**21,877**	21,848	29	0%
Liabilities on purchased properties - net of current	**3,152**	1,993	1,159	58%
Pension liabilities	**1,399**	1,671	(272)	(16%)
Deferred tax liabilities	**5,594**	5,052	542	11%
Other noncurrent liabilities	**2,167**	2,085	82	4%
Total Noncurrent Liabilities	**91,210**	89,124	2,086	2%
TOTAL LIABILITIES	**134,000**	124,208	9,792	8%
EQUITY				
Equity attributable to equity holders of Parent Company				
Capital stock	**3,143**	2,960	183	6%
Additional paid-in capital	**78,940**	57,437	21,503	37%
Retained earnings				
Unappropriated	**48,582**	39,961	8,621	22%
Appropriated	**19,000**	14,900	4,100	28%
Other comprehensive loss	**(5,975)**	(2,775)	(3,200)	(115%)
Other equity adjustments	**2,322**	2,322	-	0%
	146,012	114,805	31,207	27%
Non-controlling interests	**27,679**	26,433	1,246	5%
TOTAL EQUITY	**173,691**	141,238	32,453	23%
TOTAL LIABILITIES AND EQUITY	**307,691**	265,446	42,245	16%

The major changes in GT Capital's consolidated statement of financial position from December 31, 2016 to December 31, 2017 are as follows:

Consolidated assets of the Group grew by 16% or Php42.24 billion from Php265.45 billion as of December 31, 2016 to Php307.69 billion as of December 31, 2017. Total liabilities increased by 8% or Php9.79 billion from Php124.21 billion to Php134.00 billion while total equity improved by 23% or Php32.45 billion from Php141.24 billion to Php173.69 billion.

Cash and cash equivalents declined by 4% from Php20.95 billion to Php20.15 billion with TMP, PCFI, Fed Land, TMBC, GTCAD and GT Capital-Parent Company accounting for Php17.17 billion, Php1.44 billion, Php1.02 billion, Php0.25 billion, Php0.21 billion and Php0.06 billion, respectively.

Short-term investments grew by 4% from Php1.60 billion to Php1.67 billion mainly TMP's short-term money market placements.

Available-for-sale (AFS) investments classified as current declined by Php0.67 billion from Php1.28 billion to Php0.61 billion due to the withdrawal of the Unit Investment Trust Fund (UITF) by GT Capital Parent to fund its acquisitions.

Receivables-current grew by 7% from Php22.80 billion to Php24.37 billion with: 1) TMP contributing Php7.75 billion consisting of trade receivables with credit terms ranging from one (1) to thirty (30) days; 2) Fed Land contributing Php7.63 billion, majority of which were installment contract receivables, rent receivables and other receivables; 3) PCFI contributing Php6.50 billion consisting of installment contract receivables and other receivables; and 4) TMBC contributing Php2.49 billion comprising trade receivables from the sale of vehicles, spare parts and after-sales service.

Inventories increased by 9% from Php52.06 billion to Php56.59 billion with Fed Land contributing Php38.09 billion comprising land and improvements, condominium units for sale and inventory with construction-in-progress; PCFI contributing Php11.55 billion comprising land and improvements, materials inventory, ongoing construction of house inventory and condominium units for sale; TMP contributing Php6.64 billion mostly finished goods; and the balance of Php0.31 billion came from TMBC representing automobiles and spare parts for sale.

Due from related-parties increased by Php0.09 billion from Php0.08 billion to Php0.17 billion mainly Fed Land's related-parties.

Prepayments and other current assets rose by 49% from Php6.99 billion to Php10.42 billion comprising advances to contractors and suppliers, prepaid expenses, input VAT, deposit to land owners and creditable withholding tax from Fed Land (Php4.96 billion); PCFI (Php4.20 billion); TMP (Php1.14 billion); TMBC (Php0.08 billion); and GT Capital (Php0.04 billion).

Available-for-sale (AFS) investments classified as non-current grew by 46% from Php1.44 billion to Php2.10 billion due to mark-to-market gains as of December 31, 2017.

Non-current receivables declined by 34% from Php7.14 billion to Php4.72 billion mainly bank take-out of installment contract receivables.
Investment properties grew by 22% from Php14.31 billion to Php17.39 billion, comprising of properties held for lease and capital appreciation from Fed Land (Php11.84 billion), PCFI (Php3.03 billion), TMP (Php2.22 billion) and TMBC (Php0.30 billion).

Investments and advances increased by 32% from Php94.83 billion to Php124.89 billion primarily due to: (1) Php24.74 billion additional 9.62% ownership over Metrobank; (2) Php8.70 billion equity in net income for 2017; (3) Php0.78 billion additional investment in ST 6747 Resources Corporation; (4) Php0.48 billion additional investment in TFS; (5) Php0.38 billion initial 20% investment in SMFC; (6) Php0.29 billion initial investment in Sunshine Fort; and (7) Php0.10 billion advances to North Bonifacio Landmark Realty Development Corporation; offset by (1) Php3.82 billion equity in other comprehensive loss and (2) cash dividends received from Metrobank (Php0.84 billion), MPIC (Php0.50 billion) and Phil AXA (Php0.25 billion).

Property and equipment grew by 25% from Php9.37 billion to Php11.67 billion mostly from the newly completed building of TMP and TMBC.

Deferred tax assets increased by 35% from Php0.54 billion to Php0.73 billion with TMP, PCFI, TMBC and Fed Land accounting for Php0.48 billion, Php0.14 billion, Php0.08 billion and Php0.03 billion, respectively.

Other noncurrent assets grew by 16% from Php0.78 billion to Php0.91 billion comprising long-term deposits, non-current input tax, non-current prepaid rent, other assets and retirement assets from PCFI (Php0.41 billion), Fed Land (Php0.33 billion), TMP (Php0.12 billion), GTCAD (Php0.04 billion) and TMBC (Php0.01 billion).

Accounts and other payables increased by 23% from Php21.18 billion to Php25.98 billion with TMP, Fed Land, PCFI, TMBC and GT Capital accounting for Php16.54 billion, Php5.04 billion, Php2.83 billion, Php1.41 billion and Php0.16 billion, respectively.

Short-term debt declined by 10% from Php6.70 billion to Php6.03 billion due to loan payments by GT Capital-Parent Company (Php3.00 billion), TMBC (Php4.87 billion), TMP dealership subsidiaries (Php1.75 billion), and Fed Land (Php1.23 billion); offset by availments of short-term loans by TMBC (Php5.11 billion), TMP dealer subsidiaries (Php2.57 billion); PCFI (Php1.25 billion) and Fed Land (Php1.25 billion).

Current-portion of long-term debt grew by Php0.89 billion from Php1.58 billion to Php2.47 billion due to a reclassification from non-current to current for the loan portion due within one year.

Current-portion of liabilities on purchased properties grew by Php0.42 billion from Php0.17 billion to Php0.58 billion due to a reclassification from non-current to current for the loan portion due within one year.

Customers' deposits grew by 29% from Php3.84 billion to Php4.94 billion mainly due to an improvement in reservation sales for the year.

Income tax payable grew by Php0.58 billion from Php0.20 billion to Php0.78 billion due to an increase in taxable income for the fourth quarter of 2017 vis-a-vis the fourth quarter of 2016.

Other current liabilities increased by Php0.59 billion from Php0.64 billion to Php1.23 billion due to an increase in VAT payable and withholding taxes payable as of year-end for remittance to the BIR in January 2018.

Pension liabilities declined by 16% from Php1.67 billion to Php1.40 billion with TMP, PCFI, TMBC and FLI accounting for Php1.09 billion, Php0.14 billion, Php0.09 billion and Php0.08 billion, respectively .

Non-current portion of liabilities on purchased properties grew by Php1.16 billion from Php1.99 billion to Php3.15 billion due to acquisition of lots.

Deferred tax liabilities grew by 11% from Php5.05 billion to Php5.59 billion due to an increase in taxable temporary differences.

Capital stock increased by 6% from Php2.96 billion to Php3.14 billion due to the issuance of 18.3 million new common shares to Grand Titan Capital Holdings, Inc. ("Grand Titan") in April 2017.

The Php21.50 billion increase in additional paid-in capital pertain to the excess of issue price over par value for the 18.3 million new common shares issued by GT Capital-Parent Company to Grand Titan.

Unappropriated retained earnings increased by Php8.62 billion from Php39.96 billion to Php48.58 billion due to the (1) Php14.18 billion net income attributable to equity holders of the Parent Company; and (2) Php14.90 billion retained earnings reverted back to unappropriated retained earnings from appropriated retained earnings; partially offset by the (1) Php1.46 billion cash dividends declared to shareholders of common and preferred stock and (2) Php19.00 appropriation of retained earnings for strategic investment in financial services.

The Php19.00 billion appropriated retained earnings as of December 31, 2017 pertains to the appropriation of retained earnings earmarked for strategic investments in financial services in 2018.
Other comprehensive loss increased by Php3.20 billion from a negative Php2.77 billion to a negative Php5.97 billion primarily due to the (1) Php1.49 billion net mark-to-market loss recorded on available-for-sale investments of subsidiaries and associates; 2) Php1.38 billion negative translation adjustment in associates; (3) Php0.19 billion

mark-to-market loss on remeasurement of life insurance reserve; (4) Php0.13 billion mark-to-market loss on remeasurement of retirement liabilities; and (5) Php0.01 billion mark-to-market loss on cash flow hedge reserve.

Non-controlling interest (NCI) improved by 5% from Php26.43 billion to Php27.68 billion due to the Php7.07 billon NCI share in net income earned in 2017 offset by (1) Php5.79 billion NCI share in dividends declared by subsidiaries and (2) Php 0.03 billion NCI share in other comprehensive loss.

CALENDAR YEAR ENDED DECEMBER 31, 2016 VERSUS YEAR ENDED DECEMBER 31, 2015

GT Capital Consolidated Statements of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2016**	2015	Amount	Percentage
REVENUE				
Automotive operations	**177,709**	120,802	56,907	47%
Real estate sales and Interest income on real estate sales	**13,731**	10,636	3,095	29%
Equity in net income of associates and joint venture	**6,366**	5,616	750	13%
Sale of goods and services	**620**	547	73	13%
Rent income	**826**	840	(14)	(2%)
Interest income on deposits and investments	**969**	154	815	529%
Commission income	**192**	194	(2)	(1%)
Gain on revaluation of previously held interest	**125**	-	125	100%
Other income	**1,586**	1,160	426	37%
	202,124	139,949	62,175	44%
COSTS AND EXPENSES				
Cost of goods and services sold	**122,060**	74,941	47,119	63%
Cost of goods manufactured and sold	**33,792**	27,838	5,954	21%
General and administrative expenses	**12,837**	7,482	5,355	72%
Cost of real estate sales	**7,586**	6,512	1,074	16%
Interest expense	**3,326**	2,164	1,162	54%
Cost of rental	**326**	272	54	20%
	179,927	119,209	60,718	51%
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**22,197**	20,740	1,457	7%
PROVISION FOR INCOME TAX	**4,586**	4,299	287	7%
INCOME FROM CONTINUING OPERATIONS, NET OF TAX	**17,611**	16,441	1,170	7%
NET INCOME FROM DISCONTINUED OPERATIONS	**4,916**	4,500	416	9%
NET INCOME	**22,527**	20,941	1,586	8%
ATTRIBUTABLE TO:				
Equity holders of the parent company				
Profit for the year from continuing operations	**10,631**	10,396	235	2%
Profit for the year from discontinued operations	**4,003**	1,719	2,284	133%
	14,634	12,115	2,519	21%

GT Capital Consolidated Statements of Income	Audited Year Ended December 31		Increase (Decrease)	
(In Million Pesos, Except for Percentage)	**2016**	2015	Amount	Percentage
Non-controlling interest				
Profit for the year from continuing operations	**6,980**	6,045	935	15%
Profit for the year from discontinued operations	**913**	2,781	(1,868)	(67%)
	7,893	8,826	(933)	(11%)
	22,527	20,941	1,586	8%

GT Capital Holdings, Inc. ("GT Capital" or the "Company" or the "Parent Company") consolidated net income attributable to equity holders of the Parent Company grew by 21% from Php12.11 billion in 2015 to Php14.63 billion in 2016. The increase was principally due to the 44% increase in consolidated revenues from Php139.95 billion in 2015 to Php202.12 billion in 2016.
The revenue growth came from the following component companies:

(1) auto sales from Toyota Motor Philippines Corporation ("TMP") and Toyota Manila Bay Corporation ("TMBC") as combined sales increased from Php120.80 billion to Php177.71 billion accounting for 88% of total revenue;
(2) higher real estate sales and interest income on real estate sales from Federal Land Inc. (Fed Land) and Property Company of Friends, Inc. ("PCFI") which grew by 29% from Php10.64 billion to Php13.73 billion; and
(3) higher equity in net income of associates and joint venture which grew by 13% from Php5.62 billion to Php6.37 billion.

Core net income attributable to equity holders of the Parent Company recorded 2% growth from Php11.44 billion to Php11.67 billion after excluding the Php3.20 billion one-time gains from the sale of investments in shares of stock of GBPC and Charter Ping An Insurance Corporation ("CPAIC"), among others, net of related taxes and expenses; and adding back the following:

(1) Php0.20 billion non-recurring reinsurance cost of CPAIC; and
(2) Php0.04 billion amortization of fair value adjustments arising from various business combinations.

On April 4, 2016, the Parent Company completed the sale of CPAIC for a final consideration of Php2.10 billion. This transaction resulted in a Php0.17 billion gain representing the excess of the cash consideration received over the carrying value of the non-current asset held for sale. Following the sale, the assets, liabilities and reserve of disposal group were derecognized .

In May 2016, GT Capital increased its direct equity stake in GBPC from 51.27% to 56% and subsequently sold the entire 56% equity stake to Beacon Powergen Holdings, Inc., a wholly-owned subsidiary of Beacon Electric Asset Holdings, Inc., a joint venture between Metro Pacific Investment Corporation ("MPIC") and PLDT Communications and Energy Ventures, Inc. As a result, GT Capital relinquished control over GBPC and it ceased to be a subsidiary of GT Capital effective May 31, 2016. Accordingly, GT Capital reflected the results of operations of GBPC up to May 31, 2016 and did not consolidate its financial statements starting June 1, 2016. Philippine Financial Reporting Standards (PFRS) 5 prescribe the presentation of GBPC's results of operations separate from the "Income from Continuing Operations", wherein all income, expenses and income taxes of GBPC in 2016 are presented under "Income from Discontinued Operations". For comparability, 2015 and 2014 Consolidated Statements of Income were also restated to show GBPC's 2015 and 2014 results of operations separate from the "Income from Continuing Operations". The details of the deconsolidation are discussed in the Notes to the Financial Statements.

Also, in May 2016, GT Capital acquired a 15.55% direct equity stake in MPIC.

GT Capital Auto Dealership Holdings, Inc. ("GTCAD") was incorporated on June 13, 2016 and has not commenced commercial business operations. GTCAD has 55% ownership in Toyota Subic, Inc. ("TSI"). TSI was incorporated on July 14, 2016 and has not started business operations.

On June 30, 2016, GT Capital accelerated its subscription in PCFI by subscribing to an additional 28.32% direct equity stake in PCFI for a total consideration of Php8.76 billion. This subscription increased the Parent Company's direct ownership stake in PCFI from 22.68% to 51.00%.

Fed Land, PCFI, TMP, TMBC and GTCAD are consolidated in the financial statements of the Company. The other component companies MPIC, Metropolitan Bank & Trust Company ("Metrobank" or "MBT'), AXA Philippines, and Toyota Financial Services Philippines Corporation ("TFSPH") are accounted for through equity accounting.

Of the nine (9) component companies, TMP, MPIC, TFSPH, Fed Land, and TMBC posted growths in their respective net income. Metrobank, AXA Philippines, and PCFI, reported declines in their respective net income for the year. GTCAD has not commenced commercial operations.

Automotive operations comprising the sale of assembled and imported auto vehicles and spare parts grew by 47% from Php120.80 billion to Php177.71 billion principally driven by the 32% increase in wholesales volume from 122,817 units to 162,085 units and continued expansion in the dealer outlets from 49 to 52.

Real estate sales and interest income on real estate sales rose by 29% from Php10.64 billion to Php13.73 billion. Fed Land contributed approximately 50% of the sales, mostly from its middle-market development projects. PCFI's low cost and economic housing projects contributed the remaining balance.

Equity in net income of associates and joint venture, increased by 13% from Php5.62 billion to Php6.37 billion as MPIC contributed for the first time effective June and the improved net income contribution of TFSPC offset the respective declines in the net income contributions of MBT and AXA Philippines.

Sale of goods and services, consisting of the sale of petroleum products on a wholesale and retail basis, at the Blue Wave malls situated in Pasay City and Marikina City, increased by 13% from Php0.55 billion to Php0.62 billion due to increase in fuel sales.

Interest income on deposits and investments increased by Php0.82 billion from Php0.15 billion to Php0.97 billion due to an increase in cash available for short-term placements by GT Capital and subsidiaries.

Gain on revaluation of previously-held interest amounted to Php0.12 billion, representing one-time gains on the re-measurement of GT Capital's investment in TMBC (Php0.07 billion) and Fed Land's investment in Federal Land Orix Corporation (FLOC) (Php0.05 billion), which were previously accounted for as investment in jointly-controlled entities. TMBC, thus, became a subsidiary of GT Capital upon SEC's approval of the merger of TMBC and Toyota Cubao, Inc. ("TCI") with TMBC as the surviving entity in March 2016. FLOC became a subsidiary of Fed Land when the latter acquired the remaining 40% of the former in December 2016.

Other income increased by 37% from Php1.16 billion to Php1.59 billion mainly due to increase in ancillary income realized from the TMPC-owned dealerships.

Consolidated costs and expenses increased by 51% from Php119.21 billion to Php179.93 billion with the following breakdown:

(1) Php140.62 billion from TMP comprising cost of goods manufactured, cost of goods and services sold, general and administrative expenses and interest expenses;
(2) Php22.03 billion from TMBC/TCI consisting of cost of goods and services sold, general and administrative expenses and interest expenses;
(3) Php7.30 billion from Fed Land consisting of cost of real estate sales, cost of goods sold, cost of rental, general and administrative expenses and interest expenses;
(4) Php6.05 billion from PCFI comprising cost of real estate sales, general and administrative expenses and interest expenses; and
(5) Php3.93 billion from GT Capital representing interest expenses and general and administrative expenses.

Cost of goods and services sold increased by 63% from Php74.94 billion to Ph122.06 billion with TMP's and TMBC's completely built-up units and spare parts accounting for Php121.56 billion and the balance of Php0.50 billion from Fed Land's petroleum service station business.

Cost of goods manufactured and sold comprising cost of materials, labor and overhead incurred in the assembly of vehicles from TMP grew by 21% from Php27.84 billion in 2015 to Php33.79 billion in 2016.

General and administrative expenses rose by 72% from Php7.48 billion to Php12.84 billion. TMP accounted for Php5.92 billion comprising advertising and sales promotion expenses, salaries, taxes and licenses and delivery and handling. PCFI contributed P2.36 billion comprising of salaries, commissions, advertising and promotions, outside services, and taxes and licenses. Fed Land contributed Php2.16 billion comprising salaries, commissions, taxes and licenses, advertising expenses and repairs and maintenance expenses. TMBC/TCI accounted for Php1.22 billion consisting of salaries, commissions, taxes and licenses, advertising and promotions, and other general and administrative expenses. The remaining Php1.18 billion came from GT Capital's salaries, professional fees and taxes and licenses.

Cost of real estate sales increased by 16% from Php6.51 billion to Php7.59 billion arising from the increase in real estate sales. Fed Land contributed 56% of the cost while PCFI accounted for the remaining 44%.

Interest expense increased by 54% from Php2.16 billion to Php3.33 billion with GT Capital, PCFI, Fed Land, TMP, and TMBC/TCI accounting for Php2.73 billion, Php0.31 billion, Php0.12 billion, Php0.12 billion and Php0.04 billion, respectively.

Income from discontinued operations amounted to Php4.92 billion consisting of non-recurring gains from sale of the Parent Company's investment in GBPC and CPAIC amounting to Php3.44 billion and Php0.25 billion, respectively, and net income contribution of GBPC amounted to Php1.39 billion offset by Php0.16 billion losses incurred by CPAIC.

Net income attributable to non-controlling interest decreased by 11% from Php8.83 billion to Php7.89 billion due to a decline in the net income of subsidiaries which are not wholly-owned.

Consolidated net income attributable to equity holders of the Parent Company increased by 21% from Php12.11 billion in 2015 to Php14.63 billion in 2016.

GT Capital Consolidated Statements of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2016**	2015	Amount	Percentage
ASSETS				
Current Assets				
Cash and cash equivalents	**20,954**	37,861	(16,907)	(45%)
Short-term investments	**1,598**	1,861	(263)	(14%)
Available-for-sale investments	**1,284**	-	1,284	100%
Receivables	**22,798**	27,056	(4,258)	(16%)
Inventories	**52,060**	51,490	570	1%
Due from related parties	**80**	370	(290)	(78%)
Prepayments and other current assets	**6,992**	7,673	(681)	(9%)
Assets of disposal group classified as held for sale	**-**	8,434	(8,434)	(100%)
Total Current Assets	**105,766**	134,745	(28,979)	(22%)
Noncurrent Assets				
Available-for-sale investments	**1,443**	3,195	(1,752)	(55%)
Receivables – net of current portion	**7,141**	6,682	459	7%
Land held for future development	**18,464**	15,357	3,107	20%
Investment properties	**14,314**	10,797	3,517	33%
Investments in associates and joint venture	**94,828**	60,265	34,563	57%
Property and equipment	**9,367**	51,972	(42,605)	(82%)
Goodwill and intangible assets	**12,802**	19,727	(6,925)	(35%)
Deferred tax asset	**540**	748	(208)	(28%)
Other noncurrent assets	**781**	878	(97)	(11%)
Total Noncurrent Assets	**159,680**	169,621	(9,941)	(6%)
TOTAL ASSETS	**265,446**	304,366	(38,920)	(13%)

GT Capital Consolidated Statements of Financial Position	Audited December 31		Increase (Decrease)	
(In Million Pesos, Except for Percentage)	**2016**	2015	Amount	Percentage
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	**21,177**	22,129	(952)	(4%)
Short term debt	**6,697**	7,318	(621)	(8%)
Current portion of long term debt	**1,581**	6,924	(5,343)	(77%)
Current portion of liabilities on purchased properties	**166**	637	(471)	(74%)
Customers' deposits	**3,839**	3,691	148	4%
Dividends payable	**589**	2,861	(2,272)	(79%)
Due to related parties	**195**	174	21	12%
Income tax payable	**202**	1,013	(811)	(80%)
Other current liabilities	**638**	520	118	23%
Liabilities of disposal group classified as held for sale	**-**	6,444	(6,444)	(100%)
Total Current Liabilities	**35,084**	51,711	(16,627)	(32%)
Noncurrent Liabilities				
Long term debt – net of current portion	**56,475**	81,847	(25,372)	(31%)
Bonds payable	**21,848**	21,801	47	0%
Liabilities on purchased properties – net of current portion	**1,993**	2,146	(153)	(7%)
Pension liabilities	**1,671**	2,219	(548)	(25%)
Deferred tax liabilities	**5,052**	5,501	(449)	(8%)
Other noncurrent liabilities	**2,085**	2,609	(524)	(20%)
Total Noncurrent Liabilities	**89,124**	116,123	(26,999)	(23%)
TOTAL LIABILITIES	**124,208**	167,834	(43,626)	(26%)
EQUITY				
Equity attributable to equity holders of Parent Company				
Capital stock	**2,960**	1,760	1,200	68%
Additional paid-in capital	**57,437**	46,695	10,742	23%
Treasury shares	**-**	(6)	6	(100%)
Retained earnings				
Unappropriated	**39,961**	33,264	6,697	20%
Appropriated	**14,900**	8,760	6,140	70%
Other comprehensive loss	**(2,775)**	(918)	(1,857)	202%
Other equity adjustments	**2,322**	576	1,746	303%
	114,805	90,131	24,674	27%
Non-controlling interests	**26,433**	46,401	(19,968)	(43%)
TOTAL EQUITY	**141,238**	136,532	4,706	3%
TOTAL LIABILITIES AND EQUITY	**265,446**	304,366	(38,920)	(13%)

The major changes in the balance sheet items of the Company from December 31, 2015 to December 31, 2016 are as follows:

Total assets of the Group decreased by 13% or Php38.92 billion from Php304.37 billion as of December 31, 2015 to Php265.45 billion as of December 31, 2016. Total liabilities decreased by 26% or Php43.63 billion from Php167.83

billion to Php124.21 billion while total equity slightly increased by 3% or Php4.71 billion from Php136.53 billion to Php141.24 billion.

The decline in consolidated assets and liabilities is mainly attributable to the sale of GBPC on May 27, 2016. As a result, GBPC ceased to be a subsidiary of GT Capital. Accordingly, GT Capital deconsolidated all the assets, liabilities, and non-controlling interest of GBPC effective May 31, 2016.

Cash and cash equivalents declined by Php16.91 billion reaching Php20.95 billion with TMP, GT Capital Parent, PCFI, Fed Land, GTCAD and TMBC accounting for Php13.22 billion, Php2.47 billion, Php3.02 billion, Php1.69 billion, Php0.32 billion and Php0.23 billion, respectively.

Short-term investments declined by Php0.26 billion from Php1.86 billion to Php1.60 billion, with TMP and TMBC accounting for Php1.58 billion and Php0.02 billion, respectively.

Available-for-sale (AFS) investments classified as current pertain to the Parent Company's investment in UITF.

Receivables declined by 16% from Php27.06 billion to Php22.80 billion with PCFI contributing Php8.56 billion comprising of installment contract receivables and other receivables; Fed Land contributing Php5.77 billion, a majority of which were installment contract receivables, rent receivable and other receivables; TMP contributing Php6.10 billion consisting of trade and non-trade receivables; and TMBC accounting for Php2.37 billion representing trade receivables from the sale of automobiles and after-sales maintenance services.

Due from related parties declined by Php0.29 billion from Php0.37 billion to Php0.08 billion mainly FLI's related parties.
Prepayments and other current assets dropped by 9% from Php7.67 billion to Php6.99 billion primarily due to the deconsolidation of GBPC's input tax, partially offset by increase in advances to contractors, ad valorem tax and creditable withholding tax.

Assets of disposal group classified as held-for-sale comprising CPAIC's current and non-current assets including reinsurance assets, receivables and available for sale was derecognized in Apri 2016 upon consummation of the sale of the Parent Company's investment in CPAIC to AXA Philippines.

Available-for-sale investments classified as non-current declined by 55% from Php3.20 billion to Php1.44 billion primarily due to the deconsolidation of GBPC's AFS investments.

Noncurrent receivables from Fed Land (Php4.03 billion) and PCFI (Php3.11 billion) unit buyers who opted for long-term payment arrangements rose by 7% from Php6.68 billion to Php7.14 billion.

Land held for future development consisting of PCFI's undeveloped land increased by 20% from Php15.36 billion to Php18.46 billion due to additional landbank acquired by PCFI.

Investments in associates and joint venture increased by 57% from Php60.26 billion to Php94.83 billion due to: 1) acquisition of 15.55% ownership over MPIC amounting to Php30.17 billion; 2) equity in net income amounting to Php6.37 billion; 3) Php3.04 billion additional investment in Metrobank; 4); Php1.92 billion realized gain on sale of subsidiaries; 5) Php0.25 billion initial investment in ST 6747 Resources Corporation; and 6)Php0.02 billion additional investment in Alveo Federal Land Communities, Inc. offset by 1) disposal of indirect investment in GBPC amounting to Php3.56 billion; 2) equity in other comprehensive loss amounting to Php1.39 billion; 3) Php1.22 billion effect of business combination of TMBC and FLOC from a jointly-controlled corporation to a fully consolidated subsidiary; 4) Php0.81 billion cash dividends received from Metrobank; 5) Php0.16 billion cash dividends received from MPIC; and 6) Php0.06 billion elimination of gain on sale of CPAIC to AXA Philippines.

Investment properties increased by 33% or Php3.52 billion from Php10.80 billion to Php14.31 billion due to the completion of Fed Land's projects intended for commercial purposes.

Property and equipment declined by 82% or Php42.61 billion from Php51.97 billion to Php9.37 billion mainly due to the deconsolidation of GBPC's power plant assets.

Goodwill and intangible assets declined by 35% from Php19.73 billion to Php12.80 billion due to the deconsolidation of GBPC's intangible assets comprising power purchase agreements.

Deferred tax assets decreased by 28% from Php0.75 billion to Php0.54 billion due to the deconsolidation of GBPC's deferred tax assets.

Other noncurrent assets declined by 11% from Php0.88 billion to Php0.78 billion due to the deconsolidation of GBPC's non-current input tax.

Short-term debt dropped by Php0.62 billion from Php7.32 billion to Php6.70 billion as TMBC partially prepaid its short term loans.

Current portion of long-term debt dropped by 77% from Php6.92 billion to Php1.58 billion primarily due to the deconsolidation of GBPC's current portion of long-term debt.

Current portion of liabilities on purchased properties declined by 74% from Php0.64 billion to Php0.17 billion due to Fed Land's scheduled annual principal amortization.

Customers' deposits increased by 4% from Php3.69 billion to Php3.84 billion mainly due to increased reservation sales in Fed Land and PCFI's horizontal development projects.

Dividends payable decreased by 79% from Php2.86 billion to Php0.59 billion as cash dividends declared by GBPC were fully paid in April 2016 and GT Capital declared dividends of Php0.59 billion to its holders of perpetual preferred shares.

Due to related parties increased by 12% from Php174 million to Php195 million mainly Fed Land's related parties.
Income tax payable declined by 80% from Php1.01 billion to Php0.20 billion due to the payment of previous year's income tax payable in April 2016.

Other current liabilities increased by 23% from Php0.52 billion to Php0.64 billion mainly due to the increase in output tax.

Liabilities of disposal group classified as held for sale dropped by Php6.44 billion due to the completion of the sale of CPAIC to AXA Philippines.

Long-term debt-net of current portion declined by Php25.37 billion from Php81.85 billion to Php56.48 billion due to the deconsolidation of GBPC's long-term debt.

Liabilities on purchased properties, net of current portion, declined by 7% from Php2.15 billion to Php1.99 billion due to Fed Land's scheduled principal payments.

Pension liabilities declined by 25% from Php2.22 billion to Php1.67 billion due to the deconsolidation of GBPC's pension liability.

Deferred tax liabilities decreased by 8% from Php5.50 billion to Php5.05 billion due to the deconsolidation of GBPC's deferred tax liabilities.

Other noncurrent liabilities declined by 20% from Php2.61 billion to Php2.09 billion due to the deconsolidation of GBPC's decommissioning liabilities and reversal of TMP's provisions.

Capital stock increased by Php1.20 billion due to GT Capital's issuance of perpetual preferred shares in October 2016.

Treasury shares representing investment in shares of stock in GT Capital, held by CPAIC, were derecognized due to GT Capital's sale of its investment in CPAIC in April 2016.

Unappropriated retained earnings increased by 20% from Php33.26 billion to Php39.96 billion due to: 1) the Php14.63 billion consolidated net income earned in 2016; and 2) Php9.36 billion reversal of appropriation of retained earnings, offset by 1) Php1.64 billion cash dividends declared in March and December 2016; 2) Php15.50 billion appropriation of retained earnings; and 3) Php0.16 billion effect of closing to retained earnings the cumulative other comprehensive income arising from the remeasurement of the retirement liabilities of GBPC, CPAIC and TMBC.

Appropriated retained earnings increased by Php6.14 billion from Php8.76 billion to Php14.90 billion due to the Php15.50 billion appropriation of retained earnings in 2016 composed of: investment in financial services (Php13.90 billion), capital call from TFSPC (Php0.50 billion), dividends on common (Php0.50 billion) and preferred shares (Php0.60 billion); offset by Php9.36 billion reversal of appropriation composed of: 2015 appropriation for additional investments in PCFI (Php8.76 billion) and appropriation for dividends on preferred shares (Php0.60 billion).

Other comprehensive loss increased by Php1.86 billion from Php0.92 billion to Php2.78 billion primarily due to mark-to-market losses incurred on available-for-sale investments of GT Capital's associates.

Other equity adjustments grew by Php1.75 billion due to GT Capital's acquisition of an additional 28.32% direct equity interest in PCFI.

Non-controlling interest (NCI) declined by Php19.97 billion from Php46.40 billion to Php26.43 billion primarily due to: 1) Php19.39 billion NCI of GBPC deconsolidated; 2) Php3.75 billion acquisition of 28.32% NCI in PCFI and PCFI's redemption of Series B of Non-Voting Preferred Shares; and 3) Php5.91 billion NCI share in dividends declared by subsidiaries; offset by 1) Php7.89 billion NCI share in the net income earned in 2016 ; 2) Php0.50 billion NCI share in the other comprehensive income of subsdiaries earned in 2016; and 3) Php0.69 billion set-up of NCI in TMBC (Php0.53 billion) and GTCAD (Php0.16 billion).

LIQUIDITY AND CAPITAL RESOURCES

In 2016, 2017 and 2018, GT Capital's principal source of liquidity came from cash dividends received from the investee companies, availment of loans, issuance of bonds and issuance of preferred shares of stock. As of December 31, 2018, GT Capital's cash and cash equivalents reached Php14.35 billion.

The following table sets forth selected information from GT Capital's statement of cash flows for the periods indicated.

	In Million Pesos		
	2016	**2017**	**2018**
Net cash provided by operating activities	2,849	6,977	482
Net cash used in investing activities	(33,933)	(30,505)	(45,923)
Net cash provided by financing activities	14,645	23,114	39,785
Effects of exchange rate changes on cash and cash equivalents	(468)	(385)	(146)
Net increase (decrease) in cash and cash equivalents	(16,907)	(799)	(5,802)
Cash and cash equivalents at the beginning of the period	37,861	20,954	20,155
Cash and cash equivalents of continuing operations at end of the period	20,954	20,155	14,353

Cash flows from operating activities

Net cash provided by operating activities amounted to Php2.85 billion in 2016, Php6.98 billion in 2017 and Php0.48 billion in 2018. In 2016, operating cash amounting to Php22.71 billion was used to increase inventories by Php7.09 billion and prepayments and other current assets by Php1.80 billion and pay dividends, income taxes and interest amounting to Php9.82 billion, Php5.46 billion and Php4.45 billion, respectively. In 2017, operating cash amounting to Php21.10 billion was used to increase inventories by Php8.12 billion, prepayments and other current assets by Php2.36 billion and pay dividends, income taxes and interest amounting to Php7.25 billion, Php3.70 billion and Php3.43 billion, respectively. In 2018, operating cash amounting to Php15.95 billion was used to increase receivables by Php2.21 billion and inventories by Php2.83 billion and to pay dividends, income taxes and interest amounting to Php7.48 billion, Php4.38 billion and Php4.63 billion, respectively.

Cash flows used in investing activities

Net cash used in investing activities amounted to Php33.93 billion in 2016, Php30.50 billion in 2017 and Php45.92 billion in 2018. In 2016, cash flows used in investing activities went to increase investment in associates and a joint venture by Php33.77 billion, investment properties by Php0.65 billion, property and equipment by Php6.40 billion, and AFS investments by Php1.28 billion. In 2017, cash flows used in investing activities went to increase investment in associates and a joint venture by Php26.78 billion, investment properties by Php0.66 billion, property and equipment by Php3.48 billion, AFS investments by Php1.74 billion and intangible assets by Php0.23 billion. In 2018, cash flows used in investing activities went to pay for additional investment in associates and a joint venture by Php29.63 billion, financial assets at FVOCI by Php10.48 billion, property and equipment by Php3.92 billion, and investment properties by Php0.22 billion.

Cash flows from financing activities
Net cash provided by financing activities amounted to Php14.64 billion in 2016, Php23.11 billion in 2017 and Php39.79 billion in 2018. In 2016, cash flows from financing activities came from Php46.65 billion in new loans and issuance of perpetual preferred shares of Php11.94 billion which were used to partially settle Php41.38 billion in outstanding loans, Php0.62 billion in liabilities on purchased properties and Php1.84 billion in redemption of non-controlling interest. In 2017, cash flows from financing activities came from Php38.35 billion in new loans and issuance of capital stock of Php21.69 billion which were used to partially settle Php38.40 billion in outstanding loans. In 2018, cash flows from financing activities came from loan availments of Php71.29 billion which were used to partially settle Php31.43 billion in outstanding loans and Php0.50 billion in liabilities on purchased properties.

Item 8. Financial Statements
The consolidated financial statements and schedules as listed in the accompanying Index to Exhibits are filed as part of this SEC Form 17-A.

The accounting policies adopted in preparation of the consolidated financial statements are consistent with those of the previous year except for the new and amended Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and the Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which were adopted as of January 1, 2018.

The Group will also adopt several amended and revised standards and interpretations subsequent to 2018.

Please refer to Note 2 of the attached Company's audited financial statements on the Summary of Significant Accounting Policies for the accounting of the new PFRS and PAS which became effective in 2018 and new PFRS and PAS that will be effective subsequent to 2018.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There have been no disagreements with SGV & Co. on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedure.

INDEPENDENT AUDITORS
The consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2016, 2017 and 2018 have been audited by SGV & Co. (a member firm of Ernst & Young Global Limited), independent auditors, as stated in their reports appearing herein.

SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

In relation to the audit of the Company's annual financial statements, its Corporate Governance Manual provides that the audit committee shall, among other activities (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of the Company's policies, controls, processes and activities; (ii) ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors; (iii) ensure the Company's compliance with acceptable auditing and accounting standards and regulations; and (iv) approve all related fees paid to the independent auditors.

The following table sets out the aggregate fees for audit and audit-related services, inclusive of out-of-pocket expenses and value-added-tax for each of the years ended December 31, 2016, 2017 and 2018 for professional services rendered by SGV & Co. to GT Capital:

	2016	**2017**	**2018**
		(in Php million)	
Audit and Audit-Related Services	11.37	2.30	2.21
Non-Audit Services	0.04	0.04	0.32
Total	11.41	2.34	2.53

Audit services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, and review of annual income tax returns. SGV & Co. also rendered audit-related professional services in 2016 relating to the Company's Perpetual Preferred Shares Offering amounting to Php 9.29 million. Non-audit services were also provided by SGV & Co. for validation of stockholders' votes during Stockholder's Meeting. Tax consultancy services were also secured for the purchase of Toyota Motor Corporation shares.

The Audit Committee has the primary responsibility of recommending to the Board of Directors the appointment, re-appointment or removal of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approve the Audit Committee's recommendation.

PART III.

CONTROL AND COMPENSATION INFORMATION

Item 10. **Directors and Executive Officers of the Issuer**

(a) The incumbent Directors and Executive Officers of the Company are as follows:

(i) Board of Directors

Board of Directors

Office	Name	Age	Citizenship
Chairman	Arthur Vy Ty	52	Filipino
Co-Vice Chairman	Francisco C. Sebastian	64	Filipino
Co-Vice Chairman	Alfred Vy Ty	51	Filipino
Director/President	Carmelo Maria Luza Bautista	61	Filipino
Director	Regis V. Puno	60	Filipino
Director	David T. Go	65	Filipino
Director	Pascual M. Garcia III	65	Filipino
Lead Independent Director	Renato C. Valencia	77	Filipino
Independent Director	Jaime Miguel G. Belmonte	55	Filipino
Independent Director	Wilfredo A. Paras	72	Filipino
Independent Director	Rene J. Buenaventura	64	Filipino
Board Advisers			
Adviser	Mary Vy Ty	78	Filipino
Adviser	Guillermo Co Choa	59	Filipino

Period of Directorship

Name	Date First Elected
Arthur V. Ty	June 3, 2011
Francisco C. Sebastian	May 12, 2014
Alfred V. Ty	February 14, 2012
Carmelo Maria Luza Bautista	August 5, 2011
Regis V. Puno	May 9, 2018
David T. Go	May 12, 2014
Pascual M. Garcia, III	May 9, 2018
Renato C. Valencia	May 10, 2017*
Jaime Miguel G. Belmonte	December 2, 2011
Wilfredo A. Paras	May 14, 2013
Rene J. Buenaventura	May 9, 2018

**Prior to May 10, 2017, Mr. Valencia was first elected as an independent director of the Company on February 14, 2012 and served as Independent director until May 14, 2013.*

Board Committees:

The members of the Executive Committee are:

Arthur Vy Ty	- Chairman
Alfred Vy Ty	- Vice-Chairman
Carmelo Maria Luza Bautista	- Member
Francisco C. Sebastian	- Member
Mary Vy Ty	- Adviser

The members of the Audit Committee are:

Wilfredo A. Paras	- Chairman
Renato C. Valencia	- Member
Rene J. Buenaventura	- Member
Regis V. Puno	- Member
Pascual M. Garcia III	- Member

The members of the Risk Oversight Committee are:

Rene J. Buenaventura	- Chairman
Renato C. Valencia	- Member
Wilfredo A. Paras	- Member
David T. Go	- Member

The members of the Compensation Committee are:

Jaime Miguel G. Belmonte	- Chairman
Alfred V. Ty	- Member
Renato C. Valencia	- Member

The members of the Nominations Committee are:

Renato C. Valencia	- Chairman
Wilfredo A. Paras	- Member
Rene J. Buenaventura	- Member
Carmelo Maria Luza Bautista	- Adviser

The members of the Corporate Governance and Related Party Transactions Committee are:

Renato C. Valencia	- Chairman
Wilfredo A. Paras	- Member
Jaime Miguel G. Belmonte	- Member
Anjanette Ty Dy Buncio	- Adviser

The business experience of the members of the Board for the last five (5) years is as follows:

Arthur Vy Ty, 52 years old, Filipino, was elected as the Corporation's Chairman in May 2016. Prior to this, he was the Corporation's Vice Chairman since its inception in 2007 before assuming the Chairmanship in 2012 up to June 2014. He was the President of Metropolitan Bank & Trust Company ("MBT"), a listed company, from 2006 to 2012 and was appointed as its Chairman in April 2012. He also serves as the Chairman of Metropolitan Bank (China) Ltd., Inc.; Vice Chairman and Director of Philippine Savings Bank ("PSBank"), a listed company; Vice Chairman of First Metro Investment Corporation ("FMIC"), MBFI and Philippine AXA Life Insurance Corporation ("AXA Philippines"). He is also a Director of Federal Land, Inc. ("Federal Land"). He earned his Bachelor of Science degree in Economics from the University of California, Los Angeles and obtained his Masters in Business Administration degree from Columbia University, New York in 1991.

Francisco C. Sebastian, 64 years old, Filipino, is one of the Corporation's Vice Chairmen since May 2016. Prior to assuming this post, he was Chairman of GT Capital since June 2014 when he was first elected to the board. He joined the Metrobank Group in 1997 as President of FMIC, the investment arm of MBT, a post he held for 14 years until he became its Chairman in 2011. Mr. Sebastian concurrently serves as Vice Chairman of MBT since 2006. He is also a director of Metro Pacific Investments Corporation ("MPIC") and Federal Land. He worked in Hong Kong for 20 years from 1977, initially as an investment banker in Ayala International Finance Limited and Filinvest Finance (HK) Ltd. From 1984, until he joined the Metrobank Group, he owned and managed his own business services and financial advisory firm in Hong Kong. He earned his Bachelor of Arts in Economics (Honors) from the Ateneo de Manila University and graduated Magna Cum Laude in 1975.

Alfred Vy Ty, 51 years old, Filipino, has been a Vice Chairman of the Corporation since February 14, 2012 and has served as a Director of the Corporation since 2007. He is also a Director of MBT and Vice Chairman of Toyota Motor Philippines Corporation ("TMP"). He graduated from the University of Southern California in 1989 with a degree in Business Administration, after which he lived in Japan for two (2) years. Some of his other current roles and positions include: Chairman, Lexus Manila; Chairman, Federal Land; Chairman, Bonifacio Landmark Realty and Development Corporation; Chairman, Property Company of Friends, Inc. ("PCFI"); Chairman, Cathay International Resources Corp.; Vice-Chairman, Toyota Motor School of Technology, Inc.; Vice Chairman, Federal Land Orix Corp.; Member of the Board of Trustees, MBFI; and Director of Metro Pacific Investment Corporation, a listed company.

Carmelo Maria Luza Bautista, 61 years old, Filipino, assumed the role of Director and President of GT Capital in 2011. Prior to his election, Mr. Bautista joined FMIC in April of 2008 as Executive Director and was appointed as Chairman of the Risk Management Committee. He later assumed the position of Head of its Investment Banking Group in 2009. Mr. Bautista has been in the Banking and Financial Services sector for 41 years. Some highlights of his previous scope of responsibilities over this period include: Program Director at Citibank Asia Pacific Banking Institute; Vice President and Head of the Local Corporate and Public Sector Groups Citibank-Manila; Vice President-Real Estate Finance Group, Citibank N.A.-Singapore branch; Vice President-Structured Finance, Citibank N.A.-Singapore Regional Office; Country Manager, ABN AMRO Bank-Philippines; and President and CEO, Philippine Bank of Communications. Mr. Bautista has a Masters Degree in Business Management from the Asian Institute of Management where he graduated in the Dean's Citation List. He also has a Bachelor's degree, Major in Economics, from the Ateneo de Manila University. Mr. Bautista is currently serving as Chairman of Toyota Financial Services Philippines Corporation ("TFSPH"), and Director of Federal Land, TMP, PCFI, TMBC, GT Capital Auto Dealership Holdings, Inc. ("GTCAD") and Toyota Subic, Inc. ("TSB"). He is also an Adviser to the Board of Trustees of GT Foundation, Inc. and an Independent Director of Vivant Corporation, a listed company.

Dr. David T. Go, 65 years old, Filipino, has been a Director of GT Capital since May 2014. He acquired his Doctor of Philosophy Degree (International Relations) from New York University in 1982. He currently serves as Director, Senior Executive Vice President, and Treasurer of TMP. He is also the Vice Chairman of Toyota Autoparts Phils., Inc.; Director and Treasurer of TFSPH; President of Toyota Motor Philippines Foundation, Inc. and Toyota Motor Phils. School of Technology, Inc.; Trustee of Toyota Savings and Loan Association; Chairman of Toyota San Fernando, Inc., Toyota Makati, Inc., Toyota Manila Bay Corporation ("TMBC"), Toyota Sta. Rosa, Inc., Toyota Logistics, Inc., GTCAD, and Toyota Subic, Inc.; Director of Lexus Manila. Dr. Go has no directorships in other listed companies aside from GT Capital.

Atty. Regis V. Puno, 60 years old, Filipino, assumed the role of Director and Member of the Audit Committee of GT Capital in 2018. He is currently Special Legal Counsel of the Metrobank Group and an Of Counsel of Angara Abello Concepcion Regala & Cruz Law Offices (ACCRALAW). Atty. Puno was former Senior Partner of the Puno & Puno Law Offices and has been a practicing lawyer for over 30 years. He was a former Undersecretary of the Department of Justice. Atty. Puno has a Master of Laws Degree from the Georgetown University Law Center, Washington D.C., U.S.A. He obtained his Bachelor of Laws Degree from the Ateneo de Manila University where he graduated with honors, and has a Bachelor's degree, Major in Economics, from the University of the Philippines. He is also a Director of Lepanto Consolidated Mining Co.,; LMG Chemicals Corporation.; The Rockwell Leisure Club; and the Philippine Committee Chairman of the Alumni Admission Program (AAP), Georgetown University, U.S.A.

Pascual M. Garcia III, 65 years old, was appointed as Director in May 2018. He is currently the President of Federal Land. He also holds several other positions in other companies among which are: Vice Chairman, PCFI; Vice Chairman, Cathay International Resources Corp.; Chairman, Omni Orient Management Corp.; Chairman, Metpark Commercial Estate Association, Inc.; President, Horizon Land Resources Development Corp.; Chairman, Central Realty & Development Corp.; Chairman, Crown Central Properties; President, Bonifacio Landmark Realty & Development Corp.; Chairman, Alveo-Federal Land Communities, Inc.; President, Sunshine Fort North Bonifacio Realty and Dev't. Corp.; President, North Bonifacio Landmark Realty and Dev't. Inc.; Chairman, Topshere Realty Dev't. Co. Inc.; Chairman, Magnificat Resources Corp.; President, Federal Land Orix Corp. and Director, ST 6747 Resources Corp.; Prior to joining Federal Land, he served as the President and Director of PSBank from 2001 to 2013; Director of TFSPH from 2007 to 2017 and Director of Sumisho Finance Corp. from 2009 to 2016. Mr. Garcia earned his Bachelor's degree in Commerce, Major in Management, from the Ateneo de Zamboanga University.

Renato C. Valencia, 77 years old, Filipino, is currently Chairman of iPeople Inc. and Independent Director of EEI Corporation, and Anglo Philippine Holdings, Inc. His past positions include the following: President/CEO, Social Security System (SSS); Chairman/CEO, Union Bank of the Philippines; President/CEO, Roxas Holdings, Inc.; Vice Chairman/Director, San Miguel Corporation (SMC); Independent Director, Metropolitan Bank and Trust Company; Director, Philippine Long Distance Telephone Company (PLDT); Manila Electric Company (MERALCO); Philex Mining Corporation; Far East Bank and Trust Company; Roxas and Company, Inc.; Bases Conversion Development Academy (BCDA); Fort Bonifacio Development Corporation; Makati Stock Exchange; Chairman, Philippine Savings Bank; Board Adviser, Philippine Veterans Bank; Advisory Board Member, Philippines Coca-Cola System Council; and Board Member, Civil Aeronautics Board. He is a graduate of the Philippine Military Academy with a degree in B.S. Gen. Engineering, and also holds an MBA from the Asian Institute Management.

Jaime Miguel G. Belmonte, 55 years old, Filipino, was elected as Independent Director of GT Capital on July 11, 2012. He is also the President and Chief Executive Officer of The Philippine Star (since 1998); President and Chief Executive Officer of Business World (since 2015); President and Publisher of Pilipino Star Ngayon (since 1994) and PM-Pang Masa (since 2003); President of Pilipino Star Printing Company (since 1994); President of Nation Broadcasting Corp. of the Philippines (since 2016); and President of Hastings Holdings Inc. Mr. Belmonte is also the President of Cebu-based The Freeman and Banat News (since 2004); Vice Chairman of People Asia Magazine; and a member of the Board of Advisers of Manila Tytana College (since 2008). Aside from GT Capital, Mr. Belmonte also sits on the board of Cignal TV, Nation Broadcasting Corp. of the Philippines, and Hastings Holdings Inc. He earned his undergraduate degree from the University of the Philippines-Diliman. Mr. Belmonte has no directorships in other listed companies aside from GT Capital.

Wilfredo A. Paras, 72 years old, Filipino, was elected as Independent Director of GT Capital on May 14, 2013. He currently holds various positions in Philippine corporations, such as: Independent Director of Philex Mining Corporation, a listed company, (2011-present); Member of the Board of Trustees of Dualtech Training Center (2012-present); and President of WAP Holdings, Inc. (2007-present). He also served as the Executive Vice President/Chief Operating Officer and Director of JG Summit Petrochemical Corporation; President of Union Carbide Philippines; President/Director of Union Carbide-Indonesia; Managing Director of Union Carbide Singapore; and Business Director for Union Carbide Asia-Pacific. Mr. Paras holds a Bachelor of Science (BS) Industrial Pharmacy degree from the University of the Philippines and a Masters Degree in Business Administration (MBA) from the De la Salle University Graduate School of Business. He finished a Management Program from the University of Michigan, Ann Arbor, Michigan, USA. He is also a Fellow of the Institute of Corporate Directors.

Rene J. Buenaventura, 63 years old, Filipino, currently holds the following positions: Vice-Chairman of Equicom Group of Companies which includes Maxicare Healthcare Corporation, Equicom Savings Bank, Algo Leasing and Finance Inc. and Equitable Computer Services Inc. ; Independent Director of Lorenzo Shipping Corporation, a listed company; Independent Director of AIG Insurance, Philippines and UBS Investments, Philippines, Inc.; Chairman of Consumer Creditscore Philippines, Inc.; and Trustee of Equitable Foundation and Go Kim Pah Foundation. He previously served as President, Senior Executive Vice-President and Group Head of Retail Banking and Executive Vice-President of Equitable PCIBank; Executive Vice-President and Chief Operating Officer for Non-Banking Sector of Philippine Commercial International Bank; and President and Chief Operating Officer of PCI Leasing and Finance Corporation. He is a Certified Public Accountant and a summa cum laude graduate of De La Salle University Manila with a degree in Bachelor of Science in Commerce, Major in Accounting and Bachelor of Arts, Major in Behavioral Science. He also holds an MBA from De La Salle University, Manila and graduated from the International Banking Course of Wharton School of Business, Pennsylvania.

** Independent director – The Corporation has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director. The Corporation's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule. The Corporation's By-laws were amended for this purpose and such amendment was approved by the SEC on January 13, 2012.*

The business experience of the Board Advisers for the last five (5) years is as follows:

Mary Vy Ty, 78 years old, Filipino, was appointed as Board Adviser of GT Capital in June 2014. Prior to this, she served as the Corporation's Treasurer since its incorporation in 2007. Mrs. Ty has more than 50 years of experience in banking and general business. She currently holds the following positions; Assistant to the Group Chairman, MBT; Adviser, MBFI and Federal Land; Vice Chairman, Manila Medical Services, Inc.; Adviser, Horizon Land Development Corporation; Director and Chairman, Horizon Royale Holdings, Inc.; Director, Grand Titan Capital Holdings, Inc.; Director and Chairman, Ausan Resources Corporation; Director and Chairman, Grand Estate Property Corporation; Director and Chairman, Inter-Par Philippines Resources Corporation; and Chairman, Philippine Securities Corporation, Tytana Corporation and Federal Homes, Inc. Previously, Mrs. Ty held the position of Director for FMIC. She earned her collegiate degree from the University of Santo Tomas.

Guillermo Co Choa, 59 years old, Filipino, was appointed as Board Adviser of GT Capital in June 2016. He is currently the Vice-Chairman and President of PCFI. Mr. Choa earned his Bachelor's Degree in Commerce, Major in Marketing, from the De La Salle University and his Master's Degree in Business Economics from the University of Asia and Pacific.

Nominee Directors

As of the date of this report, the nominees for independent directors are Messrs. Renato C. Valencia, Wilfredo A. Paras, Jaime Miguel G. Belmonte and Rene J. Buenaventura. Messrs. Valencia, Paras, Belmonte and Buenaventura were nominated by Ms. Maria Andrea R. Panganiban. The four (4) nominees for independent directors are not related either by consanguinity or affinity to the person who nominated them.

Based on Section 2.1.4 of GT Capital's Manual on Corporate Governance, the stockholders must elect at least three (3) independent directors as defined by existing laws and regulations.

Aside from the above nominees for independent directors, the other nominees for director are Messrs. Arthur Vy Ty, Alfred Vy Ty, Francisco C. Sebastian, Carmelo Maria Luza Bautista, David T. Go, Pascual M. Garcia III and Atty. Regis V. Puno.

All the nominees are incumbent directors of GT Capital. The experience and qualifications of the nominated incumbent directors are found above.

Review of qualifications of candidates nominated as Directors, including Independent Directors, is conducted by the Nominations Committee prior to the stock0holders' meeting. The Nominations Committee prepares a Final List of Candidates of those who have passed the Guidelines, Screening Policies and Parameters for nomination as Director of the Corporation, and which list contains information about the nominees. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Directors of the Corporation. No other nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

The Directors of the Corporation are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified. The Directors possess all the qualifications and none of the disqualifications provided for in the SRC (Securities Regulation Code) and its Implementing Rules and Regulations, as well as the Corporation's By-laws.

In case of resignation, disqualification or cessation of any directorship, and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, may the vacancy be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nominations Committee; otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. A director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

The Nominations Committee created by the Board under its Manual on Corporate Governance nominated the following for re-election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

Arthur Vy Ty	Atty. Regis V. Puno
Francisco C. Sebastian	Jaime Miguel G. Belmonte

Alfred Vy Ty	Wilfredo A. Paras
Carmelo Maria Luza Bautista	Renato C. Valencia
Dr. David T. Go	Rene J. Buenaventura
Pascual M. Garcia III	

The Corporation has complied with the Guidelines set forth by SRC Rule 38 regarding the Nomination and Election of Independent Directors. The same provision has been incorporated in the Amended By-Laws of the Corporation.

(ii) Executive Officers

Name	Office	Age	Citizenship
Carmelo Maria Luza Bautista	President	61	Filipino
Francisco H. Suarez, Jr.	Executive Vice President/Chief Financial Officer	59	Filipino
Antonio P. A. Zara III	Senior Vice President/General Manager of GTCAD	52	Filipino
Anjanette T. Dy Buncio	Treasurer	50	Filipino
Alesandra T. Ty	Assistant Treasurer	39	Filipino
Antonio V. Viray	Corporate Secretary	79	Filipino
Jocelyn Y. Kho	Assistant Corporate Secretary	64	Filipino
Winston Andrew L. Peckson	First Vice President/Chief Risk Officer	66	Filipino
Jose B. Crisol, Jr.	First Vice President/Head, Investor Relations, Strategic Planning and Corporate Communication	52	Filipino
Reyna Rose P. Manon-og	First Vice President/Controller and Head, Accounting and Financial Control	36	Filipino
Susan E. Cornelio	Vice President/Head, Human Resources and Administration	47	Filipino
Leo Paul C. Maagma	Vice President/Chief Audit Executive	47	Filipino
Elsie D. Paras	Vice President/Deputy Chief Financial Officer	46	Filipino
Renee Lynn Miciano-Atienza	Vice President /Head, Legal and Compliance	36	Filipino

Period of Officership

Name	Office	Period Held
Carmelo Maria Luza Bautista	President	2011-Present
Francisco H. Suarez, Jr.	Executive Vice President/Chief Financial Officer	2012-Present
Antonio P. A. Zara III	Senior Vice President/ General Manager of GTCAD	2018-Present
Anjanette T. Dy Buncio	Treasurer	2007-Present
Alesandra T. Ty	Assistant Treasurer	2012-Present
Antonio V. Viray	Corporate Secretary	2009-Present
Jocelyn Y. Kho	Assistant Corporate Secretary	2011-Present
Winston Andrew L. Peckson	First Vice President/Chief Risk Officer	2016-Present
Jose B. Crisol, Jr.	First Vice President/Head, Investor Relations, Strategic Planning and Corporate Communication	2012-Present
Reyna Rose P. Manon-og	First Vice President/Controller and Head, Accounting and Financial Control	2011-Present

Susan E. Cornelio	Vice President/Head, Human Resources and Administration	2012-Present
Leo Paul C. Maagma	Vice President/Chief Audit Executive	2018-Present
Elsie D. Paras	Vice President/Deputy Chief Financial Officer	2015-Present
Renee Lynn Miciano-Atienza	Vice President /Head, Legal and Compliance	2016-Present

Francisco H. Suarez Jr., 59 years old, Filipino, serves as GT Capital's Executive Vice President and Chief Financial Officer (CFO). He was appointed to the position on February 16, 2012. He is also a Director and the Treasurer of TMBC, GTCAD and TSB and the Corporate Secretary of TFSPH. Over his tenure, he has successfully supervised over the launch of the Corporation's initial public offering, a top-up private placement, two retail bond issuances, bilateral fixed rate term loans and two series of perpetual preferred shares. Mr. Suarez brings to the Company over 38 years of solid and extensive experience in investment banking and financial management. Prior to joining GT Capital, he was the CFO of three subsidiaries of the ATR KimEng Group. For a time, he also served as Executive Director of ATR KimEng Capital Partners, Inc. Before this, he was appointed as the CFO of PSI Technologies, Inc., and, prior to that, of SPi Technologies, Inc. Previously, he was a Director for Corporate Finance at Asian Alliance Investment Corp. He has also assumed various positions in MBT, International Corporate Bank, Far East Bank and Trust Company, and the National Economic Development Authority. Mr. Suarez graduated from De La Salle University with a Bachelor of Arts degree in Applied Economics and is a candidate for the Master in Business Administration degree at the Ateneo de Manila University.

Antonio P.A. Zara III, 52 years old, Filipino, is the General Manager of GTCAD and a director of TSB, GT Mobility Ventures, Inc. and JBA Philippines, Inc. He was appointed to the position in November 2018. Mr. Zara brings to GT Capital close to three decades of global automotive industry experience in various technical, sales and marketing, and senior leadership roles. Prior to his involvement with GTCAD, he was General Manager for Global Aftersales Planning at the Nissan Motor Company global head office in Yokohama, Japan. Previously, he was the President of Nissan Motor Distributor Indonesia, heading the country's Nissan and Datsun assembly, importation, and distribution operations. Before this, he was the President of Nissan Motor Philippines, Inc., overseeing consistent double-digit vehicle unit sales growth and nearly doubling the said car company's market share during his tenure. Prior to Nissan, he held several positions in various markets for General Motors (GM): Managing Director of General Motors Korea in Incheon, South Korea; Vice President for Vehicle Sales, Service and Marketing of General Motors Southeast Asia in Bangkok, Thailand; President of General Motors Asia Pacific Japan, Ltd. in Tokyo, Japan; Vice President and Head of Vehicle Sales, Service, and Marketing for Pt. General Motors Indonesia; and Director of the sales and aftersales departments of General Motor Automobiles Philippines in Makati, Philippines. Mr. Zara graduated with honors from the Don Bosco Technical Institute with a Degree in Mechanical Engineering.

