COVER SHEET

C S 2 0 0 7 1 1 7 9 2

SEC Registration Number

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

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

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

Atty. Renee Lynn Miciano-Atienza

(Contact Person)

836-4500

(Company Telephone Number)

1 2	3 1
Month	*Day*

(Fiscal Year)

17-A

(Form Type)

0 5	1 1
Month	*Day*

(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)

73

Total No. of Stockholders

21.8 bonds

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, 2016

(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, 2016**

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	**174,300,000**
Series A Perpetual Preferred Shares (GTPPA)	**4,839,240**
Series B Perpetual Preferred Shares (GTPPB)	**7,160,760**
Amount of Debt Outstanding	**21,848,345,649**

    b) Debt securities: Php22 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: **Php96.6 billion (**based on closing price as of March 31, 2017 and outstanding common shares held by public as of December 31, 2016**); Php0.4 million** (based on offer price of Php0.10 per share as of April 13, 2015 and voting preferred shares held by public as of December 31, 2016)

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) 2016 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) 2016 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 the 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 51.6% is owned by Grand Titan Capital Holdings, Inc. and the directors and senior officers of GT Capital, while the balance of 48.4% is publicly owned as of December 31, 2016.

GT Capital is a major Philippine conglomerate with interests in market-leading businesses across banking, property development, automotive assembly, importation and distribution, 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, 2016 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, both located in Luzon; and Lexus Manila, situated in Bonifacio Global City, Taguig.

  GT Capital conducts its automotive dealership business through its 58.05% interest in Toyota Manila Bay Corporation (TMBC). TMBC exclusively distributes Toyota motor vehicles in the Luzon island, primarily servicing the market in in Metro Manila. They also offer original Toyota brand motor vehicle parts and accessories, and provide after-sales services to Toyota vehicles.

  GT Capital provides financing for the acquisition of Toyota 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 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 for future auto dealerships of the Company. On July 14, 2016, SEC approved the incorporation of Toyota Subic, Inc. (TSI), a joint venture between GTCAD and JBT Global Holdings Inc. (JBT Global), with GTCAD owning 55% and JBT Global owning 45% of TSI's issued and outstanding capital stock.

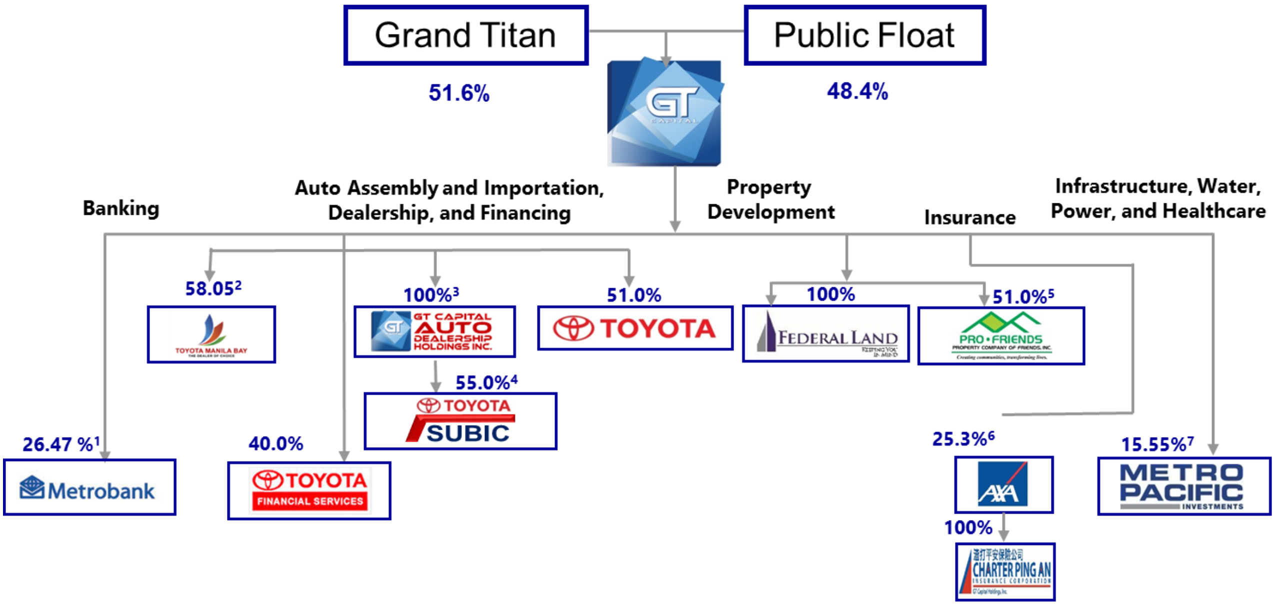
- **Banking** – GT Capital conducts banking services through its 26.47% interest in Metropolitan Bank & Trust company (MBT or Metrobank). MBT is a universal bank that provides, through itself and other members of the MBT Group, a full range of banking and other financial products and services including 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, 2016, the MBT Group had a total of 959 branches in the Philippines, of which 704 were operated by MBT and 255 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 51.00% stake in affordable housing subsidiary, Property Company of Friends, Inc. (Pro-Friends). Fed 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 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 25.33% 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) 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.

GT Capital's organizational chart as of December 31, 2016 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%.*
2. *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 58.05% of TMBC while 40% of TMBC's common share capital is owned by Mitsui and Co. Ltd.*

3 *On June 13, 2016, SEC approved the incorporation of GTCAD. GTCAD will be a holding entity for TSI and other future auto dealerships of the Company.*

4 *On July 14, 2016, SEC approved the incorporation of TSI, a joint venture between GTCAD and JBT Global, with GTCAD owning 55% and JBT Global owning 45% of TSI'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.

5 *On August 6, 2015, GT Capital and Maplecrest Group, Inc., formerly Profriends Group, Inc., executed a Master Subscription Agreement (MSA) to subscribe 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.

6 *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, subject to closing conditions, including the receipt of regulatory approvals. The transaction was completed on April 4, 2016.*

7 *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

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, Ford, Honda, Isuzu, Hyundai, and Nissan
Automotive Distribution and Dealership	Hyundai dealers, Honda dealers, Mitsubishi dealers, and other Toyota dealers
Automotive Financing	BDO, BPI Family, PSBank, and East West 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, Vista Land and Lifescapes, Inc., and 8990 Housing Development
Life Insurance	Sun Life of Canada, Philippine American Life Insurance Co., Insular Life, Pru Life UK, and Manufacturers Life Insurance
Non-life Insurance	Prudential Guarantee, Malayan Insurance, BPI/MS, Pioneer Insurance, AIG Philippines
Infrastructure and Utilities	Ayala Corporation, San Miguel Corporation, DM Consunji, Inc., Aboitiz Equity Ventures

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. Related party transactions 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, 2016, the GT Capital group of companies had a combined 24,715 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	30
MBT	18,363
Federal Land	356
Pro-Friends	1,333
TMP	1,869
AXA Philippines and Charter Ping An	1,698
TMBC	778
TFSPH	288
Total	**24,715**

GT Capital's management believes that labor relations are generally healthy between management and employees at each of the GT Capital component companies. GT Capital currently has no plans of hiring additional employees, except where necessary to augment its legal and compliance, finance and accounting, investor relations, corporate planning and business development and internal audit divisions. As of December 31, 2016, GT Capital had 30 full-time employees. The Company expects to more or less maintain its number of employees in the next 12 months.

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 financial reporting risks are summarized below:

Credit risk
The Group's credit risk is primarily attributable to its financial assets. To manage credit risk, the Group maintains defined credit policies and monitors, on a continuous basis, its exposure to credit risk. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

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.

Foreign currency risk
Financial assets and financing facilities extended to the Group were mainly denominated in Philippine Pesos. As such, the Group's foreign currency risk is very minimal.

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's non-financial risks are summarized below:

Strategic risk
The Group established objectives and goals for operations or programs that are aligned with the Group's mission to avoid current and prospective adverse impact on earnings or capital arising from improper implementation of the decision making process, unsuccessful business plan, or adverse business decisions made. Failure to respond to the changes in the business environment can also affect the Group's financial condition and results of operations.

Operational risk
The Group promotes the effective and efficient use of its resources to avoid risks resulting from human error and breakdowns in its internal processes and systems through which it operates.

Regulatory risk
The Group manages regulatory risk by strict compliance with Philippine laws, rules and regulations. Monitoring changes in these laws, rules and regulations reduces risks associated with non-compliance. The developed and sustained ethical business culture of the Group adheres to the expectations and demands of its contracts with stakeholders.

Country risk
Any political instability in the Philippines may adversely affect GT Capital's business, results of operations and financial condition. Acts of terrorism and violent crimes could destabilize the country and could have a material adverse effect on GT Capital's business and financial condition. The sovereign credit ratings of the Philippines may also adversely affect GT Capital's business. Occurrence of natural catastrophes could adversely affect the GT Capital companies' business, financial condition and results of operations.

The ROC and the Chief Risk Officer meet regularly and exercise an oversight role in managing the risks involved in the operations of the Company. The Company has initiated programs designed to strengthen its risk management system as the Company grows and ventures into different industries and market segments. These programs are being overseen by the Audit Committee and Senior Management.

For further details on the Company's financial condition and operations, please refer to the 2016 Audited Financial Statements which are incorporated in the accompanying index to exhibits.

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 67.5%, 72.2% and 60.7% of the MBT Group's revenue net of interest and finance charges in 2016, 2015 and 2014, 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 32.5%, 27.8**%** and 39.3% of the MBT Group's revenue net of interest and finance charges in 2016, 2015 and 2014, 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 2016, 2015 and 2014 are as follows:

Offices in	**Year**	**Percentage Contribution to**	
		Revenue, Net	External Net Operating Income
Asia (Other than the Philippines)	2016	2.22	2.33
	2015	2.78	2.76
	2014	2.66	2.62
United States	2016	0.90	0.99
	2015	0.72	0.73
	2014	0.48	0.51
Europe	2016	0.10	0.11

	2015	0.08	0.09
	2014	0.07	0.07

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 2016 with 959 branches as compared to 945 in 2015. 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.

   <u>2016 - New International Remittance Tie-Ups</u>

   a. Aussie Forex & Finance Pty Ltd., Australia
   b. BC Remittance Ltd., UK
   c. Iyog Venture Money Transfer, New Zealand
   d. Pinoy Express Palau, Palau
   e. Remitly Inc., USA
   f. Saudi Investment Bank, Saudi Arabia
   g. Shinhan Bank (Manila Branch)
   h. Transfergo Ltd., UK

   <u>2016 – New Local Remittance Shipping Tie-Ups</u>

   a. Caravel Philippines

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. Tax Direct Facility

   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.

Innovations and Promotions

In 2016, Metrobank continued to introduce campaigns and promotions to address the market's needs.