Antonio V. Viray, 79 years old, Filipino, joined the Corporation as Assistant Corporate Secretary and became Corporate Secretary in 2009. Concurrently, he is the Corporate Secretary of MBT and PCFI. He was formerly Senior Vice-President, General Counsel, Assistant Corporate Secretary and Director of MBT. He was also Senior Vice-President & General Counsel of PSBank and Director of Solidbank. At present, he is also the Corporate Secretary of Global Treasure Holdings, Inc. and Grand Titan Capital Holdings, Inc. He is also Of Counsel of Feria Tantoco Daos Law Office. He obtained his Bachelor of Laws from the University of Sto. Tomas and Master of Laws from Northwestern University in Chicago, U.S.A.

Jocelyn Y. Kho, 64 years old, Filipino, has served as the Corporation's Assistant Corporate Secretary since June 2011 and formerly the Corporation's Controller until 2010. She served as Vice President under the Office of the Assistant to the Group Chairman of MBT from 1978 to 2009. She concurrently holds the following positions: Assistant Corporate Secretary, Grand Titan Capital Holdings, Inc.; Controller and Assistant Corporate Secretary, Global Treasure Holdings, Inc.; Director and Treasurer, Global Business Holdings, Inc.; Director, Senior Vice President Federal Homes, Inc.; Director, Treasurer and Corporate Secretary of Crown Central Realty Corporation; Director of Cathay International Resources, Inc.; Ex-Com Member and Corporate Secretary, of Fed Land; Chairman and President of MBTC Management Consultancy, Inc.; Director and Treasurer, Nove Ferum Holdings, Inc.; Director and Treasurer, Horizon Royale Holdings, Inc.; Director and Treasurer, Grand Estate Property Corporation; Chairman and President, Glam Holdings Corporation; Vice Chairman and President, Glam Realty Corporation; Treasurer, First Metro Insurance Brokers Corporation; Corporate Secretary, First Metro Insurance Agency, Inc.; Director and President, Harmony Property Holdings, Inc.; Director and President, Splendor Fortune Holdings, Inc.; Director and President, Splendor Realty Corporation; and Director and Vice President, Circa 2000 Homes, Inc. She earned her Bachelor of Science degree in Commerce with a major in Accounting from the University of Santo Tomas in 1975, and is a candidate for the Master of Science Degree in Taxation from MLQ University.

Anjanette Ty Dy Buncio, 50 years old, Filipino, was appointed as GT Capital's Treasurer in May 2015. Prior to this, she served as the Corporation's Assistant Treasurer since 2007. She holds several other positions in other companies among which are: Vice Chairman and Director of Metrobank Card Corporation; Director, Treasurer and Senior Vice President of Federal Land, Inc.; Director and Treasurer of PCFI; Treasurer and Vice Chairman of Manila Medical Services Inc.; Senior Vice President of Metrobank Foundation Inc.; Vice President of GT Foundation Inc.; and Executive Vice President and Corporate Secretary of Pro Oil Corporation. She graduated from the International Christian University in Tokyo, Japan with a Bachelor of Social Science Degree in Economics.

Alesandra T. Ty, 39 years old, Filipino, was appointed Assistant Treasurer of GT Capital on February 14, 2012. She graduated from the Ateneo de Manila University with a Bachelor of Science degree in Legal Management. She then earned her Masters in Business Administration from the China Europe International Business School in Shanghai, China. She is currently Director and Corporate Treasurer of AXA Philippines; Corporate Secretary and Corporate Treasurer of FMIC; Corporate Secretary of GT Foundation, Inc.; Director and Assistant Treasurer of Federal Homes, Inc.; and Executive Vice President of Grand Titan Capital Holdings, Inc.

Winston Andrew L. Peckson, 67 years old, Filipino, serves as First Vice President and Chief Risk Officer of GT Capital. He was appointed to the position in February 2016. Mr. Peckson brings to the Corporation over 40 years of experience in banking. Concurrent to his position, he is a Director of the First Metro Philippine Equity Exchange Traded Fund, Inc. and a Fellow of the Institute of Corporate Directors. Before joining GT Capital, he served as a Consultant for the Treasury and Investment Banking Group of FMIC. Prior to his stint with FMIC, he was the Head of Treasury Marketing of Philippine National Bank. Before this, he was also Vice President and General Manager of ABN AMRO Bank NV's Manila Offshore Branch, a position he held for 10 years. Other previous positions held were: Vice President and Corporate Treasury Advisor of Bank of America – Manila Branch; CEO and Director of Danamon Finance Company (HK) Ltd. (DFCL); Manager for Corporate Banking of Lloyds Bank PLC – Hong Kong Branch; Vice President for Commercial Banking of Lloyds Bank PLC – Manila Offshore Branch; and Branch Banking Head of Far East Bank & Trust Company. He obtained his Bachelor of Arts Degree, Major in Psychology and Minor in Business Administration, from the Ateneo De Manila University and earned his Masters Degree in Business Management from the Asian Institute of Management.

Jose B. Crisol, Jr., 52 years old, Filipino, serves as First Vice President and Head of the Investor Relations, Strategic Planning and Corporate Communication Department of GT Capital. He was appointed to the position on July 26, 2012. Before joining the Corporation, he was the Assistant Vice President for Investor Relations of SM Investments Corporation (SM). Prior to working with SM, he was a Director at the Department of Trade and Industry (DTI), heading its Trade and Industry Information Center. He also served for a time, on a concurrent basis, as Head of DTI's Office of Operational Planning. His other past employment includes occupying various positions at The Philippine American Life Insurance Company and Merrill Lynch Philippines, Inc., among others. He holds a Master in Business Economics degree from the University of Asia and the Pacific, and a Bachelor of Science degree in Economics from the University of the Philippines - Diliman. He completed his primary and secondary education at the Ateneo de Manila University.

Susan E. Cornelio, 47 years old, Filipino, joined the Corporation on July 4, 2012 as the Head of the Human Resources and Administration. Prior to this, she served as Vice President/Head of Compensation and Benefits of Sterling Bank of Asia and as Assistant Vice President/Head of Compensation and Benefits of United Coconut Planters Bank. She has had other HR stints from the following institutions: Metrobank, ABN AMRO Offshore Banking, Solidbank, and Citytrust. She holds a Bachelor of Science in Commerce major in Accounting from the Sta. Isabel College and a Master Certificate in Human Resources and International HR Practices from Cornell University's School of Industrial and Labor Relations. She recently obtained a Master in Business Economics from the University of Asia and the Pacific.

Leo Paul C. Maagma, 47, was appointed the Chief Audit Executive of GT Capital Holdings, Inc. in April 2018. With over 24 years of extensive work experience—more than 19 years in audit and five years in accounting, accounts receivables, treasury, and payroll—Mr. Maagma began his career in an external auditing firm, then spent five years in a manufacturing foods business, and nearly 15 years in a business engaged in the distribution of health care products. He spent eight of his nearly two decades in audit work at the regional and country head offices of two multinational companies, Zuellig Pharma Corporation (Zuellig) and Unilever Bestfoods (Unilever). Before joining GT Capital, for 14½ years, Mr. Maagma served in various capacities at Zuellig—Internal Audit Manager from 2012 to 2018, Accounts Receivable Manager from 2010 to 2012, Corporate Internal Audit Manager from 2007 to 2010, and Internal Audit Manager from 2003 to 2007. At Zuellig, he was chiefly responsible for the Philippine subsidiary's internal audit function, while assisting in regional risk–based internal audits for the Zuellig Pharma Group across 12 countries in the Asia-Pacific region. Prior to his time at Zuellig, Mr. Maagma held several positions at Unilever from 1998 to 2003: Regional Information Systems Audit Supervisor, Category Accounting Manager, and Treasury Manager. Previously, he performed other supervisory roles in audit in Empire East Land Holdings, Inc. and Ernst and Young, International. Mr. Maagma earned his Master's Degree in Business Administration (MBA) at the Asian Institute of Management (AIM). Aside from this, he is a Certified Public Accountant (CPA), Chartered Business Administrator (CBA), and a certified Information Security Management Systems (ISMS) Internal Auditor. He graduated from the University of Santo Tomas (UST) with a Bachelor of Science degree in Commerce, major in Accountancy.

Reyna Rose P. Manon-og, 36 years old, Filipino, was appointed the Corporation's controller in October 2011. Before joining the Corporation, she was the Assistant Vice President and Head of the Financial Accounting Department of United Coconut Planters Bank. Prior to this, she was a Director in SGV & Co. where she gained seven years of experience in external audit. She is a Certified Public Accountant and a cum laude graduate of Bicol University with a Bachelor of Science degree in Accountancy. She recently completed the Strategic Business Economics Program of the University of Asia and the Pacific.

Elsie D. Paras, 46 years old, Filipino, serves as GT Capital's Vice President for Corporate Planning and Business Development and Deputy Chief Financial Officer. She was appointed to the position on January 5, 2015. Prior to joining the Corporation, she served as Finance Manager and Deputy CFO of SIA Engineering Philippines, a joint venture of Cebu Air and SIA Engineering of Singapore. Before this, she was a Manager for Strategic Consulting for Jones Lang La Salle MENA in Dubai. Her other employments include: Business Development Manager for Commercial Centers of Robinsons Land Corporation and Project Development Manager at Ayala Land, Inc. for middle income housing among others. She attained her Masters in Business Management, Major in Finance from the Asian Institute of Management in 2001. She was also a participant in the International Exchange Student Program of HEC School of Management of France. Prior to her MBM, she worked for six years in equity research and investment banking. She graduated with honors from the University of the Philippines with a Bachelor of Science degree in Business Economics.

Renee Lynn Miciano-Atienza, 36 years old, Filipino, is Vice President and Head of the Legal & Compliance Department of the Corporation. She was appointed to her position on May 11, 2016 and has been with GT Capital since August 2012. She concurrently holds the following positions: Director, GTCAD; Assistant Corporate Secretary, PCFI; Corporate Secretary, Micara Land, Inc., Marcan Development Corporation, Camarillo Development Corporation, Williamton Financing Corporation, Branchton Development Corporation, and Firm Builders Realty Development Corporation. Prior to joining the Corporation, she was the Head of the Investigation and Enforcement Department of the Capital Markets Integrity Corporation ("CMIC"). Before joining CMIC, she was the Officer-in-Charge of the Prosecution and Enforcement Department of the PSE. She was also Legal Counsel of the Office of Senator Miguel Zubiri, and prior to entering law school, a trader for United Coconut Planters Bank. She earned her Bachelor of Science degree in Management from the Ateneo De Manila University and finished her Juris Doctor degree in the same university.

Directorships in Other Reporting Companies and Subsidiaries

The following are directorships held by Directors and Executive Officers in other reporting (listed) companies and subsidiaries of the Corporation during the last five years:

Name of Corporation	Position
Francisco C. Sebastian	
Metropolitan Bank & Trust Company	Vice Chairman/Director
Federal Land, Inc.	Director

Metro Pacific Investment Corporation	Director
Property Company of Friends, Inc.	Director

Arthur Vy Ty

Metropolitan Bank & Trust Company	Chairman/Director
Philippine Savings Bank	Vice Chairman/Director
Philippine AXA Life Insurance Corporation	Vice-Chairman/Director
Federal Land, Inc.	Director

Alfred Vy Ty

Toyota Motor Philippines Corporation	Vice-Chairman/Director
Federal Land, Inc.	Chairman/Director
Metropolitan Bank & Trust Company	Director
Property Company of Friends, Inc.	Chairman/Director
Metro Pacific Investment Corporation	Director
Philippine Long Distance Telephone Company	Independent Director
GT Capital Auto Dealership Holdings, Inc.	Director

Carmelo Maria Luza Bautista

Toyota Motor Philippines Corporation	Director
Federal Land, Inc.	Director
Property Company of Friends, Inc.	Director
Toyota Manila Bay Corporation	Director
GT Capital Auto Dealership Holdings, Inc.	Director
Toyota Subic, Inc.	Director
Toyota Financial Services Philippines Corporation	Chairman/Director
GT Mobility Ventures	Chairman/Director
Vivant Corporation	Independent Director

David T. Go

Toyota Manila Bay Corporation	Chairman/Director
Toyota Motor Philippines Corporation	Director/Senior Executive Vice President and Treasurer
GT Capital Auto Dealership Holdings, Inc.	Chairman/President/Director
Toyota Subic, Inc.	Chairman/Director
Toyota Financial Services Philippines Corporation	Director/Treasurer
Toyota Cubao, Inc	Chairman/Director

Rene J. Buenaventura

Lorenzo Shipping Corporation	Independent Director
AIG Insurance, Philippines	Independent Director
UBS Investments, Philippines, Inc.	Independent Director
Consumer Creditscore Philippines, Inc.	Chairman
Equitable Foundation	Trustee
Go Kim Pah Foundation	Trustee
Maxicare Healthcare Foundation	Director
Algo Leasing and Finance Inc.	Vice Chairman
Equicom Savings Bank	Vice Chairman

Renato C. Valencia

iPeople, Inc.	Chairman
EEI Corporation	Independent Director
Anglo Philippine Holdings Corporation	Independent Director
Roxas Holdings, Inc.	President/CEO
Metropolitan Bank & Trust Company	Independent Director

Wilfredo A. Paras

Philex Mining Corporation	Independent Director

Anjanette Ty Dy Buncio

Federal Land, Inc.	Director/Treasurer/Senior Vice President
Property Company of Friends, Inc.	Director/Treasurer

Alesandra T. Ty

Philippine AXA Life Insurance Corporation	Director/Treasurer
Sumisho Motorcycle Finance Corp.	Director

Francisco H. Suarez, Jr.

GT Capital Auto Dealership Holdings, Inc.	Director/Treasurer
Toyota Subic, Inc.	Director/Treasurer
GT Mobility Ventures, Inc.	Director/Treasurer
JBA Philippines, Inc.	Director/Treasurer
Toyota Manila Bay Corporation	Director

Antonio P. A. Zara III

GT Mobility Ventures, Inc.	Director/President
JBA Philippines, Inc.	Director/Chairman

Winston Andrew L. Peckson

First Metro Philippine Equity Exchange Traded Fund, Inc.	Director

Renee Lynn Miciano-Atienza

GT Capital Auto Dealership Holdings, Inc.	Director

The following will be nominated as officers of the Corporation during the Organizational meeting:

<u>Office</u>	<u>Name</u>
Chairman	Arthur V. Ty
Co-Vice Chairman	Alfred V. Ty
Co-Vice Chairman	Francisco C. Sebastian
President	Carmelo Maria Luza Bautista
Treasurer	Anjanette T. Dy Buncio
Assistant Treasurer	Alesandra T. Ty
Corporate Secretary	Antonio V. Viray
Assistant Corporate Secretary	Jocelyn Y. Kho
Chief Financial Officer	Francisco H. Suarez, Jr.
General Manager of GTCAD	Antonio P. A. Zara III
Head, Investor Relations, Strategic Planning & Corporate Communications	Jose B. Crisol, Jr.
Chief Risk Officer	Winston Andrew L. Peckson
Head, Human Resources & Administration	Susan E. Cornelio
Chief Audit Executive	Leo Paul C. Maagma
Controller and Head, Accounting and Financial Control	Reyna Rose P. Manon-og
Head, Corporate Planning and Business Development	Elsie D. Paras
Head, Legal and Compliance	Renee Lynn Miciano-Atienza

The following will be nominated as Board Advisers during the Organizational meeting:

Adviser	Guillermo Co Choa
Adviser	Mary Vy Ty

(b) Significant Employees

The Corporation does not believe that its business is dependent on the services of any particular employee.

(c) Family Relationships

Mary Vy Ty is the wife of Dr. George S.K. Ty. Arthur Vy Ty, Alfred Vy Ty, Anjanette T. Dy Buncio, and Alesandra T. Ty are the children of Dr. George S.K. Ty and Mary Vy Ty. All other directors and officers are not related either by consanguinity or affinity. There are no other family relationships known to the registrant other than the ones disclosed herein.

(d) Certain Relationships and Related Transactions

There are no known related party transactions other than those described in Note 27 (Related Party Transactions) of the Notes to the Consolidated Financial Statements. Related Party Transactions are made on an arm's length basis.

(e) Involvement in Legal Proceedings

The Corporation is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Corporation:

(1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(2) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;

(4) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and

(5) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Item 11. **Executive Compensation**

Summary compensation table of Executive Officers

The following table identifies the Corporation's President and four most highly-compensated executive officers (the Named Executive Officers) and summarizes their aggregate compensation in 2017, 2018, and 2019. The amounts (in Php millions) set forth in the table below have been prepared based on what the Corporation paid its executive officers in 2017 and 2018, and what the Corporation expects to pay in 2019.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Named Executive Officers*....................................	2017	39.85	15.21	-
	2018	49.13	20.47	-
	2019**	53.06	22.10	-
All other Officers as a Group	2017	26.12	10.15	-
	2018	32.80	13.66	-
	2019**	35.42	4.76	-

** Named executive officers include: Carmelo Maria Luza Bautista (President), Francisco H. Suarez, Jr. (Chief Financial Officer), Antonio P. A. Zara III (General Manager of GTCAD), Winston Andrew L. Peckson (Chief Risk Officer) and Jose B. Crisol (Head, Investor Relations and Corporate Communications)*
*** Figures for the year 2019 are estimates*

Summary compensation table of Directors

Remuneration Item	**Executive Directors**	**Non-Executive Directors** (other than independent directors)	**Independent Directors**
Per diem Allowance	Php 1.40 million	Php 14.63 million	Php 5.0 million
Bonuses	Php 0.60 million	Php 4.68 million	Php 2.60 million
Transportation Allowance		PhP 0.15 million	PhP 0.87 million

The directors receive per diems, bonuses and allowances that are already included in the amounts stated above. Aside from the amounts stated, there are no other compensation plans or arrangements between the directors and the Corporation.

Employment contracts between the Company and named executive officers
The Company has no special employment contracts with its executive officers.

Warrants and options outstanding
There are no outstanding warrants or options held by the CEO, executive officers, and all officers and directors as a group.

Stock option plan
The Company has no employee stock option plan.

Item 12. **Security Ownership of Certain Beneficial Owners and Management**
As of December 31, 2018, the following are the owners of more than 5% of the Company's voting stocks:

Title of Class	**Name and Address of Record Owner and Relationship with Issuer**	**Name of Beneficial Owner and Relationship with Record Owner**	**Citizenship**	**No. of Shares Held**	**Percent (%)**
Common	Grand Titan Capital Holdings, Inc. 43rd Floor GT Tower International 6813 Ayala Avenue cor. H.V. Dela Costa St., Makati City	Same as the Record Owner **Arthur Vy Ty** is authorized to vote the shares held by Grand Titan Capital Holdings, Inc.	Filipino	111,494,128	55.93%
Common	PCD Nominee Corp. (Non-Filipino)	Various Clients[1]	Foreign	61,696,894	30.95%
Common	PCD Nominee Corp. (Filipino)	Various Clients[1]	Filipino	25,512,240	12.80%
Voting Preferred	Grand Titan Capital Holdings, Inc. 43rd Floor GT Tower International 6813 Ayala Avenue cor. H.V. Dela Costa St., Makati City	Same as the Record Owner	Filipino	170,490,640	97.81%

(1) *PCD Nominee Corporation ("PCDNC") is a wholly owned subsidiary of the Philippine Central Depository ("PCD") and acts as trustee-nominee for all shares lodged in the PCD system where trades effected on the Philippine Stock Exchange are finally settled and lodged. Persons who opt to trade through the PCD do not receive stock certificates as an evidence of ownership, as trading using the PCD is completely paperless. Beneficial ownership of shares lodged with the PCDNC (Filipino/Non-Filipino) remains with the lodging stockholder.*

Security Ownership of Management as of December 31, 2018

Title of Securities	Name of Beneficial Owner of Common Stock	Amount and Nature of Beneficial Ownership (D) direct/ (I) indirect	Citizenship	Percent of Class
Common	Arthur V. Ty	103,500 (D) 12,174 (I)	Filipino	0.0519% 0.0061%
Common	Alfred V. Ty	103,500 (D) 12,174 (I)	Filipino	0.0519% 0.0061%
Common	Francisco C. Sebastian	104 (D) 93,150 (I)	Filipino	0.0000% 0.0467%
Common	Anjanette T. Dy Buncio	50,504 (I)	Filipino	0.0253%
Common	Carmelo Maria Luza Bautista	1,035 (D) 12,420 (I)	Filipino	0.0005% 0.0062%
Common	Francisco H. Suarez, Jr.	5,175 (I)	Filipino	0.0026%
Perpetual Preferred Shares (GTPPA)	Francisco H. Suarez, Jr.	1000 (I)	Filipino	0.0207%
Common	Alesandra T. Ty	17,865 (I)	Filipino	0.0089%
Perpetual Preferred Share (GTPPA)		1900 (I)	Filipino	0.0393%
Perpetual Preferred Shares (GTPPB)		1100 (I)	Filipino	0.0154%
Common	Jaime Miguel G. Belmonte	1,035 (D)	Filipino	0.0005%
Common	Wilfredo A. Paras	1,035 (D)	Filipino	0.0005%
Common	Renato C. Valencia	1,035(D)	Filipino	0.0005%
Common	Farrah Lyra Q. De Ala	287 (I)	Filipino	0.0001%
Common	Winston Andrew L. Peckson	281 (I)	Filipino	0.0001%
Common	Reyna Rose P. Manon-Og	204I)	Filipino	0.0001%
Common	David T. Go	104 (D)	Filipino	0.0000%
Common	Pascual M. Garcia III	104 (D)	Filipino	0.0000%
Common	Regis V. Puno	104 (D)	Filipino	0.0000%
Common	Rene J. Buenaventura	104 (D)	Filipino	0.0000%
Common	Renee Lynn Miciano-Atienza	47(I)	Filipino	0.0000%
Perpetual Preferred Shares (GTPPB)		50 (I)	Filipino	0.0007%
Common	Antonio P. A. Zara**	0	Filipino	0.0000%
Common	Antonio V. Viray	0	Filipino	0.0000%
Common	Jocelyn Y. Kho	0	Filipino	0.0000%

Common	Jose B. Crisol	0	Filipino	0.0000%
Perpetual Preferred Shares (GTPPB)		50 (I)	Filipino	0.0007%
Common	Susan E. Cornelio	0	Filipino	0.0000%
Common	Leo Paul C. Maagma	0	Filipino	0.0000%
Common	Elsie D. Paras	0	Filipino	0.0000%
Perpetual Preferred Shares (GTPPB)		300 (I)	Filipino	0.0042%
Total **Common** **GTPPA** **GTPPB**		 **211,660 (D)** **204,281(I)** **2,900(I)** **1,500(I)** **420,341 (Tot)**		**0.2087%** **0.0599%** **0.0209%**

Voting Trust Holders of 5% or More
There are no persons holding more than 5% of a class under a voting trust or any similar agreements as of December 31, 2018.

Change in Control
The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

There are no existing or planned stock warrant offerings. There are no arrangements which may result in a change in control of the Company.

Item 13. **Certain Relationships and Related Transactions**
The Corporation maintains business relationships and has entered into transactions with related parties. The Corporation's Corporate Governance and Related Party Transactions Committee passes upon and provides clearance for related party transactions with material significance. In all cases, the Committee shall make its decision taking into consideration the best interest of the Corporation. If approved by the Committee, the proposed related party transaction is then recommended and endorsed to the Board for approval. For transactions of material significance, transactions are evaluated for fairness through a third party evaluator or assessor. Any ongoing contractual or other commitments as a result of the arrangement are stated in Note 27 (Related Party Transactions) of the Consolidated Financial Statements. Transactions with related parties of material significance are made in the ordinary course of business, do not deviate substantially from market terms and conditions and are made on an arm's length basis.

There are no known related party transactions other than those described in Note 27 (Related Party Transactions) of the Notes to the Consolidated Financial Statements. Related Party Transactions are made on an arm's length basis.

There are no known transactions with parties that fall outside the definition of "related parties" under SFAS/IAS No. 24 with whom the registrants or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from the other, more clearly independent, parties on an arm's length basis.

Transactions with Promoters
There are no transactions with promoters within the past five (5) years.

Events after the Reporting Period
For detailed discussion, please refer to Note 37 of the Consolidated Financial Statements for December 31, 2018 which forms part of the Annex of this SEC17A report.

PART IV.

EXHIBITS AND SCHEDULES

Item 14. **Exhibits and Reports on SEC Form 17-C**

(a) Exhibits – see accompanying Index to Exhibits

(b) Reports on SEC Form 17-C

Reports on SEC Form 17-C were filed during the period covered by this report and are listed below:

	Date	Particulars
1.	January 18, 2018	Press Release – GT Capital to Subscribe in Metrobank Stock Rights Offer
2.	March 1, 2018	Resignation of Ms. Richel D. Mendoza as Vice-President/Chief Audit Executive of the Corporation due to personal reasons, effective March 1, 2018.
3.	March 7, 2018	[Amended] Resignation of Ms. Richel D. Mendoza – resignation in line with lateral transfer of Ms. Mendoza to assume role as Financial Controller of GT Capital's fully owned subsidiary, Federal Land Inc.
4.	March 16, 2018	Declaration of 3.50% stock dividends to its common stockholders in the amount of Pesos: Eight Billion Eight Hundred Ninety One Million Two Hundred Twenty Five Thousand Nine Hundred Ninety Six (Php8,891,225,996.00), equivalent to 6,740,884 shares.
5.	March 16, 2018	Setting of date of the Annual Stockholders' Meeting (ASM) of the Corporation on May 9, 2018.
6.	March 16, 2018	Declaration of a regular cash dividend in the amount of Five Hundred Seventy Seven Million Seven Hundred Ninety Thousand Fifty Five Pesos (Php 577,790,055.00) or Three Pesos (Php3.00) per share, in favor of GT Capital's common stockholders of record as of April 4, 2018, payable on or before April 13, 2018.
7.	March 19, 2018	Notice of Fully Year 2017 Briefing on April 3, 2018.
8.	March 26, 2018	Appointment of Mr. Leo Paul C. Maagma as Vice-President/Chief Audit Executive of GT Capital Holdings, Inc., effective April 16, 2018.
9.	March 28, 2018	Press Release – GT Capital Full-Year 2017 Core Net Income Rises 29% to Php15.0 Billion
10.	April 2, 2018	Amended Notice of full Year 0217 Briefing – amending venue from Grand Salon to Grand Ballroom 3 of Grand Hyatt Manila.

11.	May 9, 2018	Approval of the stockholders of GT Capital Holdings during the Annual Stockholders Meeting held on May 9, 2018, of the declaration of 3.50% stock dividends, equivalent to 6,740,884 shares.
12.	May 9, 2018	Results of the Annual Stockholders' Meeting ("ASM") and Organizational Board Meeting ("Organizational Meeting") of GT Capital Holdings, Inc. (the "Corporation")
13.	May 11, 2018	Press Release – GT Capital January-March 2018 Net Income Grows 21% to Php3.7 Billion
14.	August 1, 2018	Notice of First Half 2018 Briefing on August 15, 2018
15.	August 15, 2018	Press Release – GT Capital First Half 2018 Net Income Reaches Php7.1 Billion
16.	August 31, 2018	Appointment of Mr. Antonio P. A. Zara III as General Manager of GT Capital Auto Dealership Holdings, Inc., subsidiary of GT Capital Holdings, Inc.
17.	October 30, 2018	Notice of Nine Months 2018 Analyst and Media Briefing on November 15, 2018
18.	November 14, 2018	Promotion of Ms. Farrah Q. De Ala from Senior Manager to Assistant Vice President of GT Capital Holdings, Inc., effective December 1, 2018.
19.	November 14, 2018	Press Release – GT Capital January to September 2018 Core Net Income Reaches Php11.0 Billion
20.	November 19, 2018	Clarification of The Manila Times.net article entitled "GT Capital expects P4B Q4 profit, flat 2018 growth."
21.	December 6, 2018	Declaration of quarterly cash dividends for the Corporation's non-voting, non-participating, non-convertible, and redeemable perpetual preferred shares for the year 2019 in the amount of Pesos: Fifty Six Million Twelve Thousand Nine Hundred Ninety Three and 19/100 (Php56,012,993.19) for Series A (GTPPA) and Pesos: Ninety One Million Two Hundred Eight Thousand Three Hundred Ninety and 31/100 (Php91,208,390.31) for Series B (GTPPB), such cash dividends to be paid out of the Corporation's unrestricted retained earnings.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 177 of the Revised Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on APR 12 2019 , 2019.

GT Capital Holdings, Inc.

By:

Original Signed
Arthur V. Ty
Chairman

Original Signed
Carmelo Maria Luza Bautista
President

Original Signed
Francisco H. Suarez, Jr.
Chief Financial Officer

Original Signed
Atty. Antonio V. Viray
Corporate Secretary

Original Signed
Reyna Rose P. Manon-og
Comptroller

Original Signed
Atty. Renee Lynn Miciano-Atienza
Head, Legal and Compliance

SUBSCRIBED AND SWORN to before me this APR 12 2019 day of ______ 2019 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Arthur V. Ty	[redacted]	April 13, 2016	DFA Manila
Carmelo Maria L. Bautista		May 21, 2018	DFA NCR South
Francisco H. Suarez, Jr.		December 28, 2016	DFA Manila
Antonio V. Viray		May 30, 2017	DFA Central North
Reyna Rose P. Manon-og		January 30, 2017	DFA NCR South
Renee Lynn Miciano-Atienza		February 2, 2016	DFA Manila

Doc No. 120;
Page No. 21;
Book No. IV;
Series of 2019.

Notary Public

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COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	7	1	1	7	9	2

COMPANY NAME

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

43rd Floor, GT Tower International, Ayala Avenue corner H.V. Dela Costa St., Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
gtcap@gtcapital.com.ph	836-4500	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
80	2nd Wednesday of May	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Francisco H. Suarez, Jr.	francis.suarez@gtcapital.com.ph	836-4500	

CONTACT PERSON's ADDRESS

43rd Floor, GT Tower International, Ayala Avenue corner H.V. Dela Costa St., Makati City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

GT CAPITAL
HOLDINGS, INCORPORATED

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of GT Capital Holdings, Inc. (the Company) is responsible for the preparation and fair presentation of the parent and consolidated financial statements including the schedules attached therein, as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has audited the parent and consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature: Original Signed
Arthur V. Ty, Chairman of the Board

Signature: Original Signed
Carmelo Maria L. Bautista, President

Signature: Original Signed
Francisco H. Suarez, Jr., Chief Financial Officer

March 26, 2019

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

SUBSCRIBED AND SWORN to before me on MAR 26 2019, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

Arthur V. Ty
Carmelo Maria L. Bautista
Francisco H. Suarez, Jr.

[redacted]

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Book No. 11
Series of 2019

Original Signed

ATTY. MELISSA B. REYES
Notary Public for Makati City until December 31, 202_
Roll No. 41639 / Appointment No. M-120
IBP 054764 / PTR No. 6610489
45/F GT Tower International, Ayala Avenue
Corner H.V. Dela Costa, Makati City

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

Tel: (632) 891 0307
Fax: (632) 819 0872
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International
Ayala Avenue corner H.V. Dela Costa Street
Makati City

Opinion

We have audited the consolidated financial statements of GT Capital Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 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 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 financial statements.

Finalization of purchase price allocation on investment in Metropolitan Bank & Trust Company (MBTC)

In 2017, the Group acquired additional common shares of MBTC for a total consideration of ₱24.72 billion, increasing its ownership in MBTC from 26.47% to 36.09%. PFRS requires that when an entity acquires additional interest in an associate, the increase in the investment must be notionally split between goodwill and the additional interest in the fair value of the net assets of the associate. In 2017, the purchase price allocation was determined on a provisional basis. PFRS provides for a measurement period of one year from the date of acquisition wherein the acquirer may adjust provisional amounts.

The finalization of the purchase price allocation in 2018 is significant to our audit because it required significant amount of management judgment and estimation in determining the fair values of assets and liabilities, particularly, on the use of discount rates and financial projections for the valuation of loans and receivables and deposits. Goodwill recognized within the investment in associate account amounted to ₱3.85 billion. The significant estimates used and disclosures in relation to the finalization of the purchase price allocation of MBTC are included in Notes 3 and 8 to the consolidated financial statements.

Audit Response

We reviewed the purchase price allocation. We involved our internal specialists in the review of the valuation methodologies and key assumptions. We reviewed the discount rates used to value certain assets and liabilities by comparing these to published reference rates, and assessing whether the underlying parameters used represent current market assumptions of risks specific to the assets and liabilities being valued. Where the Group engaged independent appraisers to value the property and equipment, we assessed the competence, capabilities, and objectivity of such independent appraisers. We reviewed the comparable properties used by the appraisers and whether the adjustments made to arrive at the concluded value properly considered differences in characteristics such as location and size. We also assessed and validated the adequacy and appropriateness of the related disclosures in the consolidated financial statements.

Adoption of PFRS 9, *Financial Instruments*, Expected credit loss model of impairment

On January 1, 2018, the Group adopted PFRS 9, *Financial Instruments*. PFRS 9, which replaced Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss. The Group adopted the modified retrospective approach in adopting PFRS 9.

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Specifically, the Group's adoption of the ECL model for the contract assets and installment contracts receivable of its real estate business is significant to our audit as it involves the exercise of significant management judgment and estimation. Key areas of judgment include: segmenting the Group's credit risk exposures; determining the method to estimate lifetime ECL; defining what comprises default; determining assumptions to be used in the ECL model such as the expected life of the residential and office development receivables and timing and amount of expected net recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

Refer to Notes 2 and 3 of the consolidated financial statements for the disclosures in relation to the adoption of PFRS 9 ECL model.

Audit Response

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

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) checked the methodology used in applying the simplified approach by evaluating the key inputs, assumptions, and formulas used; (c) compared the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (d) tested loss given default by inspecting historical recoveries including the timing, related direct costs, and write-offs; (e) evaluated the forward-looking information used for overlay through statistical test and corroboration using publicly available information; and (f) tested the effective interest rate, or an approximation thereof, used in discounting the expected loss.

Further, we checked the data used in the ECL models, such as the historical analysis of defaults, and recovery data, 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 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.

Adoption of PFRS 15, *Revenue from Contracts with Customers*

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under the modified retrospective approach. The Group recorded transition adjustments that decreased retained earnings and non-controlling interests as of January 1, 2018 by ₱0.64 billion and ₱0.56 billion, respectively, as well as recognition of contract assets and contract liabilities amounting to ₱18.81 billion and ₱5.45 billion, respectively. We consider this as a key audit matter because the adoption of PFRS 15 requires the application of significant management judgment and estimation across various aspects of the five-step revenue recognition model. The adoption of PFRS 15 has led to significant changes in the Group's revenue recognition policies, processes and procedures, which are described below.

For the Group's real estate business, the following matters are significant to our audit because these involve application of significant judgment and estimation: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) application of the output method as the measure of progress in determining real estate revenue; (4) determination of the actual costs incurred as cost of sales; and (5) recognition of cost to obtain a contract.

The Group identifies the contract that meets all the criteria required under PFRS 15 for a valid revenue contract. In the absence of a signed contract to sell, the Group identifies alternative documentation that are enforceable and that contains each party's rights regarding the real estate property to be transferred, the payment terms and the contract's commercial substance.

In evaluating whether collectability of the amount of consideration is probable, the Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as past history with the buyer, age and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on physical proportion of work done on the real estate project which requires technical determination by the Group's specialists (project engineers), as well as survey of performance completed to date. This is based on the monthly project accomplishment report prepared by the project engineers as approved by the construction manager, which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the Group itself.

In determining the actual costs incurred to be recognized as cost of sales, the Group estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor. In other cases, the Group also compares the contractors' billing forms against the budgeted costs and adjusts the costs accordingly to real estate inventories or cost of real estate revenue.

The Group identifies sales commission after contract inception as the cost of obtaining the contract. For contracts which qualified for revenue recognition, the Group capitalizes the total sales commission due to sales agent as cost to obtain contract and recognizes the related commission payable. The Group uses percentage of completion method in amortizing sales commission consistent with the Group's revenue recognition policy.

For the Group's automotive business, the adoption of PFRS 15 is significant to our audit because this involves application of significant management judgment and estimation in: (1) determining whether the criteria for the recognition of automotive revenue is met; (2) determining whether there are other promises in the contract that are separate performance obligations; (3) determining whether the transaction price includes variable consideration such as rebates and significant financing component; (4) allocation of the transaction price among the performance obligations; and (5) determining the timing of satisfaction of performance obligation over time or point in time.

The disclosures related to the adoption of PFRS 15, including available practical expedients applied by the Group, are included in Note 2 to the consolidated financial statements.

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Audit response

We obtained an understanding of the Group's revenue recognition process, including the process of implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis.

Real Estate Business
For the identification of the alternative documentation for sale of real estate property (in the absence of a signed contract to sell) that would meet the requirements of PFRS 15, our audit procedures include, among others, involvement of our internal specialist in reviewing the Group's legal basis regarding the enforceability of the alternative documentation against previous court decisions, buyers' behavior and industry practices.

For the buyers' equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold.

For the application of the output method, in determining real estate revenue, we obtained an understanding of the Group's processes for determining the Percentage of Completion (POC), and performed tests of the relevant controls. We obtained the certified POC reports prepared by the project engineers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports showing the completion of the major activities of the project construction.

For the cost of sales, we obtained an understanding of the Group's cost accumulation process and performed tests of the relevant controls. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to supporting documents such as accomplishment reports and progress billings from contractors.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commission process. For selected contracts, we agreed the basis for calculating the sales commission capitalized and portion recognized in profit or loss, particularly (a) the percentage of commission due against contracts with sales agents, (b) the total commissionable amount (e.g., net contract price) against the related contract to sell, and, (c) the POC against the POC used in recognizing the related revenue from real estate sales.

Automotive Business
We reviewed sample contracts and checked whether all performance obligations within contracts with customers have been identified.

We reviewed sample contracts and checked whether management has identified and estimated all components of the transaction price such as the variable consideration and significant financing component and applied the constraint on variable consideration. We evaluated the management's assumptions on expected rebates by comparing the historical experience of the Group with the assumptions used in its estimates as it relates to variable consideration.

We reviewed sample contracts and checked the allocation of the transaction price to the performance obligations. We tested management's estimate and underlying assumptions on the standalone selling price for each performance obligation included within a sample of contracts.

We reviewed sample contracts and checked whether the Group's timing of revenue recognition is based on when the performance occurs and control of the related goods or services is transferred to the customer.

We test-computed the transition adjustments and evaluated the disclosures made in the financial statements on the adoption of PFRS 15.

Impairment Testing of Goodwill and Intangible Assets

Under PFRS, the Group is required to test goodwill and intangible assets with indefinite useful life for impairment at least on an annual basis. As of December 31, 2018, the Group has goodwill and customer relationship intangible asset amounting to ₱8.77 billion and ₱3.88 billion, respectively, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically estimated future cash inflows, budgeted gross margins, discount rates, long-term growth rates, attrition rate, and earnings before interest and taxes (EBIT) margin on key customers. The disclosures in relation to the significant assumptions and carrying value of goodwill and intangible assets are included in Note 13 to the consolidated financial statements.

Audit Response

We involved our internal specialists to evaluate the assumptions and methodologies used. These assumptions include discounted expected future cash inflows, budgeted gross margins, discount rates, long-term growth rates, attrition rate and EBIT margin on key customers. We compared the key assumptions used, such as discount rates and growth rates against the historical performance of the cash-generating unit (CGU), industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill.

Accounting for Investments in Associates

The Group has effective ownership of 15.55% in MPIC and 36.36% in MBTC as of December 31, 2018. These investments are accounted for using the equity method. The application of equity method of accounting to these investments is a key audit matter because these investments in associates contributed ₱10.48 billion or 58.68% to the consolidated net income of the Group in 2018, and accounted for 63.31% and 40.45% of the consolidated total noncurrent assets and total assets, respectively, of the Group as of December 31, 2018.

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The Group's share in MPIC's net income is significantly affected by MPIC's revenue on water and sewerage services from the Metropolitan Waterworks and Sewerage System (MWSS) West Service Area. This matter is significant to our audit because water and sewerage service revenue recognition is affected by the: (a) completeness of data captured during monthly meter readings, which involves processing large volume of data from multiple locations and different billing cut-off dates for different customers; (b) the propriety of the application of the relevant rates to the billable consumption of different customers classified as residential, semi-business, commercial or industrial; (c) the reliability of the systems involved in processing bills and recording revenues; and (d) impact of the adoption of new revenue recognition, PFRS 15, which involves the application of significant judgment in the assessment of impracticability of retrospective restatement on accounting for connection fees.

In addition, MPIC's goodwill, mainly arising from its acquisition of long-term investments in water and tollways business, amounted to ₱25.86 billion. MPIC has also entered into several service concession agreements (SCAs) with the Philippine Government and/or its agencies or instrumentalities, of which ₱39.34 billion of these SCAs are not yet available for use. Under PFRSs, MPIC is required to perform annual impairment test on the amount of goodwill and the SCAs not yet available for use. This matter is important to our audit because the impairment assessment of goodwill and SCAs involves significant management judgment and estimation that could have a material effect on the Group's share in MPIC's net income.

The Group's share in MBTC's net income is significantly affected by the level of provisioning made on MBTC's loans and receivables, in relation to its adoption of PFRS 9 ECL model. The determination of the allowance for credit losses is a key area of judgment because it involves the exercise of significant management judgment. Key areas of judgment include: segmenting MBTC'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.

Audit Response

For MPIC, we obtained an understanding of the water and sewerage service revenue process, which includes maintaining the customer database, capturing billable water consumption, uploading captured billable water consumption to the billing system, calculating billable amounts based on MWSS approved rates, and uploading data from the billing system to the financial reporting system. We also evaluated the design of and tested the relevant controls over this process. In addition, we performed test recalculation of the billed amounts using the MWSS approved rates and formulae, and compared them with the amounts reflected in the billing statements. Moreover, we involved our internal specialist in performing the aforementioned procedures on the automated aspects of this process.

For MPIC's adoption of PFRS 15, we obtained an understanding of Maynilad's processes in implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analyses. For connection fees, we obtained an understanding of the process for new water service connections. We obtained sample water and sewer contracts and reviewed whether the accounting policies for connection fees considered the requirements of PFRS 15. We also reviewed the basis of impracticability of retrospective restatement invoked by management against the requirements of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and against company and industry practices.

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We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the value in use of goodwill and SCAs not yet available for use. These assumptions include the expected volume of traffic for the toll roads, ridership for the rail, billed water volume for the water concession, growth rate and discount rates. We compared the forecast revenue growth against the historical data of the CGUs and inquired from management and operations personnel about the plans to support the forecast revenues. We also compared the key assumptions such as traffic volume, rail ridership and water volume against historical data and against available studies by independent parties that were commissioned by the respective subsidiaries. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with WACC of other comparable companies in the regions.

For MBTC, we obtained an understanding of the board-approved methodologies and models used for the 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 MBTC'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 MBTC'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 MBTC'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 MBTC'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 and checked the appropriateness of the transition adjustments.

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

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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 financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and the 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 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 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 financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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 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 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 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 to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 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.

The engagement partner on the audit resulting in this independent auditor's report is Miguel U. Ballelos, Jr.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos Jr.
Miguel U. Ballelos, Jr.
Partner
CPA Certificate No. 109950
SEC Accreditation No. 1566-A (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 241-031-088
BIR Accreditation No. 08-001998-114-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332525, January 3, 2019, Makati City

March 26, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
RECEIVED
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GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Millions)

	December 31	
	2018	2017 (As restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱14,353	₱20,155
Short-term investments (Notes 4 and 27)	65	1,666
Financial assets at fair value through profit or loss (FVTPL) (Notes 2 and 10)	3,181	–
Available-for-sale (AFS) investments (Notes 2 and 10)	–	611
Receivables (Notes 2 and 5)	15,153	24,374
Contract assets (Notes 2 and 21)	8,329	–
Inventories (Notes 2 and 6)	77,469	74,872
Due from related parties (Note 27)	666	166
Prepayments and other current assets (Notes 2 and 7)	9,790	10,417
Total Current Assets	129,006	132,261
Noncurrent Assets		
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 2 and 10)	10,948	–
AFS investments (Notes 2 and 10)	–	2,103
Receivables - net of current portion (Notes 2 and 5)	932	4,720
Contract assets - net of current portion (Notes 2 and 21)	6,886	–
Investment properties (Note 9)	17,728	17,392
Investments and advances (Notes 2 and 8)	163,739	124,892
Property and equipment (Note 11)	13,638	11,671
Goodwill and intangible assets (Note 13)	12,955	13,012
Deferred tax assets (Notes 2 and 29)	1,024	731
Other noncurrent assets (Note 14)	2,894	909
Total Noncurrent Assets	230,744	175,430
	₱359,750	₱307,691
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 2 and 15)	₱25,411	₱25,983
Contract liabilities (Notes 2 and 21)	8,787	–
Short-term debt (Note 16)	10,500	6,033
Current portion of long-term debt (Note 16)	820	2,467
Current portion of liabilities on purchased properties (Notes 20 and 27)	416	582
Current portion of bonds payable (Note 17)	2,994	–
Customers' deposits (Notes 2 and 18)	563	4,941
Dividends payable	1,198	589
Due to related parties (Note 27)	204	189
Income tax payable	601	777
Other current liabilities (Note 19)	843	1,229
Total Current Liabilities	52,337	42,790

(Forward)

	December 31	
	2018	2017 (As restated - Note 2)
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 16)	**₱94,349**	₱57,021
Bonds payable (Note 17)	**18,913**	21,877
Liabilities on purchased properties - net of current portion (Notes 20 and 27)	**2,877**	3,152
Pension liability (Note 28)	**859**	1,399
Deferred tax liabilities (Note 29)	**5,959**	5,594
Other noncurrent liabilities (Note 20)	**2,169**	2,167
Total Noncurrent Liabilities	**125,126**	91,210
	177,463	134,000
Equity		
Equity attributable to equity holders of the Parent Company		
Capital stock (Note 22)	**3,211**	3,143
Additional paid-in capital (Note 22)	**85,592**	78,940
Retained earnings - unappropriated (Notes 2 and 22)	**53,459**	48,582
Retained earnings - appropriated (Note 22)	**17,000**	19,000
Other comprehensive loss (Notes 2 and 22)	**(4,207)**	(5,975)
Other equity adjustments (Note 22)	**2,322**	2,322
	157,377	146,012
Non-controlling interests (Notes 2 and 22)	**24,910**	27,679
Total Equity	**182,287**	173,691
	₱359,750	₱307,691

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Millions, Except Earnings Per Share)

	Years Ended December 31		
	2018	2017	2016
CONTINUING OPERATIONS			
REVENUE			
Automotive operations (Note 35)	₱179,117	₱211,692	₱177,709
Real estate sales (Note 35)	18,508	14,092	12,438
Equity in net income of associates and joint venture (Note 8)	11,517	8,699	6,366
Interest income (Note 23)	2,082	2,085	2,262
Rent income (Notes 9 and 30)	1,257	940	826
Sale of goods and services	778	640	620
Commission income	108	56	192
Gain on revaluation of previously held interest (Note 31)	–	–	125
Other income (Note 23)	2,458	1,607	1,586
	215,825	239,811	202,124
COSTS AND EXPENSES			
Cost of goods and services sold (Note 24)	129,849	147,713	122,060
Cost of goods manufactured and sold (Note 25)	31,809	39,635	33,792
General and administrative expenses (Note 26)	14,040	12,899	12,837
Cost of real estate sales (Note 6)	12,609	10,035	7,586
Interest expense (Notes 16 and 17)	4,965	3,394	3,326
Cost of rental (Note 30)	476	360	326
	193,748	214,036	179,927
INCOME BEFORE INCOME TAXES FROM CONTINUING OPERATIONS	22,077	25,775	22,197
PROVISION FOR INCOME TAX (Note 29)	4,171	4,524	4,586
NET INCOME FROM CONTINUING OPERATIONS	17,906	21,251	17,611
NET INCOME FROM DISCONTINUED OPERATIONS (Note 12)	–	–	4,916
NET INCOME	₱17,906	₱21,251	₱22,527
ATTRIBUTABLE TO:			
Equity holders of the Parent Company			
Profit for the year from continuing operations	₱13,390	₱14,182	₱10,631
Profit for the year from discontinued operations	–	–	4,003
	13,390	14,182	14,634
Non-controlling interests			
Profit for the year from continuing operations	4,516	7,069	6,980
Profit for the year from discontinued operations	–	–	913
	4,516	7,069	7,893
	₱17,906	₱21,251	₱22,527
Basic/Diluted Earnings Per Share from Continuing Operations Attributable to Equity Holders of the Parent Company (Note 34)	₱64.21	₱70.29*	₱58.34*
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 34)	₱64.21	₱70.29*	₱80.54*

Restated to show the effect of stock dividends distributable in 2018

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
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GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

	Years Ended December 31		
	2018	2017	2016
NET INCOME FROM CONTINUING OPERATIONS	₱17,906	₱21,251	₱17,611
NET INCOME FROM DISCONTINUED OPERATIONS (Note 12)	–	–	4,916
NET INCOME	17,906	21,251	22,527
OTHER COMPREHENSIVE INCOME			
CONTINUING OPERATIONS			
Items that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of AFS investments (Note 10)	–	661	1,065
Changes in cumulative translation adjustments	3	(3)	–
Changes in cash flow hedge reserves (Note 16)	287	(27)	–
Equity in other comprehensive income of associates and joint venture (Note 8):			
Changes in fair value of AFS investments	–	(2,142)	(1,578)
Cash flow hedge reserve	85	8	8
Remeasurement on life insurance reserves	376	(190)	–
Translation adjustments	(1,968)	(1,382)	175
Other equity adjustments	19	–	(13)
Income tax effect	(97)	–	–
	(1,295)	(3,075)	(343)
Items that may not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of financial assets at FVOCI (Note 10)	(1,469)	–	–
Equity in changes in fair value of financial assets at FVOCI of associates (Note 8)	(1,229)	–	–
Remeasurements of defined benefit plans (Note 28)	333	(54)	(20)
Equity in remeasurement of defined benefit plans of associates (Note 8)	394	(169)	26
Income tax effect	(218)	67	(2)
	(2,189)	(156)	4
OTHER COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS	(3,484)	(3,231)	(339)
OTHER COMPREHENSIVE INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	–	–	19
TOTAL OTHER COMPREHENSIVE LOSS, NET OF TAX	(3,484)	(3,231)	(320)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	₱14,422	₱18,020	₱22,207
ATTRIBUTABLE TO:			
Equity holders of the Parent Company			
Total comprehensive income for the year from continuing operations	₱9,660	₱10,982	₱9,812
Total comprehensive income for the year from discontinued operations	–	–	4,004
	9,660	10,982	13,816
Non-controlling interests			
Total comprehensive income for the year from continuing operations	4,762	7,038	7,478
Total comprehensive income for the year from discontinued operations	–	–	913
	4,762	7,038	8,391
	₱14,422	₱18,020	₱22,207

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Millions)	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Treasury Shares (Note 22)	Retained Earnings - Appropriated (Note 22)	Retained Earnings - Unappropriated (Note 22)	Other Comprehensive Income (Loss) (Note 22)	Other Equity Adjustments (Note 22)	Total	Attributable to Non-controlling Interests (Note 22)	Total Equity
	Attributable to Equity Holders of the Parent Company									
Balance at January 1, 2018	**₱3,143**	**₱78,940**	**₱–**	**₱19,000**	**₱48,582**	**(₱5,975)**	**₱2,322**	**₱146,012**	**₱27,679**	**₱173,691**
Effect of adoption of PFRS 9, *Financial Instruments* (Note 2)	–	–	–	–	(1,945)	5,453	–	3,508	(92)	3,416
Effect of adoption of PFRS 15, *Revenue from Contracts with Customers* (Note 2)	–	–	–	–	(635)	–	–	(635)	(559)	(1,194)
At January 1, 2018, as restated	3,143	78,940	–	19,000	46,002	(522)	2,322	148,885	27,028	175,913
Cash dividend declared (Note 22)	–	–	–	–	(1,167)	–	–	(1,167)	(6,925)	(8,092)
Stock dividend declared (Note 22)	68	6,652	–	–	(6,721)	–	–	(1)	–	(1)
Appropriation during the period	–	–	–	17,000	(17,000)	–	–	–	–	–
Reversal of appropriation upon completion of expansion and acquisition	–	–	–	(19,000)	19,000	–	–	–	–	–
Realized gain (loss) on sale of financial assets at FVOCI	–	–	–	–	(45)	45	–	–	–	–
Total comprehensive income	–	–	–	–	13,390	(3,730)	–	9,660	4,762	14,422
Effect of equity call of a majority-owned subsidiary	–	–	–	–	–	–	–	–	45	45
Balance at December 31, 2018	**₱3,211**	**₱85,592**	**₱–**	**₱17,000**	**₱53,459**	**(₱4,207)**	**₱2,322**	**₱157,377**	**₱24,910**	**₱182,287**
Balance at January 1, 2017	₱2,960	₱57,437	₱–	₱14,900	₱39,961	(₱2,775)	₱2,322	₱114,805	₱26,433	₱141,238
Issuance of capital stock	183	21,503	–	–	–	–	–	21,686	–	21,686
Dividends declared (Note 22)	–	–	–	–	(1,461)	–	–	(1,461)	(5,791)	(7,252)
Appropriation during the period	–	–	–	19,000	(19,000)	–	–	–	–	–
Reversal of appropriation upon completion of expansion and acquisition	–	–	–	(14,900)	14,900	–	–	–	–	–
Acquisition of additional TMBC shares	–	–	–	–	–	–	–	–	(1)	(1)
Total comprehensive income	–	–	–	–	14,182	(3,200)	–	10,982	7,038	18,020
Balance at December 31, 2017	₱3,143	₱78,940	₱–	₱19,000	₱48,582	(₱5,975)	₱2,322	₱146,012	₱27,679	₱173,691
Balance at January 1, 2016	₱1,760	₱46,695	(₱6)	₱8,760	₱33,264	(₱918)	₱576	₱90,131	₱46,401	₱136,532
Issuance of capital stock	1,200	10,742	–	–	–	–	–	11,942	–	11,942
Effect of business combination (Notes 10 and 31)	–	–	–	–	(11)	11	–	–	687	687
Dividends declared (Note 22)	–	–	–	–	(1,636)	–	–	(1,636)	(5,910)	(7,546)
Acquisition of 28.32% of PCFI shares (Note 22)	–	–	–	–	–	–	1,746	1,746	(1,746)	–
Acquisition of 4.73% of GBPC shares (Note 12)	–	–	–	–	–	–	–	–	(1,322)	(1,322)
Appropriation during the period	–	–	–	15,500	(15,500)	–	–	–	–	–
Reversal of appropriation upon completion of expansion and acquisition	–	–	–	(9,360)	9,360	–	–	–	–	–
Effect of asset disposal (CPAIC) (Note 12)	–	–	6	–	(57)	56	–	5	–	5
Effect of asset disposal (GBPC) (Note 12)	–	–	–	–	(93)	(1,106)	–	(1,199)	(18,068)	(19,267)
Total comprehensive income	–	–	–	–	14,634	(818)	–	13,816	8,391	22,207
Effect of PCFI's redemption of Pref B shares (Note 22)	–	–	–	–	–	–	–	–	(2,000)	(2,000)
Balance at December 31, 2016	₱2,960	₱57,437	₱–	₱14,900	₱39,961	(₱2,775)	₱2,322	₱114,805	₱26,433	₱141,238

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

	Years Ended December 31		
	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱22,077**	₱25,775	₱22,197
Income before income tax from discontinued operations (Note 12)	–	–	4,955
Income before income tax	**22,077**	25,775	27,152
Adjustments for:			
Equity in net income of associates and joint venture (Note 8)	**(11,517)**	(8,699)	(6,366)
Interest expense (Notes 12, 16 and 17)	**4,965**	3,394	4,106
Depreciation and amortization (Note 11)	**2,096**	1,921	2,717
Interest income (Notes 12 and 23)	**(2,082)**	(2,085)	(2,327)
Pension expense (Note 28)	**366**	319	349
Dividend income (Notes 12 and 23)	**(152)**	(8)	–
Unrealized foreign exchange losses (Note 26)	**146**	385	468
Provisions (Note 26)	**135**	134	468
Unrealized gain on financial assets at FVTPL	**(59)**	–	–
Gain on disposal of property and equipment (Notes 11 and 23)	**(23)**	(23)	(50)
Gain on sale of AFS investments (Note 10)	–	(15)	–
Gain on disposal of direct ownership in subsidiaries (Note 12)	–	–	(1,769)
Realization of previously deferred gain (Note 12)	–	–	(1,918)
Gain on remeasurement of previously held interest	–	–	(125)
Operating income before changes in working capital	**15,952**	21,098	22,705
Decrease (increase) in:			
Short-term investments	**1,600**	(68)	(36)
Financial assets at FVTPL	**(2,505)**	–	–
Receivables	**(2,207)**	768	1,055
Inventories	**(2,831)**	(8,121)	(7,087)
Due from related parties	**(500)**	(86)	290
Prepayments and other current assets	**628**	(2,360)	(1,802)
Increase (decrease) in:			
Accounts and other payables	**2,630**	5,315	3,420
Customers' deposits	**976**	1,102	116
Due to related parties	**15**	(35)	–
Other current liabilities	**(386)**	590	870
Net cash provided by operations	**13,372**	18,203	19,531
Dividends paid (Note 22)	**(7,483)**	(7,252)	(9,817)
Interest paid	**(4,625)**	(3,432)	(4,447)
Income tax paid	**(4,377)**	(3,700)	(5,456)
Interest received	**1,921**	2,188	2,324
Dividends received (Note 8)	**2,249**	1,611	1,018
Contributions to pension plan assets and benefits paid (Note 28)	**(575)**	(641)	(304)
Net cash provided by operating activities	**482**	6,977	2,849

(Forward)

	Years Ended December 31		
		2017	2016
		(As restated -	(As restated -
	2018	Note 2)	Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Disposal of property and equipment and intangible assets (Note 11)	**₱198**	₱117	₱115
Disposal of investment property (Note 9)	**177**	–	86
Sale of AFS investments	–	2,430	–
Sale of subsidiaries (Note 12)	–	–	7,438
Additions to:			
Investments in associates and joint venture (Note 8)	**(29,630)**	(26,776)	(33,767)
Investment properties (Note 9)	**(222)**	(659)	(649)
Financial assets at FVOCI	**(10,478)**	–	–
Property and equipment (Note 11)	**(3,919)**	(3,475)	(6,396)
AFS investments	–	(1,742)	(1,280)
Intangible assets (Note 13)	**(62)**	(235)	(196)
Acquisition of subsidiary, net of cash acquired	–	(59)	886
Increase in other noncurrent assets	**(1,987)**	(106)	(170)
Net cash used in investing activities	**(45,923)**	(30,505)	(33,933)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loan availments (Note 16)	**71,286**	38,354	46,648
Issuance of capital stock (Note 22)	–	21,686	11,942
Payment of loans payable	**(31,428)**	(38,397)	(41,384)
DST on stock dividend issuance	**(1)**	–	–
Increase (decrease) in:			
Due to related parties	–	–	21
Liabilities on purchased properties	**(503)**	1,563	(623)
Other noncurrent liabilities	**387**	(91)	(117)
Non-controlling interests (Note 22)	–	(1)	(1,842)
Acquisition of noncontrolling interests	**45**	–	–
Net cash provided by financing activities	**39,786**	23,114	14,645
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(147)**	(385)	(468)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,802)**	(799)	(16,907)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**20,155**	20,954	37,861
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱14,353**	₱20,155	₱20,954

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

GT Capital Holdings, Inc. (GT Capital or the Parent Company) was organized and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 2007. The primary purpose of the Parent Company is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, exchange, develop or otherwise dispose of real property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, associations, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned.

The common shares of the Parent Company were listed beginning April 20, 2012 and have since been traded in the Philippine Stock Exchange, Inc. (PSE).

The ultimate parent of GT Capital Holdings, Inc. is Grand Titan Capital Holdings, Inc. (Grand Titan).

Group Activities

The Parent Company, Federal Land, Inc. (Federal Land) and Subsidiaries (Federal Land Group), Toyota Motor Philippines Corporation (Toyota or TMPC) and Subsidiaries (Toyota Group), Property Company of Friends, Inc. (PCFI) and Subsidiaries (PCFI Group), Toyota Manila Bay Corp. (TMBC) and Subsidiary (TMBC Group) and GT Capital Auto Dealership Holdings, Inc. (GTCAD) and Subsidiary are collectively referred herein as the "Group". The Parent Company, the holding company of the Federal Land Group (real estate business), Toyota Group (automotive business), PCFI Group (real estate business), TMBC Group (automotive business) and GTCAD (automotive business) is engaged in investing, purchasing and holding shares of stock, notes and other securities and obligations.

The principal business interests of the Federal Land Group and PCFI Group are real estate development and leasing and selling properties and acting as a marketing agent for and in behalf of any real estate development company or companies. The Federal Land Group is also engaged in the business of trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintaining a petroleum service station and food and restaurant service.

Toyota Group is engaged in the assembly, manufacture, importation, sale and distribution of all kinds of motor vehicles including vehicle parts, accessories and instruments.

TMBC Group is engaged in purchasing, trading, exchanging, distributing, marketing, repairing and servicing automobiles, trucks and all kinds of motor vehicles and automobile products of every kind and description, motor vehicle parts, accessories, tools and supplies and equipment items.

The principal business interests of GTCAD are to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, exchange, develop, or otherwise dispose of real or personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any auto dealership or other corporations, associations, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned.

The Parent Company also has significant shareholdings in Metropolitan Bank & Trust Company (MBTC or Metrobank), Metro Pacific Investments Corporation (MPIC), Philippine AXA Life Insurance Corporation (AXA Philippines or Phil AXA), Toyota Financial Services Philippines Corporation (TFSPC) and Sumisho Motor Finance Corporation (SMFC).

The registered office address of the Parent Company is at the 43rd Floor, GT Tower International, Ayala Avenue corner H.V. Dela Costa Street, 1227 Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), available-for-sale (AFS) investments and derivative financial instruments that have been measured at fair value. The Group's consolidated financial statements are presented in Philippine Peso (₱), the Parent Company's functional currency. All values are rounded to the nearest million peso unless otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 as discussed in the section below on Adoption of New and Amended Accounting Standards and Interpretations. PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards (PAS) and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Parent Company and the following wholly and majority-owned domestic subsidiaries:

		Direct Percentages of Ownership		Effective Percentages of Ownership	
	Country of	**December 31**		**December 31**	
	Incorporation	**2018**	2017	**2018**	2017
Federal Land and Subsidiaries	Philippines	**100.00**	100.00	**100.00**	100.00
PCFI and Subsidiaries	-do-	**51.00**	51.00	**51.00**	51.00
Toyota and Subsidiaries	-do-	**51.00**	51.00	**51.00**	51.00
TMBC and Subsidiaries	-do-	**58.10**	58.10	**58.10**	58.10
GTCAD and Subsidiary	-do-	**100.00**	100.00	**100.00**	100.00

Federal Land's Subsidiaries

	Percentages of Ownership	
	2018	2017
Horizon Land Property and Development Corp. (HLPDC)	**100.00**	100.00
Omni - Orient Management Corp. (OOMC)	**100.00**	100.00
Federal Land Orix Corporation (FLOC)	**100.00**	100.00
Topsphere Realty Development Company Inc. (TRDCI)*	**100.00**	100.00
Bonifacio Landmark Hotel Management Corporation (BLHMC)**	**100.00**	100.00
Fed South Dragon Corporation (FSDC)***	**100.00**	–
Central Realty and Development Corp. (CRDC)	**75.80**	75.80
Federal Brent Retail, Inc. (FBRI)	**51.66**	51.66

** On February 10, 2017, Federal Land obtained control over TRDCI upon execution of the Deed of Absolute Sale for the purchase of 3,000,000 preferred and 2,000,000 common shares of stock of TRDCI for a total consideration of ₱60.00 million.*
*** On July 21, 2017, BLHMC was incorporated and has started its commercial business operations in February 2018.*
**** On June 6, 2018, FSDC was incorporated and has not started its commercial business operations.*

PCFI's Subsidiaries

	Percentages of Ownership	
	2018	2017
Micara Land, Inc. (MLI)	**100.00**	100.00
Firm Builders Realty Development Corporation (FBRDC)	**100.00**	100.00
Marcan Development Corporation (MDC)	**100.00**	100.00
Camarillo Development Corporation (CDC)	**100.00**	100.00
Branchton Development Corporation (BDC)	**100.00**	100.00
Williamton Financing Corporation (WFC)	**100.00**	100.00

Toyota's Subsidiaries

	Percentages of Ownership	
	2018	2017
Toyota Makati, Inc. (TMI)	**100.00**	100.00
Toyota Sta. Rosa Laguna, Inc. (TSRLI)	**100.00**	100.00
Toyota Motor Philippines Logistics, Inc. (TLI)	**100.00**	100.00
Lexus Manila, Inc. (LMI)	**75.00**	75.00
Toyota San Fernando Pampanga, Inc. (TSFI)	**55.00**	55.00

TMBC's Subsidiaries

	Percentages of Ownership	
	2018	2017
Oxfordshire Holdings, Inc. (OHI)	**100.00**	100.00
TMBC Insurance Agency Corporation (TIAC)	**100.00**	100.00

GTCAD's Subsidiary
GTCAD has 55% ownership in Toyota Subic, Inc. (TSI). TSI was incorporated on July 14, 2016 and started commercial operations on November 8, 2018.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Parent Company 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 Parent Company.

Specifically, the Parent Company controls an investee if, and only if, the Parent Company has:

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

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

i. the contractual arrangement with the other vote holders of the investee
ii. rights arising from other contractual arrangements
iii. the Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intragroup transactions, balances, income and expenses resulting from intragroup transactions and dividends are eliminated in full on consolidation.

Non-controlling interests (NCI) represent the portion of profit or loss and net assets in a subsidiary not attributed, directly or indirectly, to the Parent Company. The interest of non-controlling shareholders may be initially measured at fair value or share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, NCI consists of the amount attributed to such interests at initial recognition and the NCI's share of changes in equity since the date of combination.

NCI are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the NCI, even if that results in the NCI having a deficit balance.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any NCI and the cumulative translation differences, recorded in equity;
- recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business Combinations Involving Entities Under Common Control
A business combination involving entities under common control is accounted for using the uniting of interest method, except when the acquisition is deemed to have commercial substance for the Group, in which case the business combination is accounted for under the acquisition method. The

combined entities accounted for by the uniting of interests method reports the results of operations for the period in which the combination occurs as though the entities had been combined as of the beginning of the period. Financial statements of the separate entities presented for prior years are also restated on a combined basis to provide comparative information. The effects of intercompany transactions on assets, liabilities, revenues, and expenses for the periods presented, and on retained earnings at the beginning of the periods presented are eliminated to the extent possible.

Under the uniting of interest method, the acquirer accounts for the combination as follows:

- the assets and liabilities of the acquiree are consolidated using the existing carrying values instead of fair values;
- intangible assets and contingent liabilities are recognized only to the extent that they were recognized by the acquiree in accordance with applicable PFRS;
- no amount is recognized as goodwill;
- any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities; and
- comparative amounts are restated as if the combination had taken place at the beginning of the earliest comparative period presented.

The acquiree's equity are included in the opening balances of the equity as a restatement and are presented as 'Other equity adjustments' in the consolidated statement of changes in equity. Cash considerations transferred on acquisition of a subsidiary under common control are deducted in the 'Retained earnings' at the time of business combination.

When evaluating whether an acquisition has commercial substance, the Group considers the following factors, among others:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as NCI or other third parties; and
- whether or not the transaction is conducted at fair value.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer elects whether to measure the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the date of acquisition. Acquisition-related costs are expensed and included in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and liabilities of the acquiree for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. The Group also assesses whether assets or liabilities of the acquiree that are previously unrecognized in the books of the acquiree will require separate recognition in the consolidated financial statements of the Group at the acquisition date.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in the consolidated statements of income. Any recognized changes in the value of its equity interest in the acquiree previously recognized in other comprehensive income are recognized by the Group in profit or loss, as if the previously held equity interest are disposed of.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in the consolidated statements of income or as changes to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that if known, would have affected the amounts recognized as at that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as at the acquisition date and is subject to a maximum of one (1) year.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognized for any NCI in the acquiree and the fair value of the acquirer's previously held interest, if any, over the fair value of the net assets acquired.

If after reassessment, the fair value of the net assets acquired exceeds the consideration transferred, the amount recognized for any NCI in the acquiree and the fair value of the acquirer's previously held interest, if any, the difference is recognized immediately in the consolidated statements of income as 'Gain on bargain purchase'.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment loss is recognized immediately in the consolidated statements of income and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination from the acquisition date irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is not amortized but is reviewed for impairment at least annually. Any impairment losses are recognized immediately in profit of loss and is not subsequently reversed.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Change in Ownership without Loss of Control

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent Company.

Changes in Accounting Policies
The accounting policies adopted in preparation of the consolidated financial statements are consistent with those of the previous year except for the following new and amended PFRSs and PAS which were adopted as of January 1, 2018.

Except as otherwise indicated, the following new and amended standards did not have a material impact on the accounting policies, financial position or performance of the Group.

Amendments

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

Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The amendments are not applicable to the Group since it does not have share-based payment transactions.

Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

During 2018, Phil AXA performed an assessment of the amendments and reached the conclusion that as of December 31, 2018, its activities are predominantly connected with insurance. Phil AXA opted to apply the temporary exemption from PFRS 9 and therefore continues to apply PAS 39, Financial Instruments: Recognition and Measurement, to its financial assets and liabilities until the Group applies the new standard on insurance contracts.

Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the

investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

New Standards and Philippine Interpretations

PFRS 9, *Financial Instruments*
The Group adopted PFRS 9 using modified retrospective approach, with an application date of January 1, 2018. The comparative information for 2017 for financial instruments within the scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in 'Retained Earnings', 'Other comprehensive loss' and 'Non-controlling interest' as of January 1, 2018 and are disclosed under "Transition Adjustments" 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 Adjustments" below and detailed qualitative and quantitative information on impairment calculations such as the assumptions and inputs used as presented under "Significant Accounting Policies" below.

a. Classification and Measurement (C&M)
   The Group classifies debt and equity 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 adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to record an allowance for impairment losses for all debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

   For installment contracts receivable and contract assets, the Group has applied the standard's simplified approach and has calculated ECLs based on life time expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

   The Group used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given installment contracts receivable and contract assets. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the Probability of Default (PD) model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on real estate price index were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers installment contracts receivable in default when contractual payment is one hundred twenty (120) days past due. However, in certain cases, the Group may also consider a receivable to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on facility/collateral type and completion. In calculating the recovery rates, the Group considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, refurbishment, payment required under Maceda law and cost to complete (for incomplete units)

As these are future cash flows, these are discounted back to the reporting date using the appropriate effective interest rate, usually being the original EIR or an approximation thereof.

For other financial assets such advances to related parties and other receivables, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from reputable credit rating agencies to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

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.

PFRS 15, *Revenue from Contracts with Customers*

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

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

On February 14, 2018, the PIC issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 25, 2018 and February 8, 2019, the SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three years until December 31, 2020:

a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
c. Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 – Accounting for Cancellation of Real Estate Sales was also deferred until December 31, 2020.

The SEC Memorandum Circular also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

a. The accounting policies applied.
b. Discussion of the deferral of the subject implementation issues in the PIC Q&A.
c. Qualitative discussion of the impact to the consolidated financial statements had the concerned application guideline in the PIC Q&A has been adopted.
d. Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

Except for the CUSA charges discussed under PIC Q&A No. 2018-12-H which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Group availed of the deferral of adoption of the above specific provisions of PIC Q&As. Had these provisions been adopted, it would have the following impact in the consolidated financial statements:

- The exclusion of land and uninstalled materials in the determination of POC would reduce the percentage of completion of real estate projects resulting in a decrease in retained earnings as at January 1, 2018 as well as a decrease in the revenue from real estate sales in 2018.
- The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
- Upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to repossess if this would have been opted). This would have increased retained earnings as at January 1, 2018 and gain from repossession in 2018. Currently, the Group records the repossessed inventory at its original carrying amount and recognize any difference between the carrying amount of the derecognized receivable and the repossessed property in profit or loss.

PIC Q&A 2018-15, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*, aims to classify the prepayment based on the actual realization of such advances determined with reference to usage/realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment). The Group's policy on the classification of prepayments is consistent with the interpretation, hence adoption of the PIC Q&A did not have any significant impact to the consolidated financial statements.

PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, clarifies the correct classification of purchased raw land by real estate developers to inventory and investment property, and current and noncurrent assets. The adoption of this PIC Q&A is applied restrospectively which resulted to the reclassification of 'Land held for future development' previously presented as Non-current assets to 'Inventories' presented as Current assets. This pertains to land which the BOD approved to be used for residential development for sale amounting to ₱18.28 billion and ₱18.46 billion as of December 31, 2017 and 2016, respectively. The Group did not present the consolidated statement of financial position as of December 31, 2016 since retrospective application did not have an impact to retained earnings and involves mere reclassification between 'Non-current' and 'Current assets'.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related Interpretations.

Transition Adjustments

A reconciliation between the carrying amounts under the old standards to the balances reported under PFRS 9 and PFRS 15 as at January 1, 2018 is presented below.

			PFRS 9		PFRS 15	
	Note	December 31, 2017 as previously reported	Classification and Measurement	ECL	Reclassification/ Remeasurement	January 1, 2018, as restated
ASSETS						
Current Assets						
Financial assets at FVTPL	A	₱–	₱611	₱–	₱–	₱611
AFS investments	A	611	(611)	–	–	–
Receivables	E, G	24,374	–	(252)	(11,406)	12,716
Contract assets	G	–	–	–	13,310	13,310
Inventories	H	56,594	–	–	(1,183)	55,411
Prepayments and other current assets	I	10,417	–	–	(144)	10,273
Noncurrent Assets						
Financial assets at FVOCI	B, C	–	1,939	–	–	1,939
AFS investments	B, C	2,103	(2,103)			
Receivables - net of current portion	G	4,720	–	–	(3,657)	1,063
Contract assets - net of current portion	G	–	–	–	2,863	2,863
Investments and advances	D, F, J	124,892	5,542	(1,793)	(14)	128,627
Deferred tax assets	E	731	–	83	–	814
LIABILITIES						
Current Liabilities						
Accounts and other payables	G, K	25,983	–	–	(160)	25,823
Contract liabilities	G	–	–	–	5,446	5,446
Customers' deposits	G, L	4,941	–	–	(4,323)	618
EQUITY						
Retained earnings - unappropriated	A, E, F, H, I, J, K, L	48,582	6	(1,951)	(635)	46,002
Other comprehensive income (loss)	A, B, D	(5,975)	5,453	–	–	(522)
NCI	B, E, H, I, K, L	27,679	(81)	(11)	(559)	27,028

Adoption of PFRS 9, Classification and Measurement
Impact of classification and measurement resulted in the following:

Note	Description
A	Unit Investment Trust Fund (UITF) investments previously classified as AFS investments were reclassified to financial assets at FVTPL. This resulted in a reclassification of unrealized gain amounting to ₱5.75 million, from 'Other comprehensive income (loss)' to 'Retained earnings - unappropriated'.
B	Certain equity investment in non-listed companies previously classified as AFS investments and carried at cost with fair value amounting to ₱0.48 billion were reclassified to financial assets at FVOCI. This resulted in a remeasurement loss amounting ₱0.16 billion with impact to 'Other comprehensive income (loss)' and 'Non-controlling interest' amounting to ₱0.08 billion and ₱0.08 billion, respectively (Note 10).
C	Certain equity investments in listed companies previously classified as AFS investments amounting to ₱1.62 billion were reclassified to financial assets at FVOCI. The Group elected to classify these investments, irrevocably, under this category as it intends to hold these investments for the foreseeable future. This has no impact to 'Retained earnings - unappropriated' and 'Other comprehensive income (loss)' as of January 1, 2018.
D	The change in classification and measurement of financial instruments (specifically, recognition of investment securities at amortized cost) resulted in the reversal of 'Net unrealized loss' in other comprehensive income of an associate. The Parent Company's share amounting to ₱5.54 billion was reflected in 'Other comprehensive income', with a corresponding decrease in 'Investment and advances' (Note 8).

In addition, upon adoption of PFRS 9, the Group made the following required or elected reclassifications as at January 1, 2018:

		PFRS 9 Measurement Categories		
PAS 39 Categories	Balance	FVTPL	Amortized cost	FVOCI
Loans and receivables				
Cash and cash equivalents	₱20,155	₱–	₱20,155	₱–
Short-term investments	1,666	–	1,666	–
Receivables	29,094	–	29,094	–
Due from related parties	166	–	166	–
Available-for-sale investments	2,714	611	–	2,103
	₱53,795	₱611	₱51,081	₱2,103

- Cash and cash equivalents, short term investments, receivables and due from related parties previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now measured as financial assets at amortized cost beginning January 1, 2018.

The Group has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement for the Group's financial liabilities.

Adoption of PFRS 9, ECL
Impact of adoption of ECL methodology resulted in the following:

Note	Description
E	Impairment loss on loans and receivables amounting to ₱0.25 billion (with deferred tax impact of ₱0.08 billion) was recognized in 'Retained earnings - unappropriated' and 'Non-controlling interests' in the amount of ₱0.16 billion and ₱0.01 billion, respectively (Note 5).
F	Following the ECL methodology, certain associates and joint ventures recognized additional provisions for credit losses. The Parent Company's share amounting to ₱1.79 billion was reflected in 'Investments and advances' and 'Retained earnings - unappropriated' (Note 8).

Adoption of PFRS 15
Impact of applying PFRS 15 resulted in the following:

Note	Description
G	Installment contract receivables-current amounting to ₱12.52 billion representing excess of progress of work over the right to an unconditional amount of consideration was reclassified to 'Contract assets - current'. Installment contract receivables-current previously presented as a contra-receivable account amounting to ₱1.11 billion was reclassified to 'Contract liabilities'.
	Installment contract receivables-noncurrent amounting to ₱3.66 billion representing excess of progress of work over the right to an unconditional amount of consideration were reclassified to 'Contract assets - current' and 'Contract assets - net of current portion' amounting to ₱0.80 billion and ₱2.86 billion, respectively.
	Customer's deposits amounting to ₱4.34 billion representing excess of collection over progress of work, were reclassified to 'Contract liabilities - current'.
H	This pertains to external land development and improvement costs, facilitation costs and other costs related to partially satisfied performance obligations, totaling ₱1.18 billion. This was reflected as a reduction in 'Inventories', 'Retained earnings' and 'NCI' amounting to ₱1.18 billion, ₱0.62 billion and ₱0.56 billion, respectively.
I	This pertains to prepaid commissions amounting to ₱0.14 billion, which were amortized as expense. This was reflected as a reduction in 'Prepayments and other current assets', 'Retained earnings' and 'NCI' amounting to ₱0.14 billion, ₱0.07 billion and ₱0.07 billion, respectively.
J	The Group's share in the impact of its associates' adoption of PFRS 15 amounting to ₱14.44 million was reflected as reduction in 'Investments and advances' and 'Retained earnings'.
K	This pertains to reversal of sales to employees (with significant financing component), income accrual of sales rebates and accrual of subscription for an aggregate amount of ₱0.16 billion. This was reflected as reduction in 'Accounts and other payables', and addition to 'Retained earnings' and 'NCI' amounting to ₱0.16 billion, ₱0.08 billion, and ₱0.08 billion, respectively.

Note	Description
L	This pertains to deferred revenue from automotive sale amounting to ₱13.30 million, allocated to free labor checkup. This was reflected as addition to 'Customer's deposit', and reduction in 'Retained earnings' and 'NCI' amounting to ₱13.30 million, ₱7.73 million and ₱5.57 million.

Significant Accounting Policies

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements of financial position based on current/noncurrent classification. An asset is current when:

- It is expected to be realized or intended to be sold or consumed in normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or there is no unconditional right to defer the settlement of liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

Deferred income tax asset and liability are classified as noncurrent asset and liability, respectively.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

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.

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

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

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

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

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.

The Group, in conjunction with the external valuers, also compares each of the changes in the fair value of each asset with relevant external sources to determine whether the change is reasonable.

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

Financial Instruments – Initial Recognition and Subsequent Measurement effective January 1, 2018

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. 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 trade date, which is the date when the Group commits to purchase or sell assets.

a. Financial assets
Initial recognition of financial instruments
At initial recognition, financial assets are classified as, and subsequently measured at amortized cost, FVOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables, except for sales contract receivables, are measured at the transaction price determined under PFRS 15. Refer to the accounting policies on Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

Financial assets at amortized cost
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash and cash equivalents, short-term investments and receivables.

FVOCI (debt instruments)
The Group measures debt instruments at FVOCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group does not have debt instruments at FVOCI.

Financial assets designated at FVOCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets can no longer be recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's financial assets at FVOCI includes investments in quoted and unquoted equity instruments.

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes investment in UITF as held for trading and classified these as FVTPL.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:
- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets
The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. 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 ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For trade receivables, installment contracts receivable and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets such nontrade receivable, loans receivable, due from related parties and other receivables, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a SICR since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents and short-term investments, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from reputable credit rating agencies to determine whether the debt instrument has SICR and to estimate ECLs.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables and contract assets in default when contractual payment are 120 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 90 days and beyond. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Determining the stage for impairment
At each reporting date, the Group assesses whether there has been a SICR for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

The Group considers that there has been a SICR when contractual payments are more than 90 days past due.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed SICR since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

b. Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include "Accounts and other payables" (other than "Taxes payable" which is covered by other accounting standard), "Short-term and long-term debts", "Bonds payable", "Liabilities on purchased properties" and "Other current liabilities".

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of income.

This category generally applies to short-term debt, long-term debt, bonds payable and liabilities on purchased properties.

Financial liabilities at FVTPL
Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of income.

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at FVTPL.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

c. Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

d. Derivative Financial Instruments and Hedge Accounting
Initial Recognition and Subsequent Measurement
The Group uses derivative financial instruments such as cross-currency swaps, and interest rate swaps to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or,
- Cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

Hedges are accounted for as fair value hedges or cash flow hedges.

Fair Value Hedge
The change in the fair value of a hedge instrument is recognized in the consolidated statement of income. The change in the fair value attributable to the risk hedged is recorded as part of the carrying value of the hedge instrument and is also recognized in the consolidated statement of income as other expense.

For fair value hedges carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization is initiated when an adjustment exists and no later than when the hedged instrument ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

In case of derecognition, the unamortized fair value of the hedged instrument is recognized immediately in profit or loss.

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI, while any ineffective portion is recognized immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged instrument.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which hedged cash flows affect profit or loss.

If hedge accounting is discontinued, the amount accumulated in OCI shall remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount shall be reclassified to profit or loss as a reclassification adjustment. When the hedged cash flow occurs, any amount remaining in accumulated OCI shall be accounted for depending on the nature of the underlying transaction.

Financial Instruments - Initial Recognition and Subsequent Measurement effective before January 1, 2018
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. 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 trade date, which is the date when the Group commits to purchase or sell assets.

Initial recognition of financial instruments
All financial assets are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVTPL), the initial measurement of financial assets and financial liabilities includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVTPL, held-to-maturity (HTM) investments, AFS

investments, and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVTPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income under 'Interest income' and 'Interest expense' accounts unless it qualifies for recognition as some other type of asset or liability. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated 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.

Loans and receivables
Loans and receivables 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 designated as AFS investments or financial assets at FVTPL. This accounting policy relates to the accounts in the consolidated statement of financial position 'Receivables', 'Due from related parties', 'Cash and cash equivalents' and 'Short-term investments'.

Receivables are recognized initially at fair value which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated at FVTPL, HTM investments, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. The Group's AFS investments pertain to quoted and unquoted equity securities and other debt instruments.

After initial recognition, AFS investments are measured at fair value with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously included in equity are included in the consolidated statement of income. Dividends on AFS equity instruments are recognized in the consolidated statement of income when the entity's right to receive payment has been established. Interest earned on holding AFS debt instruments are reported in the consolidated statements of income as 'Interest income' using the effective interest method.

The fair value of investments that are traded in active markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The unquoted equity instruments are carried at cost less any impairment losses because fair value cannot be measured reliably due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Other financial liabilities
These are financial liabilities not designated at FVTPL 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. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Group's 'Accounts and other payables', 'Short-term debt', 'Long-term debt', 'Liabilities on purchased properties', 'Due to related parties' and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable). 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.

Derivative Financial Instrument and Hedge Accounting
The Group uses derivative financial instruments such as cross currency interest rate swap to hedge its foreign currency and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from the changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized as OCI.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedge item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized directly as OCI in the cash flow hedge reserve, while the ineffective portion is recognized directly in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

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

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in OCI are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in OCI remains in OCI until the forecast transaction or firm commitment affects profit or loss. If the related transaction is not expected to occur, the amount is taken to profit or loss.

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

Loans and receivables
For loans and receivables carried at amortized cost, 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.

If there is objective evidence that an impairment loss has been incurred, 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original EIR of the asset.

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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as 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. 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.

Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost as at the reversal date.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity instruments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from the consolidated statement of changes in equity and recognized in the consolidated statement of income. Impairment losses on equity instruments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the rights to receive cash flows from the asset have expired;

b. 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
c. 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 risk and rewards of the asset but has transferred the control over the asset.

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

Financial liability
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 consolidated statement of income.

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

Inventories
Real estate inventories
Property acquired that are being developed or constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as real estate inventory. Real estate inventories consist of land and improvements, condominium units held for sale and residential units.

Land and improvements are carried at the lower of cost or net realizable value (NRV). Cost includes the acquisition cost of the land and those costs incurred for development and improvement of the properties.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Construction in progress (CIP) includes development or construction costs incurred for real estate projects that have not yet reached the preliminary stage of completion and/or not yet launched. This account also includes owner supplied materials. Upon reaching the preliminary stage of completion, these are transferred to 'Condominium units held for sale'.

Costs of condominium units held for sale includes the carrying amount of the land transferred from 'Land and improvements' at the commencement of its real estate projects and those costs incurred for construction, development and improvement of the properties, including capitalized borrowing costs.

Costs of residential units include land cost, land improvement costs, borrowing costs, amounts paid to contractors for construction and development, planning and design cost, cost of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

Gasoline retail, petroleum products and chemicals
Cost is determined using first-in, first-out method. The costs of oil, petroleum products and chemicals include cost incurred for acquisition and freight charges.

Automotive inventories
These are inventories of the Toyota Group which are valued at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and spare parts	− Purchase cost on a weighted average cost
Finished goods and work-in-process	− Cost of direct material and labor and proportion of fixed and overhead manufacturing costs allocated based on normal operating capacity
Raw materials and spare parts in-transit	− Cost is determined using the specific identification method

Investments in Associates and Joint Venture
Investments in associates and joint venture are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. A joint venture (JV) is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control.

An investment is accounted for using the equity method from the day it becomes an associate or a joint venture. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is included as income in the determination of the share in the earnings of the investee.

Under the equity method, the investments in and advances to associates and joint venture are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value.

The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the investee companies and the Group's share on movements in the investee's other comprehensive income (OCI) are recognized directly in OCI in the consolidated financial statements. The Group's share on total comprehensive income of an associate is shown in the consolidated statement of income and consolidated statement of comprehensive income. The aggregate of the Group's equity in net income of associates and joint venture is shown on the face of the consolidated statement of income as part of operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate and joint venture.

Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies, and for unrealized losses, to the extent that there is no evidence of impairment of the assets transferred. Dividends received from investee companies are treated as a reduction of the accumulated earnings included under 'Investments and advances' account in the consolidated statements of financial position.

The Group discontinues applying the equity method when its investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates or joint venture. When the investees subsequently report net income, the Group will resume applying the equity method but only after its equity in the net income equals the equity in net losses of associates and joint venture not recognized during the period the equity method was suspended.

Upon loss of significant influence over the associates or joint control over the joint venture, the Group measures and recognizes any retained investments 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 in retained investments and proceeds from disposal is recognized in profit or loss.

Land held for Future Development
Land held for future development consists of properties for future developments and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less cost to complete and costs of sale. Costs include cost incurred for development and improvements of the properties. Upon start of development, the related cost of the land is transferred to real estate inventories.

Investment Properties
Investment properties consist of properties that are held to earn rentals and that are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in residual value. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives (EUL) of the properties which is 5 to 41 years.

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

Transfers are made to investment property 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 property 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. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

CIP is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of investment properties are capitalized during the construction period. CIP is not depreciated until such time as the relevant assets are in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use, including capitalized borrowing costs.

CIP is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are calculated on the straight-line basis over the following EUL of the property and equipment as follows:

	Years
Transportation equipment	5
Furniture, fixtures and equipment	3 to 5
Leasehold improvements	2 to 10 or lease term (whichever is shorter)
Machinery, tools and equipment	2 to 10
Building	15 to 41
Boilers and powerhouse	9 to 25
Turbine generators and desox system	9 to 25
Buildings and land improvements	9 to 25
Electrical distribution system	7 to 25
Other property and equipment	3 to 5

The assets' residual values, EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Transfers are made from property and equipment, when there is a change in use, evidenced by ending of owner-occupation, and with a view of sale.

Impairment or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated assets are still carried in the accounts until they no longer in use and no further depreciation is charged against current operations.

Intangible Assets

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

The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

The Group's intangible assets consist of customer relationship, software costs and franchise. A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Customer Relationship

Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers, which adds value to the operations of Toyota and enhances the latter's earnings potential. This is recognized initially at fair value and is assessed to have an indefinite useful life. Following initial recognition, the intangible asset is not amortized but assessed annually for impairment.

Software Costs

Costs related to software purchased by the Group for use in the operations are amortized on a straight-line basis over a period of 3 to 5 years.

Costs that are directly associated with identifiable and unique software controlled by the Group and will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets to be measured at cost less accumulated amortization and provision for impairment losses, if any. Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are recognized as capital improvements and added to the original cost of the software.

Goodwill
Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segments as determined in accordance with PFRS 8, *Operating Segments*.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see Impairment of Non-financial Assets).

Where goodwill forms part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining the gain or loss on disposal of the operations. Goodwill disposed of in this circumstance is measured based on the relative values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill is presented together with the intangible assets in the consolidated statement of financial position.

Impairment of Non-financial Assets
The Group assesses at each financial reporting date whether there is an indication that their nonfinancial assets (e.g., investments in associates and joint venture, investment properties, property and equipment, goodwill and intangible assets), may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 the value in use, 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. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting 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. The recoverable 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 consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

This accounting policy applies primarily to the Group's property and equipment and investment properties. Additional considerations for other non-financial assets are discussed below.

Investments in associates and joint venture
After application of the equity method, the Group determines whether it is necessary to recognize goodwill or any additional impairment loss with respect to the Group's net investment in its associates and joint venture. The Group determines at each financial reporting date whether there is any objective evidence that the investments in associates and joint venture are impaired.

If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and joint venture and the carrying cost and recognizes the amount in the consolidated statement of income.

Intangible assets
Customer relationship is reviewed for impairment annually, similar with goodwill, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For intangible assets with finite useful lives, the carrying amount is assessed and written down to its recoverable amount when an indication of impairment occurs.

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 consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at reporting date.

<u>Value-added Tax (VAT)</u>
Revenue, expenses and assets are recognized net of the amount of sales tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from the tax authority is included under 'Prepayments and other current assets' in the consolidated statement of financial position.

<u>Discontinued Operations</u>
A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations

- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

The disposal group is excluded from the results of continuing operations and is presented as a single amount as 'Net income from discontinued operations' in the consolidated statement of income.

Additional disclosures are provided in Note 12. All other notes to the consolidated financial statements include amounts of disposal group, unless otherwise mentioned.

Customers' Deposits
The Group requires buyers of real estate to pay a minimum percentage of the total selling price. The minimum percentage is on the basis of the level of buyer's commitment to pay and is part of the revenue recognition criteria. When the revenue recognition criteria are met, sales are then recognized and these deposits and downpayments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the cash surrender value of the deposit will be refunded to the buyer.

Customer's deposits consist of payment from buyers which have not reached the minimum required percentage and amounts that have not been applied against the related installment contracts receivable.

Equity
The Group records common stock and preferred stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Capital stock
The Parent Company has issued common stock and preferred stock that are classified as equity. Incremental costs directly attributable to the issue of new common stock are shown in equity as a deduction, net of tax, from the proceeds. All other equity issuance costs are recognized as expense as incurred.

Where the Parent Company purchases its own common stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued.

Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, and is included in equity attributable to the Parent Company's equity holders.

Additional paid-in capital
Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the shareholders.

Retained earnings
The amount included in retained earnings includes profit or loss attributable to the Group's equity holders and reduced by dividend on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Other Comprehensive Income
Other comprehensive income comprises items of income and expenses that are recognized directly in equity. OCI items are either reclassified to profit or loss or directly to equity in subsequent periods.

Acquisition of Non-controlling Interest in a Subsidiary
Acquisition of non-controlling interest is accounted for as an equity transaction, whereby the difference between the fair value of consideration given and the share in the net book value of the net assets acquired is recognized in equity. When the consideration is less than the net assets acquired, the difference is recognized as a gain in the consolidated statement of income. In an acquisition without consideration involved, the difference between the share of the non-controlling interests in the net assets at book value before and after the acquisition is treated as transaction between equity owners under the 'Non-controlling interests' account in the consolidated statement of financial position.

Revenue Recognition effective January 1, 2018

Revenue from Contract with Customers
The Group primarily derives its revenue from automotive operations and real estate sales. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Automotive operations
The Group derives its revenue from automotive operations from the sale of manufactured vehicles, trading of completely built-up vehicles and local and imported auto parts and sale of services. In the sales contract with customers, services other than vehicle sales such as additional service, additional warranty and other services are separated from the sale of vehicles to identify performance obligations.

Timing of revenue recognition may change depending on when the performance obligation is satisfied, either at a point in time or over time. The Group recognizes revenue from goods or services at a point in time when the goods or services are transferred to the customers and fulfills the performance obligations. In order to determine whether the control over the goods or services is transferred over time, the Group determines whether the customer simultaneously obtains and consumes the benefits provided by the Group's performance and whether the assets controlled by the customer and whether the assets created by the Group have no substitute purpose, and whether the Group has the right to make executable claims for the portion that has been completed so far.

The Group allocates the transaction prices based on the stand-alone selling prices to the various performance obligations identified in a single contract.

The Group estimates the amounts of consideration depending on which method the entity expects to better predict the amount of consideration to which it will be entitled - the expected value or the most likely amount. Variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the cumulative amount of revenue recognized will not occur in the future periods.

If the period between the transfer of the goods or services promised to the customer and the payment of the customer is within one year, a practical simple method that does not adjust the promised price for a significant financing component is used.

Real estate sales
The Group derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the monthly project accomplishment report as approved by the construction manager which integrates the surveys of performance to date of the construction activities.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and office development receivables, under trade receivables, is included in the "contract asset" account in the asset section of the consolidated statement of financial position.

Any excess of collections over the total of recognized trade receivables and contract assets is included in the "contract liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost recognition
The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Marketing fees, management fees from administration and property management are recognized when services are rendered.

Interest income is recognized as it accrues using the effective interest method.

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

Contract Balances

Receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced.

Costs to obtain contract
The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Real estate costs and expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Amortization, de-recognition and impairment of capitalized costs to obtain a contract
The Group amortizes capitalized costs to obtain a contract to cost of sales over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization is included within cost of sales.

A capitalized cost to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that cost to obtain a contract maybe impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Revenue Recognition prior to January 1, 2018

Revenue and Cost Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Group has concluded that it is acting as principal in all of its revenue arrangements.
The following specific recognition criteria must also be met before revenue is recognized:

Automotive operations
Revenue from automotive operations arises from sale of manufactured vehicles and trading of completely built-up vehicles and local and imported parts. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer (including certain "bill and hold" sales, wherein in the buyer takes title and accepts billing), usually on dispatch of goods.

Real estate sales
Real estate revenue and cost from completed projects is accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

In accordance with PIC Q&A No. 2006-01, the POC method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When the sale of real estate does not meet the requirements for revenue recognition, the sale is accounted under the deposit method until all the conditions are met. Under this method, revenue is not recognized, the receivable from the buyer is not recorded and the cash received from buyers are presented under the 'Customers' deposits' account in the liabilities section of the consolidated statement of financial position. The related real estate inventories continue to be reported in the consolidated statement of financial position as 'Inventories'.

Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Interest income
Interest is recognized as it accrues using the effective interest method.

Rent income
Rent income under noncancellable leases is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Sale of goods
Sale of goods is recognized from retail customers at the point of sale in the stores. This is measured at the fair value of the consideration received, excluding (or 'net of,' or 'reduced for') discounts, returns, rebates and sales taxes.

Rendering of services
Service fees from installation of parts and repairs and maintenance of vehicles are recognized as revenue when the related services have been rendered.

Commission income
Commission income is recognized by reference to the percentage of collection of the agreed sales price or depending on the term of the sale as provided under the marketing agreement.

Management fees
Management fees from administrative, property management and other fees are recognized when services are rendered.

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

Other income
Other customer related fees such as penalties and surcharges are recognized as they accrue, taking into account the provisions of the related contract. Other income also includes sale of scrap and sludge oil which is recognized when there is delivery of goods to the buyer, and recovery from insurance which is recognized when the right to receive payment is established.

Expense Recognition

Cost of goods and services sold

Cost of goods sold for vehicles and spare parts includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. These costs include the costs of storing and transporting the products. Vendor returns and allowances are generally deducted from cost of goods and services sold.

Other cost of goods sold includes Federal Land's gasoline and food products, and are recognized when goods are delivered which is usually at the point of sale in stores. Cost of services are recognized when services are rendered.

Cost of goods manufactured and sold

Cost of goods manufactured and sold includes the purchase price of the products manufactured, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the POC method is used, commissions are likewise charged to expense in the period the related revenue is recognized. These are recorded as 'Prepaid expenses' under 'Prepayments and other current assets' account.

General and administrative expenses

General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Cost of real estate sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's project and construction department.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Pension Costs

The Parent Company and its subsidiaries have funded, noncontributory defined benefit retirement plans, administered by trustees, covering their permanent employees.

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (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.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. 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 period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine 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 the consolidated statements of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, 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 defined benefit obligation is recognized as a separate asset at fair value only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Tax
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the financial reporting dates.

Deferred tax
Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liability is recognized for all taxable temporary differences. Deferred tax asset is recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) and 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 benefit of unused tax credits from MCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax asset and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Foreign Currency Transactions
The Group's consolidated financial statements are presented in Philippine pesos, which is also the Parent Company's functional currency. Each entity within the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions denominated in foreign currency are recorded using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated using the closing exchange rates prevailing at reporting date. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange difference are taken to the consolidated statements of income.

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 the Group's business segments is presented in Note 35.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

Provisions
Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Provision for product warranties
Provision for product warranties are recognized when sale of the related products are consummated. The best estimate of the provision is recorded based on three (3) year warranty coverage provided by the Group as part of the sold product. Reversals are made against provision for the expired portion.

Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis over the lease term. Variable rent is recognized as an income based on the terms of the lease contract.

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 specific 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 the date of renewal or extension period for scenario (b).

Operating leases
Operating leases represent those leases in which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized in the consolidated statement of income on a straight-line basis over the lease term.

Earnings Per Share
Basic earnings per share is calculated by dividing the net income for the year attributable to the owners of the Parent Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

Diluted earnings per share attributable to owners of the Parent Company is calculated in the same manner assuming that, the weighted average number of common shares outstanding is adjusted for potential common shares from the assumed exercise of dilutive instruments.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events after Financial Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Standards Issued But Not Yet Effective
The Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements.

Effective beginning on or after January 1, 2019

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

  These amendments have no impact on the consolidated financial statements of the Group.

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

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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

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

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

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

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

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

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

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

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

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

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

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

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

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

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

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

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

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

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

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

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Effective beginning on or after January 1, 2021

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

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

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

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

  This new accounting standard would affect Phil AXA where the Group has equity investment. The Group is currently assessing the impact of adopting PFRS 17.

Deferred effectivity

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

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

3. Management's Judgments and Use of Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of reporting date. Actual results could differ from such estimates.

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

Judgments

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

Assessment of control over investees

The determination on whether the Group has control over an investee requires significant judgment. For this, the Group considers the following factors: (a) power over the investee, (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns. In assessing whether the Group has power over the investee, the Group assesses whether it has existing rights that give it the current ability to direct the relevant activities of the investee.

Joint arrangements

The Group has investments in joint arrangements. The Group has joint control over these arrangements as under the contractual arrangements, unanimous consent is required from all the parties to the agreements for all relevant activities.

Determination of significant influence over another entity

The determination of significant influence over another entity, other than the rebuttable presumption of ownership over twenty percent (20.0%), requires significant judgment. In making judgment, the Group evaluates existence of the following:

- representation on the BOD or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the entity and its investee;
- interchange of managerial personnel; or
- provision of essential technical information.

As at December 31, 2018 and 2017, the Group determined that it exercises significant influence over MPIC in which it holds a 15.55% ownership interest. Although the Group holds less than 20.0% of the ownership interest and voting rights in MPIC, the Group considers that it exercises significant influence through its entitlement to nominate at least two (2) out of fifteen (15) directors of MPIC. The Parent Company is also entitled to nominate one (1) out of three (3) members in each of the Audit Committee (AC), Risk Management Committee (RMC) and Governance Committee (GC) of MPIC.

The combination of the Parent Company's 15.55% ownership over MPIC and representation in the BOD, AC, RMC and GC of MPIC provides the Parent Company with the ability to exercise significant influence over the operating and financial policies of MPIC. Accordingly, the Parent Company accounted for its investment in MPIC as an associate using equity method of accounting.

Revenue and cost recognition
Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others:

- buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment; and
- stage of completion of the project.

Existence of a contract
The Group's primary document for a contract with a customer is a signed contract to sell. It has determined, however, that in cases wherein contract to sell are not signed by both parties, the combination of its other signed documentation such as reservation agreement, official receipts, buyers' computation sheets and invoices, would contain all the criteria to qualify as contract with the customer under PFRS 15.

In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history with the customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

Revenue recognition method and measure of progress
Beginning 1 January 2018, the Group concluded that revenue for real estate sales is to be recognized over time because: (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. In addition, the Group requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to the Group. The Group considers that the initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

The Group has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customers.

Definition of default and credit-impaired financial assets
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria – for sales contracts receivable, the customer receives a notice of cancellation and does not continue the payments.

Qualitative criteria
The customer meets unlikeliness to pay criteria, which indicates the customer is in significant financial difficulty. These are instances where:
a. The customer is experiencing financial difficulty or is insolvent
b. The customer is in breach of financial covenant(s)
c. An active market for that financial assets has disappeared because of financial difficulties
d. Concessions have been granted by the Group, for economic or contractual reasons relating to the customer's financial difficulty
e. It is becoming probable that the customer will enter bankruptcy or other financial reorganization

The criteria above have been applied to the financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout the Group's expected loss calculation. Incorporation of forward-looking information The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Group considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. Based on the Group's evaluation and assessment and after taking into consideration external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.
The Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Collectibility of the sales price
Before January 1, 2018, in determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10.00% would demonstrate the buyer's commitment to pay.

Incorporation of forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Group considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. Based on the Group's evaluation and assessment and after taking into consideration external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Operating lease commitments – the Group as lessor
The Group entered into commercial property leases on its retail mall, investment properties and certain units of its real estate projects to different parties for a specific amount depending on the lease contracts. The Group has determined that based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the 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 significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Contingencies
The Group is currently involved in a few legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Allocation of costs and expenses
Costs and expenses are classified as exclusive and common. Exclusive costs such as raw materials and direct labor are charged directly to the product line. Common costs and expenses are allocated using sales value.

Management's Use of Estimates
The key assumptions concerning the future and other key sources of estimation and uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate sales recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project. The estimation of the total cost of the real estate project requires technical inputs from project development engineers. See Note 5 for the related balances.

The carrying amount of installment contracts receivables is disclosed in Note 5. The Group recognized real estate sales in 2018, 2017 and 2016 amounting to ₱18.50 billion, ₱14.09 billion and ₱12.44 billion, respectively.

Estimating allowance for impairment losses (Prior to January 1, 2018)
The Group reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated statement of financial position and any changes thereto in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required such as the financial condition of the counterparty and net selling prices of collateral. Such estimates are based on assumptions about a number of factors. Actual results may also differ, resulting in future changes to the allowance.

The Group maintains allowance for impairment losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original EIR. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (industry, customer type, customer location, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. 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. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

The carrying values of these receivables and due from related parties are disclosed in Notes 5 and 27, respectively.

Evaluating net realizable value of inventories
Inventories are valued at the lower of cost and net realizable value. The Group reviews its inventory to assess NRV at least annually. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The amount and timing of recorded expense for any period would differ if different judgments were made or different estimates were utilized.

Estimating the useful life of non-financial assets
The Group determines the EUL of its intangibles assets based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property and equipment, investment properties and intangible assets based on factors that include asset utilization, internal technical evaluation, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of intangible assets would increase the recorded amortization expense.

Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers which lay out the principal terms upon which its dealers agree to do business. Management assessed the useful life of the customer relationship to be indefinite since management is of the view that there is no foreseeable limit to the period over which the customer relationship is expected to generate net cash inflows to Toyota.

The said assessment is based on the track record of stability for the auto industry and the Toyota brand. Added to this is the commitment of management to continue to invest for the long term, to extend the period over which the intangible asset is expected to continue to provide economic benefits.

The carrying values of investment properties, property and equipment, intangible assets from customer relationship and software costs are disclosed in Notes 9, 11 and 13, respectively.

Evaluating impairment of non-financial assets
The Group reviews input VAT, investments in and advances to associates and joint venture, investment properties, creditable withholding tax, property and equipment, intangible assets from customer relationship, software costs, and other noncurrent assets for impairment. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in and advances to associates and joint venture, property and equipment, and software cost. The carrying values of input VAT and creditable withholding taxes, investments in associates and joint ventures, investment properties, property and equipment, intangible assets from customer relationship, software costs, and other noncurrent assets are disclosed in Notes 7, 8, 9, 11, 13 and 14, respectively.

Estimating impairment of AFS investments (Prior to January 1, 2018)
The Group treats AFS investments as impaired when there has been significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or when is 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more of the cost of AFS and 'prolonged' if greater than six months. In addition, the Group evaluates other factors, including normal and/or unusual volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The Group also considers the ability of the investee company to provide dividends.

The carrying values of AFS investments is disclosed in Note 10. The change in fair value of AFS investments is recorded in the consolidated statements of comprehensive income. The net unrealized gain on AFS investments is disclosed in Note 10.

Impairment of goodwill and intangible assets with indefinite useful life
The Group conducts an annual review for any impairment in the value of goodwill and intangible assets with indefinite useful life (i.e., customer relationship). Goodwill is written down for impairment when the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Group estimates key inputs such as discounted future cash flows forecasts, expected gross margins, discount rates and long-term growth rates. The Group uses the weighted average cost of capital in discounting the expected cash flows from specific CGUs.

Refer to Note 13 for the details regarding the carrying values of the Group's goodwill and intangible assets as well as details regarding the impairment review and assessment.

Recognition of deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

The recognized and unrecognized deferred tax assets on temporary differences of the Group are disclosed in Note 29.

Estimating pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 28 to the consolidated statement of financial position and include among others, discount rates, turnover rates and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. The carrying values of pension asset, liability and expense are disclosed in Note 28.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they 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, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Provision for product warranties
Estimated warranty costs are provided at the time of sale. The provision is based on the estimated costs of future servicing the products sold, the costs of which are not recoverable from customers. A provision is recognized for expected warranty claims on products sold during the last two (2) years, based on past experience of the level of returns and repairs. It is expected that most of these costs will be incurred in the next financial year and all will be incurred within three (3) years as of the reporting date. Provision for product warranty is disclosed in Note 20.

Purchase price allocation of investment in MPIC
The Parent Company is required to perform a purchase price allocation for its investment in MPIC in 2017. A significant portion of MPIC's net assets pertain to concession assets and the valuation of these concession assets require estimates from management. These estimates include revenue growth, gross margins, expected traffic volume and billed water volume, toll or tariff rates and discount rates.

Purchase price allocation of investment in MBTC
The Parent Company is required to perform a purchase price allocation for its investment in MBTC. A significant portion of MBTC's net assets pertain to loans and receivables, property and equipment, investment properties and deposits, and the valuation of these assets require estimates from management. These estimates include future cash flows forecasts, discount rates and appraised values of property, equipment and investment properties.

4. Cash, Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

	2018	2017
Cash on hand	**₱56**	₱38
Cash in banks and other financial institution (Note 27)	**6,512**	6,116
Cash equivalents (Note 27)	**7,785**	14,001
	₱14,353	₱20,155

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term investment rates ranging from 0.05% to 6.70% in 2018, from 0.10% to 3.75% in 2017, and from 0.01% to 2.50% in 2016 (Notes 23 and 27).

Short-term Investments
These represent the Group's foreign currency and peso-denominated time deposits, as well as money market placements, with original maturities of more than 3 months and up to 12 months and earn interest at the respective short-term investment rates, ranging from 0.01% to 2.50% in 2018, from 0.01% to 3.00% in 2017, and from 0.75% to 2.50% in 2016 (Notes 23 and 27).

5. **Receivables**

This account consists of:

	2018	2017
Trade receivables	**₱9,681**	₱9,465
Installment contracts receivables	**2,401**	16,825
Nontrade receivables (Note 27)	**1,438**	698
Loans receivable (Note 27)	**932**	962
Accrued rent and commission income (Note 27)	**479**	347
Management fee receivable (Note 27)	**253**	246
Accrued interest receivable (Note 27)	**210**	49
Others (Note 27)	**973**	533
	16,367	29,125
Less: Allowance for credit losses	**282**	31
	₱16,085	₱29,094

Total receivables shown in the consolidated statements of financial position follow:

	2018	2017
Current portion	**₱15,153**	₱24,374
Noncurrent portion	**932**	4,720
	₱16,085	₱29,094

Noncurrent receivables consist of:

	2018	2017
Loans receivable	**₱932**	₱962
Installment contracts receivables	–	3,758
	₱932	₱4,720

Installment Contracts Receivables
Installment contracts receivables pertain to receivables from the sale of residential and condominium units. Titles to the sold residential and condominium units are transferred to the buyers only upon full payment of the contract price.

The details of installment contracts receivables and contract assets follow:

	2018	2017
Installment contracts receivables	**₱3,314**	₱17,910
Less: Unearned interest income	**913**	1,085
	2,401	16,825
Less: Noncurrent portion	–	3,758
Current portion	**₱2,401**	₱13,067

Installment contracts receivables are collected over a period of one to 10 years. The fair value upon initial recognition for Federal Land is derived using the discounted cash flow methodology using discount rates ranging from 8.00% to 12.00% in 2018, 2017 and 2016. PCFI's installment contracts receivables bear annual interest of 12.00% to 21.00% in 2018, 12.00% to 21.00% in 2017 and 14.00% to 21.00% in 2016, computed on the diminishing balance of the principal.

Movements in the unearned interest income in 2018 and 2017 follow:

	2018	2017
Balance at beginning of year	**₱1,085**	₱859
Additions	**1,037**	1,541
Accretion (Note 23)	**(1,209)**	(1,315)
Balance at end of year	**₱913**	₱1,085

Trade Receivables
Trade receivables pertain to receivables from sale of vehicles and/or parts and services. These are noninterest-bearing and generally have 30 days to one year term.

Loans Receivable
Loans receivable from various counterparties pertain to long-term receivables as follows:

	2018	2017
Real estate	**₱932**	₱962

Loans receivable from Cathay International Resources Corp. (CIRC)
In 2012, Federal Land entered into a loan agreement with CIRC. Federal Land agreed to lend to CIRC a total amount of ₱705.00 million with a nominal and effective annual interest rate of 3.15% and 4.81%, respectively. The loan will mature on the tenth year anniversary from the date of execution of the agreement. Federal Land used discounted cash flow analyses to measure the fair value of the loan. The 'Day 1' difference for this receivable amounted to ₱94.22 million at inception in 2012. Accretion of interest in 2018, 2017 and 2016 amounted to ₱9.58 million, ₱8.52 million, and ₱8.73 million, respectively.

On June 8, 2015, the Board of Federal Land approved the conversion of this receivable to equity in exchange for the common shares of CIRC. Federal Land is yet to apply with the SEC for the conversion as of report date. The outstanding balance of long-term loans receivable as of December 31, 2018 and 2017 amounted to ₱641.88 million and ₱652.17 million, respectively (Note 27).

Loans receivable from Multi Fortune Holdings, Inc. (MFHI)
In 2017, Federal Land entered into a loan agreement with MFHI. Federal Land agreed to lend to MFHI a total amount of ₱290.00 million with nominal interest rate of 6.60% annually. The loan will mature on the fifth year anniversary of the execution.

Federal Land used discounted cash flow analyses to measure the fair value of the loan. As discussed in Note 2, where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, Federal Land recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability.

The 'Day 1' difference from this receivable amounting to ₱21.39 million was recorded under 'Other income' in the consolidated statements of income in 2017 (Note 23). Accretion of interest expense amounting to ₱19.87 million and ₱1.52 million in 2018 and 2017, respectively. Nominal interest income earned in 2018 and 2017 amounted to ₱18.62 million and ₱8.36 million, respectively.

The outstanding balance of long-term loans receivable from MFHI as of December 31, 2018 and 2017 amounted to ₱290.00 million and ₱309.87, respectively.

Nontrade Receivables
Nontrade receivables mainly consist of vehicle acquisition plan loans extended to employees which are collectible within one year and expenses of the affiliates which were advanced by the Group (Note 27).

Accrued Rent and Commission Income
Accrued rent pertains to tenants' rentals and their share in utilities (electricity, water and liquefied petroleum gas) and other charges to customers and commission income pertains to commission earned from sale of real estate properties (Note 27).

Management Fee Receivables
Management fee receivables pertain to management fee being charged by the real estate businesses for the conduct of relevant studies for the maintenance, upkeep and improvement of real estate properties and equipment of associates and affiliated companies (Note 27).

Others
Other receivables include receivable from employees and retention, bond and guarantee fee receivables (Note 27).

Allowance for Credit Losses
Changes in the allowance for credit losses on receivables are as follows:

	December 31, 2018		
	Trade Receivables	**Other Receivables**	**Total**
Balance at beginning of year, as previously reported	**₱7**	**₱24**	**₱31**
Effect of adoption of PFRS 9 (Note 2)	**–**	**252**	**252**
Balance at beginning of the year, as restated	**7**	**276**	**283**
Provision for (reversal from) credit losses (Note 26)	**1**	**(2)**	**(1)**
Balance at end of year	**₱8**	**₱274**	**₱282**
Individual impairment	**₱8**	**₱274**	**₱282**
Collective impairment	**–**	**–**	**–**
	₱8	**₱274**	**₱282**
Gross amount of receivables individually impaired before deducting any impairment allowance	**₱8**	**₱274**	**₱282**

	December 31, 2017		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱–	₱22	₱22
Provision for credit losses (Note 26)	11	2	13
Write-off	(4)	–	(4)
Balance at end of year	₱7	₱24	₱31
Individual impairment	₱7	₱24	₱31
Collective impairment	–	–	–
	₱7	₱24	₱31
Gross amount of receivables individually impaired before deducting any impairment allowance	₱7	₱24	₱31

6. **Inventories**

This account consists of:

	2018	2017 (As restated - Note 2)
At cost		
Real estate		
Land and improvements	**₱47,524**	₱52,127
Condominium units held for sale	**13,592**	9,792
Construction in progress	**6,217**	4,852
Materials and supplies	**885**	1,137
Gasoline retail and petroleum products (Note 24)	**10**	10
Food (Note 24)	**6**	7
Automotive		
Finished goods	**3,911**	1,989
Work-in-process	**122**	14
Raw materials in transit	**1,410**	1,056
	73,677	70,984
At NRV		
Automotive		
Spare parts	**₱3,792**	₱3,888
	3,792	3,888
	₱77,469	₱74,872

A summary of movements in real estate inventories (excluding materials and supplies, gasoline retail and petroleum products, and food) follows:

	2018			
	Land and improvements	**Condominium units held for sale**	**Construction in progress**	**Total**
Balance at beginning of year, as previously reported	**₱52,127**	**₱9,792**	**₱4,852**	**₱66,771**
Effect of adoption of PFRS 15 (Note 2)	**(1,146)**	**(37)**	**–**	**(1,183)**
Balance at beginning of the year, as restated	**50,981**	**9,755**	**4,852**	**65,588**
Construction and development costs incurred	**1,622**	**5,555**	**5,845**	**13,022**
Land acquired during the year	**1,589**	**–**	**–**	**1,589**
Borrowing costs capitalized	**355**	**4**	**1,263**	**1,622**
Cost of sales during the year	**(7,384)**	**(2,016)**	**(3,209)**	**(12,609)**
Transfers from construction in progress to condominium units for sale	**–**	**675**	**(675)**	**–**
Transfers to investment property (Note 9)	**–**	**(126)**	**(407)**	**(533)**
Recognition of intercompany deferred gain	**371**	**–**	**–**	**371**
Reclassifications and others	**(10)**	**(255)**	**(1,452)**	**(1,717)**
Balance at end of the year	**₱47,524**	**₱13,592**	**₱6,217**	**₱67,333**

	2017 (As restated - Note2)			
	Land and improvements	Condominium units held for sale	Construction in progress	Total
Balance at beginning of year, as previously reported	₱52,787	₱5,582	₱3,091	₱61,460
Effect of business combination	–	321	–	321
Construction and development costs incurred	789	6,775	5,341	12,905
Land acquired during the year	4,068	–	–	4,068
Borrowing costs capitalized	241	136	1,031	1,408
Cost of sales during the year	(1,427)	(6,129)	(2,479)	(10,035)
Transfers from construction in progress to condominium units for sale	–	2,555	(2,555)	–
Transfers to property and equipment (Note 11)	(16)	–	–	(16)
Transfers from (to) investment property (Note 9)	5	(2,072)	(708)	(2,775)
Transfers from land and improvements to condominium units held for sale	(2,902)	2,902	–	–
Reclassifications and others	(1,418)	(278)	1,131	(565)
Balance at end of the year	₱52,127	₱9,792	₱4,852	₱66,771

On January 1, 2018, the Group adopted PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*. Land held for future development previously presented as non-current asset includes land which the BOD has approved to be developed into residential development for sale.

Before the adoption of PIC Q&A 2018-11, the classification was based on the Group's timing to start the development of the property. This was reclassified under inventories in the consolidated statement of financial position (see Note 2). The reclassification has no impact on the prior year net income, equity, total assets, total liabilities and cash flows. Accordingly, no third consolidated statement of financial position has been presented and accounts affected have been disclosed.

There are no real estate inventories as of December 31, 2018 and 2017 mortgaged/pledged as security for loans payable.

Federal Land's capitalized borrowing costs in its real estate inventories amounted to ₱1.26 billion and ₱1.17 billion in 2018 and 2017, respectively, for loans specifically used to finance Federal Land's project construction with interest rates ranging from 2.90% to 6.71% and from 2.58% to 6.27% in 2018 and 2017, respectively. Also, Federal Land's capitalized borrowing costs in respect of its general borrowing amounted to ₱116.20 million and ₱21.30 million in 2018 and 2017, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 6.42% and 7.30% in 2018 and 2017, respectively.

PCFI's capitalized borrowing cost as part of real estate inventories amounted to ₱243.88 million and ₱213.43 million in 2018 and 2017, respectively. The capitalization rate used to determine the borrowings eligible for capitalization is 5.48% and 5.89% as of December 31, 2018 and 2017, respectively.

Inventories charged to operations follow:

	2018	2017	2016
Cost of real estate sales	**₱12,609**	₱10,035	₱7,586
Cost of goods and services sold (Note 24)	**129,904**	147,691	120,652
Cost of goods manufactured and sold (Note 25)	**31,809**	39,635	33,792
	₱174,322	₱197,361	₱162,030

The cost of the inventories carried at NRV amounted to ₱3.89 billion and ₱3.98 billion as of December 31, 2018 and 2017, respectively.

Allowance for inventory write-down on power and automotive spare parts inventories follow:

	2018	2017
Balance at beginning of year, as previously reported	**₱91**	₱69
Provision for inventory write-down	**51**	23
Write-off of scrap inventories	**(8)**	(1)
Reversal	**(38)**	–
	₱96	₱91

7. Prepayments and Other Current Assets

This account consists of:

	2018	2017
Advances to contractors and suppliers	**₱3,197**	₱2,732
Deposit for land purchases	**1,657**	1,496
Creditable withholding taxes (CWT)	**1,438**	1,078
Prepaid expenses	**1,146**	2,106
Input VAT	**1,087**	1,920
Ad-valorem tax	**412**	589
Advances to officers, employees, agents and brokers (Note 27)	**281**	387
Cost to obtain a contract (Note 21)	**236**	–
Others	**336**	109
	₱9,790	₱10,417

Advances to contractors and suppliers pertain to the Group's advances and initial payments for the purchase of construction materials and supplies and contractor services. These are liquidated every progress billing payment and will be due and demandable upon breach of contract.

Deposit for land purchases are deposits made for the acquisition of certain parcels of land that are intended for future development. The Deed of Absolute Sale (DOAS) for these properties will be executed upon fulfillment by both parties of certain undertakings and conditions.

CWT are attributable to taxes withheld by third parties arising from service fees, real estate revenue, auto sales and rental income.

Prepaid expenses mainly include prepayments for supplies, taxes and licenses, rentals, insurance and other land acquisition related costs. As of December 31, 2017, prepaid expenses also include unamortized commission expense for pre-sold and incomplete real estate units.

Input VAT arises from the Group's purchases of goods and services and will be applied against output VAT on sales in the succeeding periods.
The ad-valorem tax represents advance payments to the Bureau of Internal Revenue (BIR). This is applied against taxes on the manufacture and importation of vehicles which generally occurs within one year from the date the ad-valorem taxes are paid.

Advances to officers and employees amounting to ₱54.60 million and ₱47.60 million as of December 31, 2018 and 2017, respectively, pertain mainly to cash advances for business-related expenses. Advances to officers and employees are liquidated within 30 days after incurrence of expense. Cash advances to agents amounting to ₱8.45 million and ₱11.45 million as of December 31, 2018 and 2017, respectively, pertain to mobilization funds granted to agents to finance their sales-related needs. These advances are subject to liquidation within 30 days after the release of cash advance. Cash advances to brokers amounting to ₱217.43 million and ₱327.45 million as of December 31, 2018 and 2017, respectively represent PCFI's advances to brokers which will be recovered by applying the amount to the commissions that will be earned by the brokers.

Cost to obtain a contract pertain to commissions paid to brokers and marketing agents on the sale of pre-completed real estate units which are amortized to cost of sales over the expected construction period using percentage of completion.

Others include deferred import charges, marginal deposits set aside for payment to the contractors and suppliers, security deposit for operating leases, ancillary services, and deposit for purchase of external services and materials.

8. Investments and Advances

This account consists of:

	2018	2017
Investments in associates	**₱146,635**	₱114,187
Investments in joint ventures	**17,104**	10,599
Advances	–	106
	₱163,739	₱124,892

There is no impairment loss for any of these investments in 2018 and 2017.