- Metrobank continued to boost its market presence by launching new Home Loan and Car Loan promos. The new Metrobank Home Loan promo, *Great Rates Sale*, had no hidden fees, low amortization and easy application process.
- Hailed as Asian Banker's Auto-loan Product of the Year for 2016, the Metrobank Group rolled out new promos, the Metrobank Car Loan *100 Days of Awesome* which provided borrowers with low monthly amortization with free chattel mortgage fee and free first year insurance, and PSBank's *Triple Auto Treat* which offered one-year free insurance, free chattel mortgage fees and gas allowance. The former also staged the *#100DaysofAwesome Car Fair* in Le Pavilion wherein Metrobank brought together 13 of the country's sought-after car brands to display their latest models for the clients to test drive.
- Moreover, Metrobank and PSBank introduced their new debit cards with EMV Chip to provide the clients with a more secure alternative to traditional magnetic stripe payment cards. To entice clients to use their debit and prepaid cards, various promotions throughout the year were offered. These included availing of discounts and getting freebies from various merchants as clients use their cards through the merchants' online sites and POS machines.
- Riding with the digital revolution, Philippine Savings Bank allowed clients to apply online for PSBank's Money Market Fund and PSBank Auto Loan with Prime Rebate.
- For its credit card holders, Metrobank Card Corporation offered premium deals and various treats through its partner merchants with up to 50% discount from top restaurants and hotels. Newly approved and qualified principal cardholders were also awarded with shopping credits which could be used to redeem up to P3,000 worth of National Book Store gift certificates.
- Through a cross-selling arrangement, Metrobank Card and Robinsons launched the *Robinsons Credit MasterCard* featuring accumulation of shopping points, 10% rebate on Payday Weekends, exclusive perks and privileges, and purchase of Robinsons Rewards Card at half the price.
- AXA, Interbrand's No. 1 Global Insurance Brand for the 8th consecutive year, unveiled their MyAxa mobile app which allowed clients to manage their AXA account wherever they are. Furthermore, the AXA Extensive Medical Coverage Worldwide which had up to P150 million annual coverage was introduced in 2016.
- In line with its financial literacy advocacy, First Metro Securities Brokerage Corporation initiated their Guided Investor, Fearless Trader (G.I.F.T.) Learning Series which involved basic and advanced stock market courses and advanced technical courses.
- Metrobank Trust launched the *Metro World Equity Feeder Fund*, a dollar-denominated equity feeder fund which feeds into INVESTEC'S Global Strategic Equity Fund (GSF). The World Equity Feeder Fund aims to provide long-term capital growth primarily through GSF's investment of shares of companies around the world that are believed to offer above average opportunities for capital gains. Another investment fund launched in 2016 was the *Metro Corporate Bond Fund*, a peso-denominated fund that aims to generate income and capital appreciation by investing in a diversified portfolio of predominantly peso-denominated corporate fixed income securities.

Competition

The Philippine banking industry can be characterized by competitive price and service offerings. All banks in general have similar product offerings and compete mainly through differentiation in service levels and targeting specific niche markets.

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, 2016, the Philippine commercial banking sector consisted of 42 banks, including 22 foreign bank entities. In terms of classification, there were 21 universal banks and 21 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 21 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 14 were branches of foreign banks. The ten largest commercial banks in the country accounted for over 81% of both total assets and total deposits of the commercial banking system based on published statements of condition. 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.

Corporate loan demand remained largely for working capital requirements as some corporations have been able to access the debt capital market for long-term funding. Corporate lending thus remained very competitive resulting in narrower spreads. Most of the recent growth in loans has generally come from the consumer segment, middle corporate market and SMEs.

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 Electronic Touch or Metrobank E.T. or Metrobank Debit Card or Metrobank Prepaid Card
2. For credit cards: Metrobank Visa/MasterCard Classic; Visa/MasterCard Gold; Femme Signature Visa/Femme Visa; Platinum MasterCard; World MasterCard; Dollar MasterCard; Metrobank ON Internet MasterCard; M Free MasterCard; M Lite MasterCard; Toyota MasterCard; and Robinsons-Cebu Pacific 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.
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 and Collect Anywhere
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 yrs.: Fun Savers Club
10. For Trust products: Metro Money Market Fund; Metro Max-3 Bond Fund; Metro Wealth Builder Fund; Metro Max-5 Bond Fund; Metro Balanced Fund; Metro Equity Fund; Metro $ Money Market Fund; Metro $ Max-3 Bond Fund; Metro $ Max-5 Bond Fund; Metro High Dividend Yield Fund; Metro PSEi Tracker Fund; Metro Aspire Balance Fund; Metro Aspire Bond Fund; Metro Aspire Equity Fund and Metro World Equity Feeder Fund.
11. Metrobank and logo (new and old logo)

Corporate licenses include the following:

1. For Metrobank: expanded commercial banking license, FCDU license, license for trust operations, type 2 limited dealer authority, GSED with broker-dealer of securities functions
2. For PSBank: savings bank 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, quasi banking and trust licenses
4. For ORIX Metro: financing company and quasi-banking license
5. For MCC: quasi-banking license and finance company
6. For Metropolitan Bank China Ltd. (MBCL): business license to expire on January 13, 2040

All MBT's trademark registrations, except for Metrobank E.T., are valid for 10 years with expiration dates varying from 2017 to 2018. 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 will expire in December 2017.

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

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 Philippine Financial Reporting Standards (PFRS) in some respects.

Effective January 1, 2014, 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 ratios of 7.50% and also introduced a capital conservation buffer of 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

Basel III also requires that existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital. In addition, capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), and before the effectivity of BSP Circular No. 781 shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital. Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

As of December 31, 2016 and 2015, the MBT Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products. The MBT Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the MBT Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the MBT 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 MBT Group. The level and structure of capital are assessed and determined in light of the MBT Group's business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every January 31. Pursuant to MB Resolution No. 84 dated January 14, 2015, the deadline for submission of ICAAP documents was amended from January 31 of each year to March 31 effective 2015 (BSP Circular No. 869 dated January 30, 2015).

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

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

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

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

Applicable Tax Regulations
Under Philippine tax laws, the RBU of MBT 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 MBT 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 MBT Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Income derived by the FCDU from foreign currency transactions with nonresidents, 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 MBT are discussed in Note 28 of the audited financial statements of the Group as presented in Exhibit 3.

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

Employees
Metrobank had 12,524 employees as at December 31, 2016. By year-end 2017, the Bank projects to have 12,916 employees.

	Officers	Rank and File	Total
As of year-end 2016:			
AVPs and up:	393		393
Senior Managers and down:	5,439	6,692	12,131
	5,832	6,692	12,524
By year-end 2017 (projected):			
AVPs and up:	568		568
Senior Managers and down:	5,959	6,389	12,348
	6,527	6,389	12,916

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 2016 will end in December 2018. 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 the Group are disclosed in Note 4 of the Audited Financial Statements as presented in 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.

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. As a background, to further promote compliance with PFRS and Basel II and to prepare for 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. The same is true for treasury-related activities. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by IAG and Risk Management Group (RSK).

Liquidity Risk
Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the MBT Group's inability to meet its obligations when they become due. The MBT Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. Specifically for MBT, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the MBT manages its liquidity risk by holding sufficient liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is repriced on a regular basis. Deposits with banks are made on a short-term basis.

In MBT, the Treasury Group uses liquidity forecast models to estimate its cash flow needs based on its actual contractual obligations under normal and extraordinary circumstances. RSK generates Maximum Cumulative Outflow (MCO) reports on a monthly basis to estimate short- and long-term net cash flows of MBT under business-as-usual and stress parameters. The MBT Group's financial institution subsidiaries (excluding insurance companies) prepare their respective MCO reports. These are reported to MBT's ROC on a monthly basis.

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

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

As part of its oversight function, 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 are part of the ongoing initiatives to provide senior management with a group-wide market risk profile perspective such as Group Trading VaR.

Market Risk - Trading Book
In measuring the potential loss in its trading portfolio, MBT uses Value-at-Risk (VaR) as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. The 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 MBT, even before the VaR limit is hit.

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

Market Risk - Banking Book
To quantify interest rate risk for banking book or accrual portfolios, the MBT Group uses tools or approaches such as Earnings-at-Risk (EaR) and Sensitivity analysis. EaR Methodology is used to measure the potential effect of interest rate movements to net interest earnings. The measurement and monitoring of exposures are done monthly.

Interest Rate Risk
EaR is derived by multiplying the repricing gap by the change in interest rate and the time over which the repricing gap is in effect. The repricing/maturity gap is a method that distributes rate-sensitive assets, liabilities, and off-balance sheet positions into predefined time bands. Floating rate positions are distributed based on the time remaining to next repricing dates. On the other hand, fixed rate items are distributed based on the time remaining to respective maturities. There are certain balance sheet items that may require set-up of assumptions as to their distribution to time bands. For MBT, rate-sensitive positions that lack definitive repricing dates or maturity dates (e.g. demand and savings deposit accounts) are assigned to repricing time bands according to judgment, past experience or behavioral patterns. Dynamic assumptions, which consider potential amount of loan pre-payments and time deposit pre-terminations, are based on analysis of historical cash flow levels.

Foreign Currency Risk
Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. The MBT Group takes on exposure to effects of fluctuations in the current foreign currency exchange rates on its financial performance and cash flows. Foreign currency liabilities generally consist of foreign currency deposits in the 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 MBT 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.

Federal Land, Inc.

Fed 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 Fed Land Group (i.e. Fed 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 Fed 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.

Fed Land's registered office is at 20th Floor, GT Tower International, Ayala Ave. cor. H.V. Dela Costa Street, Makati City. Fed 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 Fed Land's projects.

Property Development Projects

Fed Land has a diverse portfolio of property development projects that focus on master-planned communities and residential developments. Many of Fed Land's residential development projects are components of Fed Land's master-planned communities. However, Fed 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

Fed Land and its affiliates own substantial tracts of land in prime areas in Metro Manila and its periphery. Fed Land develops these properties into fully master-planned communities consisting of residential condominium towers, supporting amenities and complementing commercial, retail and institutional establishments. Fed 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

Fed 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, Fed 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

Fed Land has a portfolio of commercial buildings and properties that include office properties and retail outlets that Fed Land leases to tenants. Fed Land is also the property manager for these projects. The leases and management fees provide Fed Land with recurring income that enhances its revenues and strengthens its cash flows. Fed Land intends to increase its recurring income with the leasing and management of its ongoing commercial developments once they are completed.

Retail Buildings

Fed Land has developed, owns and operates retail properties in Pasay City and Marikina City under the "Blue Wave" brand name. In March 23, 2014, Fed Land opened its new retail property in Pasay City under the "Bluebay Walk" brand name. Further, as part of strategic direction in growing its recurring income Fed Land started construction of its first enclosed mall, the new Bluewave in Macapagal.

Office Buildings

The major office properties that generate lease income for Fed 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. Similar to strategy of growing retail commercial portfolio, the company is scheduled to complete the construction of its first BPO building, iMet, in February 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, Fed Land's major competitors are Ayala Land, Inc., Megaworld Corporation, Century Properties Group, Inc., SM Development Corporation and DMCI. Fed 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. Fed 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

Fed 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, Fed Land purchased four parcels of land all located at Macapagal and four 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, Fed Land sold a parcel of land to Toyota Cubao, Inc. (TCI) located at Sumulong Highway, Marikina for Php187.5 million.

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

4) *Lease agreements*
   In 2016, Fed Land also leased its mall and offices to some of its associates and affiliates. The lease term ranged from 5 to 10 years.