The movements in the Group's investments in associates follow:

	2018	2017
Cost		
Balance at beginning of year	**₱87,789**	₱63,050
Acquisitions/additional investments during the year	**22,495**	24,739
Balance at end of year	**110,284**	87,789
Accumulated equity in net income		
Balance at beginning of year, as previously reported	**38,217**	29,967
Effect of adoption of PFRS 9 (Note 2)	**(1,716)**	–
Effect of adoption of PFRS 15 (Note 2)	**(14)**	–
Balance at beginning of the year, as restated	**36,487**	29,967
Equity in net income for the year	**10,909**	8,250
Recognition of gain on sale of lot deferred in 2014	**372**	–
Balance at end of year	**47,768**	38,217
Dividends received		
Balance at beginning of year	**(7,429)**	(5,832)
Dividends received during the year	**(2,110)**	(1,597)
Balance at end of year	**(9,539)**	(7,429)
Accumulated equity in other comprehensive income		
Balance at beginning of year	**(6,585)**	(2,753)
Effect of adoption of PFRS 9 (Note 2)	**5,542**	–
Balance at beginning of the year, as restated	**(1,043)**	**(2,753)**
Equity in fair value changes on financial assets at FVOCI for the year	**(1,229)**	–
Equity in net unrealized loss on AFS investments for the year	–	(2,142)
Equity in translation adjustments	**(1,968)**	(1,382)
Equity in remeasurement on life insurance reserves	**₱376**	(₱190)
Equity in net unrealized gain/(loss) on remeasurements of defined benefit plans	**272**	(118)
Equity in other equity adjustments	**19**	–
Balance at end of year	**(3,573)**	(6,585)
Effect of elimination of intragroup profit		
Balance at beginning of year	**2,195**	2,185
Recognition of gain on sale of lot deferred in 2014	**(372)**	–
Elimination during the year	**(128)**	10
Balance at end of year	**1,695**	2,195
	₱146,635	₱114,187

The movements in the Group's investments in joint ventures follow:

	2018	2017
Cost		
Balance at beginning of year	**₱8,458**	₱6,527
Acquisitions/additional investments during the year	**7,241**	1,931
Balance at end of year	**15,699**	8,458
Accumulated equity in net income		
Balance at beginning of year, as previously reported	**2,121**	1,672
Effect of adoption of PFRS 9	**(77)**	–
Balance at beginning of the year, as restated	**2,044**	1,672
Unrealized gain on sale of properties (Note 27)	**(198)**	–
Equity in net income for the year	**434**	449
Balance at end of year	**2,280**	2,121
Accumulated equity in other comprehensive income		
Balance at beginning of year	**20**	12
Equity in net unrealized gain on remeasurements of defined benefit plans	**4**	–
Equity in cash flow hedge reserve	**85**	8
Balance at end of year	**109**	20
Effect of elimination of intragroup profit		
Elimination during the year	**(984)**	–
Balance at end of year	**(984)**	–
	₱17,104	₱10,599

Details regarding the Group's associates and joint venture follow:

	Nature of Business	Country of Incorporation	Effective Percentages of Ownership 2018	2017
Associates:				
MBTC	Banking	Philippines	**36.36**	36.09
MPIC	Infrastructure	-do-	**15.55**	15.55
Phil AXA	Insurance	-do-	**25.33**	25.33
Crown Central Properties Corporation (CCPC)	Real estate	-do-	**48.00**	48.00
Magnificat Resources Corporation (Magnificat)	-do-	-do-	**49.10**	–
Joint ventures:				
Bonifacio Landmark Realty and Development Corporation (BLRDC)	Real estate	-do-	**70.00**	70.00
North Bonifacio Landmark Realty and Development Inc. (NBLRDI)*	-do-	-do-	**70.00**	–
Sunshine Fort North Bonifacio Realty and Development Corporation (Sunshine Fort)	-do-	-do-	**60.00**	60.00
HSL South Food Inc. (HSL)**	-do-	-do-	**60.00**	–
Alveo Federal Land Communities, Inc. (AFLCI)	-do-	-do-	**50.00**	50.00
ST 6747 Resources Corporation (STRC)	-do-	-do-	**50.00**	50.00
TFSPC	Financing	-do-	**40.00**	40.00
SMFC	-do-	-do-	**20.00**	20.00

** NBLRDI was incorporated on June 14, 2018.*
*** HSL was incorporated on July 30, 2018.*

The following table summarizes cash dividends declared and paid by the Group's associates and joint venture (amount in millions, except for dividend per share):

	Declaration Date	**Per Share**	**Total**	**Record Date**	**Payment Date**
2018					
MBTC	February 21, 2018	₱1.00	₱3,180	March 8, 2018	March 16, 2018
MPIC	March 1, 2018	0.076	2,395	March 28, 2018	April 26, 2018
MPIC	August 2, 2018	0.0345	1,087	August 31, 2018	September 25, 2018
Phil AXA	November 26, 2018			November 23, 2018	December 17, 2018

	Declaration Date	Per Share	Total	Record Date	Payment Date
2017					
MBTC	February 22, 2017	₱1.00	₱3,180	March 9, 2017	March 23, 2017
MPIC	March 1, 2017	0.068	2,143	March 30, 2017	April 26, 2017
MPIC	August 4, 2017	0.0345	1,087	September 1, 2017	September 26, 2017
Phil AXA	November 24, 2017			November 24, 2017	December 15, 2017

Investment in MBTC

On April 20, 2017, the Parent Company acquired a total of 306.00 million common shares of MBTC from Ty-Family Companies for a total purchase price of ₱24.72 billion. On April 21, 2017, the Parent Company paid the purchase price in cash. This increased the Parent Company's ownership in MBTC from 26.47% to 36.09%. Based on the final purchase price allocation relating to the Parent Company's acquisition of investment in MBTC, the difference of ₱5.45 billion between the Parent Company's share in the carrying values of MBTC's specific identifiable assets and liabilities and total cost of the Parent Company's investment was allocated to the Parent Company's share in the difference between the fair values and carrying values of MBTC's specific and identifiable assets and liabilities as follows: ₱1.44 billion for loans and receivables; (₱0.05 billion) for investment in associates and joint ventures; ₱0.82 billion for property and equipment; ₱0.33 billion for investment properties; (₱0.35 billion) for goodwill; ₱0.01 billion for other assets; ₱0.42 billion for deposit liabilities; ₱0.22 billion for bills payable and securities sold under repurchase agreements; ₱0.01 billion for bonds payable; (₱0.04 billion) for subordinated debts; (₱0.01 billion) for other liabilities; and the remaining balance of ₱3.85 billion for notional goodwill.

In relation to the acquisition, the Parent Company capitalized advisory fees and other professional fees amounting to ₱0.02 billion as part of the cost of the investment.

In April 2018, the Parent Company participated in the ₱59.99 billion stock rights offering of MBTC for a total of 299.28 million shares, equivalent to ₱22.45 billion. As a result, the percentage ownership of the Parent Company in MBTC increased from 36.09% to 36.36%.

As of December 31, 2018, the purchase price allocation relating to the Parent Company's increase of 0.27% ownership interest in MBTC has been prepared on a preliminary basis. The provisional fair value of the assets acquired and liabilities assumed as of date of acquisition is currently being finalized. The difference of ₱218.00 million between the Parent Company's share in the carrying values of MBTC's specific identifiable assets and liabilities and total cost of the Parent Company's investment was allocated to the Parent Company's share in the difference between the fair values and carrying values of MBTC's specific and identifiable assets and liabilities as follows: ₱184.48 million for loans and receivables; (₱1.33) million for investments and associates and joint ventures; ₱22.94 million property and equipment; ₱7.47 million for investment properties; (₱9.83) million for goodwill; ₱2.89 million for deposit liabilities; ₱1.38 million for other liabilities; and the remaining balance of ₱10.00 million for goodwill.

Investment in MPIC
On May 27, 2016, the Parent Company subscribed to 3.60 billion common shares of MPIC for a total subscription price of ₱21.96 billion. On the same day, the Parent Company entered into a Sale and Purchase Agreement with Metro Pacific Holdings, Inc. (MPHI), with the Parent Company as the buyer and MPHI as the seller of 1.30 billion common shares of MPIC for a total consideration of ₱7.94 billion. On August 5, 2016, the SEC approved the increase in the authorized capital stock of MPIC. As a result, the Parent Company's ownership interest is 15.55% of the issued and outstanding capital stock of MPIC.

In relation to the acquisition, the Parent Company capitalized advisory fees and other professional fees amounting to ₱0.24 billion and ₱0.04 billion, respectively, as part of the cost of the investment.

Based on the final purchase price allocation relating to the Parent Company's acquisition of investment in MPIC, the difference of ₱7.41 billion between the Parent Company's share in the carrying values of MPIC's specific identifiable assets and liabilities and total cost of the Parent Company's investment was allocated to the Parent Company's share in the difference between the fair values and carrying values of MPIC's specific and identifiable assets and liabilities amounting to ₱4.68 billion and the remaining balance of ₱2.73 billion for goodwill.

Investment in BLRDC
On June 8, 2012, Federal Land and Orix Risingsun Properties II, Inc. (ORPI) entered into a joint venture agreement for the creation of BLRDC, with Federal Land owning 70% and ORPI owning 30% to develop three (3) main projects, namely (1) residential condominium project, (2) hotel/office building, and (3) operation of the hotel.

Federal Land does not exercise control at 70% ownership over BLRDC, but instead exercises joint control because Federal Land and ORPI have contractually agreed to share control over the economic activities of BLRDC.

Investment in NBLRDI
On June 14, 2018, Federal Land entered into a Joint Venture Agreement with ORPI to incorporate a joint venture company, NBLRDI, in which Federal Land held 70% equity interest. The agreement was entered to develop Grand Hyatt Residences Tower II. This was reflected as additions of ₱1.69 billion in the investment in associates and joint ventures in 2018.

Investment in Sunshine Fort
On July 3, 2017, the Federal Land entered into a Joint Venture Agreement with NREMI Development Company (NRE) to incorporate a joint venture company in which Federal Land held 60% equity interest. In 2017, Federal Land made an initial investment amounting to ₱288.75 million. In 2018, Federal Land made additional investments amounting to ₱4.33 billion.

Investment in AFLCI
On April 29, 2015, Federal Land and Alveo Land Corp. executed a joint venture agreement for the organization of a joint venture, AFLCI, to manage the development of a 45-hectare property along Laguna Boulevard in Biñan, Laguna. AFLCI was incorporated on June 16, 2015. An initial investment amounting to ₱574.13 million was reflected as additions to the investment in associates and joint ventures in 2015. In 2016, an additional investment amounting to ₱17.00 million was made.

Investment in STRC
In June 2016, SM Development Corporation (SMDC) entered into an agreement with Federal Land to incorporate a joint venture company, STRC, in which Federal Land holds a 50% stake. STRC will develop a 3,200 square meter property located along Ayala Avenue as a high-end luxury residential tower. An initial investment amounting to ₱250.00 million was reflected as additions to the investment in associates and joint ventures in 2016.

On December 12, 2016, the BOD of Federal Land approved the additional investment in STRC amounting to ₱750.00 million divided into preferred shares in the amount of ₱712.50 million and common shares in the amount of ₱37.50 million. On January 10, 2017, Federal Land has fully paid its subscription to STRC. The percentage of ownership is retained as SMDC also invested an equivalent amount.

In 2018 and 2017, Federal Land made additional investments amounting to ₱0.47 billion and ₱0.03 billion, respectively.

Investment in TFSPC
On August 29, 2014, the Parent Company signed a Sale and Purchase Agreement with MBTC and PSBank, a majority owned subsidiary of MBTC, to purchase their respective shares in TFSPC representing 15.00% and 25.00%, respectively, of ownership interest for an aggregate consideration of ₱2.10 billion.

In 2018 and 2017, the Parent Company remitted ₱720.00 million and ₱480.00 million, respectively, to TFSPC in response to the latter's equity call upon its stockholders.

Investment in SMFC
On August 11, 2017, the Parent Company acquired 4.0 million common shares, representing 20% ownership in SMFC for a total consideration of ₱379.92 million from PSBank and PSBank Retirement Fund.

In relation to the acquisition, the Parent Company capitalized documentary stamp taxes amounting to ₱1.50 million as part of the cost of the investment.

Fair Value of Investment in Associates and Joint ventures
Phil AXA and CCPC as well as BLRDC, AFLCI, STRC, TFSPC, SMFC and Sunshine Fort are private companies and there are no quoted market prices available for their shares.

As of December 31, 2018 and 2017, the fair values of the Group's investment in PSE-listed entities follow (Note 32):

	2018	2017
MBTC	**₱115,834**	₱116,265
MPIC	**22,687**	33,467
	₱138,521	₱149,732

The following tables present the carrying values of the Group's material associates:

Investments in MBTC

	2018	2017
Consolidated Statements of Comprehensive Income		
Net interest income, other income and share in net income of associates and joint ventures	**₱92,606**	₱84,242
Expenses	**69,171**	62,972
Net income	**23,435**	21,270
Other comprehensive loss	**(2,655)**	(5,045)
Total comprehensive income	**20,780**	16,225
*Consolidated Statements of Financial Position**		
Total assets	**2,243,693**	2,080,292
Total liabilities	**(1,952,989)**	(1,876,202)
Net assets	**290,704**	204,090
Equity attributable to NCI	**(7,744)**	(9,535)
Other equity reserves	**–**	7,400
Net assets attributable to common shareholders of MBTC	**282,960**	201,955
GT Capital's ownership interest in MBTC	**36.36%**	36.09%
GT Capital's share in net assets of MBTC	**102,884**	72,886
Notional goodwill	**4,450**	4,440
Fair value and other adjustments	**3,166**	3,188
Elimination of intercompany transactions	**(96)**	(468)
	₱110,404	₱80,046

**MBTC does not present classified statements of financial position.*

Investments in MPIC

	2018	2017
Consolidated Statements of Comprehensive Income		
Revenues	**₱122,686**	₱93,515
Expenses	**93,599**	68,839
Net income	**22,202**	19,027
Other comprehensive income (loss)	**320**	(466)
Total comprehensive income	**22,522**	18,561
Consolidated Statements of Financial Position		
Current assets	**79,579**	74,945
Noncurrent assets	**478,633**	428,806
Current liabilities	**(56,606)**	(54,877)
Noncurrent liabilities	**(262,377)**	(233,195)
Net assets	**239,229**	215,679
Equity attributable to NCI	**(65,692)**	(54,435)
Net assets attributable to common shareholders of MPIC	**173,537**	161,244
GT Capital's ownership interest in MPIC	**15.55%**	15.55%
GT Capital's share in net assets of MPIC	**26,985**	25,073
Capitalized transaction cost	**277**	277
Notional goodwill	**2,727**	2,727
Fair value and other adjustments	**3,861**	4,289
	₱33,850	₱32,366

The following table presents the carrying values of the Group's material joint venture:

	2018 BLRDC	2018 TFSPC*	2018 Sunshine Fort	2017 BLRDC	2017 TFSPC*	2017 Sunshine Fort
Selected Financial Information						
Cash and cash equivalents	**₱1,071**	**₱1,501**	**₱743**	₱231	₱1,100	₱482
Current financial liabilities	**4,620**	**–**	**1,940**	2,390	–	348
Non-current financial liabilities	**3,004**	**–**	**–**	5,357	–	–
Financial liabilities	**–**	**73,850**	**–**	–	64,704	–
Depreciation and amortization	**72**	**44**	**–**	20	35	–
Interest income	**44**	**6,165**	**7**	86	4,921	–
Interest expenses	**120**	**2,910**	**2**	89	2,060	–
Income tax expense	**25**	**372**	**(55)**	82	308	(9)
Statements of Comprehensive Income						
Revenues	**2,311**	**6,481**	**42**	1,662	5,053	–
Expenses	**2,297**	**5,322**	**167**	1,228	4,057	19
Net income	**(11)**	**787**	**(70)**	158	688	(10)
Other comprehensive income	**–**	**218**	**–**	–	21	–
Total comprehensive income	**(11)**	**1,004**	**(70)**	158	709	(10)
Statements of Financial Position						
Current assets	**3,905**		**8,068**	3,833		512
Noncurrent assets	**10,746**		**1,495**	9,611		335
Total assets	**14,651**	**83,509**	**9,563**	13,444	71,724	847
Current liabilities	**(4,618)**		**(1,963)**	(2,715)		(387)
Noncurrent liabilities	**(3,825)**		**(48)**	(4,508)		–
Total liabilities	**(8,443)**	**(75,852)**	**(2,011)**	(7,223)	(64,874)	(387)
Net assets	**6,208**	**7,657**	**7,552**	6,221	6,850	460
GT Capital's ownership interest	**70.00%**	**40.00%**	**60.00%**	70.00%	40.00%	60.00%
GT Capital's share in net assets	**4,346**	**3,063**	**4,531**	4,355	2,740	276
Additional subscription	**–**	**720**	**–**	–	–	–
Notional goodwill and other adjustments	**241**	**894**	**(208)**	240	894	5
	₱4,587	**₱4,677**	**₱4,323**	₱4,595	₱3,634	₱281

**TFSPC does not present classified statements of financial position.*

The following table presents the aggregate financial information of the Group's other associates and joint ventures as of and for the years ended December 31, 2018 and 2017:

	2018 Associates	2018 Joint ventures	2017 Associates	2017 Joint ventures
Statements of Financial Position				
Current assets	**₱214**	**₱10,132**	₱189	₱3,693
Non-current assets	**308**	**2,899**	40	3,804
Total assets*	**126,794**		123,490	
Current liabilities	**69**	**3,556**	229	2,117
Non-current liabilities	**–**	**240**	39	60
Total liabilities*	**117,559**		116,463	
Statements of Comprehensive Income				
Revenues	**14,201**	**2,597**	14,662	1,572
Expenses	**9,854**	**1,878**	11,361	1,129
Net income	**3,114**	**493**	2,488	306
Other comprehensive income	**718**	**6**	(879)	1
Total comprehensive income	**3,832**	**500**	1,609	307

**Phil AXA does not present classified statements of financial position.*

The aggregate carrying values of immaterial associates and joint ventures amounted to ₱5.90 billion and ₱4.15 billion as of December 31, 2018 and 2017, respectively.

Limitation on dividend declaration of associates and joint venture
Phil AXA
Section 195 of the Insurance Code provides that a domestic insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

MBTC
The Bangko Sentral ng Pilipinas (BSP) requires banks to keep certain levels of regulatory capital and liquid assets, limit their exposures to other parts of the Group and comply with other regulatory ratios.

As of December 31, 2018 and 2017, there were no agreements entered into by the associates and joint ventures of the Group that may restrict dividends and other capital distributions to be paid, or loans and advances to be made or repaid to or from other entities within the Group. MBTC's dividend declarations and payments are subject to the approval of BSP.

As of December 31, 2018 and 2017, accumulated equity in net earnings amounting to ₱40.51 billion and ₱32.91 billion, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon declaration and receipt of cash dividends from the investees.

As of December 31, 2018 and 2017, the Group has no share on commitments and contingencies of its associates and joint ventures.

Advances
Federal Land made a deposit in NBLRDI amounting to ₱105.61 million representing its paid-up capital which is in the process of incorporation as of December 31, 2017. Said deposit was converted to equity upon incorporation on June 14, 2018.

9. **Investment Properties**

The composition and rollforward analysis of this account follow:

	December 31, 2018			
	Land and Improvements	**Building and Improvements**	**Construction In Progress**	**Total**
Cost				
At January 1	**₱7,105**	**₱7,592**	**₱3,819**	**₱18,516**
Additions	**19**	**128**	**75**	**222**
Disposals	**(177)**	–	–	**(177)**
Transfers	**36**	**61**	–	**97**
Transfers from inventories (Note 6)	**–**	**126**	**407**	**533**
At December 31	**6,983**	**7,907**	**4,301**	**19,191**
Accumulated Depreciation				
At January 1	**14**	**1,110**	**–**	**1,124**
Depreciation (Note 11)	**4**	**335**	**–**	**339**
At December 31	**18**	**1,445**	**–**	**1,463**
Net Book Value at December 31	**₱6,965**	**₱6,462**	**₱4,301**	**₱17,728**

	December 31, 2017			
	Land and Improvements	Building and Improvements	Construction In Progress	Total
Cost				
At January 1	₱6,861	₱5,424	₱2,901	₱15,186
Effect of business combination	484	–	–	484
Additions	184	265	210	659
Transfers to property and equipment (Note 11)	(1,067)	(421)	905	(583)
Transfers from (to) inventories (Note 6)	(5)	2,072	708	2,775
Reclassifications and others	648	252	(905)	(5)
At December 31	7,105	7,592	3,819	18,516
Accumulated Depreciation				
At January 1	10	862	–	872
Depreciation (Note 11)	4	270	–	274
Transfers to property and equipment (Note 11)	–	(22)	–	(22)
At December 31	14	1,110	–	1,124
Net Book Value at December 31	₱7,091	₱6,482	₱3,819	₱17,392

Various parcels of land are leased to several individuals and corporations including related parties. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit. Rent income recognized from these properties amounted to ₱1.26 billion, ₱0.94 billion and ₱0.83 billion in 2018, 2017 and 2016, respectively (Note 30).

Construction-in-progress pertains to the accumulated cost incurred for the development and redevelopment of Federal Land's malls.

The aggregate fair values of the Group's investment properties amounted to ₱37.45 billion and ₱36.55 billion as of December 31, 2018 and 2017, respectively. The fair values of the Group's investment properties have been determined based on valuations performed by Asian Appraisal Company (AAC) and Philippine Appraisal Co. Inc. (PACI), independent appraisers which are accredited by the SEC. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison. Valuation of the Group's investment properties are done every three years with the latest valuation report issued by AAC and PACI in 2017.

10. Investment Securities

Investment securities consist of:

	2018	2017
Current:		
Financial assets at FVTPL (Note 27)	**₱3,181**	₱–
AFS investments		
Quoted	–	611
Noncurrent:		
Financial assets at FVOCI		
Quoted	**10,631**	–
Unquoted	**317**	–
AFS investments		
Quoted	–	1,622
Unquoted	–	481
	10,948	2,103
	₱14,129	₱2,714

Financial assets at FVTPL
These pertain to the Parent Company's investments in UITF.

Financial assets at FVOCI
Quoted equity securities
This includes foreign currency-denominated equity investments in Toyota Motor Corporation (TMC), a listed company in Tokyo Stock Exchange, amounting to ₱9.43 billion as of December 31, 2018. The Group has irrevocably elected to classify these investments under this category as it intends to hold these investments for the foreseeable future.

Unquoted equity securities
This account comprises of shares of stocks of various unlisted private corporations. The Group has designated these equity securities as at FVOCI because they will not be sold in the foreseeable future.

Unquoted equity securities include Toyota Aisin Philippines, Inc. (TAPI), representing 5.00% ownership interest, amounting to ₱301.95 million as of December 31, 2018. Also included in the balance are unquoted equity securities of Federal Land and TMBC amounting to ₱9.94 million and ₱0.46 million, respectively, as of December 31, 2018.

Unquoted equity securities of Federal Land pertain to preferred shares of a utility company issued to the Group in connection with its subscription to the electricity services of the said utility company needed for Federal Land's real estate projects. The Group does not intend to dispose these investments since these are directly related to the continuity of its business.

Available-for-sale Investments
Quoted equity securities
Quoted AFS investments include investments in unit investment trust fund (UITF) (Note 32).

Unquoted equity securities
This account comprises shares of stocks of various unlisted private corporations.

Unquoted AFS investments in TAPI, representing 5.00% ownership interest, amounted to ₱466.20 million as of December 31, 2017. Also included in the balance are AFS investments of Federal Land and TMBC amounting to ₱9.94 million and ₱0.46 million, respectively, as of December 31, 2017.

Movements in the fair value reserves on financial assets at FVOCI/net unrealized gain on AFS investments follow:

	2018		
	Attributable to Parent Company	**Non-controlling Interest**	**Total**
Balance at beginning of year, as previously reported	**₱841**	**₱299**	**₱1,140**
Effect of PFRS 9 adoption (Note 2)	**(90)**	**(92)**	**(182)**
Balance at beginning of year, as restated	**751**	**207**	**958**
Changes in fair values of financial assets at FVOCI	**(1,485)**	**16**	**(1,469)**
Balance at end of year	**(₱734)**	**₱223**	**(₱511)**

	2017		
	Attributable to Parent Company	Non-controlling Interest	Total
Balance at beginning of year	₱186	₱293	₱479
Net changes shown in other comprehensive income			
Changes in fair values of AFS investments	640	6	646
Realized gains	15	–	15
Balance at end of year	₱841	₱299	₱1,140

11. Property and Equipment

The composition and rollforward analysis of this account follow:

	2018								
	Transportation Equipment	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Machinery, Tools and Equipment**	**Land and Building**	**Building and Land Improvements**	**Other Property and Equipment**	**Construction-in-Progress**	**Total**
Cost									
At January 1	**₱612**	**₱939**	**₱319**	**₱1,843**	**₱2,786**	**₱4,046**	**₱4,177**	**₱1,315**	**₱16,037**
Additions	**177**	**279**	**9**	**446**	**165**	**390**	**1,716**	**737**	**3,919**
Disposals	**(102)**	**(54)**	**–**	**(32)**	**–**	**(18)**	**(185)**	**(95)**	**(486)**
Reclassifications and others	**19**	**29**	**–**	**225**	**–**	**702**	**–**	**(993)**	**(18)**
At December 31	**706**	**1,193**	**328**	**2,482**	**2,951**	**5,120**	**5,708**	**964**	**19,452**
Accumulated Depreciation and Amortization									
At January 1	**281**	**446**	**153**	**717**	**75**	**613**	**2,081**	**–**	**4,366**
Depreciation and amortization	**148**	**174**	**42**	**225**	**12**	**308**	**850**	**–**	**1,759**
Disposals	**(78)**	**(12)**	**–**	**(29)**	**–**	**(17)**	**(175)**	**–**	**(311)**
At December 31	**351**	**608**	**195**	**913**	**87**	**904**	**2,756**	**–**	**5,814**
Net Book Value at December 31	**₱355**	**₱585**	**₱133**	**₱1,569**	**₱2,864**	**₱4,216**	**₱2,952**	**₱964**	**₱13,638**

	2017								
	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Machinery, Tools and Equipment	Land and Building	Building and Land Improvements	Other Property and Equipment	Construction-in-Progress	Total
Cost									
At January 1	₱541	₱722	₱304	₱981	₱2,759	₱2,343	₱3,950	₱778	₱12,378
Additions	164	237	15	798	19	343	376	1,523	3,475
Transfers from inventories (Note 6)	–	–	–	–	16	–	–	–	16
Transfers from (to) investment properties (Note 9)	–	36	–	83	–	1,369	–	(905)	583
Disposals	(88)	(38)	–	(41)	(8)	–	(142)	–	(317)
Reclassifications and others	(5)	(18)	–	22	–	(9)	(7)	(81)	(98)
At December 31	612	939	319	1,843	2,786	4,046	4,177	1,315	16,037
Accumulated Depreciation and Amortization									
At January 1	187	316	118	538	68	343	1,441	–	3,011
Depreciation and amortization	146	160	35	187	8	250	737	–	1,523
Transfers from investment properties (Note 9)	–	–	–	–	–	22	–	–	22
Disposals	(51)	(38)	–	(21)	(1)	–	(100)	–	(211)
Reclassifications and others	(1)	8	–	13	–	(2)	3	–	21
At December 31	281	446	153	717	75	613	2,081	–	4,366
Net Book Value at December 31	₱331	₱493	₱166	₱1,126	₱2,711	₱3,433	₱2,096	₱1,315	₱11,671

Construction-in-progress as of December 31, 2018 pertains to FLI's building improvements which were expected to be completed in 2019 and Toyota group's machineries, tools, equipment and other projects which are expected to be completed in 2020.

Construction-in-progress as of December 31, 2017 pertains to TMBC and GTCAD's building construction and Toyota group's machineries and building improvements which were completed in 2018.

Gain on disposal of property and equipment amounted to ₱23.27 million, ₱23.09 million and ₱49.60 million in 2018, 2017 and 2016, respectively (Note 23).

Fully depreciated buildings and land improvements and other property and equipment with cost of ₱3.77 billion and ₱3.41 billion as of December 31, 2018 and 2017, respectively, are still being used in the Group's operations.

Details of depreciation and amortization follow:

	2018	2017	2016
Continuing operations			
Property and equipment	**₱1,759**	₱1,523	₱1,433
Investment properties (Note 9)	**339**	274	212
Intangible assets (Note 13)	**119**	124	55
	2,217	1,921	1,700
Depreciation and amortization attributable to discontinued operations			
Property and equipment	–	–	825
Intangible assets (Note 13)	–	–	192
	–	–	1,017
	₱2,217	₱1,921	₱2,717

Breakdown of depreciation and amortization in the consolidated statements of income and consolidated statements of financial position follow:

	2018	2017	2016
Consolidated Statements of Income			
Cost of goods manufactured	**₱974**	₱809	₱889
Cost of rental (Note 30)	**309**	240	200
Cost of goods and services	**31**	61	40
General and administrative expenses (Note 26)	**782**	655	495
Attributable to discontinued operations (Note 12)	–	–	1,017
	2,096	1,765	2,641
Consolidated Statements of Financial Position			
Real estate inventories	**121**	156	76
	₱2,217	₱1,921	₱2,717

12. **Disposal of Assets**

Sale of Investment in GBPC
On May 26, 2016, the Parent Company acquired FMIC's 4.73% direct equity stake in GBPC for a total consideration of ₱3.26 billion. This increased the Parent Company's direct ownership in GBPC from 51.27% to 56.00%. Subsequently, on May 27, 2016, the Parent Company sold its entire 56.00% investment in GBPC to Beacon Powergen Holdings, Inc. (Beacon) for a total consideration of ₱22.06 billion. Immediately after the sale, the Parent Company relinquished control over GBPC and GBPC ceased to be a subsidiary of the Parent Company effective May 31, 2016. Accordingly, GBPC was deconsolidated from the consolidated financial statements of the Group at that date.

The assets and liabilities of GBPC derecognized as of May 31, 2016 are as follows:

Assets	
Cash and cash equivalents	₱13,136
Short-term investments	300
Receivables	3,591
Inventories	1,523
Prepayments and other current assets	1,988
Available-for-sale securities	674
Property and equipment	47,117
Goodwill and intangible assets	7,105
Deferred tax assets	463
Other noncurrent assets	237
	76,134
Liabilities	
Accounts and other payables	5,200
Customer's deposits	1
Income tax payable	3
Other current liabilities	74
Pension liabilities	675
Long-term debt	37,200
Deferred tax liabilities	970
Other noncurrent liabilities	251
	44,374
Net assets	₱31,760

Remeasurement losses on defined benefit plan of GBPC amounting to ₱92.49 million were reclassified to retained earnings.

The aggregate consideration received consists of:

Cash received	₱22,058
Non-controlling interest	17,127
	₱39,185

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* requires income and expenses from discontinued operations to be presented separately from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

The results of operations of GBPC included in the consolidated financial statements are presented below:

	2016
Net fees	₱6,840
Interest income	65
Sale of goods and services	32
Other income	17
Revenue	6,954
Power plant operation and maintenance expenses	3,273
General and administrative expenses	1,474
Interest expense	780
Cost and expenses	5,527
Income before income tax	1,427
Provision for income tax	34
Net income	1,393
Gain on disposal of direct ownership	1,596
Realization of previously deferred gain	1,840
Total Net Income from Discontinued Operations from GBPC	₱4,829

With the loss of control over GBPC, the Parent Company realized its share in the gain on sale amounting to ₱1.84 billion arising from the sale of GBPC shares by FMIC to Orix P&E Philippines Corporation (Orix) and Meralco Powergen Corporation previously deferred in 2013.

The total gain on the sale of GBPC amounted to ₱3.44 billion, comprising ₱1.60 billion gain on sale of direct ownership and realization of the above previously deferred gain of ₱1.84 billion.

The net cash inflow arising from the deconsolidation of GBPC follows:

Cash proceeds from the sale of 56% of GBPC	₱22,058
Purchase price and related costs to increase stake in GBPC to 56%	(3,586)
Cash and cash equivalents deconsolidated	(13,136)
	₱5,336

On June 30, 2016, Orix exercised its tag-along rights in relation to its holdings of GBPC shares and sold its 22.00% ownership stake in GBPC to the Parent Company for a total consideration of ₱8.67 billion. On the same day, the Parent Company sold the same shares to a third party for the same amount of consideration.

Sale of Investment in Charter Ping An Insurance Company (CPAIC)
On November 5, 2015, the Parent Company signed an agreement to sell 100.00% of CPAIC to AXA Philippines for ₱2.30 billion, subject to closing conditions that are usual and customary (Note 27).

On April 4, 2016, the Parent Company completed the sale of CPAIC for a final consideration of ₱2.10 billion. This transaction resulted in a gain representing the excess of the cash consideration received over the carrying value of the non-current asset held-for-sale amounting to ₱172.89 million and such gain is included in 'Net income from discontinued operations'. Following the sale, the assets, liabilities and reserve of disposal group classified as held-for-sale were derecognized.

Remeasurement losses from defined benefit plan amounting to ₱57.10 million were reclassified to retained earnings.

In the consolidated statements of income, income and expenses from disposal group are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

The results of operation of CPAIC included in the 'Net income from discontinued operations' are presented below:

	2016
Net premiums earned	₱389
Interest income	–
Commission income	42
Finance and other income	32
Revenue	463
Net insurance benefits and claims	287
General and administrative expenses	335
Interest expense	–
Cost and expenses	622
Income (loss) before income tax	(159)
Provision for income tax	5
Net income (loss)	(164)
Gain on disposal of direct ownership	173
Realization of previously deferred gain	78
Total Net Income from Discontinued Operations from CPAIC	₱87

The total gain on the sale of CPAIC amounted to ₱251.11 million, comprising ₱172.89 million gain on sale of direct ownership and the realization of the above previously deferred gain of ₱78.22 million.

The net cash flows directly associated with the disposal group are as follows:

	2016
Operating	₱2,392
Investing	(1,886)
Financing	(1,956)
Net cash outflow	(₱1,450)

The earnings per share attributable to equity holders of the Parent Company from disposal group for the years ended December 31, 2016 were computed as follows (amounts in millions except for earnings per share):

	2016
Net income attributable to equity holders of the Parent Company from disposal group	₱4,003
Weighted average number of shares	174
	₱23.01

13. **Goodwill and Intangible Assets**

Goodwill and intangible assets consist of:

	2018	2017
Goodwill	**₱8,767**	₱8,767
Customer relationship	**3,883**	3,883
Software costs – net	**303**	360
Franchise – net	**2**	2
	₱12,955	₱13,012

Goodwill

Goodwill comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Goodwill in relation to acquisitions has been attributed to the following CGUs:

	2018				
	Toyota	**TRDCI**	**PCFI**	**TMBC**	**Total**
Balances at beginning and end of year	**₱5,597**	**₱88**	**₱2,841**	**₱241**	**₱8,767**

	2017				
	Toyota	TRDCI	PCFI	TMBC	Total
Balances at beginning of year	₱5,597	₱–	₱2,841	₱241	₱8,679
Additions through business combinations (Note 31)	–	88	–	–	88
Balances at end of year	₱5,597	₱88	₱2,841	₱241	₱8,767

Toyota

The recoverable amount of Toyota CGU was based on VIU calculations using cash flow projections from financial budgets approved by management covering a three-year period. The pre-tax discount rate applied to cash flow projections is 16.90% in 2018 and 12.68% in 2017. Cash flows beyond the three-year period are extrapolated using a steady growth rate of 4.46% in 2018 and 3.52% in 2017. The carrying value of goodwill amounted to ₱5.60 billion as of December 31, 2018 and 2017. No impairment loss was recognized for goodwill arising from the acquisition of Toyota.

The calculations of VIU for the Toyota CGU are most sensitive to the following assumptions:

- Budgeted gross margins – Gross margins are based on vehicle models mix per dealer and the foreign exchange movements between the Philippine Peso versus the United States (US) Dollar and the Japanese Yen versus the US Dollar.
- Growth rate – The projected growth rate is based on a conservative steady growth rate that does not exceed the compounded annual growth rate for the global automotive industry; and
- Pre-tax discount rate – Discount rates reflect management's best estimate of the risks associated with the specific CGU. This is the benchmark rate used by management to measure operating performance.

Regarding the assessment of the VIU of Toyota, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

PCFI
The recoverable amount of PCFI CGU was based on VIU calculations using cash flow projections from financial budgets approved by management covering a four-year period. The pre-tax discount rate applied to cash flow projections is 14.64% in 2018 and 9.41% in 2017. Cash flows beyond the forecast period are extrapolated using a long-term growth rate of 2.60% in 2018 and 2017. The carrying value of goodwill amounted to ₱2.84 billion as of December 31, 2018 and 2017. No impairment loss was recognized on the goodwill arising from the acquisition of PCFI.

The calculations of VIU for PCFI CGU are most sensitive to the following assumptions:

- Expected future cash inflows from real estate sales
- Growth rate; and
- Pre-tax discount rate - Discount rate reflects management's best estimate of the risks associated with the specific CGU.

Regarding the assessment of the VIU of PCFI, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

TMBC
The recoverable amount of TMBC CGU was based on VIU calculations using cash flow projections from financial budgets approved by management covering a four-year period. The pre-tax discount rate applied to cash flow projections is 14.48% in 2018 and 12.40% in 2017. Cash flows beyond the forecast period are extrapolated using a long-term growth rate of 4.46% in 2018 and 3.52% in 2017. The carrying value of goodwill amounted to ₱241.06 million as of December 31, 2018 and 2017. No impairment loss was recognized on the goodwill arising from the acquisition of TMBC.

The calculations of VIU for TMBC CGU are most sensitive to the following assumptions:

- Expected future cash inflows from automobile sales
- Growth rate; and
- Pre-tax discount rate - Discount rate reflects management's best estimate of the risks associated with the specific CGU.

Regarding the assessment of the VIU of TMBC, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

Customer Relationship
Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers which lay out the principal terms upon which its dealers agree to do business. Toyota's relationship with its top dealers adds value to the operations of Toyota and enhances the latter's earnings potential. Management assessed the useful life of the customer relationship to be indefinite since management is of the view that there is no foreseeable limit to the period over which the customer relationship is expected to generate net cash inflows to Toyota.

The recoverable amount of the customer relationship of the Group was based on VIU calculations using earnings projections from financial budgets approved by management covering a three-year period. The pre-tax discount rate applied to earnings projections is 20.1% and 15.83% in 2018 and 2017, respectively. Cash flows beyond the forecast period are extrapolated using a steady growth rate of 4.46% in 2018 and 3.52% in 2017. The carrying value of the customer relationship amounted to ₱3.88 billion as of December 31, 2018 and 2017. No impairment loss was recognized for the customer relationship arising from the acquisition of Toyota.

The calculations of VIU for the customer relationship are most sensitive to the following assumptions:

- Attrition rate – Sales to key customers for the four-year period are computed by taking into account a 5.00% attrition rate or 95.00% retention rate;
- Earnings before interest and taxes (EBIT) margin on key customers – A 5.11% EBIT margin was used in projecting the net operating profit on sales to key customers for the three-year period; and
- Pre-tax discount rate – Discount rates reflect management's best estimate of the risks associated with the specific CGU. This is the benchmark rate used by management to measure operating performance.

Regarding the assessment of the value-in-use of Toyota's customer relationship, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

Software Cost

The Group's software costs pertain to software cost and licenses. The rollforward analysis of the Group's software cost is as follows:

	2018	2017
Cost		
Balance at beginning of year	**₱606**	₱372
Additions	**62**	234
	668	606
Accumulated Amortization		
Balance at beginning of year	**₱246**	₱134
Amortization (Note 11)	**119**	124
Disposal/reclassification	**–**	(12)
	365	246
Net Book Value	**₱303**	₱360

Franchise

Franchise fee pertains to the Federal Land Group's operating rights for its fast food stores with estimated useful lives of three to five years.

In 2017, Federal Land acquired additional franchise amounting to ₱0.87 million.

The amortization of the franchise fee amounting to ₱0.33 million, ₱0.28 million and ₱0.46 million in 2018, 2017 and 2016, respectively, is included in the 'General and administrative expenses' account in the consolidated statements of income (Note 26).

Details of amortization of intangible assets are as follows (Note 11):

	2018	2017	2016
Software cost	**₱119**	₱124	₱54
Franchise	–	–	1
Attributable to discontinued operations (Note 12)	–	–	192
	₱119	₱124	₱247

14. Other Noncurrent Assets

This account consists of:

	2018	2017
Rental and other deposits	**₱2,252**	₱662
Derivative asset (Note 16)	**469**	–
Deferred input VAT	**64**	48
Escrow fund	**26**	134
Retirement asset (Note 28)	**9**	7
Others	**74**	58
	₱2,894	₱909

Rental and other deposits include rental deposits for the leased offices of the Group and deposits for the initial set-up of the services rendered by public utility companies. Rental deposits are to be applied on the last month's rent of the lease contract.

Escrow fund represents part of the proceeds from bank takeout that are required to be deposited in an escrow account until completion of certain documentation and other requirements of the bank.

15. Accounts and Other Payables

This account consists of:

	2018	2017
Trade payables	**₱13,167**	₱14,289
Accrued expenses	**4,192**	4,080
Deferred output tax	**1,693**	1,497
Telegraphic transfers, drafts and acceptances payable	**1,675**	1,152
Retentions payable	**687**	671
Accrued commissions	**686**	1,037
Accrued interest payable	**579**	365
Customer advances	**578**	611
Nontrade payables	**430**	535
Payable for customer's refund	**320**	457
Royalty payable	**255**	344
Due to landowners	**34**	50
Others	**1,115**	895
	₱25,411	₱25,983

The details of trade payables are as follows:

	2018	2017
Automotive	**₱11,079**	₱11,903
Real estate	**2,081**	2,383
Others	**7**	3
	₱13,167	₱14,289

Trade payables for automotive pertain to the purchase of raw materials, spare parts and vehicles which are noninterest-bearing and are normally settled on one to 30 day-term.

Trade payables for real estate pertain to billings received from contractors for construction costs incurred on a per project basis and commissaries for food products ordered.

The details of accrued expenses are as follows:

	2018	2017
Dealers' incentives, supports and promotions	**₱2,444**	₱2,261
Employee benefits	**421**	625
Payable to contractors	**173**	104
Freight, handling and transportation	**112**	98
Utilities and services	**97**	113
Insurance	**61**	–
Taxes	**47**	105
Rent	**35**	31
Outsourced services	**34**	48
Office supplies	**31**	122
Professional fees	**29**	1
Repairs and maintenance	**19**	34
Regulatory fees and charges	**4**	3
Others	**685**	535
	₱4,192	₱4,080

Accrued expenses are noninterest-bearing and are normally settled within a 15 to 60 day term.

Deferred output tax pertains mostly to VAT on the uncollected portion of the contract price of sold units.

Telegraphic transfers and drafts and acceptance payable pertain to the liabilities of Toyota Group arising from importations of materials, spare parts and/or vehicles. These payables are normally settled after a 30-day term.

Retentions payable represent a portion of construction cost withheld by the Federal Land Group and paid to the contractors upon completion of the project. Retentions payable due beyond one year are presented as noncurrent payable (Note 20).

Accrued commissions are settled within one (1) year.

Customer advances pertain to payments received from buyers for the processing of transfer of units upon turnover.

Payable for customer's refund account represents deposit from buyers subject for refund and are normally settled within one year.

Accrued interest payables are normally settled within a 15 to 60 day term.

Royalty payables represent cost of license for the use of technical know-how and information on data. The fees are calculated at 6.00% of the local value-added (LVA) of vehicles under production. The LVA represents the selling price less all costs for the knock-down parts, related taxes such as excise and sales tax and a certain percentage of administrative and selling costs. The fees also include charges from related affiliates and third party suppliers representing initial costs of testing materials and trial parts and tools, sample molds and jigs that were utilized to test TMPC's present technical feasibility for the commercial production of newer car models.

Due to landowners represents liabilities to various real estate property sellers. These are noninterest-bearing and will be settled within one year.

Provision for other expenses pertains to liabilities with uncertain amount or timing of actual disbursement. These include regulatory fees, management incentives and other charges which payment is probable and the amount is estimable as of reporting date. The management reassesses their estimates on an annual basis to determine the reasonableness of provision. Disclosure of information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* are not provided because of reasons permitted under paragraph 92 of PAS 37. Accordingly, general descriptions are provided.

Others include refunds from cancelled sales from Federal Land and other government-related payables which are non-interest bearing and are normally settled within one year. These also include other non-interest bearing payables which are all due within one year.

16. Short-term Debt and Long-term Debt

This account consists of:

	2018					
			Long-term debt			
	Interest rates	Short-term debt	Corporate notes	Loans payable	Subtotal	Total
Parent Company	0.90% - 7.25%	₱–	₱–	₱61,075	₱61,075	₱61,075
Federal Land Group	2.55% - 6.71%	2,830	4,875	21,145	26,020	28,850
PCFI Group	3.95% - 7.50%	3,600	–	7,146	7,146	10,746
TMPC Group	5.00% - 6.25%	2,800	–	246	246	3,046
TMBC Group	4.85% - 5.94%	1,100	–	1,100	1,100	2,200
GTCAD Group	5.00% - 5.80%	170	–	–	–	170
		10,500	4,875	90,712	95,587	106,087
Less: Deferred financing cost		–	–	418	418	418
		10,500	4,875	90,294	95,169	105,669
Less: Current portion of long-term debt		–	25	795	820	820
		₱10,500	₱4,850	₱89,499	₱94,349	₱104,849

	2017					
			Long-term debt			
	Interest rates	Short-term debt	Corporate notes	Loans payable	Subtotal	Total
Parent Company	2.60% - 5.93%	₱–	₱–	₱25,000	₱25,000	₱25,000
Federal Land Group	2.80% - 6.27%	1,243	4,900	17,945	22,845	24,088
PCFI Group	3.13% - 6.00%	1,250	–	10,474	10,474	11,724
TMPC Group	2.55% - 4.20%	2,710	–	246	246	2,956
TMBC Group	2.60% - 5.94%	830	–	1,100	1,100	1,930
		6,033	4,900	54,765	59,665	65,698
Less: Deferred financing cost		–	–	177	177	177
		6,033	4,900	54,588	59,488	65,521
Less: Current portion of long-term debt		–	25	2,442	2,467	2,467
		₱6,033	₱4,875	₱52,146	₱57,021	₱63,054

Short-term Debt

Parent Company Short -Term Loans

On June 26, 2018, the Parent Company obtained a short-term loan denominated in Japanese Yen (JPY or ¥) with a term of less than 30 days from a non-affiliated foreign bank for a principal amount of ¥22.20 billion with an interest rate of 0.90% and was refinanced by a JPY-denominated long-term debt.

Total interest expense incurred on these short-term loans payable in 2018, 2017 and 2016 amounted to ₱7.04 million, ₱49.77 million and ₱172.12 million, respectively.

Federal Land Group Short -Term Loans

These are unsecured short-term borrowings amounting to ₱2.83 billion and ₱1.24 billion in 2018 and 2017, respectively, over 60 to 180 day terms obtained from affiliated and non-affiliated local banks for Federal Land Group's working capital requirements with interest rates ranging from 2.80% to 6.00%, from 2.80% to 4.00% and from 2.55% to 4.00% in 2018, 2017 and 2016, respectively.

PCFI Group Short -Term Loans

In 2018, PCFI obtained short-term loans from various non-affiliated local banks with an aggregate amount of ₱4.75 billion, of which ₱1.65 billion were settled during 2018. The said loans bear fixed interest rates ranging from 4.00% to 5.75% and have maturity dates of less than one year.

In December 2017, PCFI obtained two (2) unsecured working capital loans from a non-affiliated bank amounting to ₱250.00 million each. The promissory notes bear 3.95% fixed interest rate payable in monthly arrears while the principal amount shall be payable in lump sum on maturity dates.

On October 24, 2017 and December 12, 2017, PCFI obtained two (2) unsecured 90-day promissory notes from a non-affiliated bank amounting to ₱500.00 million and ₱250.00 million, respectively. This will be used for working capital requirements. The promissory notes bear 3.125% fixed interest rate payable in monthly arrears while the principal amount shall be payable in lump sum on maturity dates. The notes were paid in 2018.

Toyota Group Short -Term Loans

In 2018, Toyota Group availed of short-term loans from affiliated and non-affiliated local banks to finance its operating activities. These short-term loans amounted to ₱2.80 billion.

These are unsecured short-term loans obtained from various non-affiliated local banks for Toyota Group's working capital requirements with terms of one year or less and bear annual fixed interest rates ranging from 5.00% to 6.25%, 2.55% to 3.00% and 2.55% to 2.90% in 2018, 2017 and 2016, respectively.

TMBC Short -Term Loans
These are unsecured short-term borrowings ranging from 30 to 90 days obtained from affiliated and non-affiliated local banks to finance its working capital requirements amounting to ₱1.10 billion and ₱0.83 billion in 2018 and 2017, respectively. The interest rates range from 2.50% to 5.65% in 2018 and 2.50% to 2.75% in 2017.

GTCAD Group Short -Term Loans
These are unsecured short short-term borrowings ranging from 30 to 90 days obtained from affiliated and non-affiliated local banks amounting to ₱0.17 billion as of December 31, 2017, to finance the working capital requirements with interest rates of 5.0% to 5.80% in 2018 and 2.50% to 2.75% in 2017.

Affiliated Short -Term Loans
These are unsecured short short-term borrowings with 30 to 180 days term obtained from MBTC, a related party. These are generally used for working capital requirements with interest rates of 4.60% to 6.00% in 2018 and 2.50% to 3.00% in 2017. Outstanding balance of these loans as of December 31, 2018 and 2017 amounted to ₱3.63 billion and ₱3.39 billion, respectively.

Total interest expense charged to operations from the above-mentioned short-term loans amounted to ₱37.68 million and ₱145.39 million in 2018 and 2017, respectively. Interest expense capitalized amounted to nil and ₱20.51 million in 2018 and 2017, respectively.

Federal Land - Corporate Notes
On July 5, 2013, the Group issued ₱4.00 billion notes with 5.57% interest per annum maturing on July 5, 2020 and an additional ₱1.00 billion notes with 6.27% interest per annum maturing on July 5, 2023. The proceeds from the issuance were used to finance ongoing projects. As of December 31, 2018 and 2017, outstanding balance amounted to ₱4.88 billion and ₱4.90 billion, respectively. As of December 31, 2018 and 2017, the current portion amounting to ₱25.00 million is presented as a current liability.

The agreements covering the above-mentioned Notes provide for restrictions and requirements with respect to, among others, declaration or making payment of cash dividends/retirement of shares (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares); making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; maintaining certain financial ratios; and entering into any partnership, merger, consolidation or reorganization. As of December 31, 2018 and 2017, the Group has complied with the loan covenants.

Interest expense charged to operations amounted to ₱77.27 million in 2018, nil in 2017 and 2016. Interest expense capitalized amounted to ₱334.10 million, ₱289.73 million and ₱222.62 million in 2018, 2017 and 2016, respectively.

Long-term Loans
Parent Company Long -Term Loans
On June 26, 2018, the Parent Company obtained a short-term loan with a term of less than 30 days from a non-affiliated foreign bank for a principal amount of ¥22.20 billion with an interest rate of 0.90%. This was refinanced in July 2018 with a long-term loan from three (3) non-affiliated foreign banks for an aggregate principal amount of ¥23.31 billion which will mature in July 2024 with interest rate of 3-month JPY Libor plus 0.65% spread. As of December 31, 2018, carrying value of the said loan is ₱11.00 billion.

On July 19, 2018, the Parent Company entered into an interest rate swap agreement with MUFG Bank, Ltd., Labuan Branch. Under the agreement the Parent Company, on a quarterly basis, pays fixed interest rate of 0.852% and receives floating interest rate of 3-month JPY Libor plus 0.65% spread from July 19, 2018 to July 12, 2024. On the same date, the Parent Company designated the swap as an effective hedging instrument under a cash flow hedge arrangement. As such, the effective portion of the changes in fair value of the swaps was recognized under other comprehensive income amounting to ₱62.2 million in 2018. As of December 31, 2018 the negative fair value of the interest rate swap amounted ₱62.2 million under 'Other noncurrent liabilities' (Note 20).

In March 2018, the Parent Company obtained long-term loans with various non-affiliated local banks with an aggregate principal amount of ₱25.00 billion. Said loans bear fixed interest rates ranging from 6.57% to 7.32%, with terms ranging from 10 to 12 years and maturity dates ranging from 2028 to 2030. As of December 31, 2018, the carrying value of these long-term loans payable amounted to ₱24.82 billion.

In 2015, the Parent Company obtained long-term loans with various non-affiliated local banks with an aggregate principal amount of ₱25.00 billion. Said loans bear fixed interest rates ranging from 5.05% to 5.93%, with various terms ranging from 10 to 13 years and maturity dates ranging from 2025 to 2028. As of December 31, 2018 and 2017, the carrying value of these long-term loans payable amounted to ₱24.91 billion and ₱24.90 billion, respectively.

As of December 31, 2018 and 2017, the movement of the deferred financing cost is as follows:

	2018	2017
Balances at beginning of year	**₱103**	₱112
Additions	**275**	–
Amortization	**(32)**	(9)
Balances at end of year	**₱346**	₱103

Total interest expense incurred on these long-term loans payable in 2018, 2017 and 2016 amounted to ₱2.79 billion (including amortization of deferred financing cost of ₱31.61 million), ₱1.41 billion (including amortization of deferred financing cost of ₱9.43 million) and ₱1.41 billion (including amortization of deferred financing cost of ₱8.99 million), respectively.

Federal Land Long-Term Loans

Non-affiliated loans

In 2018, Federal Land obtained long-term loans with a non-affiliated local bank with aggregate principal amount of ₱0.75 billion. Said loans will mature on September 2021 and bear fixed interest rates ranging from 6.67% to 6.71%.

On December 22, 2014, Federal Land obtained unsecured loans from various non-affiliated banks amounting to ₱6.60 billion. The loan principal will be paid as follows: ₱2.00 billion payable in full after 10 years from drawdown date with fixed interest rate of 5.86% per annum; ₱1.50 billion payable in full after 10 years from drawdown date with fixed interest rate of 5.85% per annum; ₱2.00 billion payable at 40.00% quarterly principal payment starting at the end of 5th year and 60.00% principal balance on maturity date with fixed interest rate of 5.67% per annum; ₱1.10 billion principal payable at 40% quarterly payment at the end of 5th year to 9th year and 60.00% principal balance on maturity date with fixed interest rate of 5.05% per annum.

In 2015 to 2018, the Fed Land Group obtained long-term loans with various non-affiliated local banks with an aggregate principal amount of ₱5.55 billion. Said loans bear fixed annual interest rates ranging from 5.00% to 6.71%, various terms ranging from 5 to 10 years and maturity dates from 2020 to 2026.

As of December 31, 2018 and 2017, the carrying value of these non-affiliated long-term loans amounted to ₱12.14 billion and ₱11.45 billion, respectively, net of unamortized deferred financing cost.

Affiliated loans (Note 27)
On June 29, 2018, Federal Land obtained a 5-year loan from MBTC, an affiliated local bank, with a principal amount of ₱2.50 billion and interest rate of 4.25% maturing on June 29, 2023.

On August 25, 2011, Federal Land obtained both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱2.00 billion from an affiliated bank with interest at prevailing market rate ranging from 3.75% to 4.00% with spread of 85-100 basis points, payable in lump sum after five (5) years or on August 25, 2016. MBTC is an associate of the Parent Company. These loans are secured by Phil Exim Guarantee under Mortgage Participation Certificate. The loans were fully paid on August 25, 2016.

On August 25, 2016, Federal Land obtained a 5-year loan from an affiliated bank with a principal amount of ₱2.00 billion and interest rate of 2.80% maturing on August 25, 2021.

On various dates in 2016, the Federal Land Group obtained long-term loans from an affiliated bank with an aggregate principal amount of ₱1.24 billion. The loans bear interest rates of 2.55% to 2.60%, with terms of five (5) years and maturity date of 2021.

On various dates in 2017, the Federal Land Group obtained various unsecured loans from an affiliated bank totaling ₱3.26 billion. Said loans bear interest rates of 2.60% to 2.90% and will be payable in 2021 and 2022. The loan proceeds were used to finance real estate projects.

As of December 31, 2018 and 2017, the carrying value of these affiliated long-term loans payable amounted to ₱8.96 billion and ₱6.47 billion, respectively, net of unamortized deferred financing cost.

As of December 31, 2018 and 2017, the movement of the deferred financing cost is as follows:

	2018	2017
Balances at beginning of year	**₱26**	₱18
Additions	**33**	18
Amortization	**(17)**	(10)
Balances at end of year	**₱42**	₱26

Interest expense charged to operations amounted to ₱235.92 million in 2018, nil in 2017, and ₱4.12 million in 2016. Interest expense capitalized from the above-mentioned loans payable amounted to ₱1.02 billion, ₱774.17 million and ₱784.83 million, in 2018, 2017 and 2016, respectively.

PCFI Group Long-Term Loans
Non-affiliated Loans
On January 10, 2012, PCFI issued ₱3.00 billion 5-year fixed rate notes to non-affiliated banks which were used to fund the acquisition of real estate properties, finance project development and construction costs and fund other general corporate purposes. The notes are payable quarterly and

bear fixed rate of 7.18% plus 5% gross receipts tax and secured by various real estate properties (Note 6). The notes were paid in full on January 26, 2017.

On July 1, 2015, PCFI entered into a three-year Promissory Note Line facility with a non-affiliated bank amounting to ₱1.00 billion. The note bears 5.29% interest rate fixed, payable monthly in arrears and the principal are payable in lump sum on June 29, 2018. The loan was used to finance working capital. The note was fully paid in 2017.

On December 11, 2015, PCFI entered into a 5-year Loan Facility Agreement with a non-affiliated bank. The approved credit line was ₱6.00 billion of which ₱4.00 billion was drawn on December 31, 2015 and ₱2.00 billion was drawn on December 31, 2016. The loan bears a 6.00% interest rate payable quarterly in arrears with a grace period on the payment of principal for one year, thereafter, the principal shall be payable on quarterly installment. The net proceeds from the loan pursuant to the loan facility were used for working capital. As of December 31, 2018 and 2017, the outstanding balance of the loan amounted to ₱4.00 billion and ₱4.56 billion, respectively.

On December 19, 2016, WFC issued ₱3.00 billion 5-year fixed rate term loan to non-affiliated banks which were used as permanent working capital in relation to the purchase of sales receivable from PCFI. The notes are payable quarterly and bear fixed rate of 6.00%. As of December 31, 2017, the outstanding balance of the note amounted to ₱1.45 billion. The note was fully paid in 2018.

Affiliated Loans (Note 27)
On July 1, 2015, the Company entered into a three-year Promissory Note Line facility with an affiliated bank amounting to ₱1.50 billion (Note 27). The note bears 5.29% interest rate fixed, payable monthly in arrears and the principal are payable in lump sum on June 29, 2018. The loan was used to finance working capital requirement. As of December 31, 2017, the outstanding balance of the note amounted to ₱1.50 billion for both years. The loan was settled in 2018.

On June 22, 2017, WFC entered into a US Dollar denominated loan agreement with MBTC, an affiliated bank. On the same day, WFC also entered into a cross-currency swap (CCS) agreement with the same affiliated bank to hedge the foreign currency and interest rate risks in the US Dollar loan. WFC received $19.89 million on each tranche made in July, August and September 2017 for a total of $59.67 million but will pay in peso equivalent to ₱3.00 billion within 10 years in accordance with the CCS agreement. Also, WFC, on a semi-annual basis, will pay fixed interest rate of 5.13% per annum on the peso principal amounting to ₱3.00 billion and will receive floating interest rate at 6-month US Dollar LIBOR plus 0.75% on $59.67 million over a period of 10 years or up to the maturity date of June 25, 2027. Effectively, under the swap agreement, WFC swaps its US Dollar-denominated floating rate loans into peso fixed rate loans. On the same date, WFC designated the swap as effective hedging instrument under a cash flow hedge relationship. As such, the effective portion of the changes in fair value of the swaps was recognized under other comprehensive income amounting to positive ₱225.64 million and negative ₱26.78 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018, the positive fair value of the currency swap amounting to ₱468.80 million is included in 'Derivative assets' under 'Other noncurrent assets'. As of December 31, 2017, the negative fair value of the currency swap amounting to ₱47.07 million is included in 'Derivative liabilities' under 'Other noncurrent liabilities' (Note 20).

As of December 31, 2018 and 2017, the carrying value of WFC's USD loan amounted to ₱3.15 billion (including unrealized foreign exchange loss of ₱0.15 billion) and ₱2.98 billion (including unrealized foreign exchange gain of ₱0.02 billion), respectively.

The loan has one-year grace period on principal payments and the partial payment on principal will be computed as follows:

i. 1% of original loan amount at the end of the 2nd year
ii. 3% of original loan amount at the end of 3rd, 4th and 5th year
iii. 18% of original loan amount at the end of 6th, 7th, 8th, 9th and 10th year

As of December 31, 2018 and 2017, the movement of the deferred financing cost is as follows:

	2018	2017
Balances at beginning of year	**₱43**	₱47
Additions	**–**	15
Amortization	**(16)**	(19)
Balances at end of year	**₱27**	₱43

Total interest expense incurred in 2018, 2017 and 2016 from the aforementioned loans payable amounted to ₱315.35 million, ₱415.13 million and ₱913.75 million, respectively. Interest expense capitalized as part of real estate inventories amounted to ₱76.49 million and ₱293.76 million in 2018 and 2017, respectively.

Debt Covenants
The agreements covering the above mentioned loans provide for restrictions and requirements with respect to, among others, declaration or making payment of dividends (except stock dividends); making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; sustaining current ratio of at least 1.75; debt-to-equity financial ratio should not be more than 2.00 and entering into any partnership, merger, consolidation or reorganization.

These restrictions and requirements were complied with by the Group as of December 31, 2018 and 2017.

TMPC Group Long-Term Loans
As of December 31, 2018 and 2017, this account consists of unsecured long-term debt of the following entities:

	2018	2017
TAPI	**₱79**	₱79
Other entities	**167**	167
	₱246	₱246

The loan from TAPI bears a fixed interest rate of 4.20% per annum. This loan is for a period of five years up to February 26, 2021 which is automatically renewed upon maturity for another period of 5 years to 10 years.

The long-term unsecured interest-bearing loans with other entities consist of a 2.7% interest-bearing 10-year term loan with a maturity date of September 28, 2025 and October 23, 2026. These loans are automatically renewed upon maturity for another 10 years.

The loan covenants restrict TMPC from encumbering or disposing properties leased by the lenders during the respective terms of various loan agreements. TMPC is not required to maintain any financial ratios under the mentioned loan agreements. Interest expense on these loans amounted to ₱7.86 million, ₱7.82 million and ₱7.82 million in 2018, 2017 and 2016, respectively.

TMBC Long-Term Loans
On March 21, 2016, TMBC entered into a Term Loan Facility with a non-affiliated local bank amounting to ₱1.50 billion to finance the construction of dealership facilities, with interest rates ranging from 4.85% to 5.94% and payable for a period of 10 years, inclusive of three (3) years grace period on principal repayments subject to interest rate based on 10-year PDST-R2 plus a minimum spread of 1.25%. TMBC loan is secured by a real estate mortgage. The carrying value of the mortgaged properties amounted to ₱392.70 million as of December 31, 2018 and 2017.

TMBC is required to maintain the following financial ratios during the term of the loans:

- Minimum current ratio (CR) of 1.0x - defined as Current Assets divided by Current Liabilities
- Maximum debt to equity ratio (DER) of 4.0x - defined as Total Liabilities divided by Total Tangible Net Worth (Total Equity - Intangibles)
- Minimum debt service ratio (DSR) of 1.2x - defined as Earnings before Interest, Taxes, Depreciation and Amortization divided by Interest Expense plus current portion of Long-term debt of the previous year

As of December 31, 2018 and 2017, TMBC has complied with the required financial ratios.

As of December 31, 2018 and 2017, the movement of the deferred financing cost is as follows:

	2018	2017
Balances at beginning of year	**₱4**	₱7
Additions	**–**	–
Amortization	**(1)**	(3)
Balances at end of year	**₱3**	₱4

Interest expense on long-term loans payable amounted to ₱56.17 million and ₱34.60 million in 2018 and 2017, respectively. Interest expense capitalized amounted to ₱0.77 million and ₱31.73 million in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the carrying value of long-term loans payable amounted to ₱1.10 billion. As of December 31, 2018, current portion of long-term loans payable amounted to ₱75.12 million, of which amounts of ₱35.84 million is payable by August 29, 2019 while ₱39.29 million is payable by November 29, 2019.

Required Financial Ratios
The table below presents a summary of the financial ratios required to be maintained by each entity within the Group under existing loan agreements.

Entity	**Financial Ratio**	**Required Ratio**
TMBC	CR	1:1
TMBC	DER	4:1
TMBC	DSR	1.2x
Federal Land - Corporate Notes	DER	2:1
Parent Company - Long-term loans	DER	2.3:1
PCFI	DSR	1.5x
PCFI	DER	2:1
PCFI	CR	1.75:1

As of December 31, 2018 and 2017, the Group has complied with the foregoing financial ratios.

17. **Bonds Payable**

Maturity Dates	Interest rate	Par Value	Carrying Value **2018**	2017
₱10.0 billion Bonds				
February 27, 2020	4.8371%	₱3,900	**₱3,892**	₱3,886
February 27, 2023	5.0937%	6,100	**6,069**	6,062
		10,000	**9,961**	9,948
₱12.0 billion Bonds				
November 7, 2019	4.7106%	3,000	**2,994**	2,988
August 7, 2021	5.1965%	5,000	**4,978**	4,971
August 7, 2024	5.6250%	4,000	**3,974**	3,970
		12,000	**11,946**	11,929
		22,000	**21,907**	21,877
Less: Current portion of bonds payable		(3,000)	**(2,994)**	–
		₱19,000	**₱18,913**	₱21,877

<u>₱10.00 billion GT Capital bonds due 2020 and 2023</u>
On February 13, 2013, the Parent Company issued ₱10.00 billion 7-year and 10-year bonds due on February 27, 2020 and February 27, 2023, respectively, with annual interest rate of 4.84% and 5.09%, respectively. Gross and net proceeds amounted to ₱10.00 billion and ₱9.90 billion, respectively, net of deferred financing cost of ₱0.10 billion. The bonds were listed on the Philippine Dealing and Exchange Corporation on February 27, 2013.

The net proceeds were utilized for general corporate requirements which included various equity calls (e.g., Toledo plant and Panay plant) and refinancing of corporate notes.

Prior to the relevant maturity dates, the Parent Company may redeem (in whole but not in part) any series of the outstanding bonds on every anniversary date, or the immediately succeeding banking day if such is not a banking day, starting on the fourth (4th) anniversary date for the seven-year bonds and the seventh anniversary date for the 10-year bonds (the relevant Optional Redemption Dates). The Parent Company shall give no less than 30 but not more than 60 days prior written notice of its intention to redeem the bonds at the relevant Optional Redemption Date.

<u>₱12.00 billion GT Capital bonds due 2019, 2021 and 2024</u>
On July 24, 2014, the Parent Company issued ₱12.00 billion bonds with tenors of five years, seven years and ten years due November 7, 2019 (Series A Bonds), August 7, 2021 (Series B Bonds) and August 7, 2024 (Series C Bonds), respectively, with annual interest rates of 4.71%, 5.20% and 5.63% respectively. Gross and net proceeds amounted to ₱12.00 billion and ₱11.88 billion, respectively, net of deferred financing cost incurred of ₱0.12 billion. The bonds were listed on August 7, 2014.

The net proceeds were utilized for general corporate requirements which included financing of ongoing projects (e.g., Veritown Fort and Metropolitan Park), refinancing of outstanding loans, and for working capital requirement.

Prior to the relevant maturity dates, the Parent Company may redeem in whole but not in part the Series B or Series C Bonds on every anniversary date, or the immediately succeeding banking day if such is not a banking day, starting on: (i) for the series B bonds: the third month after the fifth anniversary from issue date and (ii) for the series C bonds: the seventh anniversary from issue date (the relevant Optional Redemption Dates). The redemption price is equal to 100.00% of the principal amount together with the accrued and unpaid interest. The Parent Company shall give no less than 30 but not more than 60 days prior written notice of its intention to redeem the bonds, which notice shall be irrevocable and binding upon the Parent Company to effect such early redemption of the bonds on the Early Redemption Option Date stated in such notice.

As of December 31, 2018 and 2017, the movement of the deferred financing cost is as follows:

	2018	2017
Balances at beginning of year	**₱123**	₱152
Amortization	**(30)**	(29)
Balances at end of year	**₱93**	₱123

Both bonds contain negative covenants, which among others, include provision that the Parent Company should maintain a debt-to-equity ratio of 2.3 to 1.0. As of December 31, 2018 and 2017, the Parent Company has complied with its bond covenants. Total interest expense incurred on bonds payable in 2018, 2017 and 2016 amounted to ₱1.15 billion (including amortization of deferred financing cost of ₱30.54 million), ₱1.15 billion (including amortization of deferred financing cost of ₱28.98 million) and ₱1.15 billion, (including amortization of deferred financing cost of ₱27.51 million), respectively.

18. **Customers' Deposits**

As of December 31, 2018, customers' deposits represent refundable reservation fees and advance payments received from customers which can be applied as payment to the respective automotive sale transaction with the Group.

As of December 31, 2017, customers' deposits also include excess of collections over the recognized receivables based on percentage of completion. The Group requires buyers of condominium and residential units to pay a minimum percentage of the total selling price before it enters into a sale transaction. In relation to this, the customers' deposits represent payment from buyers which have not reached the minimum required percentage. When the revenue recognition criteria are met, sales are recognized and these deposits and down payments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the repossessed value of deposit less charges and penalties incurred will be refunded to the buyer.

As of December 31, 2018 and 2017, the balance of this account amounted to ₱0.56 billion and ₱4.94 billion, respectively (Note 27).

19. **Other Current Liabilities**

This account consists of:

	2018	2017
Withholding taxes payable	**₱424**	₱544
VAT payable	**318**	644
Others	**101**	41
	₱843	₱1,229

Others pertain to payables on utilities, contracted maintenance and security agencies and regulatory premium or contribution payable of the Group. These are normally payable within one year.

20. Liabilities on Purchased Properties and Other Noncurrent Liabilities

Liabilities on Purchased Properties
Liabilities on purchased properties are payables to various real estate property sellers. Under the terms of the agreements executed by Federal Land covering the purchase of certain real estate properties, the titles of the subject properties shall be transferred to Federal Land only upon full payment of the real estate loans.

In 2017, Federal Land entered into a contract with Kabayan Realty Corporation (KRC) to acquire certain land for ₱2.26 billion. Upon execution of the contract, Federal Land paid KRC with 22% downpayment amounting to ₱500.00 million and the outstanding balance amounting to ₱1.76 billion shall be paid in five installments with 3.00% interest per annum based on the outstanding balance. The outstanding balance was discounted at the prevailing market rate of 4.75% and the discounted liability as of December 31, 2018 and 2017 amounted to ₱1.44 billion and ₱1.66 billion, respectively.

In 2017, HLPDC entered into various contracts to acquire parcels of land for ₱161.37 million. Upon execution of the contracts, HLPDC paid ₱93.99 million and the outstanding balance amounting to ₱67.37 million shall be paid in 2018. The outstanding balance as of December 31, 2017 amounted to ₱67.37 million.

In 2012, Federal Land acquired certain land and investment properties aggregating ₱3.72 billion, with 20.00% downpayment amounting to ₱743.84 million. The outstanding balance amounting to ₱2.98 billion is payable in 13 years with 3.00% interest per annum. The outstanding balance was discounted at the prevailing market rate of 5.40% and the discounted liability as of December 31, 2018 and 2017 amounted to ₱1.85 billion and ₱2.00 billion, respectively.

Total outstanding liabilities on purchased properties (including current portion) amounted to ₱3.29 billion and ₱3.73 billion as of December 31, 2018 and 2017, respectively (Note 27).

Other Noncurrent Liabilities

This account consists of:

	2018	2017
Retentions payable - noncurrent portion	**₱1,024**	₱917
Refundable and other deposits	**676**	455
Provisions (Note 36)	**399**	740
Derivative liabilities (Note 16)	**62**	47
Finance lease obligation - net	**8**	8
	₱2,169	₱2,167

Retentions payable represent a portion of construction cost withheld by the Group and paid to the contractors after an agreed period commencing the completion of the project.

Refundable and other deposits consist mainly of tenants' rental deposit from operating lease contracts with terms ranging from five to ten years. Rental deposits are obtained to secure faithful compliance of tenants' obligation under the lease contract and to answer for unpaid bills of lessees affecting the leased premises, any damage to the leased premises, and other similar costs. Rental deposits may also be applied to the unpaid rentals upon termination of the lease contract.

Provisions consist of:

	2018	2017
Claims and assessments	**₱199**	₱522
Product warranties	**200**	218
	₱399	₱740

21. Contract Balances and Cost to Obtain a Contract

The contract balances of the Group consist of the following:

	2018
Contract Assets	
Current	₱8,329
Noncurrent	6,886
	₱15,215
Contract Liabilities	
Current	₱8,787
Noncurrent	–
	₱8,787

Contract assets are initially recognized for revenue earned from real estate sales as receipt of consideration is conditional on successful completion of installation. Upon completion of performance obligation and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade residential and office development receivables.

Contract liabilities consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition and excess of collections over the recognized receivables and contract assets based on percentage of completion.

The amount of revenue recognized in 2018 from amounts included in contract liabilities at the beginning of the year amounted to ₱1.55 billion.

Cost to Obtain a Contract
The balances below pertain to the cost to obtain contracts included in 'Prepayments and other current assets' (see Note 7):

	2018
Balance at beginning of year, as previously reported	₱328
Effect of adoption of PFRS 15 (Note 2)	(144)
Balance at beginning of the year, as restated	184
Additions during the year	780
Amortization	(728)
	₱236

22. **Equity**

Capital Stock and Additional Paid-in Capital
As of December 31, 2018 and 2017, the paid-up capital consists of the following (amounts in millions, except for number of shares):

	Shares		**Amount**	
	2018	2017	**2018**	2017
Voting Preferred stock -				
₱0.10 par value				
Authorized	**174,300,000**	174,300,000		
Issued and outstanding	**174,300,000**	174,300,000	**₱17**	₱17
Perpetual Preferred stock -				
₱100.00 par value				
Authorized	**20,000,000**	20,000,000		
Issued and outstanding	**12,000,000**	12,000,000	**1,200**	1,200
Common stock - ₱10.00 par value				
Authorized	**298,257,000**	298,257,000		
Issued and outstanding	**199,337,584**	192,596,685	**1,994**	1,926
Subtotal			**₱3,211**	₱3,143
Additional paid-in capital			**85,592**	78,940
			₱88,803	₱82,083

The Parent Company's common shares with par value of ₱10.00 were listed on the Philippine Stock Exchange on April 20, 2012.

Amendment to Articles of Incorporation to Create Voting Preferred Shares of Stock
On October 23, 2014, the BOD approved the proposed amendment to Article Seven of the Parent Company's Amended Articles of Incorporation to create a new class of shares – Voting Preferred Shares, to be taken from existing authorized capital stock of ₱5.00 billion. The Voting Preferred Shares of stock shall be voting, non-cumulative, non-participating and non-convertible.

On January 9, 2015, the stockholders of the Parent Company by the affirmative vote of over two-thirds (2/3) of the outstanding capital stock of the Parent Company, approved the amendment to Article Seventh of the Parent Company's Articles of Incorporation to create of a new class of shares – voting preferred shares, taken out of the Parent Company's existing and unissued portion of the Authorized Capital Stock. The Amended Articles of Incorporation was approved by the Securities and Exchange Commission on February 18, 2015.

Voting Preferred Shares Stock Rights Offering
On March 13, 2015, the BOD of the Parent Company approved the issuance of 174,300,000 Voting Preferred Shares with a par value of ₱0.10 per share through a 1:1 Stock Rights Offering, to all stockholders of record as of March 25, 2015, offered from April 1 to 8, 2015 and issued on April 13, 2015.

Amendment to Articles of Incorporation to Create Perpetual Preferred Shares of Stock
On March 13, 2015, the BOD of the Parent Company approved the amendment to Article Seven of its amended Articles of Incorporation to create a new class of shares (Perpetual Preferred Shares). The authorized capital stock of the corporation of ₱5.00 billion in lawful money of the Philippines, will be divided into 298,257,000 common shares with a par value of ₱10.00 per share, 20,000,000 perpetual preferred shares with a par value of ₱100.00 per share and 174,300,000 voting preferred shares with a par value of ₱0.10 per share.

On October 14, 2016, the Philippine SEC approved the offering of up to 12.00 million cumulative, non-voting, non-participating, non-convertible, redeemable peso-denominated perpetual preferred shares ('the Offer') with a par value of ₱100.00 per share at an offer price of ₱1,000.00 per share for a total offer price of ₱12.00 billion. The Offer consists of Series A and Series B with dividend rates per annum of 4.6299% and 5.0949%, respectively. Both series of said perpetual preferred shares were listed on the Philippine Stock Exchange on October 27, 2016. The proceeds from the Offer will be used to refinance short-term loans and fund strategic acquisitions.

Common Shares
On April 20, 2017, the Parent Company and Grand Titan signed a subscription agreement for the subscription of 18.30 million common shares of the Parent Company for a total subscription price of ₱21.69 billion. On April 26, 2017, Grand Titan paid the subscription price in cash.

As of December 31, 2018 and 2017, the total number of shareholders of common stock of the Parent Company is 80 and 72, respectively.

Stock Dividends
The BOD and Shareholders of the Parent Company approved on March 16, 2018 and May 9, 2018, respectively, the declaration of a 3.5% stock dividend in favor of the Parent Company's shareholders of common stock. The record and payment dates were set on July 9, 2018 and August 2, 2018, respectively.

On August 2, 2018, the 3.5% stock dividend equivalent to 6,740,899 common shares were issued and listed in the Philippine Stock Exchange.

Retained Earnings
On December 6, 2018, the BOD of the Parent Company approved the appropriation of retained earnings amounting to ₱17.00 billion to be earmarked for strategic investment in property development in 2019. In March 2019, ₱16.60 billion out of ₱17.00 billion was reversed.

On December 7, 2017, the BOD of the Parent Company approved the appropriation of retained earnings amounting to ₱19.00 billion to be earmarked for strategic investment in financial services in 2018. Said appropriation was reversed in March 2018 upon completion of the purpose of appropriation.

On December 15, 2016, the BOD of the Parent Company approved the appropriation of retained earnings amounting to ₱15.50 billion to be earmarked for the following:

Project Name	Timeline	Amount
Strategic investment in Financial Services	2017	₱13.90 billion
Dividends on Perpetual Preferred Shares	2017	0.60 billion
Dividends on Common Shares	2017	0.50 billion
Capital Call from TFSPC	2017	0.50 billion
		₱15.50 billion

Appropriation of retained earnings amounting to ₱14.90 billion and ₱0.60 billion were reversed in 2017 and 2016, respectively, upon completion of the purpose of appropriation.

Details of the Parent Company's dividend distributions to preferred shareholders out of the Parent Company's retained earnings as approved by the Parent Company's BOD follow:

Date of declaration	Per share	Total amount (in millions)	Record date	Payment date
Voting preferred shares				
March 16, 2018	₱0.00377	₱0.66	April 4, 2018	April 13, 2018
March 21, 2017	0.00377	0.66	April 4, 2017	April 20, 2017
March 10, 2016	0.00377	0.66	April 8, 2016	May 4, 2016
Perpetual Preferred Shares				
Series A				
December 6, 2018	11.57475	56.01	January 3, 2019	January 28, 2019
December 6, 2018	11.57475	56.01	April 3, 2019	April 29, 2019
December 6, 2018	11.57475	56.01	July 3, 2019	July 29, 2019
December 6, 2018	11.57475	56.01	October 3, 2019	October 28, 2019
December 7, 2017	11.57475	56.01	January 3, 2018	January 29, 2018
December 7, 2017	11.57475	56.01	April 3, 2018	April 27, 2018
December 7, 2017	11.57475	56.01	July 3, 2018	July 27, 2018
December 7, 2017	11.57475	56.01	October 3, 2018	October 29, 2018
December 15, 2016	11.5748	56.01	January 3, 2017	January 27, 2017
December 15, 2016	11.5748	56.01	March 30, 2017	April 27, 2017
December 15, 2016	11.5748	56.01	July 3, 2017	July 27, 2017
December 15, 2016	11.5748	56.01	October 3, 2017	October 27, 2017
Series B				
December 6, 2018	12.73725	91.21	January 3, 2019	January 28, 2019
December 6, 2018	12.73725	91.21	April 3, 2019	April 29, 2019
December 6, 2018	12.73725	91.21	July 3, 2019	July 29, 2019
December 6, 2018	12.73725	91.21	October 3, 2019	October 28, 2019
December 7, 2017	12.73725	91.21	January 3, 2018	January 29, 2018
December 7, 2017	12.73725	91.21	April 3, 2018	April 27, 2018
December 7, 2017	12.73725	91.21	July 3, 2018	July 27, 2018
December 7, 2017	12.73725	91.21	October 3, 2018	October 29, 2018
December 15, 2016	12.7373	91.21	January 3, 2017	January 27, 2017
December 15, 2016	12.7373	91.21	March 30, 2017	April 27, 2017
December 15, 2016	12.7373	91.21	July 3, 2017	July 27, 2017
December 15, 2016	12.7373	91.21	October 3, 2017	October 27, 2017

Details of the Parent Company's dividend distributions to common shareholders out of the Parent Company's retained earnings as approved by the Parent Company's BOD follow:

Date of declaration	Per share	Total amount (in millions)	Record date	Payment date
March 16, 2018	₱3.00	₱577.79	April 4, 2018	April 13, 2018
March 21, 2017	5.00	871.50	April 4, 2017	April 20, 2017
March 10, 2016	6.00	1,045.80	April 8, 2016	May 4, 2016

The computation of retained earnings available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the Parent Company's retained earnings as of December 31, 2018 and 2017.

In addition, certain amount of retained earnings is required to be maintained to enable the Group to meet certain financial ratios as stipulated in the loan covenants.

Details of dividend declarations of the Group's subsidiaries follow:

	Date of declaration	Class of stock	Total amount (in millions)	Record date	Payment date
Federal Land	December 28, 2018	Preferred Shares-A	₱240.00	December 28, 2018	February 28, 2019
	December 28, 2018	Preferred Shares-B	272.58	December 28, 2018	February 28, 2019
	February 26, 2018	Common	100.00	April 24, 2017	February 28, 2018
	December 15, 2017	Preferred Shares-A	240.00	December 15, 2017	February 28, 2018
	December 15, 2017	Preferred Shares-B	272.58	December 15, 2017	February 28, 2018
	February 17, 2017	Common	100.00	February 17, 2017	March 15, 2017
	December 12, 2016	Preferred Shares-A	240.00	December 12, 2016	February 28, 2017
	December 12, 2016	Preferred Shares-B	272.58	December 12, 2016	February 28, 2017
	February 22, 2016	Common	94.00	December 31, 2015	March 31, 2016
PCFI	February 28, 2018	Preferred Shares-A	1,145.00	June 30, 2017	*
	December 13, 2016	Preferred Shares-A	1,334.64	June 29, 2016	December 15, 2016
Toyota	May 22, 2018	Common	12,482.39	December 31, 2017	May 2018
	May 23, 2017	Common	11,573.15	December 31, 2016	May 2017
	May 4, 2016	Common	9,890.73	December 31, 2015	May 2016
	May 13, 2015	Common	7,025.38	December 31, 2014	May 2015
TMBC	December 5, 2018	Common	115.00	December 31, 2017	January 28, 2019

**To be set upon the recommendation of the Chief Finance Officer*

Other comprehensive income

Other comprehensive income consists of the following, net of applicable income taxes:

	2018	2017	2016
Net unrealized gain on AFS investments	**(₱734)**	₱841	₱186
Net unrealized loss on remeasurement of retirement plan	**(106)**	(236)	(221)
Cash flow hedge reserve (Note 16)	**53**	(14)	–
Cumulative translation adjustments	**–**	(2)	–
Equity in other comprehensive income of associates:			
Equity in cumulative translation adjustments	**(2,674)**	(705)	677
Equity in net unrealized loss on remeasurement of retirement plan	**(711)**	(987)	(869)
Equity in net unrealized loss on AFS investments	**(331)**	(4,689)	(2,547)
Equity in remeasurement on life insurance reserves	**186**	(190)	–
Equity in cash flow hedge reserves	**105**	20	12
Equity in other equity adjustments of associates	**5**	(13)	(13)
	(₱4,207)	(₱5,975)	(₱2,775)

The movements and analysis of the other comprehensive income are presented in the consolidated statements of comprehensive income.

Other Equity Adjustments
PCFI
In accordance with the Master Subscription Agreement dated August 6, 2015, the Parent Company subscribed to the final 28.32% of PCFI for a total subscription price of ₱8.76 billion on June 30, 2016. This subscription increased the Parent Company's direct ownership stake in PCFI from 22.68% to 51.00%. This subscription is accounted for as an equity transaction in the consolidated financial statements and resulted in the recognition of other equity adjustments amounting to ₱1.75 billion.

TCI
In June 2015, the Parent Company acquired 2,705,295 shares of TCI for a total consideration of ₱13.50 million, resulting in 53.80% ownership over TCI. This acquisition was accounted for as an equity transaction and resulted in the recognition of negative other equity adjustments amounting to ₱7.12 million.

Non-controlling interests
The following table presents the rollforward of non-controlling interests:

	2018	2017	2016
Beginning balance, as previously reported	**₱27,679**	₱26,433	₱46,401
Effect of adoption of PFRS 9	**(92)**	–	–
Effect of adoption of PFRS 15	**(559)**	–	–
Beginning balance, as restated	**27,028**	26,433	46,401
Share of non-controlling interest shareholders on:			
Net income	**4,516**	7,069	7,893
Other comprehensive income	**246**	(31)	498
Cash dividends paid to non-controlling interest shareholders	**(6,925)**	(5,791)	(5,910)
Acquisition of additional interests in a subsidiary	**–**	(1)	(1,746)
Preferred shares redemption of a subsidiary	**–**	–	(2,000)
Sale of direct interest in a subsidiary (Note 12)	**–**	–	(19,390)
Effect of business combination	**–**	–	687
Additional stock issuance of a subsidiary	**45**	–	–
	₱24,910	₱27,679	₱26,433

Financial Information of Subsidiaries

The financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interests held by non-controlling interests

	Nature of Business	**Direct Ownership**		**Effective Ownership**	
		2018	2017	**2018**	2017
TMPC	Motor	**49.00**	49.00	**49.00**	49.00
PCFI	Real Estate	**49.00**	49.00	**49.00**	49.00

Carrying value of material non-controlling interests

	2018	2017
PCFI	**₱13,487**	₱14,157
TMPC	**10,118**	12,278

Net income for the period allocated to material non-controlling interests

	2018	2017
TMPC	**₱4,024**	₱6,712
PCFI	**407**	176

The following table presents the financial information of subsidiaries with material NCI as of and for the years ended December 31, 2018 and 2017:

	2018		2017	
	TMPC	**PCFI**	TMPC	PCFI
Statement of Financial Position				
Current assets	**₱25,475**	**34,982**	₱34,436	₱22,829
Non-current assets	**10,953**	**5,703**	7,723	16,057
Current liabilities	**20,027**	**11,595**	20,936	7,425
Non-current liabilities	**1,163**	**6,974**	2,074	8,265
Dividends paid to non-controlling interests	**6,306**	**561**	5,776	–
Statement of Comprehensive Income				
Revenues	**160,090**	**10,379**	186,282	6,941
Expenses	**149,120**	**8,838**	169,051	6,370
Net income	**8,097**	**1,180**	13,431	723
Total comprehensive income	**8,602**	**1,416**	13,334	751
Statement of Cash Flows				
Net cash provided by operating activities	**5,593**	**2,763**	16,945	1,275
Net cash used in investing activities	**(2,453)**	**(1,421)**	(2,065)	(2,098)
Net cash provided by (used in) financing activities	**(12,723)**	**(1,156)**	(10,922)	(745)

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong and healthy consolidated statement of financial position to support its current business operations and drive its expansion and growth in the future.

The Group maintains its current capital structure, and will make adjustments, if necessary, in order to generate a reasonable level of returns to shareholders over the long term. Equity, which the Group considers as capital, pertains to the equity attributable to equity holders of the Parent Company excluding effect of uniting of interest. The Group's sources of capital are capital stock and retained earnings. No changes were made in the objectives, policies or processes in 2018 and 2017.

The Parent Company considers total equity as its capital amounting to ₱108.37 billion and ₱105.27 billion as of December 31, 2018 and 2017, respectively.

The Parent Company maintains equity at a level that is compliant with its loan covenants.

23. **Interest and Other Income**

Interest Income
This account consists of:

	2018	2017	2016
Interest income on:			
Installment contracts receivable (Note 5)	**₱1,613**	₱1,723	₱1,721
Cash and cash equivalents (Note 4)	**398**	4	373
Short-term investments (Note 4)	**25**	316	26
Receivables	**–**	–	119
Others	**46**	42	23
	₱2,082	₱2,085	₱2,262

Interest income on installment contracts receivable consist of accretion of unamortized discount of Federal Land and interest income from collections of Federal Land and PCFI. Accretion of unamortized discount amounted to ₱1.21 billion, ₱1.32 billion and ₱1.29 billion in 2018, 2017 and 2016, respectively. Interest income from collections amounted to ₱0.44 billion, ₱0.41 billion and ₱0.43 billion in 2018, 2017 and 2016, respectively.

Other Income
This account consists of:

	2018	2017	2016
Ancillary income	**₱710**	₱769	₱665
Real estate forfeitures, charges and penalties	**281**	201	235
Management fee (Note 27)	**206**	76	234
Subscription income	**166**	95	–
Dividend income	**152**	8	–
Unrealized gain on financial assets at FVTPL	**59**	–	–
Gain on disposal of property and equipment (Note 11)	**23**	23	50
Others (Note 5)	**861**	435	402
	₱2,458	₱1,607	₱1,586

Ancillary income represents incentives received by Toyota dealers from financing institutions for vehicles sold to financing customers and from insurance companies for policies written for buyers.

Real estate forfeitures, charges and penalties are earned when a buyer is delinquent on his payment or cancels his purchase of condominium units, after deducting any cash surrender value.

Management fee includes services rendered by Federal Land and PCFI in the administration of different projects related to the joint venture (Note 27).

24. Cost of Goods and Services Sold

Cost of goods and services sold consists of:

	2018	2017	2016
Beginning inventory			
Automotive	**₱4,734**	₱6,861	₱1,891
Gasoline, retail and petroleum products	**10**	9	7
Food	**7**	1	1
	4,751	6,871	1,899
Add: Net purchases	**130,815**	145,571	125,624
Total inventories available for sale	**135,566**	152,442	127,523
Less: Ending inventory (Note 6)			
Automotive	**5,646**	4,734	6,861
Gasoline, retail and petroleum products	**10**	10	9
Food	**6**	7	1
Subtotal (Note 6)	**129,904**	147,691	120,652
Cost adjustments	**(574)**	(202)	764
Internal and other transfers	**(200)**	(368)	(82)
Direct labor	**523**	365	38
Overhead (Note 30)	**196**	227	688
	₱129,849	₱147,713	₱122,060

Overhead includes rent expense and common usage and service area charges.

25. Cost of Goods Manufactured and Sold

Cost of goods manufactured and sold consists of:

	2018	2017	2016
Raw materials, beginning	**₱1,423**	₱1,329	₱1,382
Purchases	**28,745**	35,350	29,486
Total materials available for production	**30,168**	36,679	30,868
Less: Raw materials, end	**1,371**	1,423	1,329
Raw materials placed in process	**28,797**	35,256	29,539
Direct labor	**357**	400	372
Manufacturing overhead	**3,797**	4,084	3,876
Total cost of goods placed in process	**32,951**	39,740	33,787
Work-in-process, beginning	**12**	13	68
Total Cost of goods in process	**32,963**	39,753	33,855
Less: Work-in-process, ending	**33**	12	13
Total cost of goods manufactured	**32,930**	39,741	33,842
Finished goods, beginning	**19**	66	63
Total goods available for sale/transfer	**32,949**	39,807	33,905
Less: Finished goods, ending	**978**	19	66
Other transfers	**162**	153	47
	₱31,809	₱39,635	₱33,792

26. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Salaries, wages and employee benefits (Notes 27 and 28)	**₱3,676**	₱3,347	₱2,866
Advertising and promotions	**2,107**	1,915	1,838
Taxes and licenses	**2,048**	1,608	2,010
Commissions	**1,818**	1,536	1,394
Delivery and handling	**768**	709	586
Depreciation and amortization (Note 11)	**782**	655	495
Light, water and other utilities	**576**	496	420
Office supplies	**214**	418	244
Outside services	**456**	388	223
Unrealized foreign exchange losses	**146**	385	468
Repairs and maintenance	**274**	311	258
Professional fees	**250**	236	429
Transportation and travel	**200**	232	183
Rent (Note 30)	**169**	159	149
Provision of product warranties	**85**	121	121
Communications	**83**	82	93
Entertainment, amusement and recreation	**75**	72	89
Insurance	**48**	44	40
Administrative and management fees	**23**	59	55
Royalty and service fees	**12**	11	13
Provision for inventory losses	**51**	23	1
Provision for (recoveries from) credit losses (Note 5)	**(1)**	13	(6)
Donation	**1**	3	–
Provisions for other expenses	**–**	–	353
Others	**179**	76	515
	₱14,040	₱12,899	₱12,837

Other expenses include membership and subscription fees, dealer development, corporate events and contractual services.

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities. These related parties include subsidiaries, associates, joint venture, key management personnel, stockholders and other related parties which include affiliates.

An entity is considered an affiliate if such entity and the Parent Company have common shareholders. In effect, such entity is a sister company of the Parent Company by virtue of ownership and common control. It is neither a subsidiary nor associate of the Group.

The Group, in its regular conduct of its business, has entered into transactions with its associates, joint venture and other related parties principally consisting of cash advances for reimbursement of expenses, merger and acquisitions and capital infusion, leasing agreements, management agreements and dividends received from associates.

Transactions with related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs generally in cash, except otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables. The Group does not provide any allowance relating to receivable from related parties.

This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

The following table shows the related party transactions included in the consolidated financial statements.

	December 31, 2018		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Significant investor			
Accounts payable		₱1	Consultancy fee payable
Consultancy fee	₱3		Consultancy fee
Associates			
Cash and cash equivalents	33,502	10,390	Due and Demandable; fixed interest rates. Unsecured
Short-term investments	18	335	Interest bearing at prevailing market rate; due and demandable. Unsecured
Commission receivable		32	Non-interest bearing; due and demandable. Unsecured
Interest receivable		12	Interest on time deposit placements with MBTC at 4.0% to 6.7% p.a.
Rent receivable		23	Non-interest bearing; due and demandable. Unsecured
Receivable from sharing of expenses		39	Non-interest bearing; due and demandable. Unsecured
Financial assets at FVTPL	3,000	3,181	FVTPL investment
Due from related parties		44	Non-interest bearing; due and demandable. Unsecured
Investment and advances (Note 8)	22,495	22,495	Participation in MBTC's stock rights offering and initial investment in an associate
Other noncurrent assets	1	47	Non-interest bearing; due and demandable. Unsecured
Accounts and other payables	8	2	Non-interest bearing; due and demandable; Unsecured
Short term notes payable		1,100	With interest 3%-6% due in 2019. Unsecured
Due to related parties		16	Non-interest bearing; due and demandable. Unsecured
Loans payable		12,000	Various; fixed interest rates. Unsecured
Gain on UITF investments	66		Realized and unrealized gain on unit investment trust fund
Interest income	110		Various; fixed rate
Management fee income	9		Service fee in the administration of different project
Commission income	10		Commission fee received from selling or marketing the real estate units
Rent income	127		Lease of office space
Interest expenses	219		Various; fixed rate
Trust and agency fees	4		Retainer's and trustee fee
Joint ventures			
Management fee receivable		50	Non-interest bearing; due and demandable; Unsecured; no impairment
Commission receivable		100	Non-interest bearing; due and demandable; Unsecured; no impairment
Rent receivable		1	Non-interest bearing; due and demandable; Unsecured; no impairment
Receivable from sharing of expenses		635	Non-interest bearing; due and demandable; Unsecured; no impairment
Other receivables		28	Non-interest bearing; due and demandable; Unsecured; no impairment
Due from related parties	516	566	Non-interest bearing; due and demandable; Unsecured; no impairment

(Forward)

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2018		
Investment properties	₱184	₱184	Purchased properties
Investment and advances (Note 8)	7,241	7,241	Additional/initial investment in associates and joint ventures
Property and equipment	86	86	Purchased properties
Due to related parties	15	15	Non-interest bearing; due and demandable; Unsecured; no impairment
Commission income	37		Commission fee received from selling or marketing the real estate units
Management fee income	110		Service fee in the administration of different project related to the JV
Rent income	52		Lease of office space
Miscellaneous expenses			Event charges for media and analyst briefing
Other related parties			
Cash and cash equivalents	34	218	Due and demandable, unsecured, no impairment; Fixed;
Interest receivable		50	Non-interest bearing; due and demandable; Unsecured; no impairment
Rent receivable		(8)	Non-interest bearing; due and demandable; Unsecured; no impairment
Commission receivable		4	Non-interest bearing; due and demandable; Unsecured; no impairment
Non-trade receivables	64	44	Within one (1) year, non-interest-bearing. Unsecured, no impairment
Prepaid expenses and others		1	Car plan insurance and directors and officers liability insurance premium
Dividends receivables	7		Non-interest bearing; due and demandable; Unsecured; no impairment
Receivable from sharing of expenses		31	Non-interest bearing; due and demandable; Unsecured; no impairment
Long-term loans receivable		662	With interest of 3.15%; Payable in 2022. Unsecured
Management fee receivable		175	Due and demandable
Due from related parties		56	Non-interest bearing; due and demandable; Unsecured; no impairment
Accounts and other payables	119	8,553	Within one (1) year, non-interest-bearing. Unsecured.
Royalty payable		154	25th day of the second month after the end of the quarter, non-interest-bearing. Unsecured
Due to related parties		173	Non-interest bearing; due and demandable; Unsecured; no impairment
Liabilities on purchased properties (Note 20)	(441)	3,293	With 3.00% interest; payable annually until 2026; unsecured
Loans payable	3	1,928	With 3% interest; payable annually until 2026. Unsecured
Commission income	10		Commission fee received from selling or marketing the real estate units
Management fee income	60		Due and Demandable
Interest income	41		Interest income from cash and cash equivalents
Rent income	92		Lease of office space
Royalty and technical assistance fee	1,019		25th day of the second month after the end of the quarter, non-interest-bearing. Unsecured
Insurance expense	2		Car plan insurance and directors and officers liability insurance premium

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2017		
Significant investor			
Rent income	₱1		Lease of office space
Associates			
Cash and cash equivalents	881	₱9,367	Due and demandable; fixed rate; 0.38% to 3.50%; 14 days to 35 days
Short-term investments	16	597	Various; fixed rate; 0.01%; 181 days
Vehicle receivables (Note 5)		226	Non-interest bearing, unsecured, no impairment; 30 days
Commission receivable		11	Non-interest bearing; due and demandable; Unsecured; no impairment
Rent receivable		22	Non-interest bearing; due and demandable; Unsecured; no impairment
Receivable from sharing expenses		33	Non-interest bearing; due and demandable; Unsecured; no impairment
Other receivables		3	Non-interest bearing; due and demandable; Unsecured; no impairment
Available-for-sale investments (Note 10)		611	Investment in unit investment trust fund invested in money market placements sponsored by the trust department of an associate
Due from related parties		11	Non-interest bearing; due and demandable; Unsecured; no impairment
Other noncurrent assets	1	46	Unsecured; Fixed; 2.00%; 1261 days
Property and equipment		26	Purchased of properties
Loans payable (Note 16)	6,264	11,000	2.55% to 5. 29% interest rate
Other payables		159	Non-interest bearing; due and demandable; Unsecured
Due to related parties		17	Non-interest bearing; due and demandable; Unsecured
Interest income	26		Various; fixed rate
Rent income	124		Lease of office space
Dividend income	1,597		Dividend income from associates
Interest expense	139		Various; fixed rate
Gain on sale of AFS investments (Note 10)	15		Realized gain on UITF
Joint ventures			
Cash and cash equivalents	3	7	Savings, current and time deposits accounts earning annual interest rate ranging from 0.38% to 1.75%
Commission receivable		74	Non-interest bearing; due and demandable; Unsecured; no impairment
Trade receivables		268	Non-interest bearing; Unsecured; no impairment; 30 days
Rent receivable		5	Non-interest bearing; due and demandable; Unsecured; no impairment
Management fee receivable		37	Non-interest bearing; due and demandable; Unsecured; no impairment
Due from related parties	100	100	Non-interest bearing; due and demandable; Unsecured; no impairment
Other receivables		20	Non-interest bearing; due and demandable; Unsecured; no impairment
Investment and advances	1,931	1,931	Initial/additional investment in joint ventures
Other payables		23	Non-interest bearing; due and demandable; Unsecured
Commission income	33		Commission fee received from selling or marketing the real estate units
Management fee income (Note 23)	37		Service fee in the administration of different project related to the JV
Rent income	49		Lease of office space
Interest income	7		Interest income from cash and cash equivalents
Other related parties			
Cash and cash equivalents	19	1,003	Due and demandable, unsecured, no impairment; Fixed; 2.70%; 29 days
Trade receivables		160	Non-interest bearing, unsecured, no impairment; 30days
Service receivables		50	Non-interest bearing, unsecured, no impairment; 30days
Vehicle receivables		198	Non-interest bearing, unsecured, no impairment; 30days
Management receivables		182	Due and demandable

(Forward)

	December 31, 2017		
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
Commission receivable		₱5	Non-interest bearing; due and demandable; Unsecured; no impairment
Interest receivable		30	Non-interest bearing; due and demandable; Unsecured; no impairment
Receivable from sharing expenses		2	Non-interest bearing; due and demandable; Unsecured; no impairment
Rent receivable		14	Non-interest bearing; due and demandable; Unsecured; no impairment
Other receivables		16	Non-interest bearing; due and demandable; Unsecured; no impairment
Prepaid expenses and others		1	Car plan insurance and directors and officers liability insurance premium
Long-term loans receivable (Note 5)		652	With interest of 3.15%; payable in 2022; Unsecured; no impairment
Investments and advances (Note 8)	₱25,120	25,120	Additional investment in MBTC and initial investment in a joint venture
Due from related parties		55	Non-interest bearing; due and demandable; Unsecured; no impairment
Advances		9	Due and demandable
Property and equipment		101	Purchased of properties
Insurance premium payable		181	Non-interest bearing, unsecured; 90days
Other payables		37	Non-interest bearing; due and demandable; Unsecured
Due to related parties		172	Non-interest bearing; due and demandable; Unsecured
Loans payable (Note 16)	3	79	Unsecured; 4.20% interest rate
Liabilities on purchased properties (Note 20)	1,575	3,734	With 3.00% interest; payable annually until 2026; unsecured
Bonds payable		20	GT Capital bonds held by a subsidiary of an associate
Commission income	9		Commission fee received from selling or marketing the real estate units
Interest income	102		Interest income from cash and cash equivalents
Rent income	74		Lease of office space
Interest expense	44		Various; fixed rate
Insurance expense	2		Car plan insurance and directors and officers liability insurance paid to a subsidiary of an associate

Details of the transactions with affiliates are as follows:

Cash and cash equivalents and short-term investments
The Group maintains cash and short-term deposits accounts with MBTC, an associate. The Group also has cash and short-term deposits with other related parties such as Metrobank Card Corporation and PSBank, which are subsidiaries of MBTC. Cash and cash equivalents earn interest at the prevailing investment rates (Note 4).

AFS investments
In 2016, the Parent Company invested in UITF products of MBTC. As of December 31, 2017, the Parent Company's investment in UITF amounted to ₱0.61 billion (Note 10).

Financial assets at FVTPL
As of December 31, 2018, the Parent Company's investment in UITF amounted to ₱3.18 billion (Note 10).

Operating advances
Due from and to related parties consist mostly of operating advances which are non-interest bearing and due and demandable.

Long-term loans receivable
In 2012, Federal Land entered into a loan agreement with CIRC. Federal Land agreed to lend to CIRC a total amount of ₱705.00 million with a nominal and effective interest rate of 3.15% and 4.81%, respectively. The outstanding balance of long-term loans receivable as of December 31, 2018 and 2017 amounted to ₱641.88 million and ₱652.17 million, respectively (Note 5).

Investment Property
In 2018, Federal Land acquired condominium units at a gross consideration of ₱326.40 million from BLRDC with unrealized gain of ₱142.64 million (Note 8).

Property and equipment
In 2018, Federal Land acquired condominium units at a gross consideration of ₱142.01 million from BLRDC with unrealized gain of ₱55.52 million (Note 8).

Affiliated bank loans
The Group's loans payable to an affiliated commercial bank bears interest rates ranging from 2.50% to 6.00%, from 2.50% to 5.13% and from 2.55% to 5.29% per annum in 2018, 2017 and 2016, respectively (Note 16).

Management fee
Management fee amounting to ₱109.85 million, ₱37.48 million and ₱41.76 million in 2018, 2017 and 2016, respectively, pertains to the income received from a joint venture of Federal Land with SFNBRDC, NBLRDI, BLRDC and STRC (Note 23).

Lease agreements
Federal Land entered into operating lease agreements for the use of office spaces in GT Tower International Building. The terms of lease range from 5 to 10 years and are generally renewable for 5 years. The rent is payable monthly with annual rent escalation rates ranging from 5% to 8%. The rental income on these leases amounted to ₱326.75 million, ₱130.34 million and ₱179.47 million in 2018, 2017 and 2016, respectively (Note 30).

Disposal of assets
On May 26, 2016, the Parent Company acquired 4.73% direct equity stake in GBPC for a total consideration of ₱3.26 billion from FMIC, a subsidiary of MBTC. This increased the Parent Company's direct ownership in GBPC from 51.27% to 56.00%. On May 27, 2016, the Parent Company sold its entire 56.00% investment in GBPC to Beacon for a total consideration of ₱22.06 billion. Beacon is a 100%-owned subsidiary of Beacon Electric Asset Holdings, Inc. (Beacon Electric). MPIC owns 75% of Beacon Electric (Note 12).

On November 5, 2015, the Parent Company signed an agreement to sell 100.00% of CPAIC to AXA Philippines for ₱2.30 billion, subject to closing conditions that are usual and customary. On April 4, 2016, the Parent Company completed the sale of CPAIC for a final consideration of ₱2.10 billion (Note 12).

Compensation of key management personnel for the years ended December 31, 2018, 2017 and 2016 follow:

	2018	2017	2016
Short-term employee benefits	**₱713**	₱643	₱606
Post-employment benefits	**87**	81	59
	₱800	₱724	₱665

Transactions with the Group Retirement Funds
The retirement funds of the Group's employees are being managed and maintained by MBTC as trustee bank. The total carrying amount and fair value of the retirement funds as of December 31, 2018 and 2017 amounted to ₱2.43 billion and ₱2.04 billion, respectively. The assets and investments of the fund include cash and cash equivalents, investments in government securities and equity securities, among others.

The following tables show the amounts of related party transactions of the Group with the retirement funds of the subsidiaries' employees as of December 31, 2018 and 2017 (in absolute amounts):

	December 31, 2018		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Parent			
Investment in equity securities		**₱9,030,450**	Unsecured with no impairment
Gain on sale of shares	**₱24,346**		Income from sale of shares
Associate			
Savings deposit		**23,571**	Savings account with annual interest of 1%, unsecured and no impairment;
Time deposit		**87,498,000**	With annual interest of 3.88%, 1 - 3 months maturity; unsecured and no impairment
Investment in equity securities		**19,832,750**	Unsecured with no impairment
Investment in UITF		**4,123,970**	Unsecured with no impairment
Interest income	**8,663,321**		Income earned from savings and time deposit
Gain on sale of shares	**631,243**		Income from sale of shares
Gain on sale of UITF	**10,797**		Income from sale of UITF

	December 31, 2017		
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
Associate			
Savings deposit		₱34,361	Savings account with annual interest of 1%, unsecured and no impairment;
Time deposit		379,851,411	With annual interest of 3.88%, 1 - 3 months maturity; unsecured and no impairment
Investment in equity securities		80,083,375	Unsecured with no impairment
Investment in UITF		8,591,147	Unsecured with no impairment
Interest income	₱5,198,953		Income earned from savings and time deposit
Gain on sale of shares	430,978		Income from sale of shares
Gain on sale of UITF	368,493		Income from sale of UITF

Transactions relating to the retirement plans are approved by the subsidiaries' respective Retirement Committees. The voting rights over the investments in the shares of entities within the Group are exercised by the Retirement Committee, whom are either officers or directors of the subsidiaries.

28. **Pension Plan**

The Group provides defined benefit pension plans for substantially all of its employees. Provisions for pension obligations are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. Actuarial valuations are made annually.

Principal actuarial assumptions used to determine pension obligations follow:

		2018		
		Actuarial Assumptions		
	Date of Actuarial Valuation	**Expected Return on Plan Assets**	**Salary Rate Increase**	**Discount Rate**
Real estate	**December 31, 2018**	**3.93% to 5.00%**	**7.00% to 8.00%**	**7.30% to 7.44%**
Automotive	**-do-**	**3.71% to 5.00%**	**4.90% to 8.00%**	**7.26% to 7.37%**
Financial	**-do-**	**3.50%**	**8.00%**	**7.38%**

		2017		
		Actuarial Assumptions		
	Date of Actuarial Valuation	Expected Return on Plan Assets	Salary Rate Increase	Discount Rate
Real estate	December 31, 2017	3.00%	7.00% to 9.00%	4.69% to 6.69%
Automotive	-do-	4.00%	5.00% to 7.00%	5.28% to 6.05%
Financial	-do-	3.50%	8.00%	5.74%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

Net retirement liability (asset) included in the consolidated statement of financial position follow:

	2018	2017
Retirement asset (Note 14)	**(₱9)**	(₱7)
Retirement liability	**859**	1,399
Net retirement liability	**₱850**	₱1,392

The net pension liability and asset recognized in the Group's consolidated statements of financial position are as follows:

		Net benefit cost					**Remeasurements in other comprehensive income**						
	January 1, 2018	**Current service cost**	**Net interest**	**Past service cost**	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contributions paid**	**December 31, 2018**
Present value of defined benefit obligation	**₱3,433**	**₱248**	**₱185**	**₱58**	**₱491**	**(₱118)**	**₱–**	**(₱97)**	**₱1**	**(₱433)**	**(529)**	**₱–**	**₱3,277**
Fair value of plan assets	**(2,041)**	**–**	**(125)**	**–**	**(125)**	**111**	**196**	**–**	**–**	**–**	**196**	**(568)**	**(2,427)**
Net defined benefit liability	**₱1,392**	**₱248**	**₱60**	**₱58**	**₱366**	**(₱7)**	**₱196**	**(₱97)**	**₱1**	**(₱433)**	**(₱333)**	**(₱568)**	**₱850**

		Net benefit cost					Remeasurements in other comprehensive income						
	January 1, 2017	Current service cost	Net interest	Past service cost	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions paid	December 31, 2017
Present value of defined benefit obligation	₱3,183	₱238	₱158	₱–	₱396	(₱84)	₱–	₱41	₱3	(₱106)	(₱62)	₱–	₱3,433
Fair value of plan assets	(1,514)	–	(77)	–	(77)	71	107	–	–	–	107	(628)	(2,041)
Net defined benefit liability	₱1,669	₱238	₱81	₱–	₱319	(₱13)	₱107	₱41	₱3	(₱106)	₱45	(₱628)	₱1,392

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

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

	2018	2017
Cash and cash equivalents	**₱89**	₱334
Investment in government securities	**1,798**	1,181
Investment in equity securities	**406**	362
Investment in debt and other securities	**129**	112
Receivables	**4**	22
Investment in mutual funds	**4**	33
Others	**–**	(1)
Liabilities	**(3)**	(2)
	₱2,427	₱2,041

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

		2018	2017
	Possible Fluctuations	**Increase (Decrease)**	Increase (Decrease)
Discount rates	**+1%**	**(₱205)**	(₱244)
	-1%	**232**	276
Future salary increase rate	**+1%**	**249**	290
	-1%	**(223)**	(260)

The Group expects to contribute ₱376.27 million to its defined benefit pension plan in 2019.

The average duration of the defined benefit retirement liability at the end of the reporting period is 16.63 years for the Group.

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

Less than 1 year	₱201
More than 1 year to 5 years	1,572
More than 5 years to 10 years	2,604
More than 10 years to 15 years	1,921
More than 15 years to 20 years	2,134
More than 20 years	7,988

The Group does not currently have any asset-liability matching study.

29. **Income Taxes**

Provision for income tax account consists of:

	2018	2017	2016
Current	**₱4,117**	₱4,209	₱4,377
Deferred	**(29)**	248	126
Final	**83**	67	83
	₱4,171	₱4,524	₱4,586

The components of the Group's deferred taxes as of December 31, 2018 and 2017 are as follows:

Net deferred tax asset:

	2018	2017
Deferred tax asset on:		
Retirement benefit obligation	**₱412**	₱505
Deferred intercompany gain	**326**	–
Accrued expenses	**98**	77
Allowance for impairment losses	**93**	22
Warranties payable and other provisions	**57**	66
Unamortized past service cost from pension obligation	**27**	24
Allowance for inventory obsolescence	**25**	25
NOLCO	**25**	7
Unearned gross profit on ending inventories	**23**	–
Deferred gross profit	**–**	114
Unrealized foreign exchange gain	**–**	40
Others	**36**	14
	1,122	894
Deferred tax liability on:		
Capitalized custom duties	**32**	28
Unearned gross profit on real estate sales	**20**	5
Unrealized foreign exchange gain	**12**	–
Deferred financing cost	**7**	–
Unearned gross profit on ending inventories	**–**	11
Others	**27**	119
	98	163
Net deferred tax asset	**₱1,024**	₱731

Net deferred tax liability:

	2018	2017
Deferred tax asset on:		
Unrealized gain on sale of land	**₱685**	₱725
Excess of cost over fair value of investment property	**101**	107
Unearned income	**56**	52
Prepaid commission	**54**	79
Retirement benefit obligation	**46**	48
Provision for impairment losses on receivables	**29**	–
Unearned gross profit on ending inventories	**23**	13
Interest expense on Day 1 loss	**13**	20
Accrued expenses	**–**	32
Allowance for probable losses	**5**	6
Others	**6**	6
	1,018	1,088

(Forward)

	2018	2017
Deferred tax liability on:		
Fair value adjustment on acquisition - by Parent Company	**₱5,055**	₱5,133
Capitalized borrowing cost and guarantee fees	**1,099**	933
Excess of book basis over tax basis of deferred gross profit	**441**	255
Fair value adjustment on acquisition - by subsidiaries	**147**	219
Cash flow hedge reserve	**97**	–
Unamortized discount on long-term payable	**59**	83
Lease differential	**17**	20
Deferred financing costs − bonds	**16**	17
Retirement asset	**3**	2
Accrued income	**–**	13
Others	**43**	7
	6,977	6,682
Net deferred tax liability	**₱5,959**	₱5,594

The Group has deductible temporary differences for which deferred tax asset has not been recognized since management believes that it is not probable that sufficient taxable income will be available against which the said deductible temporary differences can be utilized.

The Group's unrecognized deductible temporary differences pertain to its NOLCO and MCIT with details as follows:

NOLCO

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2018	₱4,076	₱–	₱4,076	2021
2017	2,891	–	2,891	2020
2016	3,149	(101)	3,048	2019
2015	1,882	(1,882)	–	2018
	₱11,998	(1,983)	₱10,015	

MCIT

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2018	₱3	₱–	₱3	2021
2016	2	–	2	2019
	₱5	₱–	₱5	

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of income follows:

	2018	2017	2016
Provision for income tax computed at statutory rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Income subjected to final tax	**(0.22)**	(0.18)	(0.06)
Nondeductible interest and other expenses	**2.16**	0.85	1.05
Change in unrecognized deferred tax assets	**4.68**	3.97	5.05
Nontaxable income	**(15.75)**	(10.27)	(17.28)
Operating income within ITH	**(2.70)**	(7.10)	(1.99)
Others	**0.79**	0.28	0.26
Income subjected to lower tax rate	**(0.07)**	–	–
Effective income tax rates	**18.89%**	17.55%	17.03%
Continuing operations	**18.89%**	17.55%	16.89%
Disposal group	–	–	0.14
	18.89%	17.55%	17.03%

Board of Investments (BOI) Incentives

Federal Land

The BOI issued a Certificate of Registration (COR) as a New Developer of Mass Housing Project for its real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the registered projects have been granted Income Tax Holiday (ITH) for a period of three to four years. The projects namely: PGMH - Narra Tower and PGMH - Mandarin Tower are entitled to ITH from 2013 to 2016 and Axis Residences Tower A is entitled to ITH from 2015 to 2018.

PCFI

On various dates, the BOI issued in favor of PCFI the COR as a new developer of Mass Housing Project for its 31 real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the projects were granted an ITH for a period of three (3) to four (4) years commencing on various dates from 2014 to 2017 and expiring on various dates from 2017 to 2020.

TMPC

TMPC is registered with the BOI as a:

- Participant in the Car Development Program and Commercial Vehicle Development Program.
- Pioneer status for the production of Vios. Under its terms and conditions, TMPC shall be entitled to ITH from July 2, 2013 to July 1, 2019 for revenues generated from this vehicle model subject to achievement of certain percentage of local value added.
- Non-pioneer status for the production of Innova. Under its terms and conditions, TMPC shall be entitled to ITH from April 2016 to April 2020 for portion (as determined by its Logistic Efficiency Index) of revenues generated from this vehicle model.
- Participant in Comprehensive Automotive Resurgence Strategy (CARS) Program. BOI approved TMPC's enrollment of its locally-produced vehicle model to the CARS Program on June 27, 2016. Under the terms of registration, TMPC shall be entitled to Fixed Investment Support and Production Volume Incentives subject to achievement of production volume and localization of body shells and large plastic parts.

30. **Lease Commitment**

The Group as a lessee
The Group is a party under various lease agreements including the lease of premises occupied by the Parent Company, office space leased for the Group's branches, land leased for Federal Land Group's mall and gasoline station and lease of parking spaces with terms ranging from one (1) to 10 years. Rent expense included under 'General and administrative expenses' amounted to ₱168.98 million, ₱158.78 million and ₱149.49 million in 2018, 2017 and 2016, respectively (Note 26). Rental incurred on the lease of land for its mall and gasoline stations are presented as 'Overhead' and included in the 'Cost of goods and services sold' account, amounting to ₱22.89 million, ₱22.12 million and ₱23.66 million in 2018, 2017 and 2016, respectively (Note 24).

As of December 31, 2018 and 2017, the future minimum rental payments are as follows:

	2018	2017
Within one year	**₱92**	₱118
After one year but not more than five years	**342**	478
More than five years	**15**	42
	₱449	₱638

The Group as a lessor
The Group has entered into commercial property leases on its investment properties consisting of office spaces, land, mall and parking spaces with lease terms ranging from five (5) to ten (10) years. The Group's rental income on these leases amounted to ₱1.26 billion, ₱0.94 billion and ₱0.83 billion, in 2018, 2017 and 2016, respectively (Note 9). The cost of rental services amounting ₱476.37 million, ₱360.43 million and ₱326.35 million in 2018, 2017 and 2016, respectively, includes maintenance fee, depreciation, repairs and maintenance, and taxes and licenses (Note 11).

As of December 31, 2018 and 2017, the future minimum rental receipts from these lease commitments are as follows:

	2018	2017
Within one year	**₱708**	₱676
After one year but not more than five years	**1,565**	1,066
More than five years	**605**	521
	₱2,878	₱2,263

31. **Business Combinations and Disposals**

Acquisition of TRDCI
On February 10, 2017, FLI acquired 100.00% interest in TRDCI from Solid Share Holdings Philippines, Inc.

The fair values of the net liabilities assumed as of acquisition date, are as follow:

Current assets	₱433
Current liabilities	(847)
Noncurrent assets	486
Noncurrent liabilities	(100)
Fair value of net assets assumed	(28)
Consideration paid in cash	60
Goodwill (Note 13)	**₱88**

The gross contractual amount of receivables acquired amounted to ₱44.60 million. The goodwill of ₱0.09 billion comprises the value of the expected synergies arising from having TRDCI within the Group. Goodwill is allocated entirely to the acquisition of TRDCI and none of the goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, TRDCI contributed gross revenues and net income amounting to ₱16.35 million and ₱27.86 million, respectively, to the Group for the year ended December 31, 2017.

32. Fair Value Measurement

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

Cash and cash equivalents and short-term cash investments
The fair value of cash and cash equivalents approximate the carrying amounts at initial recognition due to the short-term maturities of these instruments.

Receivables
The fair value of receivables due within one year approximates its carrying amounts. The fair values of installment contracts receivable are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 6.78% to 8.00% and 3.24% to 12.00% as of December 31, 2018 and 2017, respectively. For the long-term loan receivable, the Group used discounted cash flow analyses to measure the fair value of the loan. The interest rate used was the average bank lending rate for both December 31, 2018 and 2017.

Due from and to related parties
The carrying amounts approximate fair values due to short-term in nature. Related party receivables and payables are due and demandable.

Financial assets at FVTPL
These pertain to the Group's investment in UITFs. UITFs are ready-made investments that allow pooling of funds from different investors with similar investments objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark-to-market method in valuing the fund's securities.

Financial assets at FVOCI - quoted
The fair value of quoted equity securities is based on the quoted market prices or binding dealer price quotations, without any deduction for transaction cost.

Financial assets at FVOCI - unquoted
The fair value of unquoted equity securities is estimated based on the market data approach that makes use of market multiples derived from a set of comparables. Multiples were determined that is most relevant to assessing the value of unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement.

AFS investments - quoted
Fair value of quoted AFS investment is based on the quoted market bid prices at the close of business on the reporting date or use inputs other than quoted price that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Quoted AFS investment includes investment in UITFs.

AFS investments - unquoted
These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Derivative financial instruments
The fair values of cross currency and interest rate swap transactions are derived using acceptable valuation method. The valuation assumptions are based on market conditions existing at the reporting dates.

Accounts and other payables
The fair values of accounts and other payables approximate the carrying amounts due to the short-term nature of these transactions.

Loans payable and bonds payable
Current portion of loans payable approximates its fair value due to its short-term maturity. Long-term portion of loans payable subjected to quarterly repricing is not discounted. Estimated fair value of long-term portion of loans payable with fixed interest and not subjected to quarterly repricing is based on the discounted value of future cash flows using applicable interest rates for similar types of loans as of reporting date. The interest rates used ranged from 0.085% to 7.35% and 2.55% to 5.94% for the year ended December 31, 2018 and 2017, respectively.

Liabilities on purchased properties
Estimated fair value was based on the discounted value of future cash flows using the applicable interest rates for similar types of loans as of reporting date. Long-term payable was incurred in 2017 and 2012 with 3.00% interest per annum.

The following tables summarize the carrying amount and fair values of financial assets and liabilities, as well as nonfinancial assets, analyzed based on the fair value hierarchy (see accounting policy on Fair Value Measurement), except for assets and liabilities where the carrying values as reflected in the consolidated statements of financial position and related notes approximate their respective fair values.