Effect of Existing or Probable Government Regulations

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

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

Fed Land has intellectual property rights on the use of the various trademarks and names for its development projects. Most of Fed Land's projects have been issued a Certificate of Registration by the Intellectual Property Office. Fed 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 Fed Land's trademarks and the names of its development projects:

Registered logo / Brand
Federal Land – GT Capital Holdings (keeping you in mind)
Six Senses Residences
Veritown Fort
Omni Orient – A Federal Land Subsidiary
Villa Valencia (the bamboo silhouette logo)
Blue Bay Walk
The Capital (with the letter "C" logo)

The Oriental Place (with the letter "TP" logo)
Time Square West (with "TS" logo)
One Wilson ("W" logo)
8 Park Avenue
Santa Monica South
Palm Beach Villas
Tropicana Promenada
Park Metro
Kew ("Q" logo)
Shanghai Park
Rio
Embarcadero – The Fiesta Town
One Bloomberg Place
Central Park West
Park West ("PW" logo)
Club Le Pav
Park East Residences
Paseo de Roces (with a crown logo)
Peninsula Garden Midtown Homes
Riverview Mansion – Where new beginnings flow
One Lilac Place
Club MET
Four Seasons Riviera – Manila's Best Kept Secret
My HOBS
Park West of Hyatt ("PW" logo)
Two Residences Marco Polo Drive
Tropicana Garden City – Your New Garden City in the East
Florida Sun Estate – The Newest Sunshine State in the East
One Paris
Oriental Garden Residences
Oriental Garden Heights
Metropolitan Technological Complex
Marquinton Garden Terraces
Global Finance Center
The Capital Towers – Your Own Big Space
Marquinton Residences
Oriental Gardens Makati
Madison Park West
One Xavier Mansion
The Plaza at Florida Sun Estates
"Landmark" Bonifacio Landmark Realty and Dev't Corp.

Fed 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, Six Senses Resort, 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, Fed 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

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

Employees
As of December 31, 2016, full-time employees of Fed Land totaled 356. The table below provides a breakdown of Fed Land's employees.

Type of Employee	**Number of Employees**
Officers	141
Staff	215
Total	**356**

Risks

- Substantially all of Fed Land's business activities are conducted in the Philippines and all of its assets are located in the country, which exposes Fed Land to risks associated with the Philippines, including the performance of the domestic economy.
- Fed Land faces risks relating to its commercial and residential property development businesses, including risks relating to project cost and completion.
- Fed 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 borrowing patterns and Government regulations could have a material adverse effect on Fed Land's and its customers' ability to obtain financing.
- Titles over land owned by Fed Land may be contested by third parties.
- Fed Land's reputation will be adversely affected if projects are not completed on time or if projects do not meet customers' requirements.
- Independent contractors may not always be available, and once hired by Fed Land, may not be able to meet Fed Land's quality standards or may not complete projects on time and within budget.
- Fed Land operates in a highly-regulated environment and it is affected by the development and application of regulations in the Philippines.
- Environmental laws applicable to Fed Land's projects could have a material adverse effect on its business, financial condition and results of operations.
- A growing portion of the demand for Fed Land's products is expected to come from Overseas Filipino Worker (OFW), expatriate Filipinos and former Filipino residents who have returned to the Philippines (Balikbayans), which exposes Fed Land to risks relating to the performance of the economies of the countries where these potential customers are based.
- Given the current geographic concentration of Fed 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 Fed Land's operations, affect its ability to complete projects and result in losses not covered by its existing insurance policies.
- Fed Land is exposed to risks associated with its in-house financing activities, including the risk of customer default, as the customers may not be able to complete their in-house financing payments.
- Property development in the Philippines is capital intensive, and Fed Land may be unable to readily raise the necessary funding.
- Construction defects and other building-related claims may be asserted against Fed Land, and it may be subject to liability for such claims.
- Fed Land has a number of related-party transactions with affiliated companies.
- Fed Land may be unable to attract and retain skilled professionals, such as architects and engineers.
- Fed Land is exposed to risks associated with the operation of its commercial and retail leasing businesses.
- Infringement of Fed Land's intellectual property rights would have a material adverse effect on Fed Land's business.
- Adoption of new accounting rules on revenue recognition on construction of real estate may result in a restatement of Fed 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 Php650,000–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, 2016, 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 Metro Manila, Cavite, Iloilo and Cagayan de Oro. 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 and Micara Plaza in Tanza, Cavite.

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, Iloilo and Cagayan de Oro, Pro-Friends major competitors are Ayala Land, Inc. (Bella Vita Land, Inc., Amaialand, Inc. 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 2016)

	Name of Contractor	Nature of Works
1	Ahnex Builders and Readymix Corporation	Supplier – Readymix Concrete
2	Shenzhen Gui Hao Cheng Trade	Supplier – Powder Coated Doors & Windows, Metal Doors
3	Somico Steel Mill Corp.	Supplier – Deformed Bars

4	Advantage Paints Company	Supplier – Paints
5	Toyota Cubao Incorporated	Supplier – Vehicle
6	Far Eastern Hardware and Furniture	Supplier – Deformed Bars, Steel Bars & Other Hardware Items
7	Solid Cement Corp.	Supplier – Cement
8	Ferrotech Paints & Coatings	Supplier – Paints
9	United Steel Technology	Supplier – Metal Roofings
10	Elmer P. Nofies	Supplier – Fabricated Metals

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., Micara Land, Inc., Monticello Villas, Parc Regency Residences, Lancaster New City Cavite, Suntech iPark, Central Greens, Downtown Lancaster, and The Square.

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

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, 2016, full-time employees of Pro-Friends totaled to 1,333. The following table provides a breakdown of Pro-Friends' regular employees.

Type of Employee	Number of Employees
Executives (AVP's up)	56
Supervisors-Managers	270
Officers	305
Rank & File	702
Total	**1,333**

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.
- Pro-Friends 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 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 15th consecutive Triple Crown in 2016, topping the industry in overall passenger car and commercial vehicle sales. This includes the record unit sales of the locally-produced Vios and Innova.

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 LFA, CT200H, IS 350, IS 350 F Sport, IS- Coupe, ES 350, GS 350 F Sport, GS 450H, GS F, LS 460, LS 600H, RC 350, RC-F and New Model LC 500.

Aside from the Innova, TMP's commercial vehicles include pick-ups, SUVs, multi-purpose vehicles, vans and minibuses such as Hilux, IMV1, RAV4, Fortuner, LC200, Prado, FJ Cruiser, Avanza, Hiace, Alphard, Previa, and Coaster. Lexus sells the LX 570, GX 460, RX 350, RX 450H, NX 200T, NX 200T F Sport, NX 300H.

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 TMAP, with the remaining portion manufactured by both TMP and local suppliers.

Export Sales

TMP exports parts manufactured by its local suppliers through TMAP for distribution primarily to Toyota subsidiaries and affiliates within the Asia Pacific region.

The table below shows the sales breakdown of TMP (parent company) 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:

	2014		2015		2016	
	Sales (Php mn)	% of Total Revenues	Sales (Php mn)	% of Total Revenues	Sales (Php mn)	% of Total Revenues
Vehicle sales						
Locally- manufactured vehicles	27,792.3	27%	32,605.8	29%	38,424.8	25%
Imported CBU vehicles	61,024.7	59%	66,628.1	59%	102,748.2	67%
Local sales of service parts	3,456.1	3%	4,093.0	4%	5,221.9	3%
Export sales of OEM parts and service parts	11,764.3	11%	9,427.4	8%	7,912.1	5%
Total	**104,037.4**	**100%**	**112,754.3**	**100%**	**154,307.0**	**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.

Sales in units	2014		2015		2016	
	Sales	% of Total	Sales	% of Total	Sales	% of Total
Metro Manila	63,720	60%	72,364	58%	85,046	54%
Provincial	42,390	40%	52,663	42%	73,682	46%
Total	**106,110**	**100%**	**125,027**	**100%**	**158,728**	**100%**

As of December 31, 2016, the Toyota and Lexus dealer network in the Philippines consisted of 52 dealers, of which 18 dealers are in Metro Manila. TMP owns direct interests in three dealerships: 100% of Toyota Makati, Inc., 55% of Toyota San Fernando Pampanga, Inc. and 75% of Lexus Manila, Inc. Approximately 54% of TMP's sales in 2016 were in Metro Manila while 46% of total sales in 2016 were made outside of Metro Manila. GT Capital has a 58.05% interest in Toyota Manila Bay Corporation dealership, 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 73.2% in 2016 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 Chinese CBU vehicles in January 2018 under the ASEAN-China Free Trade Agreements.

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.

In after-sales, main competitors of Toyota are three-star workshops like Rapide, Goodyear Serviteks and to some extent, gasoline stations. 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., Php350/hour for Periodic Maintenance and Php400/hour for General Job (GJ). These rates are at least 30% lower than the service centers of other brands. In terms of service parts, average prices of Toyota Genuine Parts are 17% lower than other brands, based on 2016 parts price review.

Principal Competitors (including relative size and financial and market strengths of competitors)
TMP's major competitors in the Philippines are Mitsubishi, Ford, Hyundai, Isuzu, and Honda. Based on industry data compiled by CAMPI and AVID, the top six automotive companies in the Philippines accounted for 84.0% of total vehicles sold in 2016. Toyota has been the top selling brand measured by units sold in the Philippines for passenger and commercial vehicles since 2002, with a 39.4% market share in 2016, which is 24.1 percentage points higher than its closest competitor, Mitsubishi with 15.3%, a decline of 8.9% from its 16.8% market share in 2015. Ford and Isuzu had market shares of 8.4% and 6.8% in 2016, 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 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 TMAP 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:

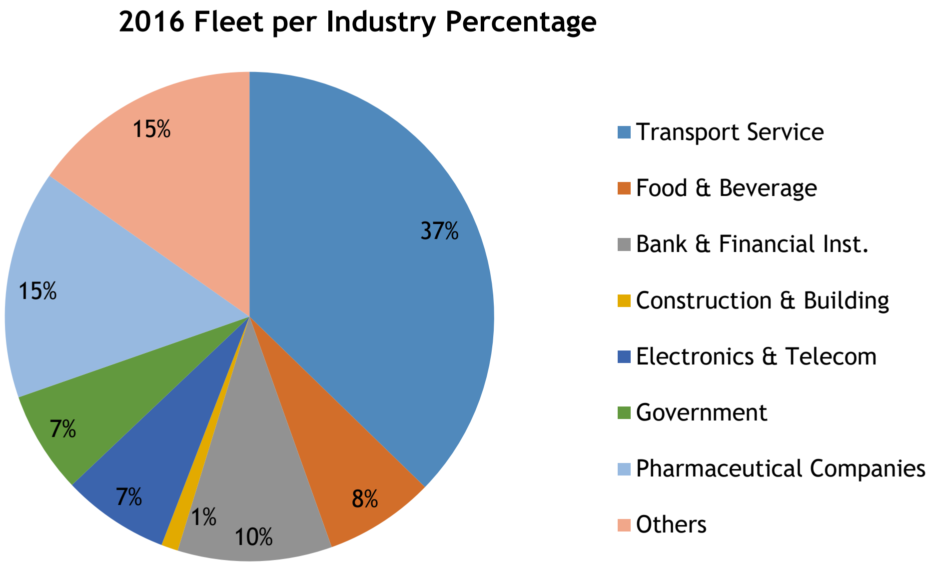
Source	**2014**	**2015**	**2016**
TMC/TMAP			
Japan-sourced	16%	17%	13%
Multi-sourced	55%	53%	54%
Local Suppliers	28%	30%	33%
TOTAL	**100%**	**100%**	**100%**

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 Motor Asia Pacific PTE., 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 2016, 10.4% 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, 2016:



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 TMAP.

These distributor agreements were last renewed on December 1, 2015 with an expiration date of November 30, 2018. 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. Under the current Technical Assistance Agreement, TMP possesses licenses for the manufacture of the Innova, Vios, Camry, Corolla and Tamaraw models.

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, 2016.

	2016
Regular	
Senior Officers	79
Junior Officers	484
Rank and file	1,306
Subtotal	1,869
Outside contractors	712
Total	**2,581**

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).

Negotiations for the 2-year CBA on economic provisions were concluded in December 2014. The CBA with TMPCLO was ratified on December 7, 2014 and the CBA with TMPCSU was ratified on January 17, 2015.

The 5-year CBA for both TMPCLO and TMPCSU expired in June 2016. The next round of CBA negotiations commenced in July 2016 for both TMPCLO and TMPCSU, covering the period July 1, 2016 to June 30, 2021, and this is expected to be completed within the second quarter of 2017.

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 TMAP, 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, 2015 with an expiration date of November 30, 2018. 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 TMAP. In addition, if not handled properly by TMP, TMAP 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.

Foreign currency rate fluctuations would have an adverse impact upon TMP's financial condition and results of operations.
A significant amount of the components and raw materials used by TMP are imported. The costs of such imported components and raw materials are mainly denominated in Japanese Yen and U.S. dollars. This could materially and adversely affect TMP's business, financial condition and results of operations, as financing and purchasing raw materials and components will become more expensive for TMP if the values of these other foreign currencies increase against the Peso in the currency markets.

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 that 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 two events, there can be no assurance that similar supply chain disruptions following natural disasters will not occur in the future. Any future supply chain disruptions caused by natural disasters 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. Due to the increasingly competitive market environment, automobile manufacturers may be forced to increase efficiency by further reducing costs of their supply of parts which may result in additional cost and pricing pressure on suppliers. Pricing pressure on suppliers, however, may affect product quality, the decline of which could materially and adversely affect TMP's business, financial condition and results of operations.

The manufacturing activities and operations of TMP could be adversely affected if it fails to obtain raw materials and spare parts in a timely fashion or at a reasonable price.
Raw materials and spare 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 TMAP. 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 and non-life insurance business through its 25.3% ownership of shares in AXA Philippines, the Philippines' second largest insurance company in terms of total net insurance premium amounting to Php21.5 billion in 2016. 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' premier universal banks. 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. With such acquisition, AXA Philippines and Charter Ping An is 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. It distributes 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 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 individuals and group clients with a nationwide coverage through the 959 MBT and PSBank branches, being serviced by 732 salaried financial executives and 36 AXA Philippines branch offices that are home to its growing network of 3,189 exclusive financial advisors as of December 31, 2016.

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.
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.
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.
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.
Casualty 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 Php5.0 billion and Php4.8 billion for 2016 and 2015, respectively. Net insurance premium amounted to Php21.5 billion and Php22.8 billion for 2016 and 2015, respectively.

Non-life Insurance
Charter Ping An posted Php4.9 billion and Php4.1 billion Gross Premiums Written in 2016 and 2015, respectively. Net Premiums Earned was relatively flat in 2016 which amounted to Php2.0 billion. For the last nine months of 2016 (from date of acquisition), Charter Ping An recorded Gross Premiums Written and Net Premiums Earned of Php3.6 billion and Php1.7 billion, 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 four 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. Exclusive agents are prohibited from distributing insurance products for any other life insurance companies. Exclusive agents accounted for approximately 33% of AXA Philippines' total new business in both 2016 and 2015. AXA Philippines uses agents throughout its 36 branches located in strategic locations in Luzon, Visayas and Mindanao, particularly in Metro Manila, Cebu and Davao. In addition to the 36 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 3,189 agents as of December 31, 2016 to 6,500 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, providing 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 Metrobank Card Corporation (MCC). MBT-based financial executives accounted for 67% of AXA Philippines' total new business premiums in 2016 and 2015. 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 branches, sales channels and partners.

Branches
Charter Ping An has 21 branches nationwide, located in Manila, Quezon City, Muntinlupa, Caloocan, Calamba (Laguna), Batangas, Naga, Tarlac, Dasmariñas (Cavite), Bulacan, Cabanatuan, San Fernando (Pampanga), Baguio City, Urdaneta (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 (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' main 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 main competitors as of December 31, 2015 and 2016:

Amounts in ₱ millions, except for percentage	**2015 Amount**	**% of total**
1. Sunlife of Canada	32,811.20	17.40%
2. AXA Philippines	22,820.89	12.10%
3. Philippine American Life (AIA)	21,169.79	11.23%
4. BPI Philam Life	20,798.90	11.03%
5. Pru Life of the UK (Prudential plc)	19,809.81	10.51%
6. Manufacturers Life	13,919.35	7.38%
7. Insular Life	12,653.76	6.71%
8. Grepalife Financial	10,145.89	5.38%
9. Generali Pilipinas	6,364.14	3.38%
10. PNB Life Insurance, Inc	5,833.02	3.09%

Amounts in ₱ millions, except for percentage	**2016 Amount**	**% of total**
1. Sunlife of Canada	31,893.91	17.45%
2. AXA Philippines	21,515.86	11.77%
3. BPI Philam Life	19,314.96	10.57%
4. Philippine American Life (AIA)	19,210.11	10.51%
5. Pru Life of the UK (Prudential plc)	18,116.37	9.91%
6. Manufacturers Life	16,597.37	9.08%
7. Insular Life	12,333.60	6.75%
8. BDO Life (Generali Pilipinas)	8,050.80	4.40%
9. Manulife Chinabank Life	7,274.40	3.98%
10. Sunlife Grepa Financial, Inc.	5,783.42	3.16%

Source: Philippine Insurance Commission

The total market premium income in 2015 and 2016 amounted to Php188.8 billion and Php182.8 billion, respectively.

Non-life Insurance
Based on the Insurance Commission's industry statistics for the last five years, the average industry growth in terms of GPW was 8.3% while Charter Ping An's average growth was 14.3%. In terms of GPW, Charter Ping An maintained its 5th ranking, and 4th ranking in terms of NPW performance in 2016.

The top ten non-life insurance companies control 64.1% share in the insurance industry in terms of GPW. In 2016, Charter Ping An's market share was at 6.5%.

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

As of December 2016, the Philippine insurance industry is composed of 70 non-life insurance companies, 4 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 nonrelated 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, 2016 consist mainly of the following:

Entities with joint control over the Company	**Terms**	**Conditions**
MBT		
Savings, current and time deposits accounts	5 days, 0.10 % to 0.375%	Unsecured, no impairment
Interest income	5 days, 0.10 % to 0.375%	Unsecured, no impairment
Service fees	0.10% to 0.30% of NAV	Unsecured, no impairment
Commission expense	Interest-free, settlement in cash	Unsecured, no impairment
Pension liability	Interest-free, settlement in cash	Unsecured, no impairment
Trust fees	Interest-free, settlement in cash	Unsecured, no impairment
Rent expense	Interest-free, settlement in cash	Unsecured, no impairment
Rent income	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Claims	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	Interest-free, settlement in cash	Unsecured, no impairment
FMIC		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
AXA S.A.		
Shared service costs	Interest-free, settlement in cash	Unsecured, no impairment
Various expenses	Interest-free, settlement in cash	Unsecured, no impairment
Unit-linked funds		
Asset management fees	1.30% to 2.10% of NAV	Unsecured, no impairment
Redemptions	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties		
Philippine Savings Bank		
Savings, current and time deposits accounts	90 days, .25 % to 1.75%	Unsecured, no impairment
Interest income	90 days, .25 % to 1.75%	Unsecured, no impairment
Rent expense	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Claims	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	Interest-free, settlement in cash	Unsecured, no impairment
Federal Land		
Settlement of receivable	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Charter Ping An Insurance Corporation		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund		
Orix Metro Leasing and Finance Corporation		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Toyota Motor Philippines Corporation		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Claims	Interest-free, settlement in cash	Unsecured, no impairment
Gross experience refund	Interest-free, settlement in cash	Unsecured, no impairment
AXA Paris		
Various expenses	Interest-free, settlement in cash	Unsecured, no impairment
AXA Malaysia		
Various expenses	Interest-free, settlement in cash	Unsecured, no impairment

AXA SA Various expenses	Interest-free, settlement in cash	Unsecured, no impairment
AXA Global Life Various expenses	Interest-free, settlement in cash	Unsecured, no impairment
Key management personnel Due from officers and employees	8% interest bearing, settlement in cash or salary deduction	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, 2016.

Category	Volume/ Amount	Outstanding Balance	Terms	Condition
MBTC				
Cash in bank	Php–	Php114,539,680	On demand	Unsecured; no impairment
Cash equivalents	–	16,500,000	90 days, 1.375%	Unsecured; no impairment
AFS equity securities	–	25,332,080	Common shares	Unsecured; no impairment
Interest income	532,107	–	–	–
Dividend income	502,438	–	–	–
Metrobank Card Corporation (MCC)				
Interest income	1,429,894	–	–	–
Premiums receivable		6,583,491		
FMIC				
AFS debt securities	–	19,826,382	5.25 to 7 years, 5.68% to 5.75%	Unsecured; no impairment
Interest income	1,142,500	–	–	–
Premiums receivable		1,747,849		
PS Bank				
Cash in bank	Php–	Php10,042,174	On demand	Unsecured; no impairment
Cash equivalents	–	577,891,619	30 to 83 days, 1.25% to 1.75%	Unsecured; no impairment
AFS equity securities	–	6,362,076	Common shares	Unsecured; no impairment
AFS debt securities	–	22,032,855	10 years, 5.50% to 5.75%	Unsecured; no impairment
Interest income	6,284,132	–	–	–
Dividend income	224,982	–	–	–
Premiums receivable		7,393,294		
Federal Land, Inc.				
Premiums Receivable		4,906,041		
Metro Pacific Investments Corporation				
Premiums Receivable		404,311		
ORIX Metro Leasing and Finance Corporation (ORIX METRO)				

Category	Volume/ Amount	Outstanding Balance	Terms	Condition
Premiums Receivable		99,907,813		
<u>Philippine AXA Life Insurance Corporation</u>				
Premiums Receivable		871,153		
<u>Toyota Financial Services Philippines Corporation</u>				
Premiums Receivable		2,114,055		
<u>Toyota Manila Bay Corporation (TMBC)</u>				
Premiums Receivable		104,094,150		
<u>Toyota Motor Philippines Corporation (TMPC)</u>				
Premiums Receivable		42,637,299		
<u>Global Business Power Corporation (GBPC)</u>				
Losses and claims payable	–	568,600	Due and demandable; non-interest bearing	–
Losses paid	1,373,116	–	–	–
<u>GT Capital Holdings</u>				
AFS equity securities	–	-	Common shares	Unsecured; no impairment
AFS debt securities	–	19,215,321	10 years, 5.10%	Unsecured; no impairment
Interest income	1,018,740	–	–	–
Dividend income	30,000	–	–	–
<u>Key Management Personnel</u>				
Salaries and wages	42,618,349	–	–	–
Directors' fees and allowance	3,815,000	–	–	–
Other employee benefits	18,846,440	–	–	–

Effect of Existing or Probable Government Regulations

Life Insurance

The Insurance Commission of the Philippines (ICP) mandates that no corporation, partnership or association of persons shall transact any insurance business in the Philippines until after it shall have secured a certificate of authority for that purpose from the Insurance Commission. In addition, the ICP provides that existing insurance companies already doing business in the Philippines must have a net worth of Five Hundred Fifty Million Pesos (Php550,000,000) by December 31, 2016. The increase in capitalization aims to boost the insurance industry to better compete globally and will provide additional cushion against risks for the protection of the insured. Also, the investment area of insurance companies have expanded to include investments of up to 25% of their admitted assets in obligations issued or guaranteed by local or foreign banks. Further, the ICP provides that the insurance companies should comply with the financial reporting frameworks adopted by the Insurance Commission for purposes of creating the statutory financial reports and the annual statements to be submitted to the Insurance Commission.