	2018				
	Carrying Value	**Level 1**	**Level 2**	**Level3**	**Total**
Assets measured at fair value:					
Financial Assets					
Financial assets at FVTPL	**₱3,181**	**₱–**	**₱3,181**	**₱–**	**₱3,181**
Financial assets at FVOCI					
Quoted equity securities	**10,631**	**10,631**	**–**	**–**	**10,631**
Unquoted equity securities	**317**	**–**	**–**	**317**	**317**
Other noncurrent assets					
Derivative asset	**469**	**–**	**469**	**–**	**469**
	₱14,598	**₱10,631**	**₱3,650**	**₱317**	**₱14,598**
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Installment contracts receivables	**₱2,401**	**₱–**	**₱–**	**₱2,384**	**₱2,384**
Loans receivables	**932**	**–**	**–**	**1,075**	**1,075**
Non-financial Assets					
Investment in listed associates	**144,254**	**138,521**	**–**	**–**	**138,521**
Investment properties	**17,728**	**–**	**–**	**37,451**	**37,451**
	₱165,315	**₱138,521**	**₱–**	**₱40,910**	**₱179,431**
Liabilities measured at fair value:					
Financial Liabilities					
Other noncurrent liabilities					
Derivative liability	**₱62**	**₱–**	**62**	**₱–**	**₱62**
	₱62	**₱–**	**₱62**	**₱–**	**₱62**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Liabilities on purchased properties	**₱3,293**	**₱–**	**₱–**	**₱3,004**	**₱3,004**
Loans payable	**105,669**	**–**	**–**	**108,252**	**108,252**
Bonds payable	**21,907**	**20,565**	**–**	**–**	**20,565**
	₱130,869	**₱20,565**	**₱–**	**₱111,256**	**₱131,821**

	2017				
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:					
Financial Assets					
AFS investments:					
Quoted equity securities	₱2,233	₱1,622	₱611	₱–	₱2,233
	₱2,233	₱1,622	₱611	₱–	₱2,233
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Installment contracts receivables	₱16,825	₱–	₱–	₱20,135	₱20,135
Loans receivables	962	–	–	1,077	1,077
Non-financial Assets					
Investment in listed associates	112,412	149,732	–	–	149,732
Investment properties	17,392	–	–	36,549	36,549
	₱147,591	₱149,732	₱–	₱57,761	₱207,493
Liabilities measured at fair value:					
Financial Liabilities					
Other noncurrent liabilities					
Derivative liability	₱47	₱–	₱47	₱–	₱47
	₱47	₱–	₱47	₱–	₱47
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Liabilities on purchased properties	₱3,734	₱–	₱–	₱3,608	₱3,608
Loans payable	65,521	–	–	66,104	66,104
Bonds payable	21,877	21,801	–	–	21,801
	₱91,132	₱21,801	₱–	₱69,712	₱91,513

As of December 31, 2018 and 2017, other than AFS investments, no transfers were made among the three levels in the fair value hierarchy.

In 2017, portion of AFS quoted equity securities amounting to ₱1.50 billion was transferred from Level 2 to Level 1. The prices of these securities are quoted in an active market.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The fair value of the Group's investment properties has been determined based on valuations performed by third party valuers. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Group:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence
Building and Land Improvements	Cost Approach or Market Data Approach	Lineal and square meter, current cost of materials, labor and equipment, contractor's profits, overhead, taxes and fees

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's investment properties are as follows:

<u>Valuation Techniques</u>

Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Cost Approach	A process of determining the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation on physical wear and tear, and obsolescence.

<u>Significant Unobservable Inputs</u>

Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Significant Unobservable Inputs

Location	Location of comparative properties whether on a Main Road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a Main Road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

33. **Financial Risk Management and Objectives**

The Group's principal financial instruments are composed of cash and cash equivalents, short-term investments, receivables, due from related parties, financial assets at FVOCI and financial assets at FVTPL/AFS investments, accounts and other payables, due to/from related parties, loans payable and derivative liabilities.

Exposures to credit, liquidity, foreign currency, interest rate, and equity price risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The use of financial derivative instruments (if any) is solely for the management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The Group's respective financing and treasury functions focus on managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

Credit Risk
The Group's credit risks are primarily attributable to its financial assets. To manage credit risks, the Group maintains defined credit policies and monitors on a continuous basis its exposure to credit risks. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

Financial assets comprise cash and cash equivalents, short-term investments, receivables, due from related parties and AFS investments. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations.

In respect of installment receivables from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant and the requirement for remedial procedures is minimal given the profile of buyers.

Maximum exposure to credit risk after taking into account collateral held or other credit enhancements

As of December 31, 2018 and 2017, the maximum exposure to credit risk of the Group's financial assets is equal to its carrying value except for installment contracts receivable with nil exposure to credit risk since the fair value of the related condominium and residential units collateral is greater than the carrying value of the installment contracts receivable.

a. *Credit quality per class of financial assets*

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents and long term cash investment based on the nature of the counterparty and the Group's internal rating system.

Receivables - high grade pertains to receivables that had no default in payment; medium grade pertains to receivables with a history of being 30 to 90 days past due; and low grade pertains to receivables with a history of being over 90 days past due.

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

	December 31, 2018						
	Neither Past Due Nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Medium Grade	Low Grade	Total			
Cash and cash equivalents* (Note 4)	**₱14,297**	**₱–**	**₱–**	**₱14,297**	**₱–**	**₱–**	**₱14,297**
Short-term investments (Note 4)	**65**	**–**	**–**	**65**	**–**	**–**	**65**
Receivables (Note 5)							
Installment contracts receivable	**2,062**	**–**	**–**	**2,062**	**315**	**24**	**2,401**
Trade receivables	**5,287**	**34**	**263**	**5,584**	**4,093**	**4**	**9,681**
Loans receivable	**932**	**–**	**–**	**932**	**–**	**–**	**932**
Nontrade receivables	**935**	**153**	**92**	**1,180**	**223**	**35**	**1,438**
Accrued rent and commission income	**444**	**–**	**–**	**444**	**4**	**31**	**479**
Management fee receivables	**253**	**–**	**–**	**253**	**–**	**–**	**253**
Accrued interest receivable	**180**	**–**	**–**	**180**	**–**	**30**	**210**
Others	**717**	**–**	**–**	**717**	**121**	**135**	**973**
Due from related parties (Note 27)	**612**	**–**	**–**	**612**	**–**	**54**	**666**
	₱25,784	**₱187**	**₱355**	**₱26,326**	**₱4,756**	**₱313**	**₱31,395**

**Excludes cash on hand amounting to ₱56.15 million*

	December 31, 2017						
	Neither Past Due Nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Medium Grade	Low Grade	Total			
Cash and cash equivalents* (Note 4)	₱20,117	₱–	₱–	₱20,117	₱–	₱–	₱20,117
Short-term investments (Note 4)	1,666	–	–	1,666	–	–	1,666
Receivables (Note 5)							
Installment contracts receivable	14,539	1,308	435	16,282	535	8	16,825
Trade receivables	7,002	–	1	7,003	2,458	4	9,465
Loans receivable	962	–	–	962	–	–	962
Nontrade receivables	500	95	31	626	67	5	698
Accrued rent and commission income	315	1	–	316	4	27	347
Management fee receivables	246	–	–	246	–	–	246
Accrued interest receivable	49	–	–	49	–	–	49
Others	487	–	–	487	40	6	533
Due from related parties (Note 27)	166	–	–	166	–	–	166
	₱46,049	₱1,404	₱467	₱47,920	₱3,104	₱50	₱51,074

**Excludes cash on hand amounting to ₱37.88 million.*

As of December 31, 2018 and 2017, the aging analysis of past due but not individually impaired financial assets presented per class, is as follows:

	December 31, 2018								
		Past Due but not Individually Impaired							
	Neither Past Due nor Individually Impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total	Individually Impaired	Total
Cash and cash equivalents* (Note 4)	₱14,297	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱14,297
Short-term investments (Note 4)	65	–	–	–	–	–	–	–	65
Receivables (Note 5)									
Installment contracts receivable	2,062	95	63	70	8	79	315	24	2,401
Trade receivable	5,584	1,412	1,353	537	341	450	4,093	4	9,681
Loans receivable	932	–	–	–	–	–	–	–	932
Non-trade receivable	1,180	109	29	22	32	31	223	35	1,438
Accrued rent and commission income	444	1	1	1	1	–	4	31	479
Management fee receivables	253	–	–	–	–	–	–	–	253
Accrued interest receivable	180	–	–	–	–	–	–	30	210
Others	717	49	–	–	–	72	121	135	973
Due from related parties (Note 27)	612	–	–	–	–	–	–	54	666
	₱26,327	₱1,666	₱1,446	₱630	₱382	₱632	₱4,756	₱313	₱31,395

**Excludes cash on hand and cash in other financial institution amounting to ₱56.15 million and ₱69.33 million, respectively .*

	December 31, 2017								
	Neither Past Due nor Individually Impaired	Past Due but not Individually Impaired						Individually Impaired	Total
		<30 days	30-60 days	61-90 days	91-120 days	>120 days	Total		
Cash and cash equivalents* (Note 4)	₱20,117	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱20,117
Short-term investments (Note 4)	1,666	–	–	–	–	–	–	–	1,666
Receivables (Note 5)									
Installment contracts receivable	16,282	118	102	130	50	135	535	8	16,825
Trade receivable	7,003	966	814	251	310	117	2,458	4	9,465
Loans receivable	962	–	–	–	–	–	–	–	962
Non-trade receivable	626	25	18	2	3	19	67	5	698
Accrued rent and commission income	316	1	1	1	1	–	4	27	347
Management fee receivables	246	–	–	–	–	–	–	–	246
Accrued interest receivable	49	–	–	–	–	–	–	–	49
Others	487	–	–	–	–	40	40	6	533
Due from related parties (Note 27)	166	–	–	–	–	–	–	–	166
	₱47,920	₱1,110	₱935	₱384	₱364	₱311	₱3,104	₱50	₱51,074

**Excludes cash on hand amounting to ₱37.88 million*

Liquidity risk
The Group monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt, to give financing flexibility while continuously enhancing the Group's businesses. To serve as back-up liquidity, management develops variable funding alternatives either by issuing debt or raising capital.

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on undiscounted contractual payments:

	December 31, 2018			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents* (Note 4)	**₱14,310**	**₱–**	**₱–**	**₱14,310**
Short-term investments (Note 4)	**65**	–	–	**65**
Receivables (Note 5)				
Installment contracts receivables	**820**	**1,846**	**907**	**3,573**
Trade receivables	**9,681**	–	–	**9,681**
Loans receivable	**163**	**1,191**	–	**1,354**
Nontrade receivable	**1,438**	–	–	**1,438**
Accrued rent and commissions income	**479**	–	–	**479**
Management fee receivables	**253**	–	–	**253**
Accrued interest receivable	**210**	–	–	**210**
Dividend receivable	**12**	–	–	**12**
Others	**973**	–	–	**973**
Due from related parties (Note 27)	**666**	–	–	**666**
Financial assets at FVTPL (Note 10)				
Investments in UITF	**3,181**	–	–	**3,181**
Financial assets at FVOCI (Note 10)				
Equity securities				
Quoted	–	–	**10,631**	**10,631**
Unquoted	–	–	**317**	**317**
Derivative assets (Note 14)	–	–	**469**	**469**
Total undiscounted financial assets	**₱32,251**	**₱3,037**	**₱12,324**	**₱47,612**
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade payables	**₱13,168**	**₱–**	**₱–**	**₱13,168**
Accrued expenses	**4,208**	–	–	**4,208**
Contract liabilities	**7,874**	–	–	**7,874**
Retentions payable	**687**	**1,024**	–	**1,711**
Telegraphic transfers and drafts and acceptances payable	**1,675**	–	–	**1,675**
Accrued commissions	**651**	–	–	**651**
Accrued interest payable	**579**	–	–	**579**
Nontrade payables	**430**	–	–	**430**
Royalty payable	**255**	–	–	**255**
Due to landowners	**34**	–	–	**34**
Others	**1,460**	–	–	**1,460**
Dividends payable	**1,198**	–	–	**1,198**
Loans payable (Note 16)	**12,698**	**42,994**	**95,339**	**151,031**
Bonds payable (Note 17)	**4,105**	**17,328**	**4,136**	**25,569**
Due to related parties (Note 27)	**204**	–	–	**204**
Liabilities on purchased properties (Note 20)	**582**	**2,287**	**762**	**3,631**
Derivative liabilities (Note 20)	–	–	**62**	**62**
Total undiscounted financial liabilities	**₱41,934**	**₱63,633**	**₱100,299**	**₱205,866**
Liquidity Gap	**(₱9,683)**	**(₱60,596)**	**(₱87,975)**	**(₱158,254)**

**Excludes cash on hand amounting to ₱56.15 million.*

	December 31, 2017			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents* (Note 4)	₱20,117	₱–	₱–	₱20,117
Short-term investments (Note 4)	1,666	–	–	1,666
Receivables (Note 5)				
Installment contracts receivables	15,929	7,875	587	24,391
Trade receivables	9,465	–	–	9,465
Loans receivable	159	1,161	–	1,320
Nontrade receivable	698	–	–	698
Accrued rent and commissions income	347	–	–	347
Management fee receivables	246	–	–	246
Accrued interest receivable	49	–	–	49
Others	533	–	–	533
Due from related parties	166	–	–	166
Total undiscounted financial assets	₱49,375	₱9,036	₱587	₱58,998
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade payables	₱14,289	₱–	₱–	₱14,289
Accrued expenses	4,080	–	–	4,080
Retentions payable	671	917	–	1,588
Telegraphic transfers and drafts and acceptances payable	1,152	–	–	1,152
Accrued commissions	1,037	–	–	1,037
Accrued interest payable	365	–	–	365
Royalty payable	344	–	–	344
Nontrade payables**	210	–	–	210
Due to landowners	50	–	–	50
Others	1,396	–	–	1,396
Dividends payable	589	–	–	589
Loans payable (Note 16)	11,603	23,077	52,394	87,074
Bonds payable (Note 17)	1,126	15,058	10,510	26,694
Due to related parties	189	–	–	189
Liabilities on purchased properties (Note 20)	750	2,748	875	4,373
Derivative liabilities (Note 20)	47	–	–	47
Total undiscounted financial liabilities	₱37,898	₱41,800	₱63,779	₱143,477
Liquidity Gap	₱11,477	(₱32,764)	(₱63,192)	(₱84,479)

**Excludes cash on hand amounting to ₱37.88 million.*
***Pertains to payable to building contractors amounting to ₱210.00 million.*

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate. The Parent Group's primary risk management objective is to reduce the Group's exposure to changes in foreign exchange rates. To manage the currency risk, the Group enters into hedging activities.

The Group's foreign currency-denominated financial instruments are included in cash and cash equivalents and short-term investments. Cash and cash equivalents denominated in foreign currency amounted to US$34.75 million and JP¥1.28 billion as of December 31, 2018 and US$142.63 million and JP¥15.62 million as of December 31, 2017. Short-term investments denominated in foreign currency amounted to JP¥130.00 million as of December 31, 2018 and US$32.21 million and JP¥120.00 million as of December 31, 2017. Receivables denominated in foreign currency amounted to US$0.46 million as of December 31, 2017. Accounts and other payables denominated in foreign currency amounted to US$179.85 million and JP¥14.27 million as of December 31, 2017. Loans payables denominated in foreign currency amounted to US$59.68 million and JP¥23.31 billion as of December 31, 2018 and US$59.68 million as of December 31, 2017.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱52.72 to US$1.00, the Philippine peso-U.S. dollar exchange rates, and ₱0.48 to JP¥1.00 as at December 31, 2018 and ₱49.92 to US$1.00, the Philippine peso-U.S. dollar exchange rates, and ₱0.44 to JP¥1.00 as at December 31, 2017.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) on December 31, 2018 and 2017. There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

	Currency	Change in Variable	Increase (Decrease) in Income Before Tax
2018	**US$**	**₱1.85**	**(₱32)**
		(1.85)	**32**
	JP¥	**0.0002**	**(4)**
		(0.0002)	**4**
2017	US$	₱1.74	(₱78)
		(1.74)	78
	JP¥	0.0002	–
		(0.0002)	–
2016	US$	₱1.79	(₱117)
		(1.79)	117
	JP¥	0.0003	–
		(0.0003)	–

The Group determined the reasonably possible change in foreign exchange rate by using the absolute average change in peso-U.S. dollar and peso-JPY exchange rate for the past three (3) years.

Fair Value Hedge
The Group's primary risk management strategy is to reduce the Group's exposure to changes in foreign exchange rates. In this regard, the Parent Company designated a layer of its JPY-denominated long-term loan (the "Hedging Instrument") to hedge the variability in the fair value arising from the translation of its investment in TMC (the "Hedged Item") amounting to JPY22.05 billion due to fluctuations in JPY/PHP foreign exchange (FX) rates. The hedged risk is the variability in the fair value arising from the translation of the investments (the Hedged Items) due to fluctuations in JPY/PHP FX rates (foreign currency risk). The hedged item is the variability in the fair value arising from the translation of the investments (the Hedged Items) due to foreign currency risk. The hedging instrument is the of JPY22.05 billion layer of the principal amount of its long-term loan with various lenders. The terms of the hedging relationships will end in July 2024. The effectiveness of hedging relationship is tested prospectively and retrospectively. All designated hedging relationships were sufficiently effective as of December 31, 2018.

Economic relation between the hedged item and the hedging instrument was qualitatively tested by matching their critical terms. The hedged items create a foreign currency risk on the translation of investments amounting to JPY22.05 billion while the hedging instruments create the exact offset of this risk. Since the critical terms of the hedged item and hedging instrument matched, a clear economic relationship was established. The Parent Company's and the counterparty's credit risk were monitored for adverse changes. The Group assessed that the risk associated with them and the counterparty is considered minimal, at inception, and during the year and did not dominate the value changes that result from the economic relationship. Consistent with the hedge ratio per Group's risk management policy, the hedge ratio for hedge accounting purposes is 1:1 or 100% since only a layer of the long-term loan which exactly matches the notional amount of the hedged item was designated as hedging instrument.

Interest rate risk
The Group's interest rate exposure management policy centers on reducing the Group's overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and maintaining a debt portfolio mix of both fixed and floating interest rates. The portfolio mix is a function of historical, current trend and outlook of interest rates, volatility of short-term interest rates, the steepness of the yield curve and degree of variability of cash flows.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all variables held constant, of the Group's income before tax (through the impact on floating rate borrowings).

	Increase (decrease) in income before tax		
Reasonably Possible Changes in Interest Rates	**2018**	2017	2016
100 basis points (bps)	**₱–**	₱–	₱–
100 bps	–	–	–

As of December 31, 2018 and 2017, the Group has no financial instruments subject to floating interest rates.

Cash Flow Hedge
Interest rate swap
The Parent Company entered into an interest rate swap (IRS) agreement to hedge the variability in the interest cash flows arising from its floating rate loan with various lenders (the "Loan"), attributable to changes in the three-month Japanese Yen ICE LIBOR (3m JPY LIBOR). The hedged risk is variability in interest cash flows of the Loan attributable to changes in the 3m JPY LIBOR (interest rate risk). The hedged item is the interest cash flows on the Loan which is based on 3m JPY LIBOR + margin, floored at 0%. The hedging instrument is an IRS under which the Parent Company will pay fixed interest at a rate of 0.852% per annum and receive variable interest based on 3m JPY LIBOR. The terms of the hedging relationships will end in July 2024. The effectiveness of hedging relationship is tested prospectively and retrospectively. The designated hedging relationship was sufficiently effective as December 31, 2018.

An economic relation between the hedged item and the hedging instrument was qualitatively tested by matching their critical terms. The hedged item creates an exposure to pay 3m JPY ICE LIBOR (floored at 0%) + 0.65%, settled quarterly. The hedging instrument creates an exact offset of this exposure with a consequence of paying a fixed interest payment of 0.852% per annum. Since most of the critical terms of the hedged item and hedging instrument matched, a clear economic relationship was established. The Company's and the counterparty's credit risk was monitored for adverse changes. The Company assessed that the risk associated with them and the counterparty is considered minimal, at inception, and during the year and did not dominate the value changes that result from the economic relationship. Consistent with the hedge ratio per Company's risk management policy, the hedge ratio for hedge accounting purposes is 1:1 or 100% since the notional amount of the IRS exactly matches the notional amount of the Loan. The hedge ineffectiveness can arise from the counterparties' credit risk differently impacting the fair value movements of the hedging instrument and the hedged item.

Cross currency swap
WFC entered into a CCS agreement to hedge the variability in the cash flows of its USD loan arising from foreign currency exchange rates and the variability in the interest cash flows arising from the floating interest rate of the same USD loan attributable to the changes in six-month USD LIBOR (6m USD LIBOR). The hedged risk is variability in the cash flows from the translation of its USD Loan amounting to $59.67 million due to fluctuations in USD/PHP FX rates (foreign currency risk) and variability in the interest cash flows of the USD Loan attributable to changes in the 6m USD LIBOR (interest rate risk). The hedged items are the variability in the cash flows arising from the translation of the USD loan due to foreign currency risk and the interest cash flows on the USD Loan which is based on 6m USD LIBOR + 0.75% (the Hedged Items). The hedging instrument is the CCS under which WFC will pay in peso equivalent to ₱3.00 billion but will receive $59.67 million and pays fixed interest rate of 5.13% per annum on ₱3.00 billion principal but will receive floating interest rate at 6m USD LIBOR plus 0.75% on $59.67 million over a period of 10 years or up to the maturity date of June 25, 2027. The terms of the hedging relationships will end in June 2027. The effectiveness of hedging relationship is tested prospectively and retrospectively. The designated hedging relationship was sufficiently effective as December 31, 2018.

An economic relation between the hedged items and the hedging instrument was qualitatively tested by matching their critical terms. The hedged items create a foreign currency risk on the translation of $59.67 million loan and an exposure to pay 6m LIBOR +0.75%, settled semi-annually (interest rate risk). The hedging instrument creates an exact offset of these exposures with a consequence of paying a fixed interest payment of 5.13% per annum. Since the critical terms of the hedged items and the hedging instrument matched, a clear economic relationship was established. WFC and the counterparty's credit risk were monitored for adverse changes. WFC assessed that the risk associated with them and the counterparty is considered minimal, at inception, and during the year and did not dominate the value changes that result from the economic relationship. Consistent with the hedge ratio per WFC's risk management policy, the hedge ratio for hedge accounting purposes is 1:1 or 100% since the notional amount of the CCS exactly matches the notional amount of the USD Loan. The hedge ineffectiveness can arise from the counterparties' credit risk differently impacting the fair value movements of the hedging instrument and the hedged item.

The Group is holding the following hedging instruments designated as cash flow hedges as of December 31, 2018:

	Maturity					
	Less than 3 months	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**More than 2 years**	**Total**
As at 31 December 2018						
Interest Rate Swap						
Fixed interest rate (%)	.852%	.852%	.852%	.852%	.852%	.852%
Cross Currency Swap						
Fixed interest rate (%)	5.13%	5.13%	5.13%	5.13%	5.13%	5.13%

The table below sets out the effect of hedge accounting on the Group's statement of financial position, statements of income and other comprehensive income and statement of changes in equity as of December 31, 2018:

	Carrying value	Change in fair value of hedged item used for measuring ineffectiveness	Effective portion recognized in OCI	Hedge ineffectiveness recognized in the income statement
Floating rate loans				
Cross-currency swap				
Other noncurrent asset (Note 14)	₱469	₱469	₱469	₱–
Interest rate swap				
Other noncurrent liabilities (Note 20)	62	62	62	–

The Group follows a prudent policy in managing its assets and liabilities so as to ensure that exposure to fluctuation in interest rates are kept within acceptable limits. There is no ineffectiveness recognized in the profit or loss as the changes in the fair value of the hedged items used as basis for recognizing hedge ineffectiveness equals to the carrying amount of the hedging instruments.

The movement in cash flow hedge reserve follows:

	2018	2017
Beginning balance	**(₱27)**	(₱47)
Net unrealized gain on cash flow hedge	**314**	20
Ending balance (gross of tax)	**287**	(27)
Deferred tax	**(97)**	–
Ending balance (net of tax)	**₱190**	(₱27)

Equity price risk

Equity price risk is the risk that the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity securities price risk because of AFS investments held by the Group.

The table below shows the sensitivity to a reasonably possible change in the Philippine Stock Exchange index (PSEi), with all other variables held constant, of the Group's equity (through other comprehensive income) due to changes in the carrying value of the Group's financial assets at FVOCI and AFS investments. The analysis links PSEi changes, which proxies for general market movements, to individual stock prices through their betas. Betas are coefficients depicting the sensitivity of individual prices to market movements.

The sensitivity range is based on the historical volatility of the PSEi for the past year. The analysis is based on the assumption that last year's PSEi volatility will be more or less the same in the following year.

	Percentage change in PSEi	Increase (decrease) in total comprehensive income
2018	**Increase by 32.36%**	**₱3,392**
	Decrease by 32.36%	**(3,392)**
2017	Increase by 24.73%	₱373
	Decrease by 24.73%	(373)
2016	Increase by 28.85%	₱248
	Decrease by 28.85%	(248)

The table below shows the sensitivity to a reasonably possible change in the Tokyo Stock Exchange index (TSEi), with all other variables held constant, of the Group's equity (through other comprehensive income) due to changes in the carrying value of the Group's financial assets at FVOCI. The analysis links TSEi changes, which proxies for general market movements, to individual stock prices through their betas. Betas are coefficients depicting the sensitivity of individual prices to market movements.

The sensitivity range is based on the historical volatility of the TSEi for the past year. The analysis is based on the assumption that last year's TSEi volatility will be more or less the same in the following year.

	Percentage change in TSEi	Increase (decrease) in total comprehensive income
2018	Increase by 19.69%	₱1,856
	Decrease by 19.69%	(1,856)

34. Basic/Diluted Earnings Per Share

The basic/diluted earnings per share from continuing operations attributable to equity holders of the Parent Company for the years ended December 31, 2018, 2017 and 2016 were computed as follows (amounts in million, except earnings per share):

	2018	2017	2016
a.) Net income attributable to equity holders of the Parent Company from continuing operations	**₱13,390**	₱14,182	₱10,631
b.) Effect of dividends declared to voting and perpetual preferred shareholders of the Parent Company	**(590)**	(590)	(105)
c.) Net income attributable to common shareholders of the Parent Company from continuing operations	**12,800**	13,592	10,526
d.) Weighted average number of outstanding common shares of the Parent Company, as previously reported		187	174
e.) Basic/diluted earnings per share, as previously reported (c / d)		₱72.76	₱60.39
f.) Weighted average number of outstanding common shares of the Parent Company, including effect of stock dividend issued in 2018	**199**	193*	180*
g.) Basic/diluted earnings per share, as restated in 2017 and 2016 (e / f)	**₱64.21**	₱70.29	₱58.34

**Restated to show the effect of stock dividends distributed in 2018*

The basic/diluted earnings per share from discontinued operations attributable to equity holders of the Parent Company for the years ended December 31, 2016 were computed as follows (amounts in million, except earnings per share):

	2016
a.) Net income attributable to equity holders of the Parent Company from discontinued operations	₱4,003
b.) Weighted average number of outstanding common shares of the Parent Company, as previously reported	174
c.) Basic/diluted earnings per share, as previously reported (a / b)	₱22.97
d.) Weighted average number of outstanding common shares of the Parent Company, including effect of stock dividend issued in 2018	180*
e.) Basic/diluted earnings per share, as restated (c / d)	₱22.20

**Restated to show the effect of stock dividends distributed in 2018*

The basic/diluted earnings per share attributable to equity holders of the Parent Company for the years ended December 31, 2018, 2017 and 2016 were computed as follows:

	2018	2017	2016
a.) Net income attributable to equity holders of the Parent Company	**₱13,390**	₱14,182	₱14,634
b.) Effect of dividends declared to voting and perpetual preferred shareholders of the Parent Company	**(590)**	(590)	(105)
c.) Net income attributable to common shareholders of the Parent Company	**12,800**	13,592	14,529
d.) Weighted average number of outstanding common shares of the Parent Company, as previously reported		187	174
e.) Basic/diluted earnings per share, as previously reported (c / d)		₱72.76	₱83.35
f.) Weighted average number of outstanding common shares of the Parent Company, including effect of stock dividend issued in 2018	**199**	193*	180*
g.) Basic/diluted earnings per share, as restated in 2017 (e / f)	**₱64.21**	₱70.29	₱80.54

**Restated to show the effect of stock dividends distributed in 2018*

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

35. **Operating Segments**

Segment Information
For management purposes, the Group is organized into business units based on their products and activities and has the following reportable segments:

- Real estate is engaged in real estate and leasing, development and selling of properties of every kind and description, as well as ancillary trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintenance of a petroleum service station, engaging in food and restaurant service and acting as a marketing agent for and in behalf of any real estate development company or companies;
- Financial institutions are engaged in the banking and insurance industry and financing institution;
- Automotive operations are engaged in the assembly, manufacture, importation, sale and distribution of all kinds of automobiles including automobile parts, accessories, and instruments;
- Infrastructure is engaged in the water distribution, toll operation, power sector, hospitals and rail;
- Others pertain to other corporate activities of the Group (i.e., capital raising activities, acquisitions and investments); and

The chief operating decision maker (CODM) monitors the operating results of the Group for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenue, earnings before interest, taxes and depreciation/amortization (EBITDA) and pretax income which are measured similarly under PFRS, except for EBITDA. EBITDA is computed by reconciling net interest income (expense) and provision for income taxes to the net income and adding back depreciation and amortization expenses for the period.

Segment Assets
Segment assets are resources owned by each of the operating segments that are employed in its operating activities.

Segment Liabilities
Segment liabilities are obligations incurred by each of the operating segments from its operating activities.

The following tables present the financial information of the operating segments of the Group as of and for the years ended December 31, 2018 and 2017:

	December 31, 2018					
	Real Estate	Financial Institution	Automotive Operations	Infrastructure	Others	Total
Revenue	₱18,508	₱–	₱179,117	₱–	₱–	₱197,625
Other income	3,346	–	1,053	–	202	4,601
Equity in net income of associates and joint venture	(115)	9,506	–	2,126	–	11,517
	21,739	9,506	180,170	2,126	202	213,743
Cost of goods and services sold	673	–	129,176	–	–	129,849
Cost of goods manufactured and sold	–	–	31,809	–	–	31,809
Cost of rental	476	–	–	–	–	476
Cost of real estate sales	12,609	–	–	–	–	12,609
General and administrative expenses	5,739	–	8,074	–	227	14,040
	19,497	–	169,059	–	227	188,783
Earnings before interest and taxes	2,242	9,506	11,111	2,126	(25)	24,960
Depreciation and amortization	542	–	1,547	–	7	2,096
EBITDA	2,784	9,506	12,658	2,126	(18)	27,056
Interest income	1,629	–	332	–	121	2,082
Interest expense	(728)	–	(285)	–	(3,952)	(4,965)
Depreciation and amortization	(542)	–	(1,547)	–	(7)	(2,096)
Pretax income	3,143	9,506	11,158	2,126	(3,856)	22,077
Provision for income tax	(1,215)	–	(2,932)	–	(24)	(4,171)
Net income	₱1,928	₱9,506	₱8,226	₱2,126	(₱3,880)	₱17,906
Segment assets	₱133,872	₱ 118,157	₱56,430	₱33,850	₱17,441	₱359,750
Segment liabilities	₱66,038	₱–	₱27,865	₱–	₱83,560	₱177,463

	December 31, 2017					
	Real Estate	Financial Institution	Automotive Operations	Infrastructure	Others	Total
Revenue	₱14,092	₱–	₱211,692	₱–	₱–	₱225,784
Other income	2,169	–	1,068	–	6	3,243
Equity in net income of associates and joint venture	160	6,979	–	1,560	–	8,699
	16,421	6,979	212,760	1,560	6	237,726
Cost of goods and services sold	555	–	147,158	–	–	147,713
Cost of goods manufactured and sold	–	–	39,635	–	–	39,635
Cost of rental	360	–	–	–	–	360
Cost of real estate sales	10,035	–	–	–	–	10,035
General and administrative expenses	4,369	–	8,262	–	268	12,899
	15,319	–	195,055	–	268	210,642
Earnings before interest and taxes	1,102	6,979	17,705	1,560	(262)	27,084
Depreciation and amortization	476	–	1,283	–	6	1,765
EBITDA	1,578	6,979	18,988	1,560	(256)	28,849
Interest income	1,742	–	320	–	23	2,085
Interest expense	(595)	–	(189)	–	(2,610)	(3,394)
Depreciation and amortization	(476)	–	(1,283)	–	(6)	(1,765)
Pretax income	2,249	6,979	17,836	1,560	(2,849)	25,775
Provision for income tax	(544)	–	(3,975)	–	(5)	(4,524)
Net income	₱1,705	₱6,979	₱13,861	₱1,560	(₱2,854)	₱21,251
Segment assets	₱125,480	₱85,771	₱61,835	₱32,365	₱2,240	₱307,691
Segment liabilities	₱57,244	₱–	₱29,178	₱–	₱47,578	₱134,000

Geographical Information
The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

	2018	2017	2016
Domestic	**₱207,610**	₱231,855	₱194,229
Foreign	**8,215**	7,956	7,895
	₱215,825	₱239,811	₱202,124

36. **Contingencies**

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations. The information usually required by PAS 37 is not disclosed on the grounds that it can be expected to prejudice the outcome of pending litigations.

In order to partially guarantee the completion of Federal Land's ongoing projects and in the ordinary course of the Group's business, the Parent Company issued Letters of Guarantee (LG) in favor of the Housing and Land Use Regulatory Board for a total guarantee amount of ₱3.45 billion and ₱2.01 billion as of December 31, 2018 and 2017, respectively.

37. **Events after the Reporting Date**

On January 28, 2019, the Parent Company paid the quarterly cash dividends amounting to ₱56.01 million, or ₱11.57475 per share in favor of GT Capital's perpetual preferred series A stockholders as of record date January 3, 2019.

On January 28, 2019, the Parent Company paid the quarterly cash dividends amounting to ₱91.21 million, or ₱12.73725 per share in favor of GT Capital's perpetual preferred c series B stockholders as of record date January 3, 2019.

On March 26, 2019, the BOD of the Parent Company approved the declaration of a regular cash dividend amounting to ₱598.01 million, or Three Pesos (₱3.00) per share in favor of GT Capital's common stockholders of record as of April 10, 2019, payable on or before April 25, 2019.

On March 26, 2019, the BOD of the Parent Company approved the declaration of a regular cash dividend in favor of its Voting Preferred stockholders at a dividend rate of 3.77%, the three (3)-year PDST-R2 rate on issue date (April 13, 2015), with record date on April 10, 2019 and payment date on April 25, 2019.

On March 26, 2019, the BOD of the Parent Company approved the declaration of an 8.0% stock dividend, subject to shareholder's approval.

38. **Consolidated Statements of Cash Flows**

Below are the noncash operating, investing and financing transactions of the Group:

	2018	2017	2016
Transfers between investment property and inventories (Note 6)	**₱533**	₱2,775	₱3,378
Borrowing cost capitalized to inventories (Note 6)	**1,622**	1,408	1,575
Fair value of previously held interest	–	–	969
Reclassification during the year:			
Prepayments and other current assets	–	998	–
Land held for future development	–	(1,416)	–
Investment properties	–	(561)	–
Property and equipment	–	561	–
Accounts and other payables	–	418	–
Fair value of net assets acquired from business combinations:			
Assets			
Cash and cash equivalents	–	1	177
Receivables	–	44	906
Inventories	–	321	467
Prepayments and other current assets	–	67	35
Property and equipment	–	–	1,290
Investment properties	–	484	–
Deferred tax assets	–	–	39
Intangible assets	–	–	22
Other noncurrent assets	–	2	–
Liabilities			
Accounts and other payables		28	526
Customer's deposits	–	–	32
Loans payable – current	–	789	810
Due to related parties	–	30	–
Other current liabilities	–	–	18
Income tax payable	–	–	22
Deferred tax liabilities on fair value increment	–	94	198
Pension liabilities	–	–	67
Other noncurrent liabilities	–	6	–
Net assets deconsolidated due to sale of subsidiary (Note 12)			
Assets			
Cash and cash equivalents	–	–	13,136
Short-term investments	–	–	300
Receivables	–	–	3,591
Inventories	–	–	1,523
Prepayments and other current assets	–	–	1,988
Available-for-sale securities	–	–	674
Property and equipment	–	–	47,117
Goodwill and intangible assets	–	–	7,105
Deferred tax assets	–	–	463
Other noncurrent assets	–	–	237

(Forward)

	2018	2017	2016
Liabilities			
Accounts and other payables	₱–	₱–	₱5,200
Customer's deposits	–	–	1
Income tax payable	–	–	3
Other current liabilities	–	–	74
Pension liabilities	–	–	675
Long-term debt	–	–	37,200
Deferred tax liabilities	–	–	970
Other noncurrent liabilities	–	–	251

The following are the changes in liabilities in 2018 and 2017 arising from financing activities including both cash and non-cash changes:

	January 1, 2018	Availment	Payment	Forex movement	Amortization of Day 1 loss	Amortization of Deferred Financing cost	Others*	December 31, 2018
Short-term debt (Note 16)	₱6,033	₱32,314	(₱27,847)	₱–	₱–	₱–	₱–	₱10,500
Current portion of long-term debt (Note 16)	2,467	(17)	(3,506)	–	–	17	1,859	820
Long-term debt – net of current portion (Note 16)	57,021	38,989	(75)	195	–	67	(1,848)	94,349
Current portion of bonds payable	–	–	–	–	–	–	2,994	2,994
Bonds payable (Note 17)	21,877	–	–	–	–	30	(2,994)	18,913
Current portion of liabilities on purchased properties (Notes 20 and 27)	582	–	(503)	–	–	–	337	416
Liabilities on purchased properties - net of current portion (Notes 20 and 27)	3,152	–	–	–	62	–	(337)	2,877
	₱91,132	₱71,286	(₱31,931)	₱195	₱62	₱114	₱11	₱130,869

* *Others include effect of business combination and reclassification from noncurrent to current portion.*

	January 1, 2017	Availment	Payment	Forex movement	Amortization of Day 1 loss	Amortization of Deferred Financing cost	Others*	December 31, 2017
Short-term debt (Note 16)	₱6,697	₱31,549	(₱33,002)	₱–	₱–	₱–	₱789	₱6,033
Current portion of long-term debt (Note 16)	1,581	–	(4,995)	–	–	–	5,881	2,467
Long-term debt – net of current portion (Note 16)	56,475	6,805	(400)	(20)	–	42	(5,881)	57,021
Bonds payable (Note 17)	21,848	–	–	–	–	29	–	21,877
Current portion of liabilities on purchased properties (Notes 20 and 27)	166	250	(166)	–	–	–	332	582
Liabilities on purchased properties - net of current portion (Notes 20 and 27)	1,993	1,479	–	–	12	–	(332)	3,152
	₱88,760	₱40,083	(₱38,563)	(₱20)	₱12	₱71	₱789	₱91,132

* *Others include effect of business combination and reclassification from noncurrent to current portion.*

39. **Approval for the Release of the Financial Statements**

The accompanying financial statements of the Group were approved and authorized for issue by the Parent Company's BOD on March 26, 2019.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International
Ayala Avenue corner H.V. Dela Costa St.
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of GT Capital Holdings, Inc. and Subsidiaries (the Group) as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 included in this Form 17-A and have issued our report thereon dated March 26, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules I to IV listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.

Miguel U. Ballelos, Jr.
Partner
CPA Certificate No. 109950
SEC Accreditation No. 1566-A (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 241-031-088
BIR Accreditation No. 08-001998-114-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332525, January 3, 2019, Makati City

March 26, 2019

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

DECEMBER 31, 2018

GT CAPITAL HOLDINGS, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2018
(In Millions)

Unappropriated Retained Earnings, as previously reported, beginning		₱2,762
Add: Effect of adoption of PFRS 9, *Financial Instruments*		6
Unappropriated Retained Earnings, as restated, beginning		2,768
Add: Net income actually earned during the period		
Net income during the period closed to Retained earnings		5,832
Subtotal		8,600
Add (Less):		
Appropriations during the period	(17,000)	
Reversal of appropriation upon completion of the expansion and acquisition	19,000	
Dividend declaration during the period	(1,167)	
Stock dividends distribution	(6,721)	(5,888)
Total Retained Earnings, end available for dividend declaration		₱2,712

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS

AS OF DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives	✓		
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-E
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Millions)

Schedule A. Financial Assets

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income received and accrued
Investment securities				
Financial assets at FVTPL	Various	₱3,181	₱3,181	₱–
Financial assets at FVOCI				
Quoted	Various	10,631	10,631	178
Unquoted	Various	317	317	252

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
A.R. Alcid	Senior Manager	₱–	₱2	(₱2)	–	–	₱–	₱–
C.T. Alfonso	Senior Manager	–	1	(1)	–	–	–	–
M.Z. Amamangpang	Assistant Vice President	–	1	(1)	–	–	–	–
S.C. Iyog	Senior Vice President	–	1	–	–	–	1	1
P.N. Moralde	Assistant Vice President	1	–	–	–	–	1	1
R.M. Quiza	Senior Manager	1	–	–	–	–	1	1
R.G. Oña	Rank & File / Supervisor	1	–	–	–	–	1	1
M.L. Gopez	Officer	1	–	–	–	–	1	1
P.C. Castro	Officer	–	1	–	–	–	1	1
I.E. Claudio	Officer	1	–	–	–	–	1	1
R.B. De Grano	Officer	1	–	–	–	–	1	1
I.O. Elopre	Rank & File / Supervisor	–	1	–	–	–	1	1
L.B. Aguilera	Rank & File / Supervisor	–	1	–	–	–	1	1
M.W. Guieb	Rank & File / Supervisor	1	–	–	–	–	1	1
R.B. Dugang	Officer	1	–	–	–	–	1	1
A.R. Bicaldo	Rank & File / Supervisor	1	–	–	–	1	–	1
A.E. Capoquian, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
C.B. Limcuando	Rank & File / Supervisor	1	–	–	–	–	1	1
H.G. De Guzman	Officer	1	–	–	–	–	1	1
M.S. Villanueva	Rank & File / Supervisor	–	1	–	–	–	1	1
A.S. Abuan	Rank & File / Supervisor	–	1	–	–	–	1	1
A.S. Bonifacio	Officer	1	–	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
R.H. Aguila	Rank & File / Supervisor	–	1	–	–	–	1	1
W.A. Endaya	Rank & File / Supervisor	1	–	–	–	–	1	1
R.S. Maaño	Rank & File / Supervisor	1	–	–	–	–	1	1
M.D. Mendoza	Rank & File / Supervisor	1	–	–	–	–	1	1
R.N. Gaspar	Officer	1	–	–	–	–	1	1
J.R. Ubaña	Rank & File / Supervisor	1	–	–	–	–	1	1
G.E. Amoranto	Officer	1	–	–	–	–	1	1
A.G. Lopez	Officer	1	–	–	–	–	1	1
N.O. Pante	Officer	–	1	–	–	–	1	1
G.G. Deangkinay	Officer	1	–	–	–	–	1	1
L.Y. Fernandez	Rank & File / Supervisor	1	–	–	–	–	1	1
R.B. Dotollo	Rank & File / Supervisor	–	1	–	–	–	1	1
V.P. Constantino, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
C.M. Aberin, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
L.C. Jimenez	Officer	1	–	–	–	–	1	1
J.J. Contreras, Jr.	Officer	–	1	–	–	–	1	1
R.T. Rodriguez	Officer	1	–	–	–	–	1	1
A.A. Oblea	Officer	1	–	–	–	–	1	1
G.A. Javier	Rank & File / Supervisor	1	–	–	–	–	1	1
P.B. Amoroso	Rank & File / Supervisor	1	–	–	–	–	1	1
E.E. Embile	Rank & File / Supervisor	1	–	–	–	–	1	1
F.C. Escrimadora	Rank & File / Supervisor	2	–	(1)	–	–	1	1
F.M. Mercado, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
V.M. Perlas, Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
E.J. Nil	Rank & File / Supervisor	1	–	–	–	–	1	1
A.M. Prado, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
R.M. Tuscano, Jr.	Rank & File / Supervisor	–	1	–	–	1	–	1
R.M. Gayorgor	Rank & File / Supervisor	1	–	–	–	–	1	1
B.V. De Leon	Rank & File / Supervisor	1	–	–	–	–	1	1
M.D. Garcia	Rank & File / Supervisor	1	–	–	–	–	1	1
A.A. Nazareth	Rank & File / Supervisor	1	–	–	–	–	1	1
N.R. Amboy	Rank & File / Supervisor	1	–	–	–	–	1	1
R.Q. Villanueva	Rank & File / Supervisor	1	–	–	–	–	1	1
R.B. Fortuna	Rank & File / Supervisor	1	–	–	–	–	1	1
E.O. Garcia	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
B.C. Punzalan, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
A.E. Delmo	Rank & File / Supervisor	–	1	–	–	–	1	1
M.B. Candelario	Rank & File / Supervisor	–	1	–	–	–	1	1
A.L. Cansicio	Rank & File / Supervisor	1	–	–	–	–	1	1
M.M. Legaspi	Rank & File / Supervisor	1	–	–	–	–	1	1
E.P. Ramos	Rank & File / Supervisor	1	–	–	–	–	1	1
R.G. Jaspe	Rank & File / Supervisor	1	–	–	–	–	1	1
A.L. Laureta	Rank & File / Supervisor	–	1	–	–	–	1	1
A.C. Prado	Rank & File / Supervisor	1	–	–	–	–	1	1
L.F. Ternate	Rank & File / Supervisor	1	–	–	–	–	1	1
C.G. Sevilla	Rank & File / Supervisor	1	–	–	–	–	1	1
A.L. Bautista	Rank & File / Supervisor	1	–	–	–	–	1	1
J.A. Maraña	Rank & File / Supervisor	–	1	–	–	–	1	1
A.B. Nuñez	Rank & File / Supervisor	1	–	–	–	–	1	1
R.C. Castillo	Rank & File / Supervisor	1	–	–	–	–	1	1
L.B. Sison	Rank & File / Supervisor	1	–	–	–	–	1	1
N.A. Dedicatoria	Rank & File / Supervisor	1	–	–	–	–	1	1
E.M. Lacibal	Rank & File / Supervisor	1	–	–	–	–	1	1
R.P. Prado	Rank & File / Supervisor	–	1	–	–	–	1	1
J.M. Tardeo	Rank & File / Supervisor	–	1	–	–	–	1	1
A.M. Brecia	Rank & File / Supervisor	1	–	–	–	–	1	1
E.P. Agbay, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
A.E. Rizaldo	Rank & File / Supervisor	1	–	–	–	–	1	1
R.B. Fabula	Rank & File / Supervisor	1	–	–	–	–	1	1
R.M. Simon	Rank & File / Supervisor	1	–	–	–	–	1	1
O.N. Muya	Rank & File / Supervisor	–	1	–	–	–	1	1
J.F. Gaa Jan	Rank & File / Supervisor	–	1	–	–	–	1	1
W.V. Gonzales	Officer	1	–	–	–	–	1	1
J.L. Orteza	Officer	1	–	–	–	–	1	1
R.S. Ladines	Rank & File / Supervisor	–	1	–	–	1	–	1
R.M. Valenzuela	Rank & File / Supervisor	1	–	–	–	–	1	1
R.P. Gabiana	Rank & File / Supervisor	1	–	–	–	–	1	1
J.O. Benaid	Rank & File / Supervisor	1	–	–	–	–	1	1
J.E. Erfe	Rank & File / Supervisor	1	–	–	–	–	1	1
J.P. Almario	Rank & File / Supervisor	1	–	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
J.L. Agustin	Rank & File / Supervisor	1	–	–	–	–	1	1
E.H. Magat	Rank & File / Supervisor	–	1	–	–	–	1	1
J.A. Aligada	Officer	1	–	–	–	–	1	1
R.R. Gutierrez	Officer	1	–	–	–	–	1	1
D.R. Escuro	Officer	2	-	(1)	–	–	1	1
L.T. Gilbuena	Officer	1	–	–	–	1	–	1
F.Y. Flores, Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
I.C. Sincioco	Officer	1	–	–	–	–	1	1
M.T. Esplana	Officer	1	–	–	–	–	1	1
R.B. Valdez	Officer	–	2	–	–	–	2	2
A.G. Tepora	Rank & File / Supervisor	1	–	–	–	–	1	1
M.C. Buena	Officer	1	–	–	–	–	1	1
A.M. Sabido	Rank & File / Supervisor	1	–	–	–	–	1	1
M.B. Antonio	Officer	1	–	–	–	–	1	1
A.B. Bautista	Officer	1	–	–	–	–	1	1
V.B. Delos	Officer	–	1	–	–	–	1	1
C.S. Claro	Rank & File / Supervisor	1	–	–	–	–	1	1
J.G. Jimenez	Rank & File / Supervisor	1	–	–	–	–	1	1
M.M. Faustino	Rank & File / Supervisor	2	–	(1)	–	–	1	1
J.C. Villanueva	Officer	2	–	(1)	-	-	1	1
J.T. Arias	Officer	1	–	–	–	–	1	1
E.U. De La Peña	Rank & File / Supervisor	1	–	–	–	–	1	1
P.L. Peñaflorida	Rank & File / Supervisor	1	–	–	–	–	1	1
M.Y. Santoalla	Officer	–	1	–	–	–	1	1
J.T. Calimbahin	Rank & File / Supervisor	1	–	–	–	–	1	1
E.G. Chavez	Rank & File / Supervisor	–	1	–	–	–	1	1
E.P. Chua	Rank & File / Supervisor	1	–	–	–	–	1	1
J.M. Atienza	Officer	1	–	–	–	–	1	1
J.O. Sandoval	Officer	1	–	–	–	–	1	1
M.C. Capco	Rank & File / Supervisor	1	–	–	–	–	1	1
B.L. Aquino	Rank & File / Supervisor	1	–	–	–	–	1	1
S.T. Chua-Lim	Officer	1	–	–	–	–	1	1
J.S. Matsuo	Officer	–	1	–	–	–	1	1
D.C. Cruz	Officer	1	–	–	–	–	1	1
J.M. Gecolea	Rank & File / Supervisor	1	–	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
D.R. Villacorta	Rank & File / Supervisor	1	–	–	–	–	1	1
E.C. Delizo	Rank & File / Supervisor	–	1	–	–	–	1	1
E.O. Marcellana	Rank & File / Supervisor	1	–	–	–	–	1	1
B.E. Dionela	Officer	1	–	–	–	–	1	1
M.J. Rosario	Officer	1	–	–	–	–	1	1
D.Z. Robosa	Officer	1	–	–	–	–	1	1
C.R. Ofilada	Rank & File / Supervisor	1	–	–	–	–	1	1
R.A. Kalambacal	Rank & File / Supervisor	1	–	–	–	–	1	1
C.C. Santiago	Rank & File / Supervisor	1	–	–	–	–	1	1
M.C. Masamayor	Rank & File / Supervisor	–	1	–	–	–	1	1
A.A. Marcellana	Rank & File / Supervisor	1	–	–	–	–	1	1
J.A. Maunte	Rank & File / Supervisor	–	1	–	–	–	1	1
A.D. Bargo	Rank & File / Supervisor	1	–	–	–	–	1	1
R.P. Pedregosa	Rank & File / Supervisor	1	–	–	–	–	1	1
J.C. Albay	Rank & File / Supervisor	1	–	–	–	–	1	1
S.D. Gumabao, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
A.E. Pancho	Officer	–	1	–	–	–	1	1
E.D. Lucio	Rank & File / Supervisor	1	–	–	–	–	1	1
E.M. Caisip	Rank & File / Supervisor	1	–	–	–	–	1	1
M.G. Canlobo	Rank & File / Supervisor	1	–	–	–	–	1	1
E.I. Manzanero	Rank & File / Supervisor	1	–	–	–	–	1	1
H.L. Buendia	Officer	1	–	–	–	–	1	1
R.B. Santilles	Rank & File / Supervisor	1	–	–	–	–	1	1
R.S. Mercado	Rank & File / Supervisor	1	–	–	–	–	1	1
R.P. Ocampo	Rank & File / Supervisor	1	–	–	–	–	1	1
E.D. Forteza	Rank & File / Supervisor	–	1	–	–	–	1	1
V.A. Nazareth	Rank & File / Supervisor	1	–	–	–	–	1	1
J.M. Mañalac	Rank & File / Supervisor	1	–	–	–	–	1	1
R.O. Romero	Rank & File / Supervisor	1	–	–	–	–	1	1
A.P. Peralta	Rank & File / Supervisor	1	–	–	–	–	1	1
R.M. Inanoria	Rank & File / Supervisor	–	1	–	–	–	1	1
I.E. Borsigue	Rank & File / Supervisor	1	–	–	–	–	1	1
D.C. Rosales	Rank & File / Supervisor	1	–	–	–	–	1	1
C.M. Alcantara	Rank & File / Supervisor	1	–	–	–	–	1	1
V.Y. Margallo, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
D.M. Miranda	Rank & File / Supervisor	1	–	–	–	–	1	1
T.A. Echano	Rank & File / Supervisor	1	–	–	–	–	1	1
G.F. Pante	Rank & File / Supervisor	1	–	–	–	–	1	1
A.B. Parilla	Rank & File / Supervisor	–	1	–	–	–	1	1
R.R. De Guzman	Rank & File / Supervisor	1	–	–	–	–	1	1
F.A. Pagaspas	Rank & File / Supervisor	1	–	–	–	–	1	1
N.B. De La Cueva	Rank & File / Supervisor	1	–	–	–	–	1	1
A.F. Parayno	Rank & File / Supervisor	1	–	–	–	–	1	1
B.L. Abraham	Rank & File / Supervisor	1	–	–	–	–	1	1
D.A. Carpio	Rank & File / Supervisor	1	–	–	–	–	1	1
M.C. Visaya	Rank & File / Supervisor	1	–	–	–	–	1	1
E.E. Sto Tomas	Rank & File / Supervisor	1	–	–	–	–	1	1
A.M. Abante	Rank & File / Supervisor	–	1	–	–	–	1	1
L.R. Olaco, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
R.D. Andal	Rank & File / Supervisor	1	–	–	–	–	1	1
J.M. Broqueza	Rank & File / Supervisor	1	–	–	–	–	1	1
R.O. Obmina	Rank & File / Supervisor	1	–	–	–	–	1	1
R.S. Macasieb	Rank & File / Supervisor	1	–	–	–	–	1	1
J.C. Soto	Rank & File / Supervisor	–	1	–	–	–	1	1
A.Z. Alam	Rank & File / Supervisor	–	1	–	–	–	1	1
C.V. Aldea	Rank & File / Supervisor	1	–	–	–	–	1	1
M.A. Calderon	Rank & File / Supervisor	1	–	–	–	–	1	1
G.G. Castillo	Officer	–	1	–	–	–	1	1
A.C. Hayag	Rank & File / Supervisor	1	–	–	–	–	1	1
R.V. Liwanag	Rank & File / Supervisor	1	–	–	–	–	1	1
A.M. Marquez	Rank & File / Supervisor	1	–	–	–	–	1	1
R.T. Pahati, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
R.E. Pineda	Rank & File / Supervisor	–	1	–	–	–	1	1
C.L. Rodelas	Rank & File / Supervisor	1	–	–	–	–	1	1
W.M. Solas	Rank & File / Supervisor	1	–	–	–	–	1	1
E.B. Tatad	Rank & File / Supervisor	1	–	–	–	–	1	1
L.D. Tejano	Officer	1	–	–	–	–	1	1
D.A. Casas	Rank & File / Supervisor	1	–	–	–	–	1	1
N.F. Fuedan	Rank & File / Supervisor	1	–	–	–	–	1	1
L.L. Cabauatan	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
R.B. Turico	Rank & File / Supervisor	1	–	–	–	–	1	1
R.G. Waje	Rank & File / Supervisor	1	–	–	–	–	1	1
G.D. Baybay	Rank & File / Supervisor	1	–	–	–	–	1	1
V.P. Gozo	Rank & File / Supervisor	1	–	–	–	–	1	1
T.V. Pinca	Rank & File / Supervisor	1	–	–	–	–	1	1
E.E. Aguila	Rank & File / Supervisor	1	–	–	–	–	1	1
O.S. Tirador	Rank & File / Supervisor	1	–	–	–	–	1	1
P.R. Santos	Rank & File / Supervisor	–	1	–	–	–	1	1
L.G. Perey	Rank & File / Supervisor	1	–	–	–	–	1	1
E.M. Caancan	Rank & File / Supervisor	1	–	–	–	–	1	1
R.A. Parado	Rank & File / Supervisor	1	–	–	–	–	1	1
G.V. Rodriguez	Rank & File / Supervisor	1	–	–	–	–	1	1
J.M. Santiago	Rank & File / Supervisor	1	–	–	–	–	1	1
R.C. Bay	Rank & File / Supervisor	1	–	–	–	–	1	1
N.C. Abang	Rank & File / Supervisor	1	–	–	–	–	1	1
R.S. Aquino	Rank & File / Supervisor	–	1	–	–	–	1	1
C.T. Biscocho	Rank & File / Supervisor	-	1	–	–	–	1	1
I.B. Del Mundo	Rank & File / Supervisor	1	–	–	–	–	1	1
F.A. Macatangay	Rank & File / Supervisor	1	–	–	–	–	1	1
G.S. Espinosa	Officer	1	–	–	–	–	1	1
J.L. Pareja	Rank & File / Supervisor	-	1	–	–	–	1	1
E.T. Lambio	Rank & File / Supervisor	1	–	–	–	–	1	1
A.B. Divinagracia	Rank & File / Supervisor	1	–	–	–	–	1	1
A.G. Go	Rank & File / Supervisor	2	–	(1)	-	-	1	1
G.T. Laural	Rank & File / Supervisor	1	–	–	–	–	1	1
R.C. Vargas	Rank & File / Supervisor	1	–	–	–	–	1	1
R.V. Barcos	Rank & File / Supervisor	1	–	–	–	–	1	1
J.D. Bernardo	Rank & File / Supervisor	1	–	–	–	–	1	1
M.P. De Leon	Rank & File / Supervisor	1	–	–	–	–	1	1
R.P. Ugates	Rank & File / Supervisor	-	1	–	–	–	1	1
J.C. Mandras	Rank & File / Supervisor	1	–	–	–	–	1	1
R.C. Delos Santos, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
T.T. Lopez, Jr.	Officer	1	–	–	–	–	1	1
E.A. Rogador	Rank & File / Supervisor	–	1	–	–	–	1	1
A.I. Manongsong	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
F.M. Aspuria	Rank & File / Supervisor	1	–	–	–	–	1	1
R.M. Mercado	Rank & File / Supervisor	–	1	–	–	–	1	1
L.C. Capidos	Rank & File / Supervisor	1	–	–	–	–	1	1
A.D. Cruzado	Rank & File / Supervisor	-	1	–	–	–	1	1
R.A. Adorador	Rank & File / Supervisor	1	–	–	–	–	1	1
A.D. Gimang	Rank & File / Supervisor	1	–	–	–	–	1	1
F.C. Hermosa	Rank & File / Supervisor	1	–	–	–	–	1	1
R.M. Cantalejo	Rank & File / Supervisor	1	–	–	–	–	1	1
E.C. Cruz	Rank & File / Supervisor	1	–	–	–	–	1	1
F.B. De Guzman, Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
G.C. Cruzado	Rank & File / Supervisor	–	1	–	–	–	1	1
R.T. Ramos	Rank & File / Supervisor	–	1	–	–	–	1	1
A.A. Andallo	Rank & File / Supervisor	1	–	–	–	–	1	1
D.L. Samson	Rank & File / Supervisor	1	–	–	–	–	1	1
J.V. Orcajada	Rank & File / Supervisor	1	–	–	–	–	1	1
B.P. Oclarino	Rank & File / Supervisor	1	–	–	–	–	1	1
H.H. Hara	Rank & File / Supervisor	1	–	–	–	–	1	1
C.T. Dionela	Officer	–	1	–	–	–	1	1
L.M. De Leon	Rank & File / Supervisor	–	1	–	–	–	1	1
A.L. Avenido	Rank & File / Supervisor	–	1	–	–	–	1	1
R.G. Pane	Rank & File / Supervisor	–	1	–	–	–	1	1
J.M. Lamberte	Rank & File / Supervisor	–	1	–	–	–	1	1
R.S. Camo	Rank & File / Supervisor	–	1	–	–	–	1	1
L.G. Esguerra	Rank & File / Supervisor	–	1	–	–	–	1	1
D.T. Tagubase	Officer	–	1	–	–	–	1	1
N,R, Buenavidez	Rank & File / Supervisor	–	1	–	–	–	1	1
R.V. Salao, Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
A.C. Feliciano	Rank & File / Supervisor	–	1	–	–	–	1	1
R.M. Mercado	Rank & File / Supervisor	–	1	–	–	–	1	1
C.E. Cobilla	Rank & File / Supervisor	–	1	–	–	–	1	1
A.D. Dueñas	Rank & File / Supervisor	–	1	–	–	–	1	1
N.T. Espejon	Rank & File / Supervisor	–	1	–	–	–	1	1
J.D. De Leon	Rank & File / Supervisor	–	1	–	–	–	1	1
A.B. Aspiras	Rank & File / Supervisor	–	1	–	–	–	1	1
C.G. Alcancia	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
M.V. Ulanday	Rank & File / Supervisor	–	1	–	–	–	1	1
J.P. Sto Domingo, Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
J.C. Alicabo	Rank & File / Supervisor	–	1	–	–	–	1	1
E.D. Parala	Rank & File / Supervisor	–	1	–	–	–	1	1
R.A. Peña	Rank & File / Supervisor	–	1	–	–	–	1	1
C.B. Nalaunan	Rank & File / Supervisor	–	1	–	–	–	1	1
R.R. Bayot	Rank & File / Supervisor	–	1	–	–	–	1	1
J.V. Dizon	Rank & File / Supervisor	–	1	–	–	–	1	1
A.B. Alvarez	Rank & File / Supervisor	–	1	–	–	–	1	1
M.A. Quinto	Rank & File / Supervisor	–	1	–	–	–	1	1
R.B. Magdaong	Rank & File / Supervisor	–	1	–	–	–	1	1
J.A. Berdin	Rank & File / Supervisor	–	1	–	–	–	1	1
M.N. Caraan	Rank & File / Supervisor	–	1	–	–	–	1	1
A.D. Bautista	Rank & File / Supervisor	–	1	–	–	–	1	1
		₱198	₱90	(₱10)	₱–	₱3	₱275	₱278