Among other reforms, the amendment brought about by Republic Act No. 10607 include the recognition of financial products such as Bancassurance or cross-selling wherein the bank may present and sell to its customers by an insurance company of its insurance products within its premises, under such rules and regulations which the Insurance Commission and the BSP may promulgate.

Risk-Based Capital (RBC) requirements
In 2006, the IC issued Memorandum Circular (IMC) No. 6-2006 adopting a risk-based capital framework to establish the required amounts of capital to be maintained by the life insurance companies in relation to their investment and insurance risks. The investments and insurance risks of the company are classified under four major categories as asset default risk, insurance pricing risk, interest rate risk and general business risk.

The RBC ratio 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 IC.

Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. The trend test has failed, in the event that:

a. The RBC ratio is less than 125% but is not below 100%
b. The RBC ratio has decreased over the past year
c. The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%

Failure to meet the RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

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

	2015	2016
Net worth	₱4,289,969,277	₱1,823,784,087
RBC requirement	898,494,325	828,803,319
RBC Ratio	477%	220%

The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined under the Code.

Non-life Insurance
In February 4, 2013, the Senate passed on third and final reading Senate Bill 3280, which seeks to amend the 38 year old Insurance Code by formulating a legal framework to allow the insurance industry to pave the way for a stronger insurance sector in preparation for the integration of member economies of the ASEAN by 2015.

The Amendments as embodied in the New Insurance Code (R.A 10607) are as follows:

1. Section 77: No credit extension to a duly licensed intermediary should exceed 90 days from date of issuance of the policy.

2. Section 193: The Certificate of Authority issued by the Commissioner to the Insurance Company shall expire on the last day of December, three (3) years following its date of issuance, and shall be renewable every three (3) years thereafter.

3. Section 194: The capital requirement will increase every three years until 2022. Instead of the Minimum Paid Up Capital, the new basis will be Net Worth defined as paid up capital plus retained earnings plus unimpaired surplus plus revaluation of assets.

   The new code gradually increases the capitalization requirements of insurance companies which would encourage mergers and acquisitions among industry players.

Net Worth Level	Effective Dates
Php250 million	As of June 30, 2013
Additional Php300 million or Php550 million	As of December 31, 2016
Additional Php350 million or Php900 million	As of December 31, 2019
Additional Php400 million or Php1.3 billion	As of December 31, 2022

As of August 31, 2013, the Company is already in compliance with the capitalization requirement as it has a net worth or stockholders' equity of Php1.3 billion.

4. Section 307: It is stated that the License of Insurance Agents and Insurance Brokers shall expire after the 31st day of December of the third year following the date of issuance unless it is renewed.

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
With the acquisition by GT Capital of Charter Ping An, the latter filed for registration of its new trade name and logo with the Intellectual Property Office on July 11, 2014.

Government Approval of Principal Products or Services

Life Insurance
The development of new products is organized, managed and coordinated primarily within AXA in the Philippines and with the Regional Office in Hong Kong and duly approved by the Insurance commission.

Non-life Insurance
All products are developed and duly submitted and approved by the Insurance Commission.

Research and Development Costs

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.

Non-life Insurance
Product development and creation of value added services is organized and managed by the company in compliance and approval of any authority based on the nature or requirements of the services.

Employees

Life Insurance
As of December 31, 2016, AXA Philippines had 494 full-time employees and 780 sales employees as shown below:

Type	**No. of Employees**
Senior Officers	7
Managers and Officers/Supervisors	261
Rank and File	226
Sales	780
Total	**1,274**

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, 2016, Charter Ping An had 424 full-time employees and 9 consultants. The breakdown of full-time employees is provided below:

Type	No. of Employees
Senior Officers (AVP-SVP)	17
Junior Officers and Supervisors	120
Rank and File (Clerk I-Assistant II)	287
Total	**424**

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 may be difficult to detect and deter and could harm AXA's reputation or lead to regulatory sanctions or litigation costs;
- AXA's inability to properly manage its investment portfolio by matching its assets and liabilities could have an adverse effect on AXA's profitability;
- 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;
- 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's risk management and internal reporting systems, policies and procedures may leave it exposed to unidentified or unanticipated risks, which could materially and adversely affect its business or result in losses;
- 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

- Charter Ping An continues to launch new products to give its clients a comprehensive and cost effective insurance protection for themselves and their properties;
- Charter Ping An must compete to secure accounts, even captive markets, i.e. accounts or clients of companies that belong to the group;
- Charter Ping An must continuously improve its distribution channel to achieve its desired growth. Charter Ping An should have effective control measures to prevent potential fraudulent acts of its agents that would affect the policies and procedures of Charter Ping An;
- The prescribed tariff rates imposed by the Insurance Commission can be detrimental to the competitiveness of Charter Ping An with regard to the pricing of insurance premiums.
- Based on the new Insurance Code, the penalty for breaching the tariff increased from Php500.00 to Php25,000.00 per policy/risk;
- Charter Ping An 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;
- Charter Ping An 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 Charter Ping An, any default or wrongdoing would impair the ability of Charter Ping An to solicit business;

- Charter Ping An must strictly implement policies regarding credit terms. An effective collection unit should be in place since the premium being collected could be used for short term investments that could yield interest income for Charter Ping An. It should be noted that insurance companies are following strict rules of the Insurance Commission when investing available funds;
- Charter Ping An fund managers must be conservative regarding investments since their decisions could result in heavy losses;
- Charter Ping An 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;
- Charter Ping An 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;
- Charter Ping An consistently complies with its tax obligations since any failure to do so would result in heavy penalties or even the revocation of Charter Ping An's license to operate;
- Charter Ping An is dependent on its key competent personnel, thus, there is a need to enhance retention efforts by improving benefits and compensation packages. Compensation ranges must be aligned with Charter Ping An's peers in the insurance industry; and,
- Charter Ping An must continuously review its Underwriting Guidelines to eliminate avoidable losses. For unavoidable losses like catastrophic events, Charter Ping An 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 EDSA corner Roxas Boulevard, 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 MBT 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 (TMSS).

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, 2016, TMBC is 58.05% 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) aftersales services.

Principal Products and Services

Vehicle sales
As of December 31, 2016, TMBC sells a full lineup 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

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					
Category	**2014**		**2015**		**2016**	
	Sales (Php Mn)	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*
Vehicle sales	15,426	93.1%	17,302	93.0%	22,445	93.5%
Parts sales	756	4.6%	850	4.6%	942	3.9%
After sales Services	390	2.3%	442	2.4%	609	2.5%
Total	**16,572**	**100%**	**18,594**	**100.0%**	**23,996**	**100.0%**

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

2016 Data	**TMB**	**TDM**	**TAS**	**TCI**	**TMSS**
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	6,470	3,595	3,583	5,175	3,005
Units Received for Service	30,980	32,531	17,350	21,443	18,701

GT Capital owns these five dealers out of the 52 Toyota outlets across the Philippines.

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

	As of December 31					
Outlet	**2014**		**2015**		**2016**	
	Sales (Php Mn)	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*
TMB	5,253	31.7%	5,723	30.8%	7,099	29.6%
TDM	3,050	18.4%	3,397	18.3%	4,120	17.2%
TAS	2,965	17.9%	3,098	16.6%	3,648	15.2%
TCI	3,757	22.7%	4,180	22.5%	5,493	22.9%
TMSS	1,547	9.3%	2,196	11.8%	3,636	15.2%
Total	**16,572**	**100%**	**18,594**	**100.0%**	**23,996**	**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, 2016, Toyota Motor Philippines have 18 dealerships in Metro Manila and 34 dealerships in the provinces. Out of the total vehicles sold by these dealerships, TMBC accounted for 13.6% share as of December 31, 2016.

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 2016, TMBC's retail customer base is comprised of:

First time car buyers	36.2%
First time Toyota buyers	21.5%
Repeat Toyota buyers	22.2%
Repeat TMBC clients	20.2%
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, 2015**			
	Sales Volume to Fleet	*% to Total Sales Volume*	*Sales Volume to Retail*	*% to Total Sales Volume*
TMB	1,303	7.0%	4,573	24.5%
TDM	418	2.2%	2,833	15.2%
TAS	835	4.5%	2,440	13.1%
TCI	797	4.3%	3,418	18.3%
TMSS	194	1.0%	1,830	9.8%
TOTAL	**3,547**	**19.0%**	**15,094**	**81.0%**

Outlet	**As of December 31, 2016**			
	Sales Volume to Fleet	*% to Total Sales Volume*	*Sales Volume to Retail*	*% to Total Sales Volume*
TMB	1,288	5.9%	5,173	23.7%
TDM	393	1.8%	3,209	14.7%
TAS	895	4.1%	2,685	12.3%
TCI	917	4.2%	4,256	19.5%
TMSS	589	2.7%	2,445	11.2%
TOTAL	**4,082**	**18.7%**	**17,746**	**81.3%**

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 is set to expire in February 2017, but 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.

	2016
Regular	**709**
Officers	49
Team Members	660
Probationary	**69**
Outside Contractors	**655**
Agency-contracted	328
Fixed term employee	327
TOTAL	**1,433**

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.

Toyota Financial Services Philippines Corporation

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**					
	2014		**2015**		**2016**	
	Amount (PhP M)	*% to Total Revenues*	*Amount (PhP M)*	*% to Total Revenues*	*Amount (PhP M)*	*% to Total Revenues*
Interest Income (Retail Loans)	604.2	23.4%	584.9	18.5%	653.6	17.8%
Interest Income (Finance Lease)	1,824.0	70.7%	2,436.0	76.9%	2,968.7	80.7%
Other Income	152.5	5.9%	148.8	4.7%	57.8	1.6%
Total	**2,580.7**	**100.0%**	**3,169.7**	**100.0%**	**3,680.1**	**100.0%**

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

Location	**2014**		**2015**		**2016**	
	Units	*%*	*Units*	*%*	*Units*	*%*
Metro Manila	14,021	70.4%	11,657	56.8%	14,104	61.4%
Outside Metro Manila	8,049	29.6%	8,849	43.2%	8,849	38.6%
TOTAL	22,070	100.0%	20,506	100.0%	22,953	100.0%

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 86.8% of the total financed Toyota vehicles in 2016. TFSPH has the highest market share at 34.6% which is 19 percentage points higher than its closest competitor, PSBank at 15.3%. East West Bank and BDO have market shares of 14.2% and 10.5%, respectively.