Schedule C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements:

Name of debtor	Relationship	Balance at beginning of period	Net Transaction	Current	Not Current	Balance at end of period
Topsphere Realty Development Co. Inc.	Subsidiary of Federal Land, Inc.	₱835	(12)	823	–	823
Omni Orient Management Corp.	-do-	4	–	4	–	4
Central Realty & Dev't Corp.	-do-	328	–	328	–	328
Horizon Land Property Development Corp.	-do-	2,367	(400)	1,967	–	1,967
Micara Land Inc.	Subsidiary of Property Company of Friends, Inc.	928	(525)	403	–	403
Firm Builders Realty Development Corporation	-do-	164	9	173	–	173
Marcan Development Corporation	-do-	1	(4)	(3)	–	(3)
Williamton Holdings Inc.	-do-	(173)	(926)	(1,099)	–	(1,099)
Toyota San Fernando Pampanga, Inc.	Subsidiary of Toyota Motor Philippines Corp.	80	115	195	–	195
Toyota Makati, Inc.	-do-	191	8	199	–	199
Lexus Manila, Inc.	-do-	1	309	310	–	310
Toyota Sta. Rosa Laguna Inc.	-do-	16	39	55	–	55
TMP Logistics, Inc.	-do-	–	14	14	–	14
TMBC Insurance Agency Corporation	Subsidiary of Toyota Manila Bay Corp.	–	1	1	–	1
Oxfordshire Holdings, Inc.	-do-	–	26	26	–	26
		₱4,742	(₱1,346)	₱3,396	₱–	₱3,396

Schedule D. Intangible Assets - Other Assets

Description (i)	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)*	Ending balance
Goodwill	₱8,767	₱–	₱–	₱–	₱–	₱8,767
Customer relationship	3,883	–	–	–	–	3,883
Software cost and license - net	360	62	(119)	–	–	303
Franchise - net	2	–	–	–	–	2
	₱13,012	₱62	(119)	₱–	₱–	₱12,955

**Other changes (Additions/deductions) pertains to reclassification.*

Schedule E. Long Term Debt

Title of issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Other details
Bonds payable	₱3,900	₱–	₱3,892	Interest rate of 4.8371% and will mature on February 27, 2020
Bonds payable	6,100	–	6,069	Interest rate of 5.0937% and will mature on February 27, 2023
Bonds payable	3,000	2,994	–	Interest rate of 4.7106% and will mature on November 7, 2019
Bonds payable	5,000	–	4,978	Interest rate of 5.1965% and will mature on August 7, 2021
Bonds payable	4,000	–	3,974	Interest rate of 5.6250% and will mature on August 7, 2024
	22,000	2,994	18,913	
Note Facility Agreement	4,875	25	4,850	Annual payment of ₱25 million from 2014 to 2020, ₱5 million payable in years 2021 and 2022; P955 million payable on July 5, 2023
Loans payable	2,000	–	1,995	Interest rate of 2.80% and will mature on August 25, 2021
Loans payable	200	–	199	Interest rate of 2.60% and will mature on November 22, 2021
Loans payable	536	–	534	Interest rate of 2.55% and will mature on November 22, 2021
Loans payable	300	–	299	Interest rate of 2.55% and will mature on November 22, 2021
Loans payable	200	–	199	Interest rate of 2.55% and will mature on November 22, 2021
Loans payable	3,264	–	3,251	Interest rate of 2.60 to 2.90% and will mature in 2021 and 2022
Loans payable	6,600	88	6,512	₱2,000.00 million with fixed interest rate of 5.8422% per annum will mature on December 20, 2024; ₱1,500.00 million with fixed interest rate of 5.8591% per annum will mature on December 22, 2024; ₱2,000.00 million payable at 40% quarterly payment starting at the end of 5th year and 60% on December 23, 2024 with fixed interest rate of 5.6658% per annum; ₱1,100.00 payable at 40% quarterly payment at the end of 5th year to 9th year and 60% on December 20, 2024 with fixed interest rate of 5.05% per annum.
Loans payable	2,200	–	2,200	Fixed interest rate of 5.05%. Principal payment of the loan will start on December 31, 2020 to 2024 at the amount of ₱176 million per year and the remaining balance will be paid on maturity date.
Loans payable	800	–	800	Interest rate of 6.07% with a term of 20 years and will be paid in full on maturity date.
Loans payable	200	–	200	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	335	–	335	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	140	–	140	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	120	–	120	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	200	–	199	Interest rate of 5.8633%, subject to equal annual principal amortization amounting to ₱0.20 million starting on May 29, 2021 and fully payable on May 29, 2026
Loans payable	250	12	225	Interest rate of 5.25%, due in annual payment of ₱12.5 million starting on September 2018 and fully payable on September 5, 2021
Loans payable	100	–	100	Interest rate of 5.725% and will mature on March 16, 2022
Loans payable	500	–	497	Interest rate of 5.9625% and will mature on November 4, 2022
Loans payable	2,500	–	2,490	Interest rate of 4.25% and will mature on June 29, 2023
Loans payable	713	38	669	Interest rates of 6.6728% and 6.7097% and will mature on September 5, 2021
Loans payable	79	–	79	Interest rate of 4.2% and will mature on February 26, 2021
Loans payable	91	–	91	Interest rate of 2.7% and will mature on September 28, 2025
Loans payable	₱76	₱–	₱76	Interest rate of 2.7% and will mature on October 23, 2026

Title of issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Other details
Loans payable	1,100	75	1,022	Interest rates ranging from 4.85% to 5.94% and will mature on May 29, 2026
Loans payable	4,700	552	3,434	Interest rate of 6.0% and will mature in 2025 and 2026
Loans payable	3,000	30	3,104	Interest rate of 5.13% and will mature on June 25, 2027
Loans payable	7,000	–	6,978	Interest rate of 5.556% and will mature on March 26, 2025
Loans payable	6,000	–	5,981	Interest rate of 5.0500% and will mature on March 26, 2025
Loans payable	2,000	–	1,993	Interest rate of 5.8081% and will mature on December 4, 2027
Loans payable	4,000	–	3,984	Interest rate of 5.8075% and will mature on December 3, 2027
Loans payable	2,000	–	1,992	Interest rate of 5.9343% and will mature on December 22, 2028
Loans payable	4,000	–	3,984	Interest rate of 5.5556% and will mature on December 22, 2026
Loans payable	10,000	–	9,928	Interest rate of 7.3232% and will mature on March 27, 2030
Loans payable	15,000	–	14,894	Interest rate of 6.5687% and will mature on March 27, 2028
Loans payable	11,075	–	10,995	Interest rate of 3-month JPY Libor plus 0.65% spread and will mature in July 2024
	96,154	820	94,349	
	₱118,154	₱3,814	₱113,262	

Schedule F. Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period	Remarks
Metropolitan Bank & Trust Co.	₱6,500	₱9,000	
Metropolitan Bank & Trust Co.	2,965	2,970	Will be used as part of the working capital
Toyota Aisin Philippines, Inc.	79	79	
TRP Inc.	91	91	Will be used as part of the working capital
Philippine HKR Inc.	76	76	
Metropolitan Bank & Trust Co.	647	850	

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
None				

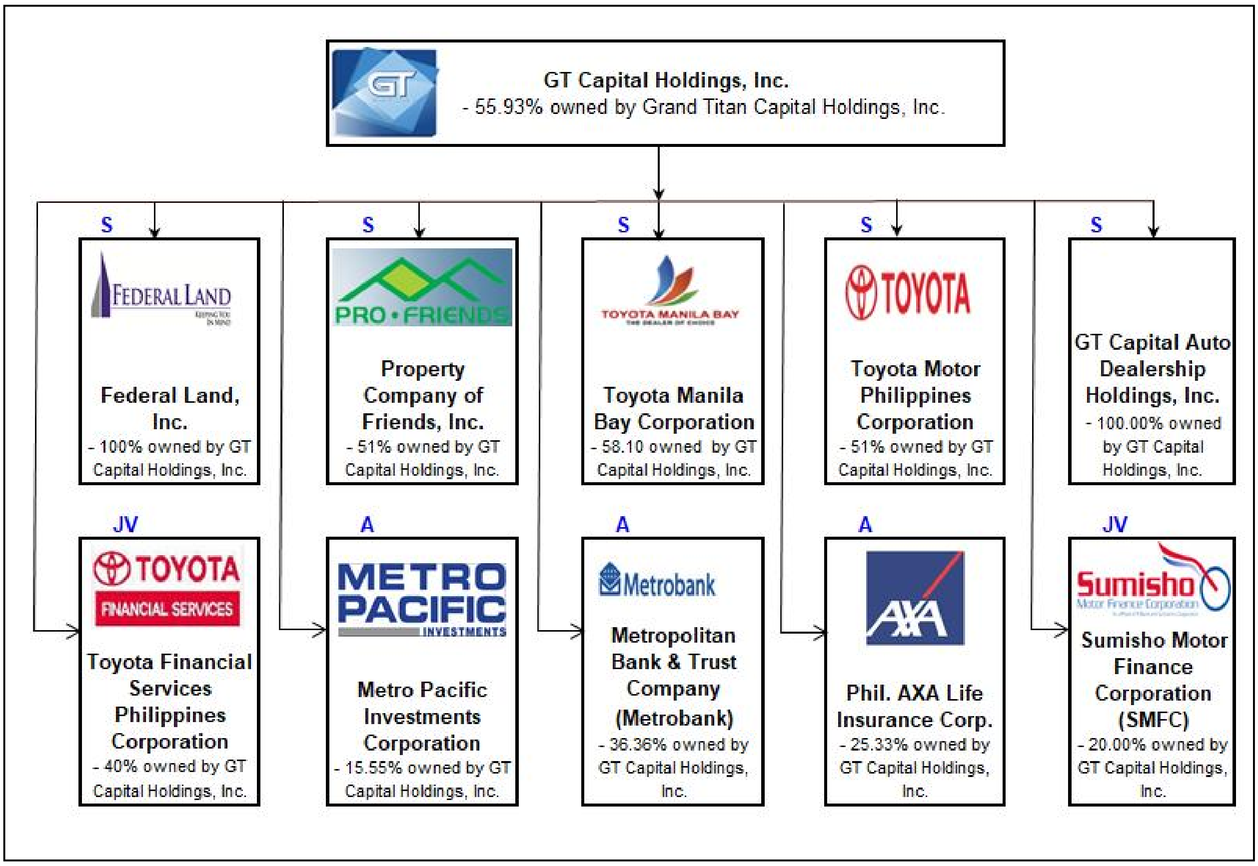
Schedule H. Capital Stock (in absolute amounts)

Title of issue	Number of Shares authorized	Number of Shares issued and outstanding and shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common stock	298,257,000	199,337,584	–	111,494,128	415,941	–
Voting preferred stock	174,300,000	174,300,000	–	170,490,640	722,548	–
Perpetual preferred stock	20,000,000	12,000,000	–	–	4,400	–

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

MAP OF RELATIONSHIP BETWEEN AND AMONG THE PARENT COMPANY AND ITS ULTIMATE PARENT, SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

AS OF DECEMBER 31, 2018



LEGEND:

Subsidiary (S)

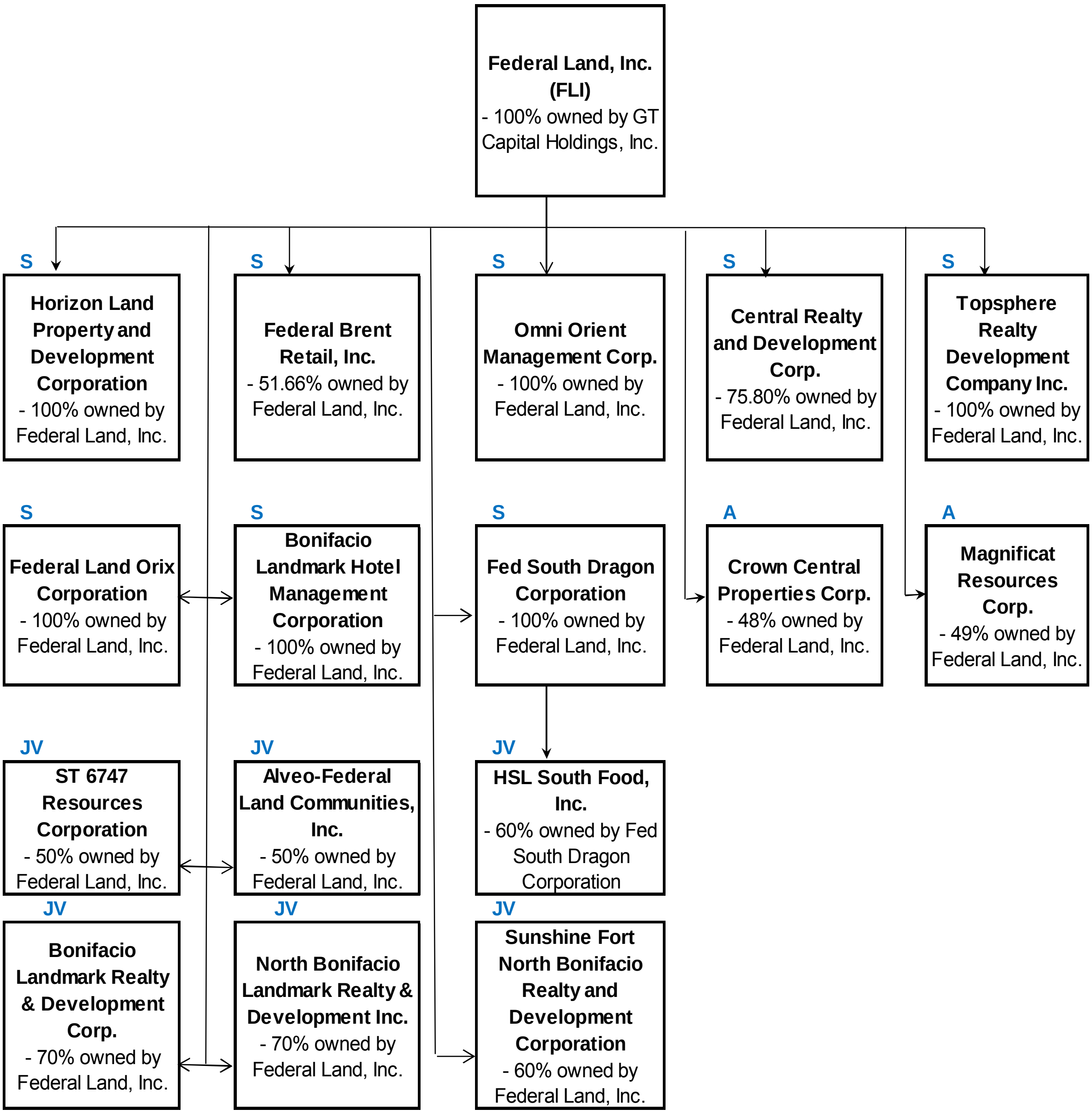
Associate (A)

Joint Venture (JV)

FEDERAL LAND, INC.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

AS OF DECEMBER 31, 2018



LEGEND:

Subsidiary (S)

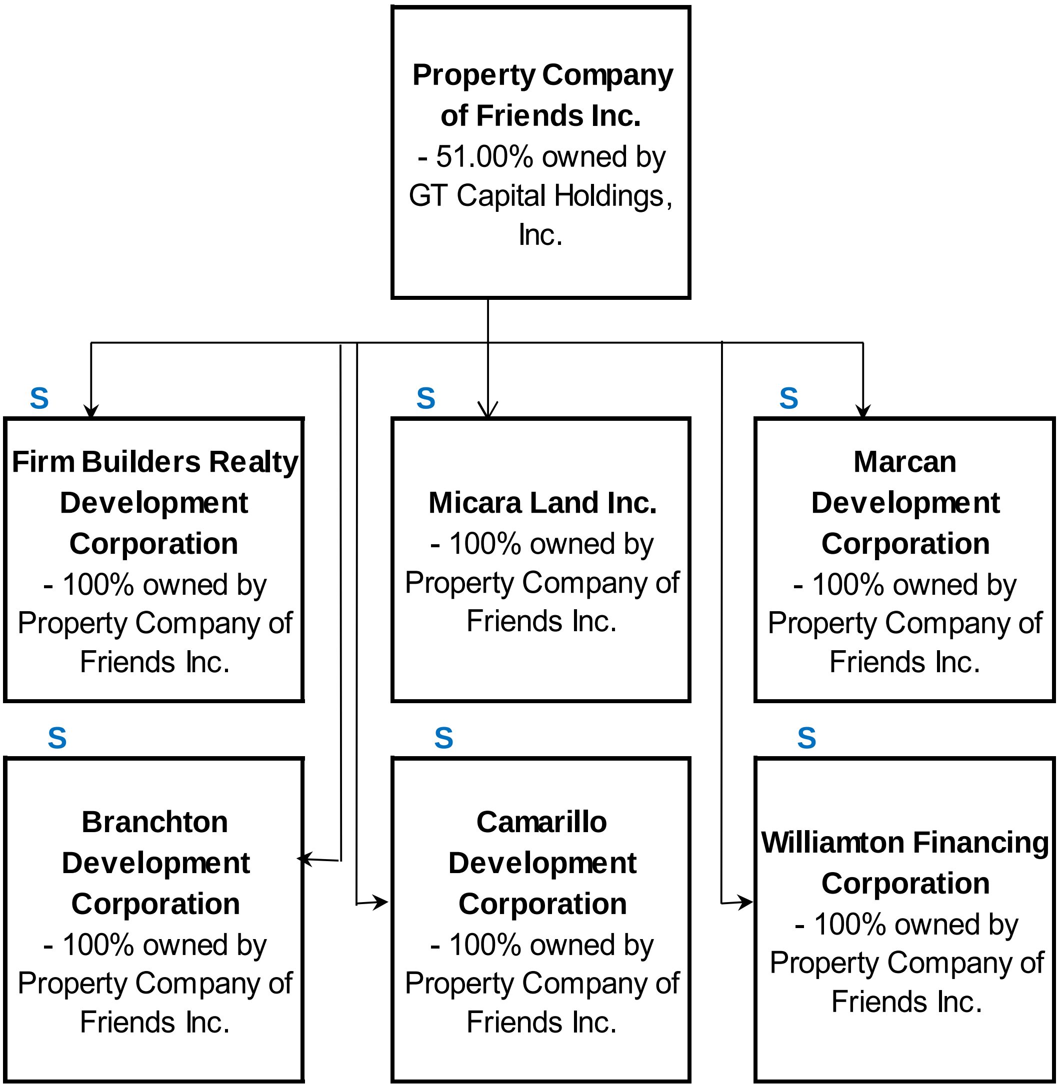
Associate (A)

Joint Venture (JV)

PROPERTY COMPANY OF FRIENDS, INC.

SUBSIDIARIES

AS OF DECEMBER 31, 2018



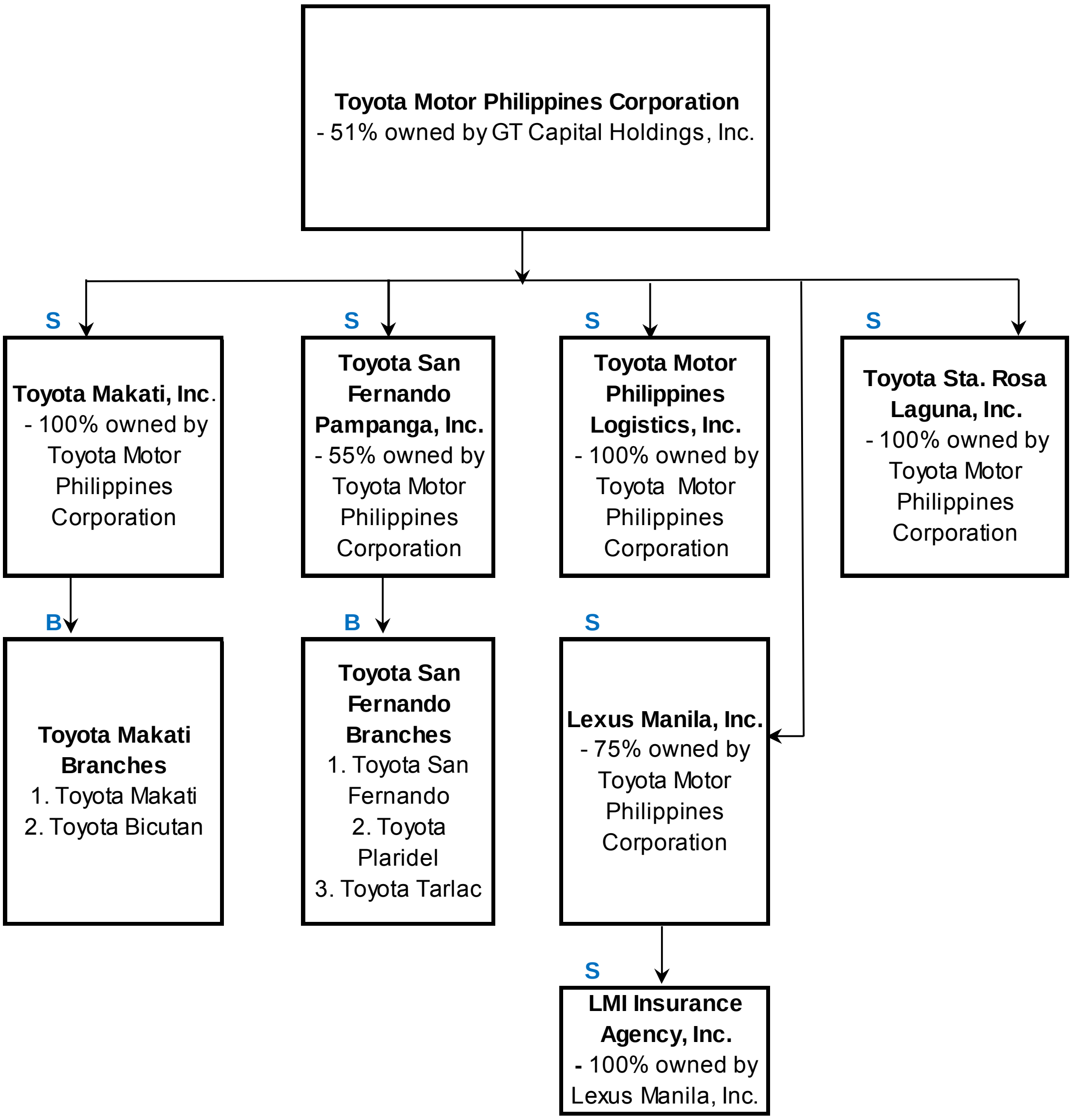
LEGEND:

Subsidiary (S)

TOYOTA MOTOR PHILIPPINES CORPORATION

SUBSIDIARIES

AS OF DECEMBER 31, 2018



LEGEND:

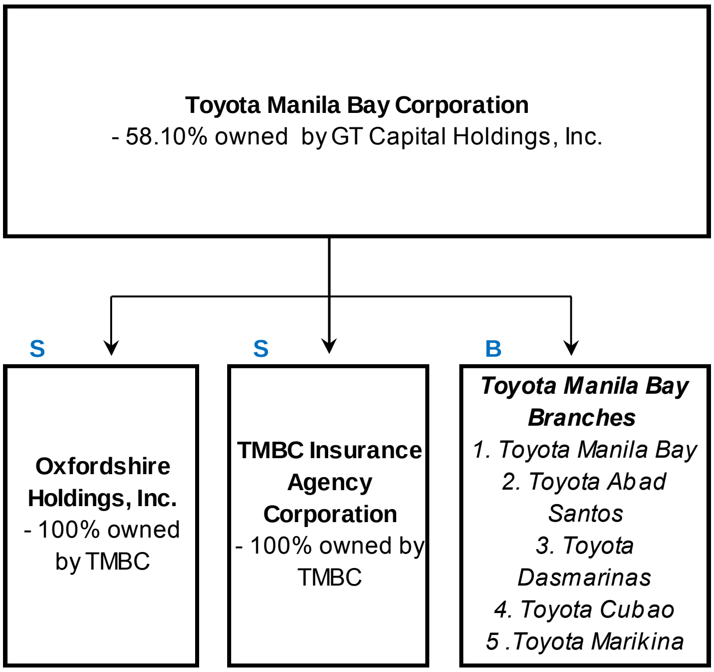
Subsidiary (S)

Branch (B)

TOYOTA MANILA BAY CORPORATION

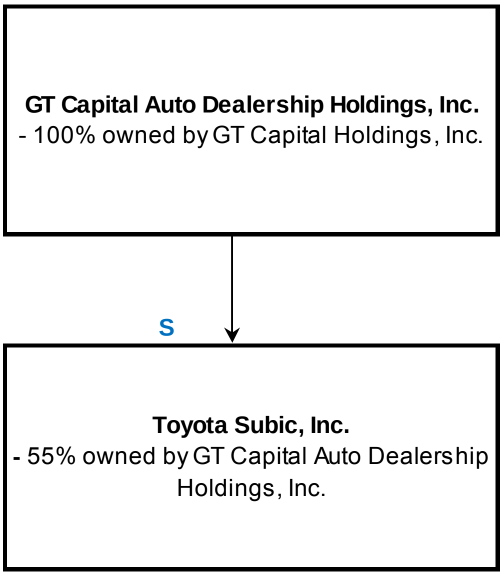
SUBSIDIARIES

AS OF DECEMBER 31, 2018



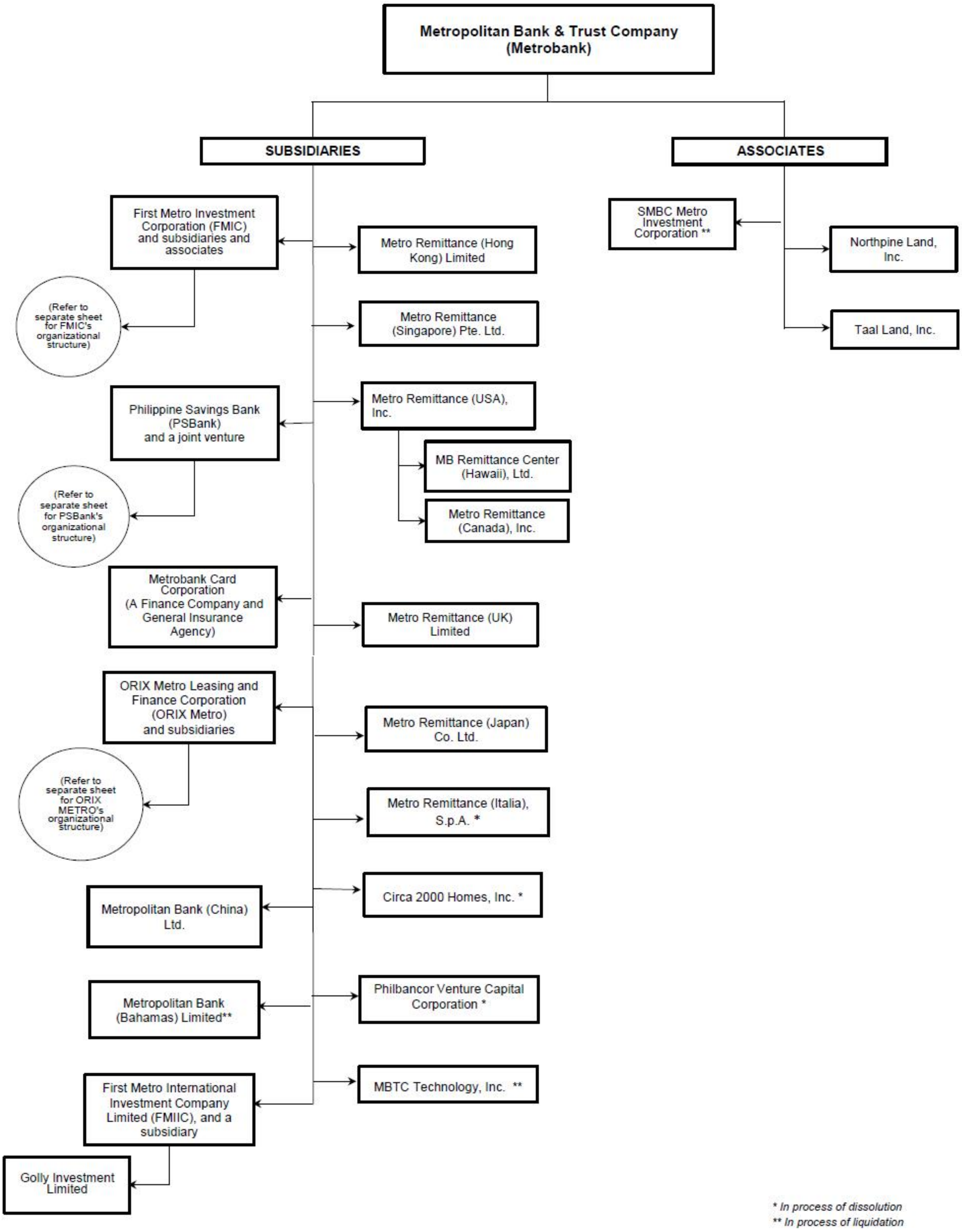
LEGEND:
Subsidiary (S)
Branch(B)

GT CAPITAL AUTO DEALERSHIP HOLDINGS, INC.
SUBSIDIARY
AS OF DECEMBER 31, 2018

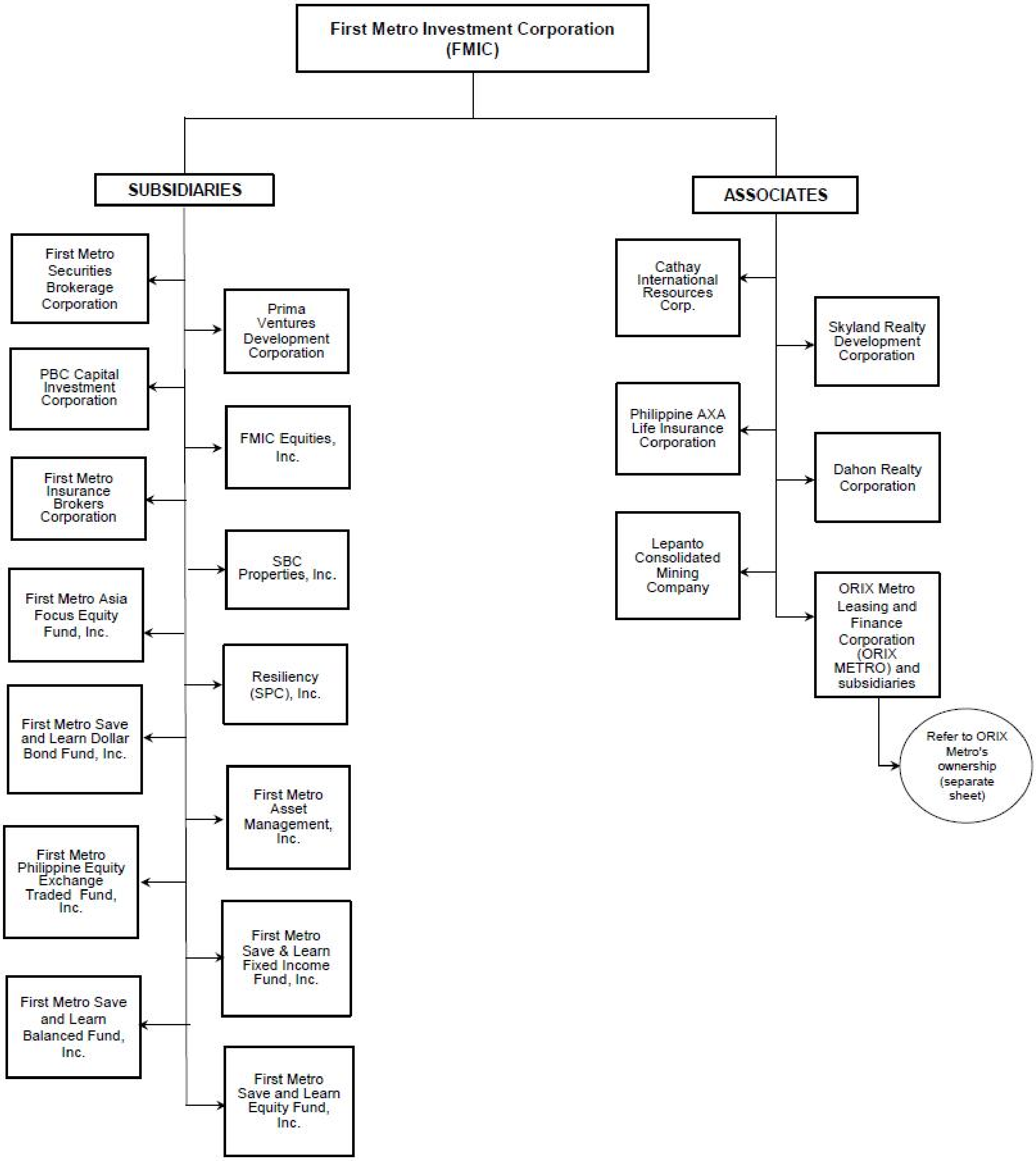


LEGEND:
Subsidiary (S)

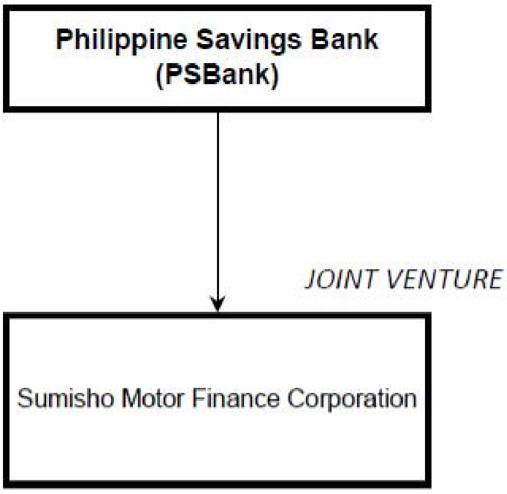
METROPOLITAN BANK AND TRUST COMPANY
SUBSIDIARIES AND ASSOCIATES
AS OF DECEMBER 31, 2018



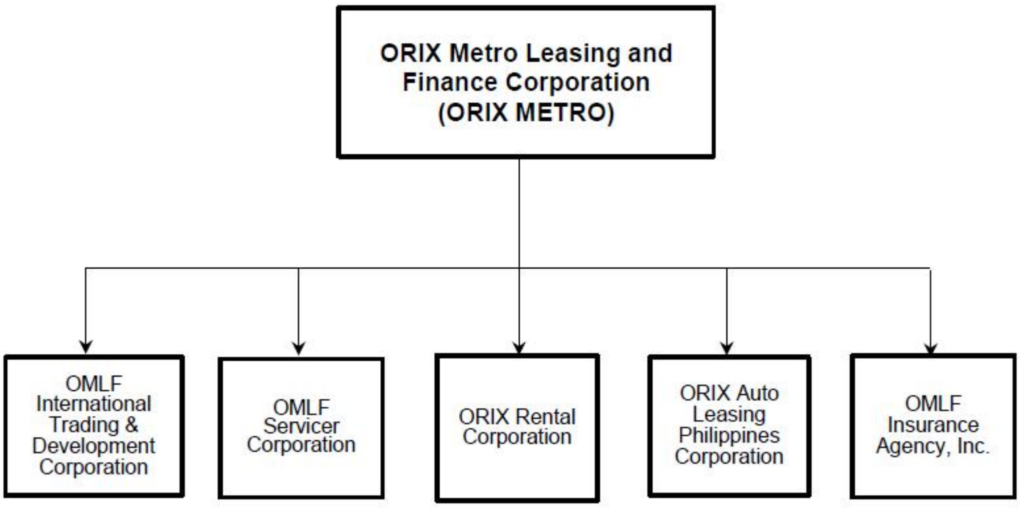
First Metro Investment Corporation
Subsidiaries, Joint Venture and Associates
As of December 31, 2018



Philippine Savings Bank
Joint Venture
As of December 31, 2018



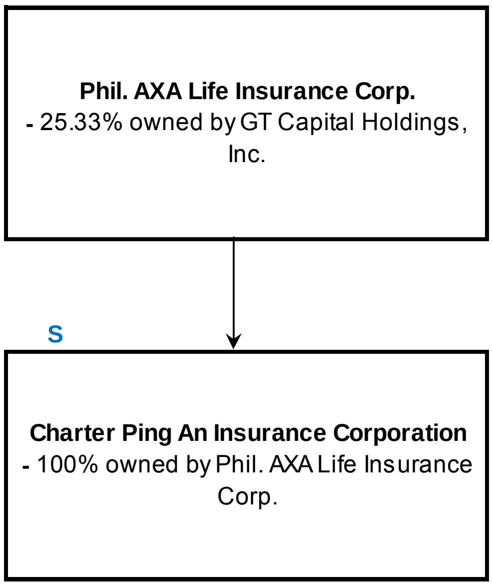
ORIX Metro Leasing and Finance Corporation (ORIX METRO)
Subsidiaries
As of December 31, 2018



PHIL. AXA LIFE INSURANCE CORPORATION

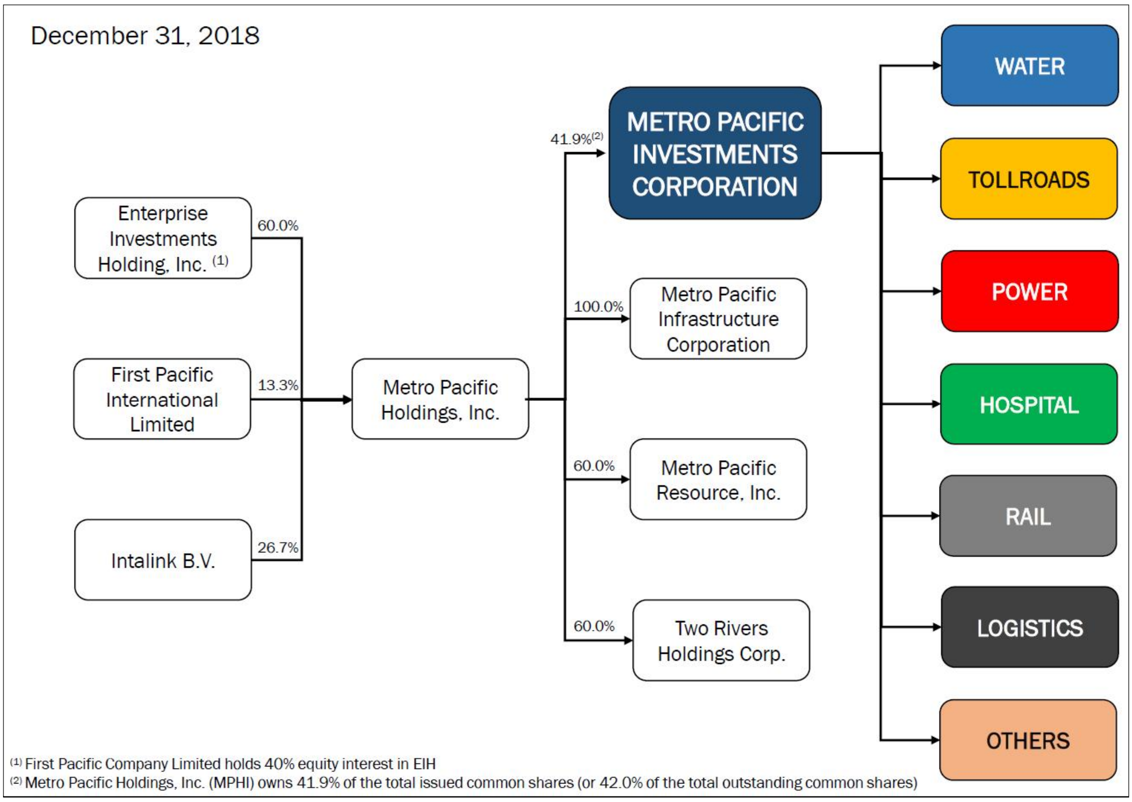
SUBSIDIARY

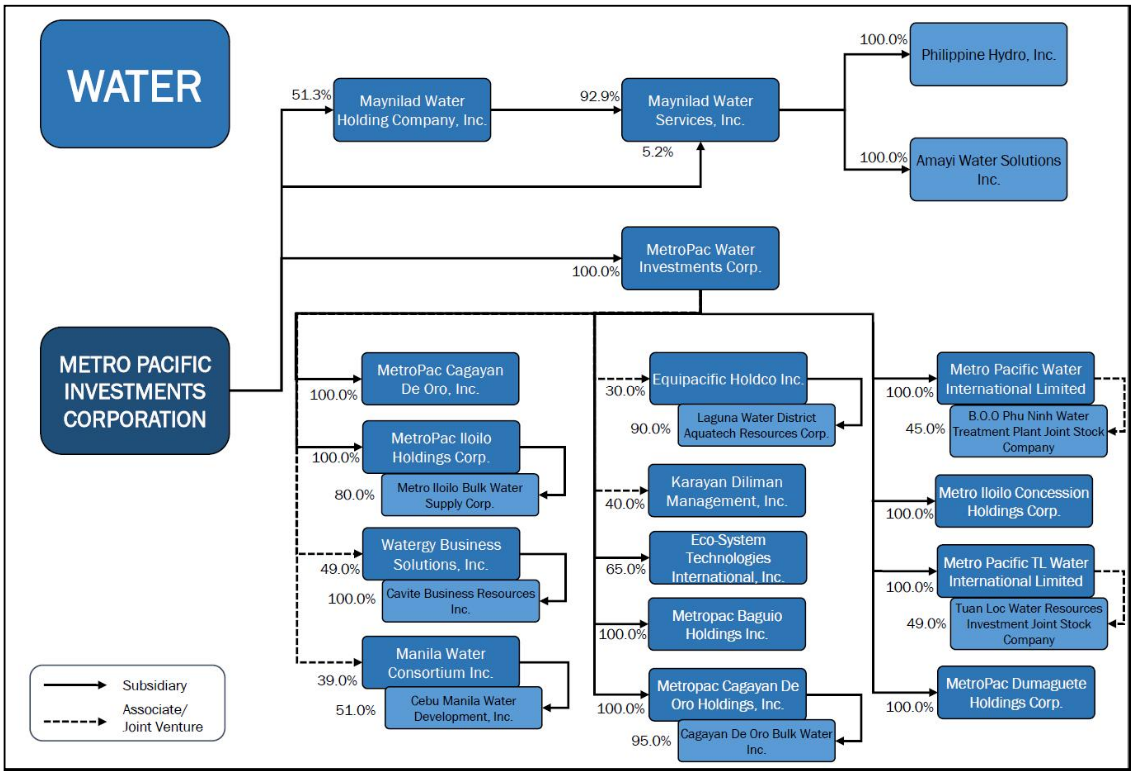
AS OF DECEMBER 31, 2018

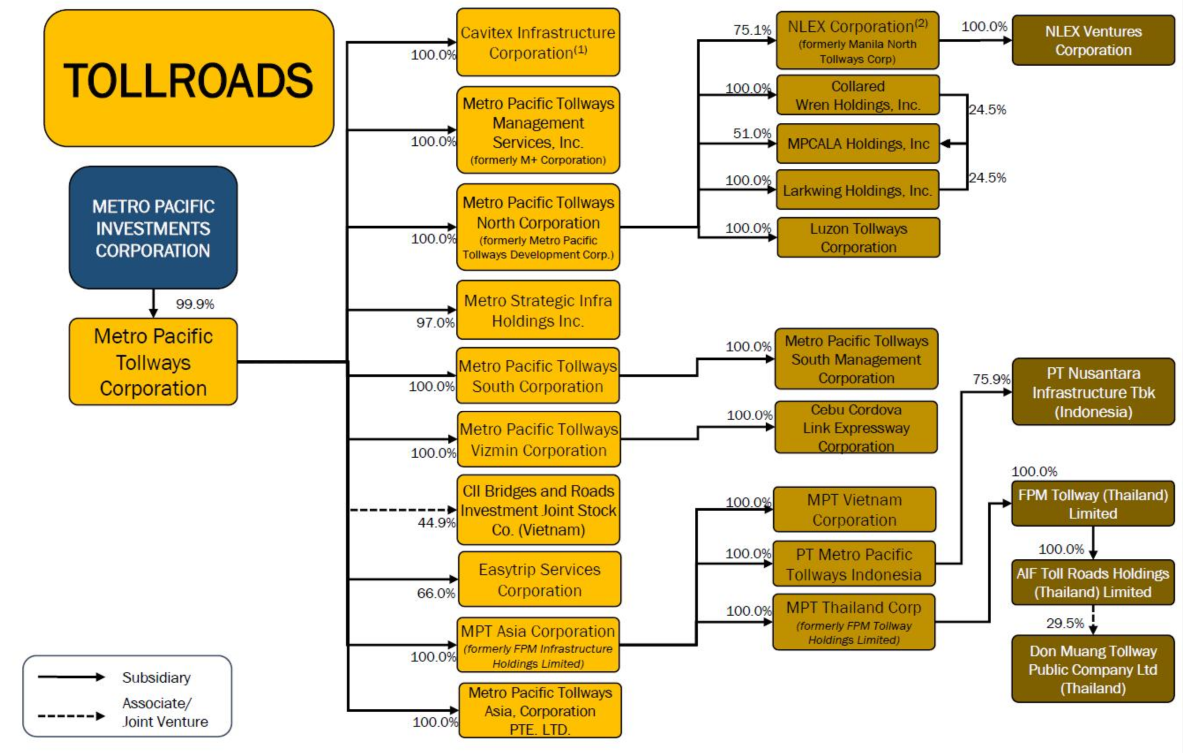


LEGEND:
Subsidiary (S)

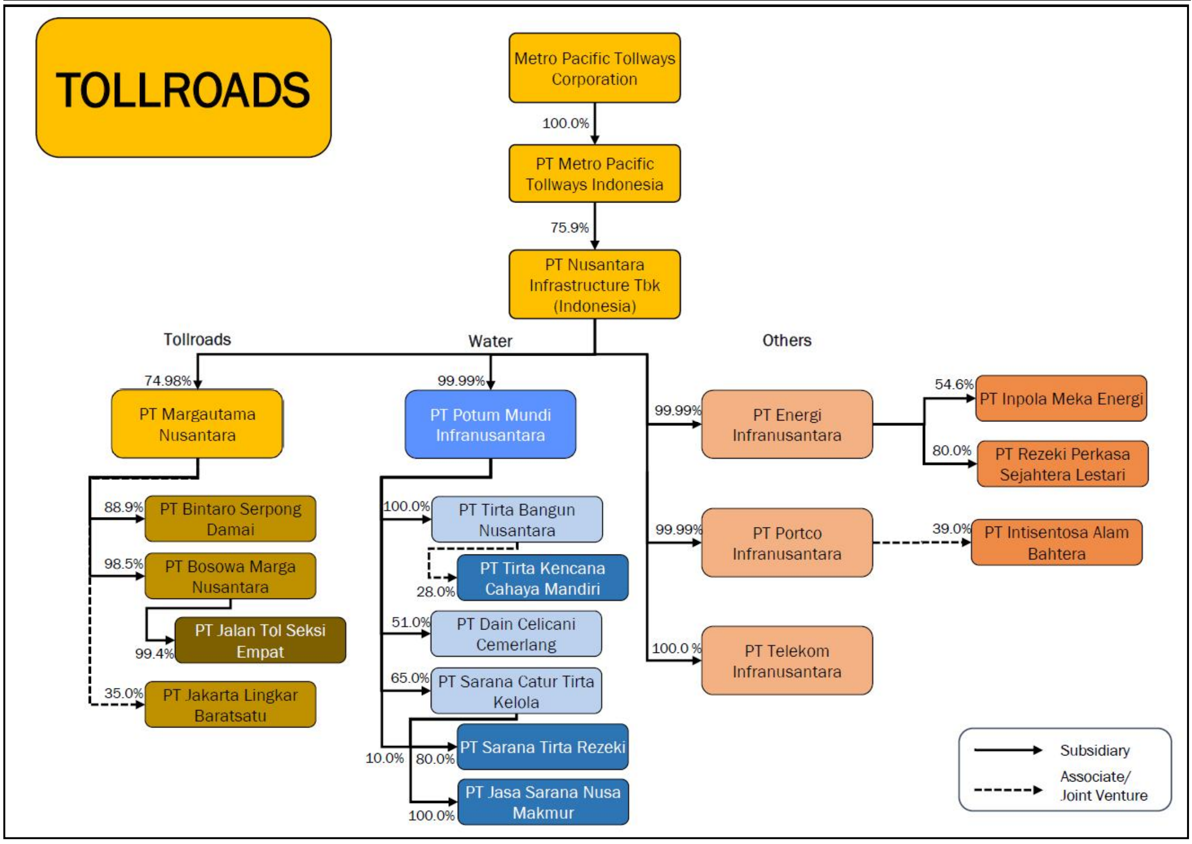
METRO PACIFIC INVESTMENTS CORPORATION
SUBSIDIARIES
AS OF DECEMBER 31, 2018

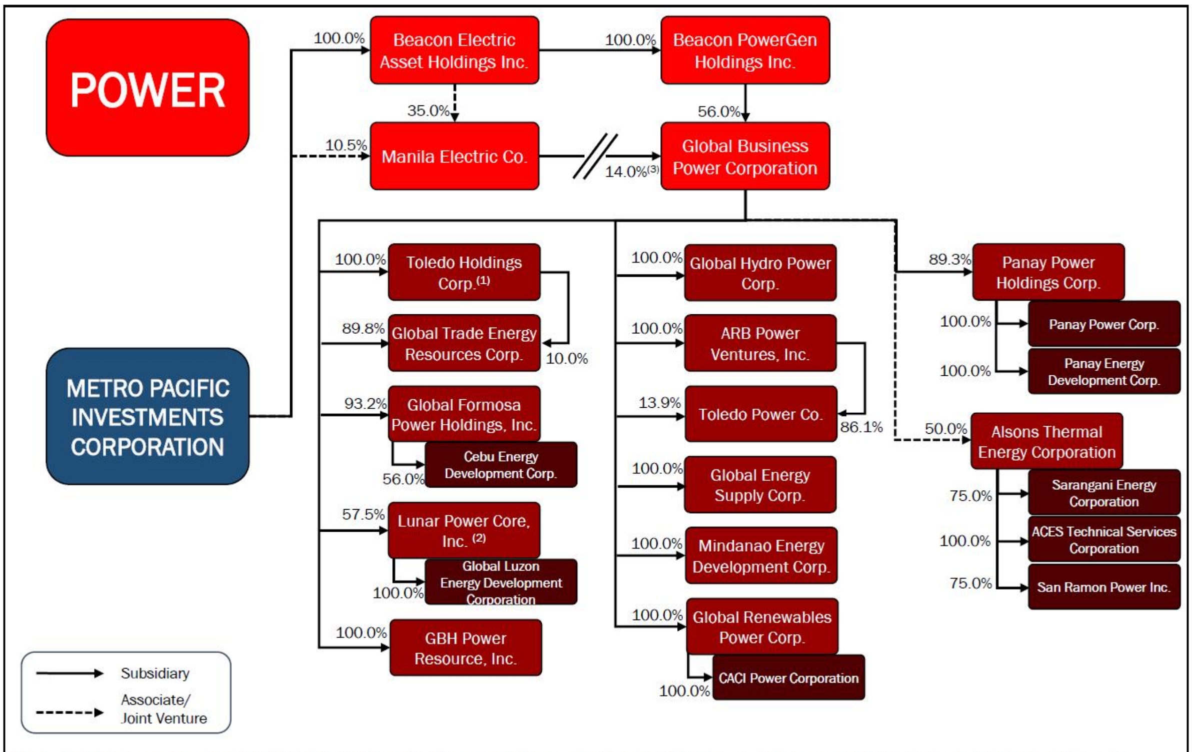




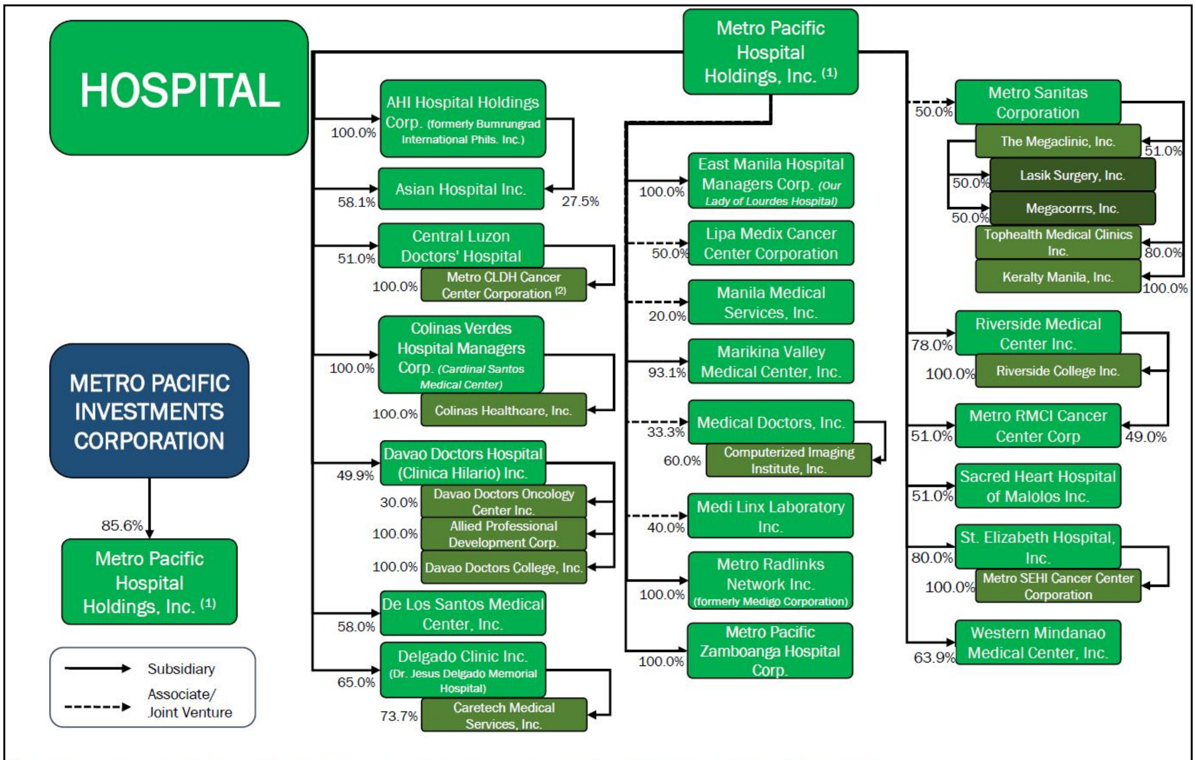


(1) By virtue of the Management Letter-Agreement, MPTC acquired control over CIC effective Jan 2, 2013.
(2) 4.3% is owned through 42.8% ownership in Egis Investment Partners Philippines Inc. The SEC approved the merger between NLEX Corp. and Tollways Management Corp. effective December 14, 2018.

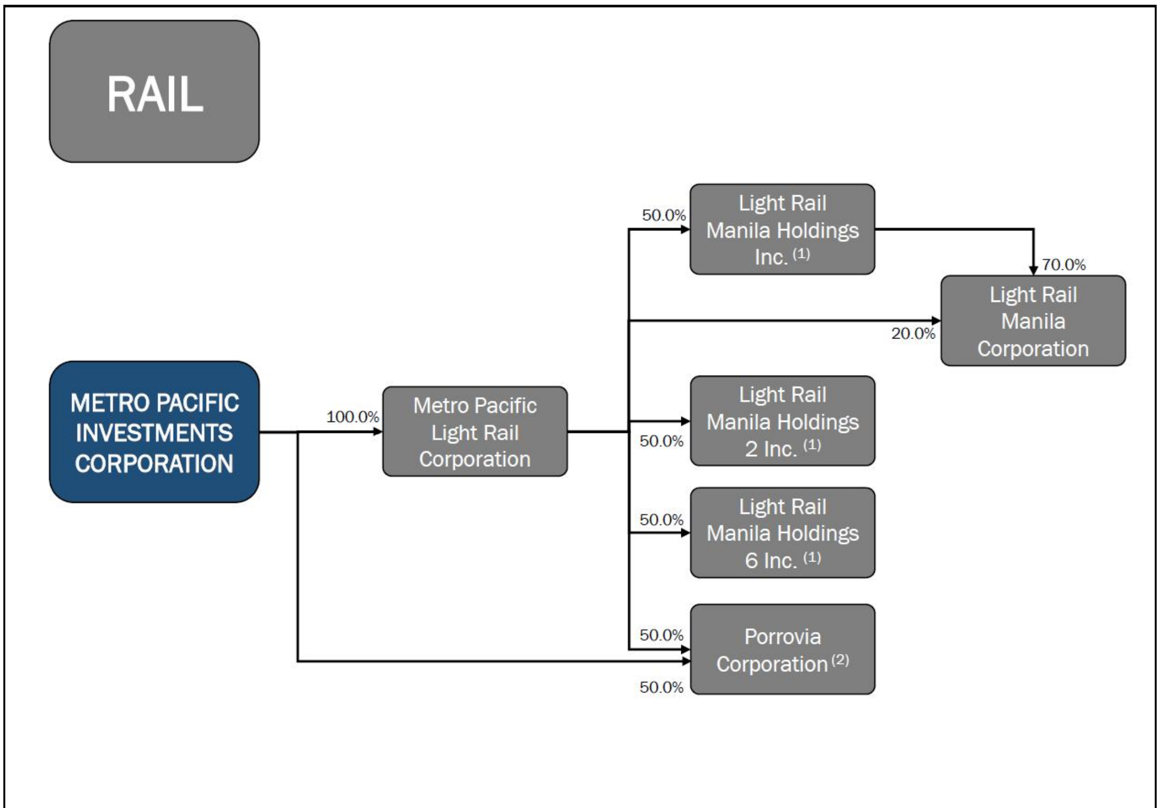




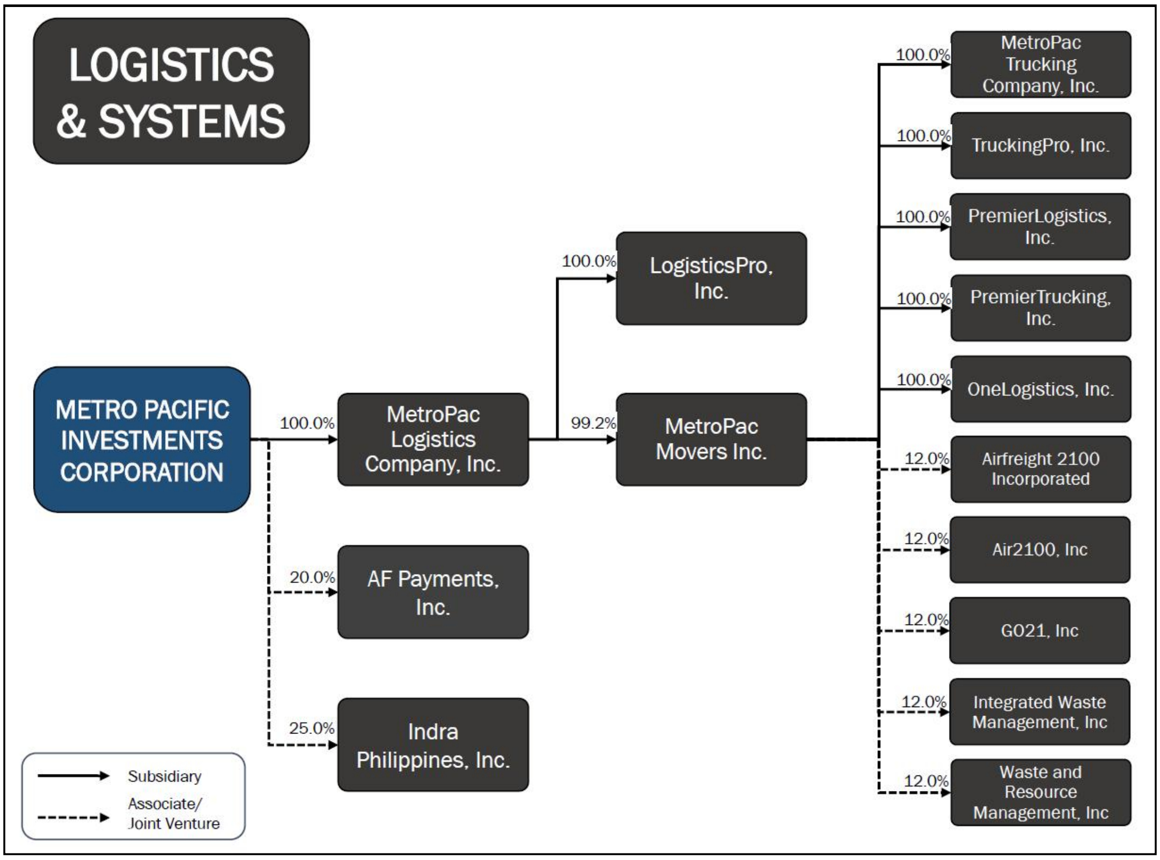
(1) Includes 16% shares owned by GBH Cebu Limited Duration Company which was assigned to GPBC but pending issuance of BIR Certificate Authorizing Registration.
(2) GBPC owns 56.5% of common (voting) shares, and thus exercises 56.5% voting rights.
(3) MERALCO owns 14% effective interest in GBPC through a wholly owned subsidiary Meralco PowerGen Corporation.