Advantage over competitors

Products

- TFSPH is the only financing company that offers Finance Lease (Lease-to-Own) 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, 2016, CET1 and Tier 1 capital ratios are 10.42% and 11.36%, 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.

	2016
Senior Officers (AVPs and up)	13
Officers (SM and down)	85
Rank and File	190
Outsourced Services	75
Total	**363**

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 Corporate Governance Committee (CGC), 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 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 Department (IAD) and Risk Management Department (RMD).

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

1.1 Business Development
Metro Pacific Investments Corporation (MPIC) was incorporated in the Philippines and registered with the Philippine SEC on March 20, 2006 as an investment holding company. MPIC's common shares of stock are listed in and traded through the PSE.

Metro Pacific Holdings, Inc. (MPHI) owns 41.9% and 52.1% of the total issued and outstanding common shares of MPIC as at December 31, 2016 and 2015, respectively. The reduction in the ownership interest resulted from GT Capital's acquisition of 1.3 billion common shares from MPHI on May 27, 2016. On the same date, MPIC entered into a Share Subscription Agreement with GT Capital for the subscription by GT Capital of 3.6 billion common shares (Subscription Shares) in MPIC. The Subscription Shares was issued out of the increase in the authorized capital stock of MPIC.

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.

1.2 MPIC's Business and Significant subsidiaries
MPIC is organized into the following segments based on services and products:

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

- *Toll operations,* which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries NLEX Corporation (formerly Manila North Tollways Corporation) and Cavitex Infrastructure Corporation (CIC), and associates, Tollways Management Corporation (TMC), CII Bridges and Roads Investment Joint Stock Co. (CII B&R) and Don Muang Tollway Public Ltd (DMT). Investments in CII B&R and DMT are both located outside the Philippines, in Thailand and Vietnam, respectively. Certain toll projects are either under pre-construction or on-going construction as at March 1, 2017.

- *Power*, which primarily relates to the operations of Manila Electric Company (MERALCO) in relation to the distribution and supply 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).

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

- *Rail*, which primarily relates to Metro Pacific Light Rail Corporation (MPLRC) and its subsidiary, Light Rail Manila Corporation (LRMC), the operations and maintenance of the Light Rail Transit Line 1 (LRT 1) and construction of the LRT1 south extension.

- *Logistics,* which primarily relates to MPIC's logistics business through MetroPac Logistic Company, Inc. (MPLC) through its subsidiary MetroPac Movers Inc. (MMI).

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

The following table shows the breakdown of MPIC Group's revenues, core income and reported net income by major segment:

Year Ended December 31, 2016 (in Php Millions)								
	Water	**Toll**	**Healthcare**	**Power**	**Rail**	**Total**	**HO and Others**	**Consolidated**
Total revenue from external sales	**20,466**	**11,902**	**8,967**	**-**	**3,016**	**44,351**	**469**	**44,820**
MPIC's share in the Core Income	**3,564**	**3,517**	**589**	**7,229**	**273**	**15,172**	**(3,066)**	**12,106**
Operating companies contribution (%)	*23%*	*23%*	*4%*	*48%*	*2%*	*100%*	-	-
Non-recurring income (charges)	**198**	**(174)**	**(13)**	**(209)**	**2**	**(196)**	**(454)**	**(650)**
Segment Income (Loss)	**3,762**	**3,343**	**576**	**7,020**	**275**	**14,976**	**(3,520)**	**11,456**

Year Ended December 31, 2015 (in Php Millions)								
	Water	**Toll**	**Healthcare**	**Power**	**Rail**	**Total**	**HO and Others**	**Consolidated**
Total revenue from external sales	**19,098**	**9,691**	**7,553**	**-**	**897**	**37,239**	**-**	**37,239**
MPIC's share in the Core Income	**4,819**	**2,828**	**473**	**4,543**	**(19)**	**12,644**	**(2,298)**	**10,346**
Operating companies contribution (%)	*38%*	*22%*	*4%*	*36%*	*0%*	*100%*	-	-
Non-recurring income (charges)	**(93)**	**(295)**	**(22)**	**(164)**	**(22)**	**(596)**	**(204)**	**(800)**
Segment Income (Loss)	**4,726**	**2,533**	**451**	**4,379**	**(41)**	**12,048**	**(2,502)**	**9,546**

Except for the equity in net earnings recognized on investments outside of the Philippines, the revenues of the Group were primarily derived from sales within the Philippines.

As at December 31, 2016, MPIC's investments outside the Philippines included an effective ownership of 29.4% in DMT, a Thai toll road operator and 45.0% in CII B&R, a toll road company located in Ho Chi Minh City in Vietnam.

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.

Significant subsidiaries:

(A) Water

Business Development

MPIC operates its water business through MWHCI and MPWIC. 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 52.80% as at December 31, 2014, 2015 and 2016.

Maynilad's subsidiaries are Philippine Hydro, Inc. (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. 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.

MPIC's wholly-owned subsidiary, MPWIC, is pursuing water infrastructure projects and other water-related investments across the Philippines. As at December 31, 2016, MPWIC has interests in the following companies:

Operating Company	Effective Interest through Subsidiary (%)	MPWIC Subsidiary	Direct Interest in Subsidiary (%)
Cebu Manila Water Development, Inc. (CMWD)	20%	Manila Water Consortium Inc. (MWCI)	39%
Laguna Water District Aquatech Resources Corp. (LWDAR)	27%	EquiPacific HoldCo Inc. (EquiPacific)	30%
Cavite Business Resources Inc. (CBRI)	49%	Watergy Business Solutions, Inc. (WBSI)	49%
Metro Iloilo Bulk Water Supply Corporation (MIBWSC), joint venture company between MetroPac Iloilo Holdings Corporation (MILO) and Metro Iloilo Water District (MIWD)	80%	MetroPac Iloilo Holdings Corporation (MILO)	100%
Eco-System Technologies International, Inc. (ESTII)	65%	Eco-System Technologies International, Inc. (ESTII)	65%

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 certain part of Bulacan under concession agreements granted by the Philippine government for 25 years to 2035.

MIBWSC holds the 170 million liters per day (MLD) Bulk Water Supply Project covering certain part of Iloilo. The BWS Project covers a period from the later of the Target Initial Delivery Date and the Initial Delivery Date and ending on the 25th anniversary thereof and shall be extended for an additional 25 years counted from completion of the agreed upon expansion obligation, but in no event shall exceed an aggregate of 50 years. As at March 1, 2017, the parties have yet to agree on the Target Initial Delivery Date.

MPWIC's subsidiary, ESTII owns certain patents and utility models relating to the water/wastewater treatment. The license agreement covers an exclusive and perpetual license to the intellectual property rights over the patents and utility models.

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 may request tariff rate adjustments based on movements in the Philippine consumer price index, foreign exchange currency differentials, a rate rebasing process scheduled to be 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.

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:

- In 2014, Maynilad received a favorable award in the arbitration of its 2013-2017 water tariff which centered on Corporate Income Taxes being a recoverable expense. The MWSS has still not implemented the awarded tariff increase while indicating they will await clarification from the Supreme Court of the Philippines before proceeding.

- Acting in formal accordance with the provisions of its concession, Maynilad has notified the Republic of the Philippines ("Republic") that it is calling on the Republic's written undertaking to compensate Maynilad for losses arising from delayed implementation of the new tariff. On March 27, 2015, Maynilad served a Notice of Arbitration against the Republic. Hearings on the arbitration was completed in December 2016 and resolution expected in 2017.

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, 2016, Maynilad's network consisted of around 7,637 kms of total pipeline.

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

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 Environmental Compliance Certificate (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 believes all wastewater treatment processes and effluents meet the current standards of the DENR.

(B) Toll Operations

Business Development
MPIC holds the majority of its toll road assets through MPTC.

As at December 31, 2016, MPTC's subsidiaries holds the following concession rights:

- Through its 75.60% effective interest in NLEX Corporation:
    - Construction, operation and maintenance of the North Luzon Expressway (NLEX);
    - Management, operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEX). On February 9, 2015, NLEX Corporation received the Notice of Award from the Bases Conversion and Development Authority (BCDA) for the management, operation and maintenance of the 94-kilometer (KM) SCTEX. The operation and management of the SCTEX was officially turned over to NLEX Corporation on October 27, 2015;

- Construction, operation and maintenance of the NLEX-SLEX Connector Road. Concession agreement for the NLEX-SLEX Connector Road Project (Connector Project) was signed on November 23, 2016. The Connector Project is an 8-km elevated toll expressway over the right of way of the Philippine National Railways starting at the junction of the NLEX Segment 10 at C-3 Road/5th Avenue in Caloocan City, and seamlessly connecting to the South Luzon Expressway (SLEX) through the Metro Manila Skyway Stage 3 Project in the City of Manila.

- Through Cavitex Infrastructure Corporation (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 Cavite Laguna Expressway (CALAX). On July 10, 2015, MPCALA signed the Concession Agreement for the CALAX Project with the Department of Public Works and Highways (DPWH).
- 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). On October 3, 2016, CCLEC, Cebu City and Municipality of Cordova (as grantors) signed the concession agreement for the CCLEX.

MPTC also has the following offshore investments:

- 29.45% stake in DMT, a major toll road operator in Bangkok, Thailand. The concession for DMT runs until 2034 for the operation of a 21.9-KM 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, which has various road and bridge projects in and around Ho Chi Minh City and its current portfolio includes 106.7 KM of roads operating at approximately 49,000 vehicles per day and roads under pre- or on-going construction covering a total of 38.1 KM. 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.

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 KM and services an average of 220,000 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 BCDA for the management, operation and maintenance of the 94-KM 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) KM 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 (37th) anniversary, unless otherwise extended or terminated in accordance with the Concession Agreement. The Connector Project is expected to commence construction in 2018 and to complete by 2021.

CIC holds the concession for the operation and maintenance of the CAVITEX. The CAVITEX is a 14-KM long toll road built in two segments running from Parañaque to Cavite. The concession period extends to 2033 for the originally built road and to 2046 for a subsequent extension.

MPCALA was granted the concession to design, finance, construct, operate and maintain the CALAX. On July 10, 2015, MPCALA signed the Concession Agreement for the CALAX Project with the DPWH. Under the Concession Agreement, MPCALA is granted the concession to design, finance, construct, operate and maintain the CALAX, including the right to collect toll fees, over a 35-year concession period. The CALAX is a closed-system tolled expressway connecting the Manila-Cavite Expressway and the SLEX. Construction is expected to commence in 2017 with expected completion by 2020.

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 to start in 2017 and is estimated to be completed by 2020.

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. The concession agreements establish a toll rate formula and adjustment procedure for setting the appropriate toll rate. As of March 1, 2017, MPTC continues to await approval by the government of toll rate adjustments for the NLEX, SCTEX and CAVITEX.

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
Foreign contribution from investment in CII B&R and DMT contributed approximately 2.6% of MPIC's consolidated income before tax.

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

Competition
While NLEX Corporation 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, such as follows:

	Alternative Road
NLEX	MacArthur Highway
CAVITEX	Quirino Avenue, Aguinaldo Highway, Tirona Highway and Evangelista Road

Traffic volumes on the toll roads 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.