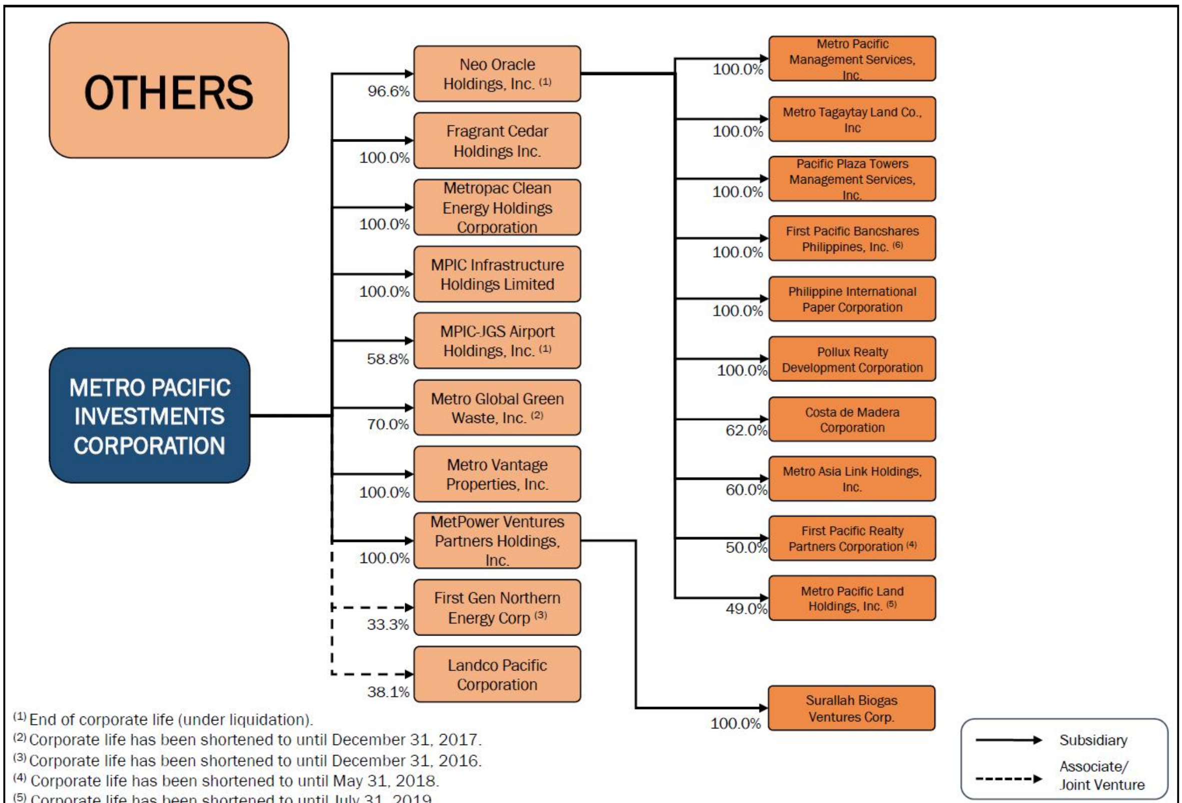


(1) GIC also holds an Exchangeable Bond issued by MPIC which can be exchanged into a 25.5% stake in NSHI in the future, subject to certain conditions.
(2) As at December 31, 2018, Metro CLDH Cancer Center Corp is 100% owned by Central Luzon Doctors' Hospital. In December 2017, MPHHI subscribed for 51% ownership in MCCCC diluting CLDH to 49% pending filing to and approval of the increase in Authorized Capital Stock by the SEC.



(1) Controlling interest in LRMHI, LRMH2 and LRMH6. Equity interest of 50% plus one share.
(2) Corporate life has been shortened to until March 31, 2019.





(1) End of corporate life (under liquidation).
(2) Corporate life has been shortened to until December 31, 2017.
(3) Corporate life has been shortened to until December 31, 2016.
(4) Corporate life has been shortened to until May 31, 2018.
(5) Corporate life has been shortened to until July 31, 2019.
(6) Corporate life has been shortened to until October 31, 2019.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (As restated)
Liquidity Ratio		
Current ratio	**2.46**	3.09
Current assets	**₱129,006**	₱132,261
Current liabilities	**52,337**	42,790
Solvency Ratio		
Total liabilities to total equity ratio	**0.97**	0.77
Total liabilities	**177,463**	134,000
Total equity	**182,287**	173,691
Debt to equity ratio	**0.72**	0.52
Total debt	**130,869**	91,132
Total equity	**182,287**	173,691
Asset to Equity Ratio		
Asset to equity ratio	**1.97**	1.77
Total assets	**359,750**	307,691
Total equity	**182,287**	173,691
Interest Rate Coverage Ratio*		
Interest rate coverage ratio	**5.03**	7.98
Earnings before interest and taxes (EBIT)	**24,960**	27,084
Interest expense	**4,965**	3,394
Profitability Ratio		
Return on average assets	**4.01%**	4.95%
Net income attributable to Parent Company	**13,390**	14,182
Average assets	**333,721**	286,569
Return on Average Equity	**8.83%**	10.88%
Net income attributable to Parent Company	**13,390**	14,182
Average equity attributable to Parent Company	**151,695**	130,409
Income before income tax	**22,077**	25,775
Interest expense	**4,965**	3,394
Interest income	**2,082**	2,085
EBIT	**24,960**	27,084

*computed as EBIT/Interest Expense
**consist of continuing and discontinued operations

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number: 2 0 5 7 3

COMPANY NAME

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
https://www.metrobank.com.ph	898-8000	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
3,031		12/31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Marilou C. Bartolome	marilou.bartolome@metrobank.com.ph	898-8805	09178172814

CONTACT PERSON's ADDRESS

NOTE 1 In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

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.

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.

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		Reclassification/ Remeasurement	January 1, 2018 under PFRS 9, as restated	
	Category	Amount	Ref	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		Reclassification/ Remeasurement	January 1, 2018 under PFRS 9, as restated	
	Category	Amount	Ref	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.

<u>Financial Liabilities at Amortized Cost</u>
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.

<u>Financial Guarantees and Undrawn Loan Commitments</u>
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.

<u>Retirement Cost</u>
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.

<u>*Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)*</u>
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.

<u>*Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's Approval)*</u>
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*
Operating lease
Group as lessor
The Group has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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

<u>Finance lease</u>
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).

<u>Estimates</u>
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.

<u>Beginning January 1, 2018</u>
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				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:

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

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

<u>Standard Grade</u>
3 - Good
This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Access is however limited to favorable economic and/or market conditions. While probability of default is quite low, it bears characteristics of some degree of stability and substance. However, susceptibility to cyclical changes and more concentration of

business risk, by product or market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.

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

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

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

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

Impaired
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:

<u>High Grade</u>
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.

<u>Standard Grade</u>
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.

<u>Substandard Grade</u>
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.

<u>Impaired</u>
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	–	3,356	25,403
Other liabilities					
Notes payable	2,600	–	–	2,575	2,575
Deposits on lease contracts	1,643	–	–	1,376	1,376
	₱913,020	₱90,424	₱–	₱832,655	₱923,079

	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

Reserve Requirement

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	**633,469**	**759,611**	**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
	1,103,626	**1,110,450**	**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
	₱1,106,454	**₱1,202,730**	**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)	**208,989**	**50,618**	**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
	1,783,931	**157,047**	**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
	₱1,793,421	**₱159,568**	**₱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
	₱917,719	**₱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 collectibility and did not present other unfavorable conditions.

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

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

In the ordinary course of business, the Group has loan transactions with investees and with certain 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

	Consolidated	
	December 31, 2018	
Category	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

	Consolidated	
	December 31, 2018	
Category	**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

	Consolidated	
	December 31, 2017	
Category	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)

	Consolidated	
	December 31, 2017	
Category	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)

Category	Amount	Terms and Conditions/Nature
	Consolidated	
	December 31, 2017	
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

Category	**Amount**	**Terms and Conditions/Nature**
	Parent Company	
	December 31, 2018	
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	Parent Company December 31, 2018 Amount	Terms and Conditions/Nature
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	Parent Company December 31, 2017 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	₱16	With annual fixed interest rate ranging from 0.00% to 0.25% (Note 16)
Amount/Volume:		
Deposit liabilities	(2,119)	Generally similar to terms and conditions above
Interest expense	10	Interest expense on deposit liabilities (Note 16)
Foreign currency - sell	7	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱2,138	Peso foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 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

SGV
Building a better
working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Metropolitan Bank & Trust Company and Subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form Definitive IS, and have issued our report thereon dated February 13, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

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
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

Other Required Schedules/Information

Metropolitan Bank & Trust Company and Subsidiaries

Schedule A - Financial Assets

December 31, 2018

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes in ₱	Amount shown in the balance sheet * (in ₱ millions)	Valued based on market quotation at end of reporting period (in ₱ millions)	Income received and accrued (in ₱ million)
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)				
Held-for-Trading (HFT) Securities				
Debt Securities				
Philippine Government Bonds (including its agencies)	10,218	10,039	10,039	-
Other Government Bonds	3,133	3,137	3,137	-
Private	9,491	9,257	9,257	-
		22,433	22,433	1,170
Equity Securities	187	6,605	6,605	104
Derivative Assets		10,651	10,651	-
TOTAL FINANCIAL ASSETS AT FVTPL		39,689	39,689	1,274
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)				
Debt Securities				
Philippine Government Bonds (including its agencies)	53,405	52,860	52,860	-
Other Government Bonds	14,939	14,930	14,930	-
Private	43,147	42,369	42,369	-
		110,159	110,159	3,463
Equity Securities	85	1,129	1,129	37
TOTAL FINANCIAL ASSETS AT FVOCI		111,288	111,288	3,500
FINANCIAL ASSETS AT AMORTIZED COST				
Debt Securities				
Philippine Government Bonds (including its agencies)	233,252	255,149	219,381	-
Other Government Bonds	4,240	4,187	3,905	-
Private	5,985	6,040	5,654	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST		265,376	228,940	11,147
UNQUOTED DEBT SECURITIES	2,239	632	635	95

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other Than Related Parties)
December 31, 2018

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period

NOT APPLICABLE

Note: Transactions to these parties are made in the ordinary course of business.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule C - Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements

December 31, 2018

(In ₱ Millions)

Name and Designation of Debtor	Balance at Beginning of Year	Additions	Deductions		Current	Not Current	Balance at End of Year
			Amounts Collected	Amounts Written-Off			
First Metro Investment Corporation	1,400	6,902	7,763	-	539	-	539
Metrobank Card Corporation	332	13,526	6,796	-	5,101	1,961	7,062
Metropolitan Bank (China) Ltd.	888	24,023	20,804	-	4,107	-	4,107
ORIX Metro Leasing and Finance Corporation	596	20,514	14,490	-	1,212	5,408	6,620
Philippine Savings Bank	553	1,477	1,976	-	54	-	54
Remittance Centers:							
Metro Remittance Center, Inc.	275	3,003	3,087	-	191	-	191
Metro Remittance (Singapore) Pte. Ltd.	38	216	215	-	39	-	39
Metro Remittance (USA), Inc.	60	309	369	-	-	-	-
Metro Remittance (UK) Limited	19	149	155	-	13	-	13
Metro Remittance (Hong Kong) Limited	-	10	7		3		3
Metro Remittance (Japan) Co. Limited	-	30	22		8	-	8
Others	13	178	175	-	16	-	16
Total	4,174	70,337	55,859	-	11,283	7,369	18,652

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule D - Intangible Assets - Other Assets

December 31, 2018
(In ₱ Millions)

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balance
Software Costs	1,747	636	(512)	-	(71)	1,800
Goodwill	5,200	-	-	-	-	5,200

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Subordinated Debt					
2023 Peso Notes issued December 20, 2013	1,170	-	1,165	6.2100%	December 20, 2023
2024 Peso Notes issued March 27, 2014	16,000	15,987	-	5.3750%	June 27, 2024
2024 Peso Notes issued May 23, 2014	3,000	-	2,982	5.5000%	August 23, 2024
2025 Peso Notes issued August 8, 2014	6,500	-	6,485	5.2500%	August 08, 2025
Total Subordinated Debt	26,670	15,987	10,631		
Bills Payable					
Local Banks	1,575		1,575	5.7500%	July 13, 2020
Local Banks	450		450	5.3000%	July 23, 2020
Local Banks	131		131	6.2300%	August 13, 2020
Local Banks	499		499	4.7500%	August 18, 2020
Local Banks	3,000		3,000	5.7000%	September 10, 2020
Local Banks	700		700	6.2100%	September 21, 2020
Local Banks	550		550	7.0000%	October 01, 2020
Local Banks	2,000		2,000	7.2500%	October 19, 2020
Local Banks	958		958	5.5300%	April 21, 2021
Local Banks	998		998	4.7400%	May 20, 2021
Local Banks	299		299	4.6500%	August 12, 2021
Local Banks	1,500		1,500	5.2700%	August 13, 2021
Local Banks	1,500		1,500	5.3300%	August 16, 2021
Local Banks	5,258		5,114	3.8100%	December 20, 2021
Local Banks	997		997	5.0000%	March 31, 2022
	20,415	-	20,271		
Foreign Banks	2,629		2,629	4.2750%	January 13, 2020
Foreign Banks	3,060		3,058	4.2750%	December 21, 2020
Foreign Banks	5,273		5,273	3.5875%	October 18, 2021
Foreign Banks	3,006		3,006	3.8000%	October 18, 2021
Foreign Banks	5,258		5,243	4.5895%	December 29, 2021
	19,226	-	19,209		
Deposit Substitutes	14		14	3.2500%	January 06, 2020
Deposit Substitutes	60		60	3.3800%	January 06, 2020
Deposit Substitutes	6		6	3.8800%	January 06, 2020
Deposit Substitutes	7		7	4.3800%	January 06, 2020
Deposit Substitutes	5		5	5.1300%	January 06, 2020
Deposit Substitutes	1		1	3.8800%	January 07, 2020
Deposit Substitutes	3		3	4.3800%	January 08, 2020
Deposit Substitutes	3		3	3.2500%	January 09, 2020
Deposit Substitutes	1		1	3.3800%	January 13, 2020
Deposit Substitutes	5		5	5.1300%	January 13, 2020

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	1		1	3.2500%	January 16, 2020
Deposit Substitutes	6		6	3.2500%	January 20, 2020
Deposit Substitutes	38		38	3.3800%	January 20, 2020
Deposit Substitutes	3		3	4.3800%	January 20, 2020
Deposit Substitutes	5		5	5.1300%	January 20, 2020
Deposit Substitutes	2		2	3.3800%	January 22, 2020
Deposit Substitutes	33		33	3.3800%	January 23, 2020
Deposit Substitutes	6		6	3.2500%	January 27, 2020
Deposit Substitutes	15		15	3.6300%	January 27, 2020
Deposit Substitutes	5		5	5.1300%	January 27, 2020
Deposit Substitutes	1		1	4.3800%	January 29, 2020
Deposit Substitutes	3		3	3.2500%	January 30, 2020
Deposit Substitutes	4		4	3.2500%	February 03, 2020
Deposit Substitutes	55		55	3.3800%	February 03, 2020
Deposit Substitutes	5		5	4.3800%	February 03, 2020
Deposit Substitutes	3		3	3.3800%	February 05, 2020
Deposit Substitutes	21		21	4.3800%	February 05, 2020
Deposit Substitutes	3		3	3.2500%	February 06, 2020
Deposit Substitutes	7		7	3.5000%	February 06, 2020
Deposit Substitutes	5		5	4.5000%	February 06, 2020
Deposit Substitutes	4		4	3.1300%	February 10, 2020
Deposit Substitutes	10		10	4.4900%	February 10, 2020
Deposit Substitutes	6		6	4.5000%	February 10, 2020
Deposit Substitutes	22		22	4.6300%	February 10, 2020
Deposit Substitutes	3		3	4.7700%	February 10, 2020
Deposit Substitutes	5		5	5.1300%	February 10, 2020
Deposit Substitutes	2		2	4.5000%	February 11, 2020
Deposit Substitutes	2		2	3.3800%	February 12, 2020
Deposit Substitutes	16		16	4.5000%	February 12, 2020
Deposit Substitutes	1		1	4.5000%	February 13, 2020
Deposit Substitutes	3		3	4.6300%	February 13, 2020
Deposit Substitutes	35		35	3.2500%	February 17, 2020
Deposit Substitutes	2		2	4.5000%	February 17, 2020
Deposit Substitutes	32		32	5.1300%	February 17, 2020
Deposit Substitutes	1		1	4.5000%	February 19, 2020
Deposit Substitutes	1		1	3.1300%	February 20, 2020
Deposit Substitutes	87		87	3.2500%	February 20, 2020
Deposit Substitutes	5		5	4.6300%	February 20, 2020
Deposit Substitutes	8		8	3.1300%	February 24, 2020
Deposit Substitutes	9		9	4.5000%	February 24, 2020
Deposit Substitutes	5		5	4.9600%	February 24, 2020
Deposit Substitutes	3		3	3.5000%	February 26, 2020
Deposit Substitutes	9		9	4.5000%	February 26, 2020
Deposit Substitutes	4		4	3.1300%	February 27, 2020
Deposit Substitutes	4		4	3.1300%	March 02, 2020
Deposit Substitutes	8		8	4.4900%	March 02, 2020
Deposit Substitutes	23		23	4.6300%	March 02, 2020

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	9		9	5.0000%	March 02, 2020
Deposit Substitutes	4		4	4.4900%	March 03, 2020
Deposit Substitutes	3		3	3.3800%	March 05, 2020
Deposit Substitutes	1		1	3.8800%	March 05, 2020
Deposit Substitutes	1		1	4.6300%	March 05, 2020
Deposit Substitutes	7		7	3.1300%	March 09, 2020
Deposit Substitutes	1		1	3.2500%	March 09, 2020
Deposit Substitutes	2		2	3.3800%	March 09, 2020
Deposit Substitutes	10		10	4.4900%	March 09, 2020
Deposit Substitutes	1		1	4.6300%	March 09, 2020
Deposit Substitutes	5		5	5.2500%	March 09, 2020
Deposit Substitutes	2		2	3.1300%	March 16, 2020
Deposit Substitutes	4		4	3.3800%	March 16, 2020
Deposit Substitutes	10		10	3.5000%	March 16, 2020
Deposit Substitutes	2		2	3.8800%	March 16, 2020
Deposit Substitutes	5		5	5.2500%	March 16, 2020
Deposit Substitutes	0		0	3.0000%	March 19, 2020
Deposit Substitutes	8		8	3.3800%	March 19, 2020
Deposit Substitutes	5		5	3.5000%	March 19, 2020
Deposit Substitutes	8		8	4.4900%	March 19, 2020
Deposit Substitutes	1		1	3.1250%	March 23, 2020
Deposit Substitutes	4		4	3.2500%	March 23, 2020
Deposit Substitutes	1		1	3.3800%	March 23, 2020
Deposit Substitutes	5		5	5.1300%	March 23, 2020
Deposit Substitutes	1		1	3.8800%	March 24, 2020
Deposit Substitutes	3		3	3.3800%	March 26, 2020
Deposit Substitutes	2		2	3.1300%	March 30, 2020
Deposit Substitutes	1		1	3.1300%	March 31, 2020
Deposit Substitutes	5		5	5.6300%	March 31, 2020
Deposit Substitutes	1		1	4.6300%	April 01, 2020
Deposit Substitutes	1		1	3.3800%	April 02, 2020
Deposit Substitutes	1		1	3.1300%	April 06, 2020
Deposit Substitutes	2		2	3.2500%	April 06, 2020
Deposit Substitutes	6		6	3.5000%	April 06, 2020
Deposit Substitutes	5		5	5.6300%	April 06, 2020
Deposit Substitutes	3		3	4.6300%	April 08, 2020
Deposit Substitutes	5		5	5.6300%	April 13, 2020
Deposit Substitutes	1		1	5.0000%	April 15, 2020
Deposit Substitutes	8		8	4.0000%	April 20, 2020
Deposit Substitutes	28		28	4.1300%	April 20, 2020
Deposit Substitutes	10		10	4.2500%	April 20, 2020
Deposit Substitutes	180		180	4.5000%	April 20, 2020
Deposit Substitutes	5		5	5.6300%	April 20, 2020
Deposit Substitutes	35		35	4.0000%	April 24, 2020
Deposit Substitutes	1		1	3.7500%	April 27, 2020
Deposit Substitutes	3		3	4.0000%	April 27, 2020
Deposit Substitutes	26		26	4.1300%	April 27, 2020

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	10		10	4.2500%	April 27, 2020
Deposit Substitutes	5		5	5.8800%	April 27, 2020
Deposit Substitutes	7		7	3.8800%	April 28, 2020
Deposit Substitutes	6		6	4.0000%	May 04, 2020
Deposit Substitutes	40		40	4.1300%	May 04, 2020
Deposit Substitutes	5		5	5.8800%	May 04, 2020
Deposit Substitutes	1		1	3.1300%	May 11, 2020
Deposit Substitutes	3		3	4.0000%	May 11, 2020
Deposit Substitutes	2		2	4.1300%	May 11, 2020
Deposit Substitutes	5		5	4.9700%	May 11, 2020
Deposit Substitutes	5		5	5.8800%	May 11, 2020
Deposit Substitutes	5		5	4.1300%	May 15, 2020
Deposit Substitutes	2		2	3.1300%	May 18, 2020
Deposit Substitutes	11		11	4.3800%	May 18, 2020
Deposit Substitutes	5		5	5.8800%	May 18, 2020
Deposit Substitutes	5		5	3.1300%	May 25, 2020
Deposit Substitutes	15		15	3.2500%	May 25, 2020
Deposit Substitutes	5		5	4.3800%	May 25, 2020
Deposit Substitutes	5		5	5.8800%	May 25, 2020
Deposit Substitutes	8		8	3.8800%	May 27, 2020
Deposit Substitutes	5		5	5.8800%	June 01, 2020
Deposit Substitutes	2		2	4.3800%	June 02, 2020
Deposit Substitutes	1		1	4.3800%	June 04, 2020
Deposit Substitutes	3		3	4.9700%	June 05, 2020
Deposit Substitutes	5		5	3.2500%	June 08, 2020
Deposit Substitutes	5		5	3.3800%	June 08, 2020
Deposit Substitutes	1		1	4.3800%	June 08, 2020
Deposit Substitutes	0		0	5.1300%	June 08, 2020
Deposit Substitutes	3,000		3,000	7.0700%	June 10, 2020
Deposit Substitutes	5		5	3.5000%	June 15, 2020
Deposit Substitutes	50		50	3.6300%	June 15, 2020
Deposit Substitutes	26		26	4.3800%	June 15, 2020
Deposit Substitutes	1		1	3.3800%	June 22, 2020
Deposit Substitutes	84		84	4.3800%	June 22, 2020
Deposit Substitutes	1		1	4.5000%	June 22, 2020
Deposit Substitutes	1		1	5.1300%	June 22, 2020
Deposit Substitutes	3		3	4.5000%	June 25, 2020
Deposit Substitutes	15		15	3.8800%	June 29, 2020
Deposit Substitutes	2		2	4.5000%	June 29, 2020
Deposit Substitutes	5		5	6.2500%	June 29, 2020
Deposit Substitutes	2		2	3.3800%	July 06, 2020
Deposit Substitutes	15		15	4.5000%	July 06, 2020
Deposit Substitutes	5		5	6.2500%	July 06, 2020
Deposit Substitutes	7		7	4.7500%	July 09, 2020
Deposit Substitutes	4		4	4.7500%	July 13, 2020
Deposit Substitutes	5		5	6.5000%	July 13, 2020
Deposit Substitutes	5		5	4.7500%	July 14, 2020

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	2		2	4.7500%	July 16, 2020
Deposit Substitutes	6		6	4.7500%	July 20, 2020
Deposit Substitutes	5		5	6.8750%	July 20, 2020
Deposit Substitutes	8		8	4.7500%	July 27, 2020
Deposit Substitutes	33		33	5.1300%	July 30, 2020
Deposit Substitutes	1		1	4.9000%	August 03, 2020
Deposit Substitutes	10		10	5.0000%	August 03, 2020
Deposit Substitutes	24		24	5.1300%	August 03, 2020
Deposit Substitutes	4		4	4.0000%	August 05, 2020
Deposit Substitutes	1		1	4.9000%	August 06, 2020
Deposit Substitutes	497		497	5.7500%	August 06, 2020
Deposit Substitutes	10		10	4.9000%	August 10, 2020
Deposit Substitutes	10		10	5.6300%	August 10, 2020
Deposit Substitutes	994		994	5.9000%	August 10, 2020
Deposit Substitutes	6		6	6.8750%	August 10, 2020
Deposit Substitutes	1,223		1,223	4.0000%	August 12, 2020
Deposit Substitutes	1		1	4.9000%	August 13, 2020
Deposit Substitutes	1		1	5.1300%	August 13, 2020
Deposit Substitutes	15		15	4.9000%	August 17, 2020
Deposit Substitutes	2		2	5.1300%	August 17, 2020
Deposit Substitutes	51		51	5.3600%	August 17, 2020
Deposit Substitutes	5		5	5.6300%	August 17, 2020
Deposit Substitutes	1		1	5.7000%	August 17, 2020
Deposit Substitutes	2		2	4.9000%	August 20, 2020
Deposit Substitutes	9		9	4.9000%	August 24, 2020
Deposit Substitutes	19		19	5.1300%	August 24, 2020
Deposit Substitutes	154		154	5.7000%	August 24, 2020
Deposit Substitutes	6		6	6.7500%	August 24, 2020
Deposit Substitutes	63		63	4.1300%	August 25, 2020
Deposit Substitutes	21		21	5.3800%	August 28, 2020
Deposit Substitutes	1,093		1,093	5.7500%	August 28, 2020
Deposit Substitutes	165		165	4.0000%	August 31, 2020
Deposit Substitutes	6		6	6.7500%	August 31, 2020
Deposit Substitutes	6		6	4.9000%	September 01, 2020
Deposit Substitutes	10		10	5.3600%	September 01, 2020
Deposit Substitutes	99		99	5.6300%	September 01, 2020
Deposit Substitutes	2		2	4.1300%	September 02, 2020
Deposit Substitutes	3		3	4.9000%	September 07, 2020
Deposit Substitutes	4		4	5.6300%	September 07, 2020
Deposit Substitutes	5		5	6.7500%	September 07, 2020
Deposit Substitutes	6		6	4.1300%	September 08, 2020
Deposit Substitutes	5		5	4.1300%	September 09, 2020
Deposit Substitutes	3		3	4.1300%	September 10, 2020
Deposit Substitutes	6		6	5.1300%	September 10, 2020
Deposit Substitutes	2		2	5.1300%	September 15, 2020
Deposit Substitutes	5		5	4.7500%	September 17, 2020
Deposit Substitutes	5		5	4.9000%	September 17, 2020

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	1		1	4.1300%	September 21, 2020
Deposit Substitutes	2		2	4.9000%	September 21, 2020
Deposit Substitutes	15		15	5.3600%	September 21, 2020
Deposit Substitutes	2		2	4.9000%	September 25, 2020
Deposit Substitutes	1		1	4.9000%	September 28, 2020
Deposit Substitutes	6		6	5.1300%	September 28, 2020
Deposit Substitutes	5		5	5.5000%	October 07, 2020
Deposit Substitutes	4		4	4.9000%	October 08, 2020
Deposit Substitutes	1		1	4.9000%	October 12, 2020
Deposit Substitutes	1		1	5.1300%	October 12, 2020
Deposit Substitutes	5		5	5.7500%	October 14, 2020
Deposit Substitutes	2		2	5.2100%	October 15, 2020
Deposit Substitutes	4		4	5.2100%	October 22, 2020
Deposit Substitutes	13		13	5.5000%	October 22, 2020
Deposit Substitutes	1		1	4.1300%	October 26, 2020
Deposit Substitutes	1		1	4.9000%	October 26, 2020
Deposit Substitutes	10		10	4.1300%	October 27, 2020
Deposit Substitutes	2		2	5.2500%	November 03, 2020
Deposit Substitutes	5		5	5.6000%	November 04, 2020
Deposit Substitutes	1		1	5.2500%	November 09, 2020
Deposit Substitutes	6		6	5.7300%	November 26, 2020
Deposit Substitutes	1		1	3.5000%	December 01, 2020
Deposit Substitutes	20		20	4.2500%	December 01, 2020
Deposit Substitutes	7		7	4.1300%	December 02, 2020
Deposit Substitutes	8		8	3.6300%	December 07, 2020
Deposit Substitutes	1		1	3.5000%	December 14, 2020
Deposit Substitutes	2		2	3.5000%	January 04, 2021
Deposit Substitutes	23		23	3.6300%	January 11, 2021
Deposit Substitutes	5		5	3.6300%	January 18, 2021
Deposit Substitutes	2		2	3.6300%	January 19, 2021
Deposit Substitutes	6		6	3.6300%	January 25, 2021
Deposit Substitutes	2		2	3.6300%	February 01, 2021
Deposit Substitutes	3		3	3.6300%	February 08, 2021
Deposit Substitutes	3		3	3.7500%	February 08, 2021
Deposit Substitutes	2		2	3.5000%	February 09, 2021
Deposit Substitutes	3		3	4.1300%	February 10, 2021
Deposit Substitutes	7		7	3.6300%	February 15, 2021
Deposit Substitutes	10		10	3.7500%	February 15, 2021
Deposit Substitutes	1		1	3.6300%	February 22, 2021
Deposit Substitutes	11		11	3.7500%	February 22, 2021
Deposit Substitutes	3		3	3.6300%	March 01, 2021
Deposit Substitutes	8		8	3.6300%	March 08, 2021
Deposit Substitutes	1		1	4.1300%	March 09, 2021
Deposit Substitutes	6		6	3.7500%	March 15, 2021
Deposit Substitutes	3		3	4.1300%	March 15, 2021
Deposit Substitutes	1		1	4.1300%	March 17, 2021
Deposit Substitutes	5		5	3.5000%	March 22, 2021

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	5		5	3.6300%	March 22, 2021
Deposit Substitutes	3		3	3.6300%	March 29, 2021
Deposit Substitutes	2		2	3.7500%	March 29, 2021
Deposit Substitutes	3		3	3.8800%	March 29, 2021
Deposit Substitutes	6		6	3.6300%	April 05, 2021
Deposit Substitutes	4		4	3.7500%	April 05, 2021
Deposit Substitutes	4		4	3.6300%	April 06, 2021
Deposit Substitutes	3		3	4.1300%	April 06, 2021
Deposit Substitutes	13		13	4.1300%	April 07, 2021
Deposit Substitutes	6		6	3.6300%	April 12, 2021
Deposit Substitutes	28		28	4.1300%	April 12, 2021
Deposit Substitutes	1		1	4.1800%	April 12, 2021
Deposit Substitutes	2		2	4.3800%	April 13, 2021
Deposit Substitutes	1		1	4.1300%	April 14, 2021
Deposit Substitutes	17		17	4.3800%	April 15, 2021
Deposit Substitutes	8		8	4.1300%	April 19, 2021
Deposit Substitutes	4		4	4.3800%	April 19, 2021
Deposit Substitutes	6		6	3.6300%	April 20, 2021
Deposit Substitutes	2		2	4.3800%	April 20, 2021
Deposit Substitutes	5		5	4.1300%	April 23, 2021
Deposit Substitutes	7		7	4.1300%	April 26, 2021
Deposit Substitutes	18		18	4.3800%	April 26, 2021
Deposit Substitutes	2		2	4.5000%	April 26, 2021
Deposit Substitutes	16		16	4.5000%	May 03, 2021
Deposit Substitutes	3		3	4.1300%	May 04, 2021
Deposit Substitutes	1		1	4.1300%	May 05, 2021
Deposit Substitutes	2		2	3.5000%	May 10, 2021
Deposit Substitutes	8		8	4.5000%	May 10, 2021
Deposit Substitutes	1		1	4.1300%	May 17, 2021
Deposit Substitutes	9		9	4.5000%	May 17, 2021
Deposit Substitutes	3		3	3.5000%	May 18, 2021
Deposit Substitutes	12		12	4.5000%	May 24, 2021
Deposit Substitutes	1		1	4.5000%	May 25, 2021
Deposit Substitutes	27		27	4.1300%	May 26, 2021
Deposit Substitutes	1		1	4.1300%	May 31, 2021
Deposit Substitutes	1		1	4.7500%	May 31, 2021
Deposit Substitutes	2		2	4.1300%	June 02, 2021
Deposit Substitutes	1		1	4.1300%	June 07, 2021
Deposit Substitutes	11		11	4.7500%	June 07, 2021
Deposit Substitutes	5		5	4.8800%	June 07, 2021
Deposit Substitutes	5		5	4.8800%	June 08, 2021
Deposit Substitutes	13		13	4.1300%	June 09, 2021
Deposit Substitutes	11		11	3.8800%	June 14, 2021
Deposit Substitutes	30		30	4.1300%	June 14, 2021
Deposit Substitutes	10		10	4.7500%	June 14, 2021
Deposit Substitutes	15		15	4.8800%	June 14, 2021
Deposit Substitutes	1		1	4.1300%	June 21, 2021

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	20		20	4.8800%	June 21, 2021
Deposit Substitutes	2		2	4.0000%	June 22, 2021
Deposit Substitutes	10		10	4.1300%	June 24, 2021
Deposit Substitutes	16		16	4.8800%	June 28, 2021
Deposit Substitutes	0		0	4.8800%	June 29, 2021
Deposit Substitutes	19		19	4.1300%	June 30, 2021
Deposit Substitutes	8		8	4.8800%	July 05, 2021
Deposit Substitutes	3		3	4.1300%	July 12, 2021
Deposit Substitutes	40		40	5.0000%	July 12, 2021
Deposit Substitutes	6		6	4.1300%	July 14, 2021
Deposit Substitutes	3		3	4.1300%	July 19, 2021
Deposit Substitutes	13		13	5.0000%	July 19, 2021
Deposit Substitutes	1		1	5.1300%	July 20, 2021
Deposit Substitutes	8		8	5.0000%	July 26, 2021
Deposit Substitutes	12		12	4.1300%	July 28, 2021
Deposit Substitutes	1		1	4.1300%	August 02, 2021
Deposit Substitutes	1		1	5.3800%	August 02, 2021
Deposit Substitutes	13		13	4.1300%	August 03, 2021
Deposit Substitutes	2		2	4.2500%	August 03, 2021
Deposit Substitutes	6		6	4.1300%	August 04, 2021
Deposit Substitutes	2		2	4.1300%	August 09, 2021
Deposit Substitutes	3		3	5.2500%	August 09, 2021
Deposit Substitutes	22		22	4.1300%	August 10, 2021
Deposit Substitutes	50		50	5.7500%	August 10, 2021
Deposit Substitutes	1		1	4.1300%	August 11, 2021
Deposit Substitutes	8		8	4.0000%	August 16, 2021
Deposit Substitutes	5		5	4.1300%	August 16, 2021
Deposit Substitutes	1		1	4.9000%	August 16, 2021
Deposit Substitutes	11		11	4.0000%	August 23, 2021
Deposit Substitutes	1		1	5.2500%	August 23, 2021
Deposit Substitutes	2		2	3.7500%	August 25, 2021
Deposit Substitutes	5		5	4.0000%	August 25, 2021
Deposit Substitutes	1		1	3.7500%	August 26, 2021
Deposit Substitutes	1		1	3.7500%	August 30, 2021
Deposit Substitutes	15		15	4.0000%	August 30, 2021
Deposit Substitutes	2		2	4.9000%	August 30, 2021
Deposit Substitutes	8		8	5.2500%	August 30, 2021
Deposit Substitutes	12		12	4.0000%	September 01, 2021
Deposit Substitutes	10		10	4.0000%	September 06, 2021
Deposit Substitutes	6		6	4.9000%	September 06, 2021
Deposit Substitutes	1		1	5.2500%	September 06, 2021
Deposit Substitutes	18		18	4.0000%	September 07, 2021
Deposit Substitutes	8		8	3.7500%	September 09, 2021
Deposit Substitutes	1		1	3.7500%	September 14, 2021
Deposit Substitutes	4		4	3.7500%	September 15, 2021
Deposit Substitutes	15		15	4.0000%	September 20, 2021
Deposit Substitutes	1		1	4.9000%	September 27, 2021

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	3		3	5.2500%	September 27, 2021
Deposit Substitutes	2		2	3.7500%	September 29, 2021
Deposit Substitutes	5		5	4.0000%	September 29, 2021
Deposit Substitutes	4		4	3.7500%	October 04, 2021
Deposit Substitutes	249		249	4.0000%	October 04, 2021
Deposit Substitutes	5		5	3.7500%	October 05, 2021
Deposit Substitutes	1		1	3.7500%	October 12, 2021
Deposit Substitutes	4		4	4.0000%	October 12, 2021
Deposit Substitutes	1		1	3.7500%	October 18, 2021
Deposit Substitutes	2		2	5.7500%	October 18, 2021
Deposit Substitutes	88		88	4.0000%	October 25, 2021
Deposit Substitutes	1		1	5.2500%	October 25, 2021
Deposit Substitutes	1		1	3.7500%	November 02, 2021
Deposit Substitutes	1		1	3.7500%	November 03, 2021
Deposit Substitutes	2		2	5.1000%	November 04, 2021
Deposit Substitutes	6		6	4.0600%	November 08, 2021
Deposit Substitutes	5		5	6.0000%	November 08, 2021
Deposit Substitutes	1		1	3.7500%	November 15, 2021
Deposit Substitutes	10		10	4.0000%	November 15, 2021
Deposit Substitutes	1		1	3.7500%	November 22, 2021
Deposit Substitutes	10		10	4.0000%	November 23, 2021
Deposit Substitutes	1		1	4.0000%	November 29, 2021
Deposit Substitutes	4		4	7.0000%	November 29, 2021
Deposit Substitutes	4		4	3.8800%	December 06, 2021
Deposit Substitutes	15		15	4.0000%	December 06, 2021
Deposit Substitutes	3		3	4.1300%	December 06, 2021
Deposit Substitutes	1		1	7.0000%	December 06, 2021
Deposit Substitutes	30		30	4.0000%	December 07, 2021
Deposit Substitutes	1		1	5.9000%	December 07, 2021
Deposit Substitutes	1		1	7.0000%	December 07, 2021
Deposit Substitutes	1		1	7.0000%	December 09, 2021
Deposit Substitutes	3		3	3.8800%	December 13, 2021
Deposit Substitutes	25		25	4.0000%	December 13, 2021
Deposit Substitutes	2		2	5.9000%	December 13, 2021
Deposit Substitutes	2		2	3.8800%	December 15, 2021
Deposit Substitutes	1		1	4.0000%	January 11, 2022
Deposit Substitutes	4		4	3.3800%	January 19, 2022
Deposit Substitutes	3		3	3.8800%	January 24, 2022
Deposit Substitutes	5		5	4.0000%	January 24, 2022
Deposit Substitutes	6		6	3.8800%	January 26, 2022
Deposit Substitutes	3		3	3.3800%	February 02, 2022
Deposit Substitutes	1		1	4.0000%	February 07, 2022
Deposit Substitutes	5		5	3.7500%	February 22, 2022
Deposit Substitutes	10		10	3.8800%	February 24, 2022
Deposit Substitutes	5		5	3.7500%	February 28, 2022
Deposit Substitutes	10		10	4.2500%	February 28, 2022
Deposit Substitutes	2		2	3.8800%	March 07, 2022

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	2		2	3.7500%	March 15, 2022
Deposit Substitutes	1		1	4.0000%	March 21, 2022
Deposit Substitutes	2		2	3.7500%	March 28, 2022
Deposit Substitutes	2		2	3.7500%	May 16, 2022
Deposit Substitutes	1		1	4.0000%	May 31, 2022
Deposit Substitutes	15		15	4.1300%	June 06, 2022
Deposit Substitutes	1		1	4.0000%	June 08, 2022
Deposit Substitutes	5		5	4.1300%	June 20, 2022
Deposit Substitutes	8		8	4.2500%	June 20, 2022
Deposit Substitutes	0		0	4.8800%	June 20, 2022
Deposit Substitutes	5		5	4.2500%	June 22, 2022
Deposit Substitutes	1		1	4.1300%	July 04, 2022
Deposit Substitutes	15		15	5.1300%	September 14, 2022
Deposit Substitutes	4		4	5.2000%	September 19, 2022
Deposit Substitutes	8		8	5.1300%	September 21, 2022
Deposit Substitutes	5		5	5.1300%	November 03, 2022
Deposit Substitutes	1		1	5.1300%	November 07, 2022
Deposit Substitutes	1		1	5.6500%	November 08, 2022
Deposit Substitutes	4		4	5.1300%	November 14, 2022
Deposit Substitutes	1		1	5.2000%	November 14, 2022
Deposit Substitutes	15		15	5.1300%	December 01, 2022
Deposit Substitutes	1		1	4.6300%	December 19, 2022
Deposit Substitutes	2		2	4.5000%	January 03, 2023
Deposit Substitutes	3		3	4.5000%	January 09, 2023
Deposit Substitutes	2		2	5.1300%	January 16, 2023
Deposit Substitutes	25		25	5.2500%	January 24, 2023
Deposit Substitutes	5		5	4.6300%	January 25, 2023
Deposit Substitutes	23		23	5.2500%	January 25, 2023
Deposit Substitutes	1		1	5.2500%	January 26, 2023
Deposit Substitutes	9		9	5.2500%	January 30, 2023
Deposit Substitutes	1		1	4.6300%	January 31, 2023
Deposit Substitutes	1		1	4.6300%	February 06, 2023
Deposit Substitutes	3		3	5.2500%	February 06, 2023
Deposit Substitutes	2		2	4.6300%	February 07, 2023
Deposit Substitutes	5		5	5.1300%	February 13, 2023
Deposit Substitutes	2		2	4.6300%	February 27, 2023
Deposit Substitutes	25		25	5.1300%	March 02, 2023
Deposit Substitutes	81		81	5.0000%	March 15, 2023

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	1		1	5.1300%	March 15, 2023
Deposit Substitutes	4		4	5.1300%	March 16, 2023
Deposit Substitutes	2		2	5.1300%	March 28, 2023
Deposit Substitutes	1		1	4.6300%	April 03, 2023
Deposit Substitutes	2		2	4.6300%	April 05, 2023
Deposit Substitutes	1		1	5.0000%	April 05, 2023
Deposit Substitutes	1		1	5.0000%	April 13, 2023
Deposit Substitutes	7		7	5.0000%	April 27, 2023
Deposit Substitutes	4		4	5.0000%	May 04, 2023
Deposit Substitutes	4		4	5.0000%	May 17, 2023
Deposit Substitutes	2		2	5.0000%	May 29, 2023
Deposit Substitutes	1		1	5.0000%	June 01, 2023
Deposit Substitutes	2		2	5.0000%	June 05, 2023
Deposit Substitutes	1		1	5.0000%	June 14, 2023
Deposit Substitutes	6		6	5.0000%	June 15, 2023
Deposit Substitutes	12		12	5.0000%	June 19, 2023
Deposit Substitutes	6		6	5.0000%	June 21, 2023
Deposit Substitutes	5		5	5.1300%	June 26, 2023
Deposit Substitutes	5		5	5.2500%	July 17, 2023
Deposit Substitutes	2		2	5.0000%	July 20, 2023
Deposit Substitutes	1		1	5.5000%	July 24, 2023
Deposit Substitutes	6		6	5.0000%	July 27, 2023
Deposit Substitutes	5		5	6.2500%	July 31, 2023
Deposit Substitutes	1		1	6.5000%	July 31, 2023
Deposit Substitutes	1		1	6.2500%	August 01, 2023
Deposit Substitutes	5		5	5.0000%	August 03, 2023
Deposit Substitutes	1		1	5.0000%	August 09, 2023
Deposit Substitutes	4		4	5.0000%	August 10, 2023
Deposit Substitutes	1		1	5.3000%	August 10, 2023
Deposit Substitutes	50		50	6.5000%	August 10, 2023
Deposit Substitutes	5		5	4.1300%	August 24, 2023
Deposit Substitutes	1		1	4.1300%	August 28, 2023
Deposit Substitutes	1		1	5.3000%	August 29, 2023
Deposit Substitutes	1		1	6.2500%	August 29, 2023
Deposit Substitutes	1		1	6.2500%	August 30, 2023
Deposit Substitutes	3		3	4.1300%	September 20, 2023
Deposit Substitutes	1		1	4.1300%	September 26, 2023
Deposit Substitutes	4		4	4.3800%	September 26, 2023
Deposit Substitutes	1		1	6.7500%	September 26, 2023
Deposit Substitutes	2		2	4.6300%	October 04, 2023
Deposit Substitutes	2		2	6.7500%	October 05, 2023
Deposit Substitutes	4		4	4.3800%	October 11, 2023
Deposit Substitutes	4		4	4.3800%	October 16, 2023
Deposit Substitutes	1		1	6.7500%	October 23, 2023
Deposit Substitutes	3		3	6.8800%	October 25, 2023
Deposit Substitutes	2		2	6.8800%	November 07, 2023
Deposit Substitutes	1		1	4.1300%	November 21, 2023

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2018

Title of Issue and type of obligation	Amount authorized by indenture (in millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in millions)	Interest Rates	Maturity Dates
Deposit Substitutes	1		1	4.1300%	November 23, 2023
Deposit Substitutes	7		7	4.1300%	November 27, 2023
Deposit Substitutes	0		0	4.0000%	December 18, 2023
Deposit Substitutes	2		2	4.1300%	February 08, 2024
Deposit Substitutes	1		1	4.1300%	February 13, 2024
Deposit Substitutes	1		1	4.1300%	March 06, 2024
Deposit Substitutes	1		1	4.2500%	May 09, 2024
Deposit Substitutes	5		5	4.7500%	March 05, 2025
Deposit Substitutes	35		35	6.2000%	December 18, 2025
	11,138	-	11,138		
Total Bills Payable	50,779	-	50,618		
Other Liabilities					
Bonds Payable - Fixed Rate Bonds	28,000		27,826	7.1500%	November 09, 2020
Notes Payable - Fixed Rate Corporate Bonds	1,705		1,705	7.0156%	April 29, 2020
Notes Payable - Fixed Rate Corporate Bonds	895		895	7.4463%	October 29, 2020
	30,600	-	30,426		
	108,049	15,987	91,674		

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule F - Indebtedness to Related Parties (Long-Term Loans from Related Companies)

December 31, 2018

Name of Related Party	Balance at Beginning of Period	Balance at End of Period

NOT APPLICABLE

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule G - Guarantees of Securities of Other Issuers

December 31, 2018

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which this Statement is Filed	Nature of Guarantee

NOT APPLICABLE

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule H - Capital Stock

December 31, 2018

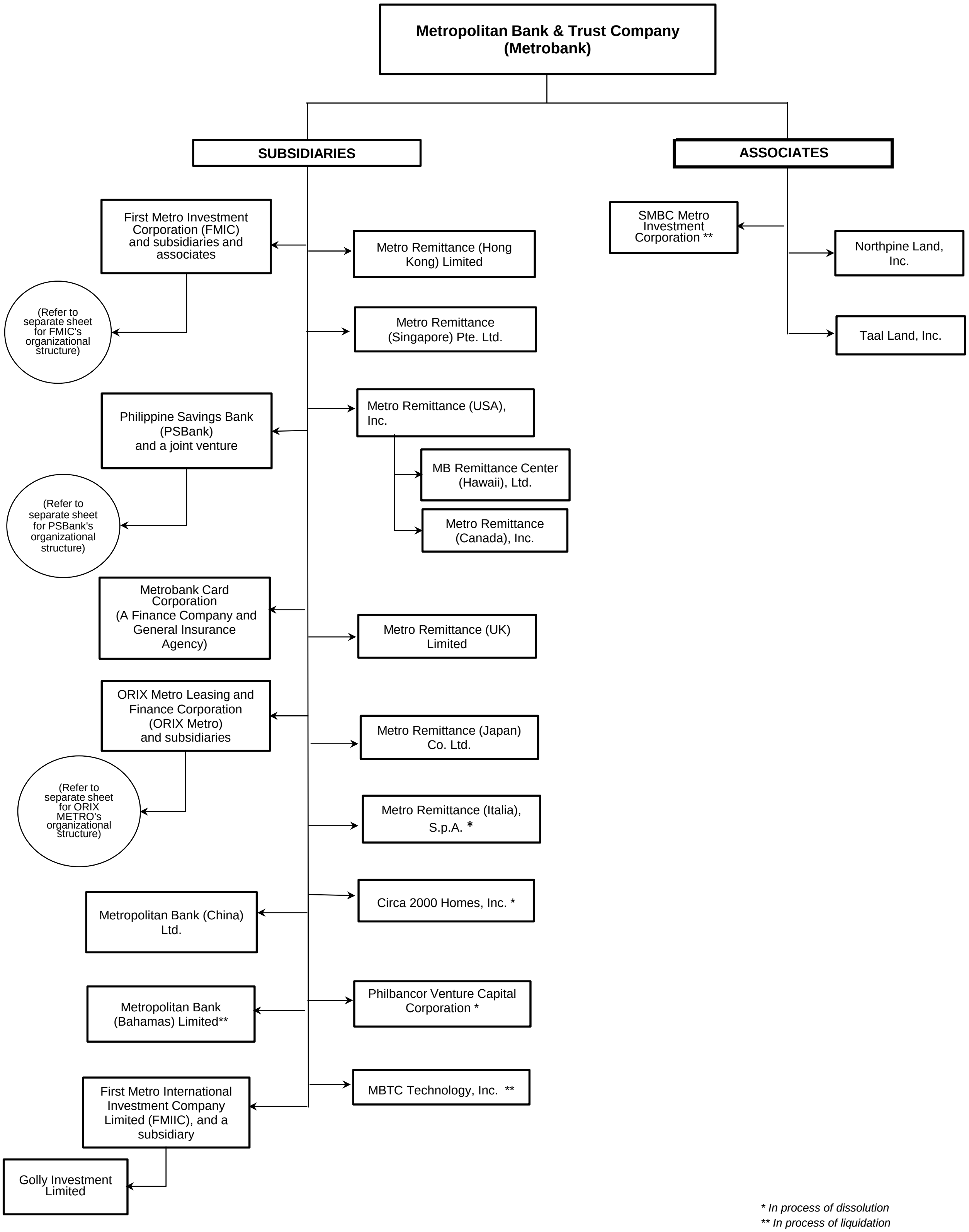
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Authorized						
Preferred stock - P20 par value	1,000,000,000					
Common stock - P20 par value	4,000,000,000					
Issued and outstanding						
Common stock - P20 par value		3,980,015,036		2,002,026,388	30,092,095	1,947,896,553

METROPOLITAN BANK & TRUST COMPANY
SURPLUS AVAILABLE FOR DIVIDENDS *
AS OF DECEMBER 31, 2018
(In ₱ Millions)

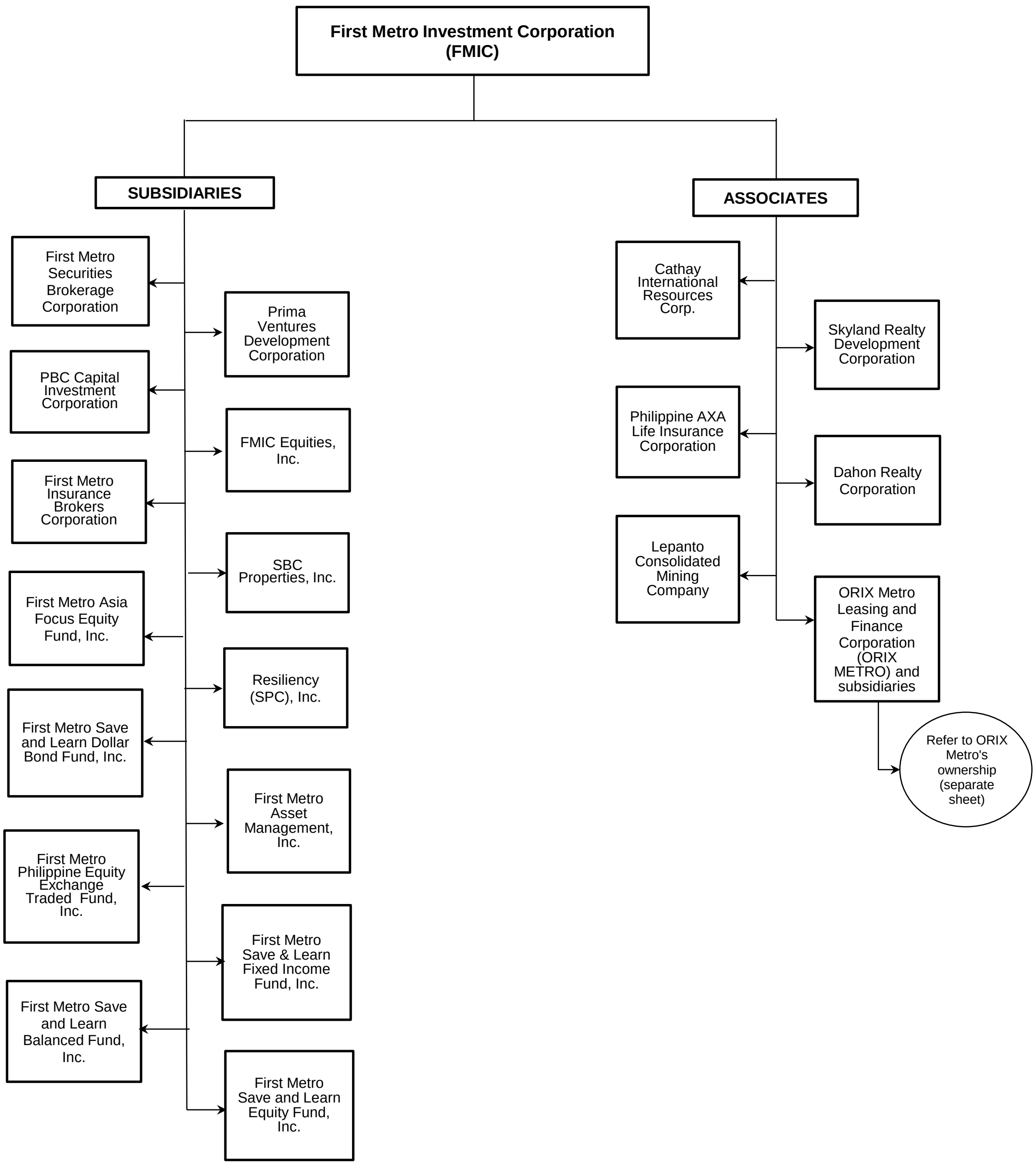
UNAPPROPRIATED SURPLUS, BEGINNING AS PREVIOUSLY PRESENTED	₱	116,786
Add: Effect of adoption of PFRS 9		(4,756)
Effect of adoption of PFRS 15		(40)
UNAPPROPRIATED SURPLUS, BEGINNING AS RESTATED		111,990
Adjustments:		
Less: Non-actual/unrealized income net of tax:		
Accumulated share in net income of subsidiaries, associates and joint venture - net of dividends, restated		31,097
Fair value adjustments (mark-to-market gains)		2,818
Recognized deferred tax asset (DTA)		5,017
Unrealized gains on foreclosure of investment properties - net of accumulated depreciation		412
		39,344
UNAPPROPRIATED SURPLUS AS ADJUSTED TO AVAILABLE FOR DIVIDEND DISTRIBUTION AT BEGINNING OF YEAR		**72,646**
Add: Net income actually earned/realized during the year:		
Net income during the year closed to Surplus		22,008
Less: Non-actual/unrealized income net of tax:		
Fair value adjustment (mark-to-market gains)		4,069
Movement on DTA		(12)
Equity in net income of subsidiaries, associates and a joint venture-net of dividends		5,519
		9,576
Net income actually earned during the year		**12,432**
Less:		
Dividend declarations during the year		3,180
Appropriations of Retained Earnings during the year		146
Realized loss on sale of equity securities at FVOCI		122
		3,448
UNAPPROPRIATED SURPLUS AVAILABLE FOR DIVIDENDS, END	**₱**	**81,630**

* 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 Bangko Sentral ng Pilipinas guidelines.

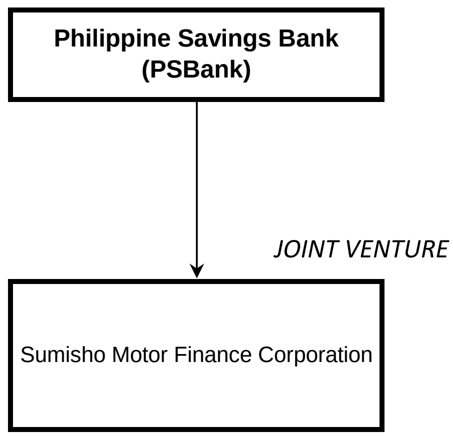
Metropolitan Bank & Trust Company
Subsidiaries and Associates
As of December 31, 2018



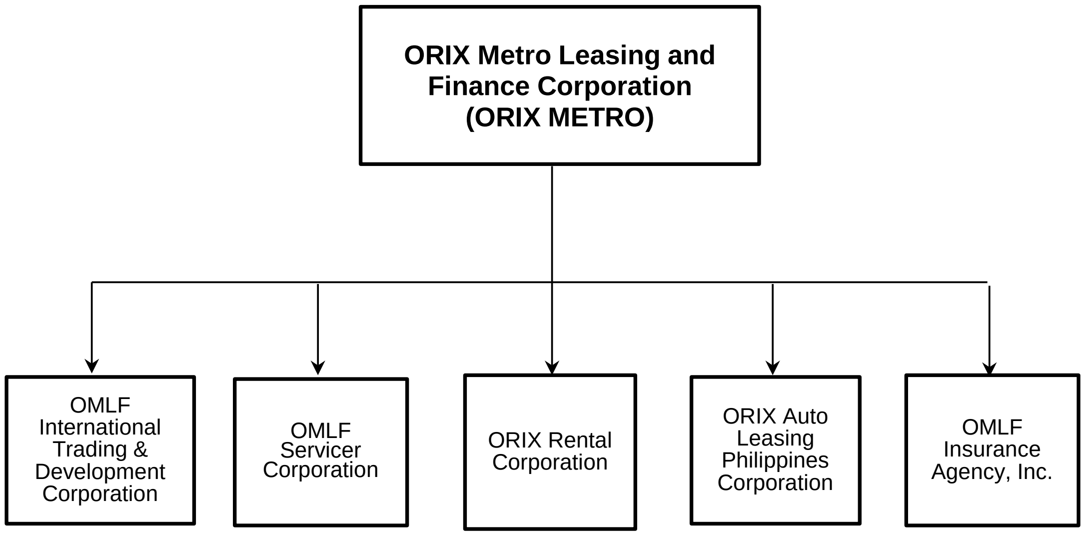
First Metro Investment Corporation
Subsidiaries and Associates
As of December 31, 2018



Philippine Savings Bank
Joint Venture
As of December 31, 2018



ORIX Metro Leasing and Finance Corporation (ORIX METRO)
Subsidiaries
As of December 31, 2018



Metropolitan Bank & Trust Company and Subsidiaries
Schedule of All the Effective Standards and Interpretations
December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Conceptual Framework for Financial Reporting		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemption for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1 – Deletion of short-term exemptions for first-time adopters			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
	Amendments to PFRS 3: Definition of a Business		Effective January 1, 2020* (not early adopted)	
	Amendments to PFRS 3: Previously held interest in a joint operation		Effective January 1, 2019* (not early adopted)	
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in methods of disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	PFRS 9, Financial Instruments	✓		
	Amendments to PFRS 9, Prepayment Features with Negative Compensation		Effective January 1, 2019 (not early adopted)	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture		**	
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Amendments to PFRS 3: Previously held interest in a joint operation		Effective January 1, 2019* (not early adopted)	
PFRS 12	Disclosures of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Clarification of the scope of the standard	✓		
	Amendments to PFRS 12: Investment Entities Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
	Amendments to PFRS 15, Clarifications to PFRS 15			✓
PFRS 16	Leases		Effective January 1, 2019 (not early adopted)	
PFRS 17	Insurance Contracts		Effective January 1, 2021* (not early adopted)	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material		Effective January 1, 2020* (not early adopted)	
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material		Effective January	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
			1, 2020* (not early adopted)	
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendments to PAS 12: Income tax consequences of payments on financial instruments classified as equity		Effective January 1, 2019* (not early adopted)	
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16, Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution	✓		
	Amendments to PAS 19: Discount Rate: Regional Market Issue	✓		
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement		Effective January 1, 2019* (not early adopted)	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendments to PAS 23: Borrowing costs eligible for capitalization		Effective January 1, 2019* (not early adopted)	
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments for investment entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		**	
	Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures		Effective January 1, 2019 (not early adopted)	
	Amendments to PAS 28 – Measuring an associate or joint venture at fair value			✓
	Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement			✓
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets			✓
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendment to PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 41, Agriculture: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
IFRIC 16	Hedges of a net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty over Income Tax Treatments		Effective January 1, 2019*	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
			(not early adopted)	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes- Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-32	Intangible Assets - Web Site Costs			✓

* *Subject to approval by the Board of Accountancy*

** *Original effective date of January 1, 2016 of the amendment was postponed by the FRSC on January 13, 2016, until the IASB has completed its broader review of the research project on equity accounting.*

Standards and Interpretations applicable to annual periods beginning on or after January 1, 2019 (where early application is allowed) will be adopted by the Group as they become effective.