The Company continues to promote traffic growth on these toll roads 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, the toll road industry grew with the entry of new players such as 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 TMC. 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 M+ Corporation (M+; a wholly-owned subsidiary of MPTC) entered into a Toll Collection Services Agreement to facilitate the toll collection function of CIC. TMC, and PEATC and M+ provides NLEX Corp and CIC, respectively, with the following operations and maintenance services:

- Collection of tolls 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.

Transactions with related parties
The Operation & Maintenance (O&M) of the NLEX and Segment 7 is undertaken by TMC pursuant to the O&M Agreement between NLEX Corporation and TMC. This agreement shall be effective for the entire concession period. TMC, of which MPTC owns 60%, oversees the day-to-day operations of the NLEX, including securing toll collection, depositing of funds to NLEX Corp's accounts, facilitating smooth and uninterrupted flow of traffic, carrying out of routine maintenance, ensuring effective and safe responses to emergency situations. In exchange for performing its duties, TMC receives an O&M fee based on a base fee plus a variable fee.

On December 5, 2007, NLEX Corporation engaged the services of Easytrip Services Corporation (ESC) to assist NLEX Corporation in increasing the usage of the electronic toll collection facility along the NLEX. ESC became a related party of NLEX Corporation beginning July 2014 when MPTDC acquired equity interest equivalent to 50% plus one share of the capital stock of ESC. Under the agreement with ESC, NLEX Corp will pay ESC an annual fixed fee, which are to be maintained and escalated every year for labor index and consumer price index plus variable fee per transaction

Costs and effects of compliance with environmental laws
Prior to the commencement of construction activities, the grantee must obtain an 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 as at March 1, 2017. Status of the other projects as follows:

- Segment 10 with a project cost of Php10.5 billion will run from Valenzuela City all the way to C3 in Caloocan City and is expected to complete by the first quarter of 2018.

- Construction of NLEX Corp's Php2.6 billion Segment 2 and 3 NLEX Road-Widening Project to accommodate growing traffic numbers is substantially complete. The project will expand the existing two-lane portion of NLEX between Sta. Rita and San Fernando to three lanes on both the northbound and southbound sides, while the current one-lane stretch between Dau and Sta. Ines will be expanded to two lanes in each direction.

- Construction for the first phase of the C5 Link Expressway is set to start by the first quarter of 2017 and be completed by 2020. The C-5 Link Expressway, part of the existing CAVITEX network, is a Php12.7 billion project spanning 7.7 KM to link C-5 Road in Taguig to R-1 (Coastal) Expressway.

(C) Power

MERALCO

Business Development

Investment in MERALCO is held directly by MPIC at 15.0% as at December 31, 2016 and 2015, and held indirectly through Beacon Electric at an effective interest of 26.2% and 17.5% as at December 31, 2016 and 2015, respectively.

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square KM. 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 percent 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 KM and 1,987 customers as at December 31, 2016.

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

MGen Corporation, a wholly-owned subsidiary of MERALCO, was organized as MERALCO's vehicle for re-entry into power generation.

On July 22, 2011, MGen signed a Shareholders' Agreement with Therma Power, Inc. (TPI) of Aboitiz Power Corporation and Taiwan Cogeneration International Corporation – Philippine Branch (TCIC), for the construction and operation of a 2x300 Megawatt (MW) Circulating Fluidized-Bed (CFB) independent, coal-fired power plant to be located in the Subic Bay Freeport Zone. RP Energy is a partnership among TPI, MGen and TCIC.

In January 2013, the Court of Appeals (CA) dismissed the Writ of Kalikasan case filed by certain interest groups against RP Energy. However, the CA, while ruling on the dismissal of the case, invalidated the ECC issued by the DENR and the Lease and Development Agreement (LDA) with the Subic Bay Metropolitan Authority (SBMA) citing certain procedural and documentary lapses in the issuance of the ECC and the execution of the LDA. On February 3, 2015, RP Energy received the SC's decision denying the Writ of Kalikasan case previously filed by certain opposing parties against its planned power plant due to insufficiency of evidence. The high court upheld the validity of the ECC and its first two amendments, as well as the LDA of RP Energy with SBMA. On February 23, 2016, the LDA and transmission line right-of-way lease agreement with SBMA were signed.

On October 13, 2016, the Engineering, Procurement and Construction (EPC) for the first 300 MW was executed. Site preparation of the first 300 MW unit has been essentially completed with commercial operations in early 2020. Meanwhile, work on the permanent transmission line interconnection is proceeding in preparation for the development of the second 300 MW unit.

In April 2016, RP Energy separately signed a power supply agreements (PSA) with MERALCO and Aboitiz Energy Solutions, Inc. RP Energy is awaiting the approval of its PSA with MERALCO by the ERC.

In March 2013, MGen acquired an effective 28% interest in PacificLight Power Co. Ltd. (PacificLight), which owns and currently operates a new advanced technology 2x400 MW Liquefied Natural Gas (LNG) plant in Jurong Island, Singapore. The construction of the facilities was completed in December 2013 and both units have been in commercial operations since January 31, 2014. The management team continues to contract with possible offtakers and sell the remaining capacity to the merchant market. PacificLight provides the opportunity for LNG power generation technology and knowledge acquisition and transfer.

On October 7, 2013, MGen executed a Share Sale and Purchase Agreement with First Metro Investment Corporation (FMIC) for the sale by FMIC of a 20% equity interest in Global Business Power Corp. (GBPC) to MGen, and signed a related Shareholders Agreement on October 22, 2013. In June 2014, MGen acquired an additional 2% equity interest in GBPC, bringing its equity interest to 22%. On June 30, 2016, MGen and JG Summit executed a deed of absolute assignment of shares whereby MGen sold and assigned 153,921,676, representing 8% of its equity interest in GBPC, to JG summit for Php3,151 million, GBPC owns an aggregate of 859 MW gross coal and diesel power plants in operation in the Visayas region, which include a 150 MW gross coal-fired power plant in Panay Island which was commissioned in November 2016.

On December 22, 2016, RP Energy signed loan agreements with local banks for the Php31.5 billion funding for its project. The approval of the PSA between RP Energy and Aboitiz Energy by the ERC is a condition precedent to the first loan drawdown.

On August 29, 2013, MGen signed a Joint Development Agreement with New Growth B.V., a 100% subsidiary of Electricity Generating Public Company Limited of Thailand (EGCO) for the development of a new 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon. MGen's equity in the joint venture company, San Buenaventura Power Limited (SBPL), is 51%, with the option to assign or transfer 2% thereof to a separate entity. On November 11, 2014, the DENR granted SBPL an ECC covering the 455 MW (net) coal-fired power plant. SBPL's EPC was executed with the Consortium of Daelim Industrial Co. Ltd. and Mitsubishi Corporation following a competitive selection process on October 8, 2014. The construction period is set at 42 months from the commencement date of December 8, 2015.

On May 29, 2014, MERALCO signed a long term Power Supply Agreement (PSA) with SBPL. The ERC-approved PSA was accepted by SBPL on May 30, 2015.

On October 8, 2015, SBPL entered into an Omnibus Agreement and related agreements with certain financial institutions providing for a term loan facility in an amount of up to Php2.15 billion for the financing of the project. SBPL made its initial borrowing on December 1, 2015. Also on December 11, 2015, SBPL entered into an Operation and Maintenance Agreement for the operations and maintenance of the power plant.

SBPL is expected to achieve commercial operations in 2019.

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	
	2016	2015
Commercial	39.53%	39.47%
Industrial	29.14%	30.21%
Residential	31.00%	29.96%
Streetlights	0.33%	0.36%
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.

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 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 Distribution Utilities 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 Distribution Utilities 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. The consumer group moved for a resetting of the January 23, 2017 hearing. The next hearing is set on March 17, 2017.

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.

On June 11, 2015, MERALCO filed its application for the approval of its proposed Interim Average Rate of Php1.3939 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 Php1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

Absent the release by the ERC of the final rules to govern the filing of its 4th RP Reset, MERALCO filed on February 9, 2015 an application for approval of authority to implement its CAPEX program for RY 2016 (July 1, 2015 to June 30, 2016) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. 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 Php15.5 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration of the Decision which is pending before the ERC. On July 25, 2016, MERALCO has filed its opposition to the Motion for Reconsideration. As of February 27, 2017, the ERC has yet to rule on the Motion for Reconsideration.

On March 8, 2016, MERALCO filed an application for approval of authority to implement its CAPEX program for RY 2017 (July 1, 2016 to June 30, 2017) pursuant to the Public Service Act. Hearings have been completed and MERALCO is awaiting the final decision of the ERC. On July 26, 2016, MERALCO received the Order dated May 5, 2016, granting MERALCO provisional authority to implement the nine (9) major projects and 37 residual projects constituting a substantial part of the CAPEX program, subject to certain conditions. The provisional approval for the balance of the program was deferred pending submission of additional information.

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 Retail Competition and Open Access (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 Distribution Utility (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
The principal sources of power of MERALCO and Clark Electric and their relative contribution in 2016 and 2015 are as follows:

	2016	2015
First Gas Power Corporation (Sta. Rita) and FGP Corp.(San Lorenzo) – Natural Gas	26.26%	30.66%
South Premiere Power Corporation (Ilijan) – Natural Gas	19.41%	18.84%
San Miguel Energy Corporation (Sual) – Coal	8.22%	9.75%
AES Philippines (Masinloc) – Coal	8.31%	8.46%
Quezon Power Philippines Limited Co. – Coal	8.12%	8.27%
Sem-Calaca Power Corporation (Sem-Calaca) – Coal	7.70%	8.53%
Therma Luzon, Inc. (Pagbilao) – Coal	7.00%	7.11%
Philippine Electricity Market Corporation	11.26%	5.06%
Others – Various	3.72%	2.74%
Total	100%	100.00%

GBPC

Business Development/Products and Services/Customers
GBPC is a holding company which, through its subsidiaries, is one of the leading independent power producers in the Visayas region and Mindoro island, with a combined gross maximum capacity of 854 MW.

GBPC owns eleven power generation facilities. The largest clean coal-fired power plants located in Iloilo City are operated by Panay Energy Development Corporation (PEDC), in which GBPC holds an 89.3% beneficial interest. PEDC operates the 164 MW clean coal-fired power plant to serve the energy requirement of Panay and the rest of the Visayas region. To support the growing needs of the region, PEDC expanded its operations by undertaking the 150 MW project. The 150 MW expansion project is set to commence commercial operations on January 26, 2017.

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 Global Formosa Power Holdings, Inc. (GFPHI) and Abovant Holdings, Inc., in which, GFPHI has 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, a 82 MW coal facility and a 40 MW fuel oil facility operated by Toledo Power Company (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).

Distribution Methods of Products and Services
GBPC, through its power generation companies, sells electricity through its bilateral power supply agreements or the Wholesale Electricity Spot Market (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 distribution utilities, 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
Reaffirming its commitment to the Visayas region, GBPC pursued expansion projects to support accelerated growth in Cebu and Iloilo. Through subsidiary TPC, GBPC inaugurated its 82 MW clean coal-fired expansion

project in Toledo in September 2014. This Php10.2 billion project supplies the energy requirements of Cebu III Electric Cooperative and its industrial customer, Carmen Copper Corporation.

Competition

GBPC's power generation facilities are subject to competition from existing and future power generation plants that supply electricity to the Visayas grid. Several of these competitors may have greater financial resources than GBPC, giving them the ability to respond to operating, financial and other challenges more quickly than GBPC. 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 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.

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 may increase in line with the expected long-term economic growth of the Philippines. To complement its existing portfolio, GBPC has started exploring renewable energy sources with the completion of the engineering design of the 40 MW Biomass in Negros. GBPC is looking at additional renewable projects in the biomass, hydro, and solar sectors.

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 Samtan Co., Ltd. / Kideco Samsung C&T/Sakhalin Lucent Aminto, Inc.

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.

Other Indonesian coal suppliers that passed the trial burns conducted last 2015 are PT ABK (Anugerah Bara Kaltim) and PT Insani. The said companies are now included in the pool of reliable and technically complying coal suppliers of GBPC.

Major Customers

Ninety five percent (95.0%) of GBPC's total electricity sales in 2016 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, 2016 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)
- Taiheiyo Cement Philippines Inc. (thru Global Energy Supply Corp.)

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)
- Philippine Phosphate Fertilizer Corporation
- Iloilo Provincial Capitol
- Cathay Pacific Steel Corp. (thru Global Energy Supply Corp.)
- Taiheiyo Cement Philippines Inc. (thru Global Energy Supply Corp.)
- Mabuhay Filcement Inc. (thru Global Energy Supply Corp.)

TPC
- Carmen Copper Corporation (Carmen Copper)
- CEBU III Electric Cooperative, Inc. (CEBECO 3)
- Manila Electric Company (MERALCO) (1)

PPC
- Panay Electric Company (PECO)(2)
- Iloilo I Electric Cooperative, Inc. (ILECO 1)(3)
- Aklan Electric Cooperative (AKELCO)(3)
- Manila Electric Company (MERALCO) (1)

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

Notes:
(1) Interim Power Supply Agreement (IPSA) which commenced in April 2016 up to February 2017.
(2) EPPA is for peak power only
(3) 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 (which will operate the market) and providing 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 time (hourly) 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.

Under the DOE Circular No. 2015-10-0015, series of 2015, the DOE adopted enhancements to WESM design and operations which included a shorter trading and dispatch interval of five (5) minutes. However, this is yet to be operationalized through the issuance of a Market Manual by the Philippine Electricity Market Corporation (PEMC).

Retail Competition and Open Access (RCOA)
The Electric Power Industry Reform Act (EPIRA) likewise provides for a system of open access on transmission and distribution wires, under which the National Grid Corporation of the Philippines (NGCP) is the transmission operator, and the distribution utilities 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;
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP 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 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 12 May 2016 which contained the Revised Rules on Contestability. Under said rules, the Threshold Reduction Date was set to 26 June 2016, where end-users with demand of at least 750kW shall be allowed to contract with any retail electricity supplier (RES). On the other hand, for end-users with demand of at least 1MW, mandatory contestability was set to 26 December 2016. Lastly, the lowering of the threshold to cover end-users with demand of at least 500kW was set to 26 June 2018. However, the date for mandatory contestability for end-users with demand of at least 1MW was later moved to 26 February 2017 through ERC Resolution No. 28, series of 2016, issued on 15 November 2016, due to various issues on implementation of mandatory contestability.

A wholly-owned subsidiary of GBPC, GESC, holds a RES license. Through this special purpose vehicle, GBPC is able to participate in the retail competition open access initiative to directly supply electricity to end users, including major industrial customers.

Reduction of Taxes
To equalize prices between imported and indigenous fuel, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation.

Renewable Energy Act of 2008
The Renewable Energy Act of 2008 (RE Law) is a landmark legislation and is considered the most comprehensive renewable energy law in Southeast Asia. The RE Law was signed by 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, 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, which will operate in the WESM to facilitate compliance with the Renewable Portfolio Standard; and the Green Energy Option, which allows end-users to contract their energy requirements directly from renewable energy facilities.
To address the projected growth in power demand across the country, GBPC is reviewing opportunities in renewable energy facilities, such as hydroelectric and geothermal 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.

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 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.

(D) 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.

On May 16, 2014, MPIC and GIC Private Limited (GIC) entered into a partnership agreement to facilitate the further expansion of the hospital group of MPIC. GIC, through its affiliates, invested Php3.7 billion for a 14.4% stake in MPIC's hospital holding company Metro Pacific Hospital Holdings, Inc. (MPHHI, formerly Neptune Stroika Holdings, Inc.). The partnership with GIC will help MPHHI grow not only in hospitals but also in other health-related fields. GIC also advanced to MPIC Php6.5 billion by way of an Exchangeable Bond (EB) which will be exchanged into a 25.5% stake in MPHHI in the future, subject to certain conditions. The proceeds from the EB will be used by MPIC for continuing investments in infrastructure projects.

MPHHI completed the following acquisitions in 2015 and 2016:

- On December 28, 2015, MPHHI completed its acquisition of a 20% equity shareholding in Manila Medical Services, Inc. (MMSI), owner of Manila Doctors Hospital (MDH), from Metrobank Foundation Inc. (MBFI), the controlling shareholder of MMSI. MDH is a 300-bed tertiary hospital located in Manila City with annual revenues of approximately Php2.0 billion. It is in the midst of an expansion program where it is constructing a new 18-storey building that will house new doctors' clinics, patient rooms, outpatient diagnostic services, and additional parking facilities. The new tower is projected to be finished towards the end of 2016, increasing MDH's bed capacity to approximately 500 beds.

- On December 16, 2015, MPHHI signed an Investment Agreement with Sacred Heart Hospital of Malolos Inc. (SHHM), a 47-year-old Level Two hospital, a respected institution in the capital city of Bulacan. MPHHI invested Php150 million in SHHM for a 51% ownership, with proceeds funding an increase patient beds and the acquisition of new medical equipment. MPHHI completed the acquisition of SHHM on March 7, 2016.

- 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 Php2,117.8 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 January 31, 2017, MPHHI infused approximately Php133.5 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.

Customers

As at March 1, 2017, MPHHI grew to thirteen (13) hospitals with approximately 2,900 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), MDH, MVMC and JDMH; and
- Five (5) 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, and SHHM in Bulacan.

In addition, MPHHI has also invested in a mall-based diagnostic and surgical center MegaClinic in SM Megamall, 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.

Competition

Major competitors in the healthcare business include tertiary hospitals located in major cities and regions where the hospitals operate. 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 CVHMC) operates and manages the MERALCO Corporate Wellness Center (Wellness Center), an outpatient diagnostic and consultation center for its employees and their dependents.

(E) Rail

Business Development

MPIC primarily 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 DOTC 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 line south from Baclaran to Niog, Cavite. LRMH holds shares in LRMC. MPLRC’s effective stake at LRMC (directly and through LRMH) as at December 31, 2016 and 2015 was at 55%.

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

On October 2, 2014, LRMC entered into a concession agreement with DOTC and LRTA. Under the concession agreement, DOTC and LRTA granted LRMC the exclusive right to operate and maintain the existing LRT Line 1 and construct an 11.7-KM extension from the present end-point at Baclaran to the Niog area in Bacoor, Cavite. LRMC was formally awarded the project by the DOTC and LRTA following the submission of a lone bid with a premium of Php9.35 billion. The concession period is for 32 years from takeover date and ends in 2047.

DOTC granted an Operating Franchise to LRMC on September 11, 2015. LRMC took over operating and maintaining 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.

LRMC has the right to apply for an adjustment of the fare based on the specific fare adjustment formula under LRMC's concession agreement with the Philippine Government. This formula specifies an initial boarding and per-KM fare with 10.25% increases over these initial fares every two years beginning in August 2016, subject to inflation rebasing if inflation falls outside an acceptable band. If the approved fare is different from the formula specified on the concession agreement, both the Philippine Government and LRMC are obligated to substantially keep the other party whole, depending if the actual fares represent a deficit or a surplus. Any fare deficit compensation not received in a timely manner, in full or at all, could have a material adverse effect on the Company's results of operations and financial condition.

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 Common Station Project was signed on January 18, 2017 by the Department of Transportation (DOTr), the Department of Public Works and Highways and relevant rail and mall operators.

LRMC also depends on the 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
There are no anticipated changes to government regulations that will significantly affect the Rail business of the Group. However, the main variable affecting the extent or likelihood of earnings growth at MPIC is the ability of the LRMC to secure the tariff adjustments and ability to collect the liquidated damages under the concession agreement that govern LRMC's concession.

The concession agreement establishes an initial fare rate and an adjustment formula for setting the appropriate toll rate. 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 Government is obligated to pay the difference and keep LRMC whole.

As at March 1, 2017, LRMC continues to await approval by the Government of the full initial fares as stipulated in the concession agreement. These initial fares should have been effective from August 1, 2014.

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 advertisers.

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

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.

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. 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.

(F) Logistics

Business Development
Following extensive study, MPIC has concluded there is merit in moving into logistics. MPIC made its first investment into the logistics business through MMI. MMI is to provide services in logistics, shipping, freight forwarding and e-commerce fulfillment.

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 Php2.2 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.

In January 2017, PremierLogistics, Inc. (Premier), a subsidiary of MPIC, entered into a definitive agreement to acquire certain assets and business of Ace Logistics, Inc. (Ace) for an aggregate purchase price of Php280.0 million. The transaction will be carried out through an asset purchase agreement. The closing of the transaction is subject to the satisfaction of certain conditions precedent, which as of March 1, 2017 has not been completed yet but the parties intend to fulfill within the first quarter of 2017. 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 will be acquired in the transaction will be utilized to further expand MPIC's logistics business.

Dependence on a Single Customer
MMI is not affected with the concentration or dependence with single or few customers. The company has customers in different industries such as Sugar, Food and Beverage, Retail and consumer products.

Source of Raw Materials
Sources of its cost of services are from realtors for leasing of warehouses; manpower, warehouse and trucking service providers; transportation equipment vendors for trucks; material handling vendors such as forklifts and racks.

(G) MPIC Parent's employees
As at December 31, 2016, the total headcount is 49 employees (Administrative: 38, Clerical: 11), who are neither unionized nor covered by special incentive arrangements. The Parent Company expects to increase its headcount in the next twelve months to 50.

(H) MPIC Parent's major risks
As an investment and management company, MPIC undertakes risk management at a number of distinct levels:

- **On entering new investments**
  MPIC has taken steps to increase its presence in Southeast Asia through its equity investments in Thailand's DMT and Vietnam's CII B&R, while remaining committed to its core business in the Philippines. MPIC's geographic focus remains to be predominantly the Philippines within which its management team has extensive experience.

  Prior to making a new investment, any business to be acquired is subject to an extensive due diligence including financial, operational, regulatory and risk management. Risks to investment returns are then calibrated and specific measures to manage these risks are determined. The Group 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 taking a controlling position and key operating partners providing operational and technological input and thereby mitigating risks associated with investing in new business areas. These partners are equity partners - and having co-invested with the Group in a particular opportunity, they will participate in the risks and rewards of the business alongside MPIC.

  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.

- **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 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 Philippine Pesos using primarily long term instruments with fixed rates.

  MPIC sets the level of debt on its Parent Company Statement of Financial Position so as to withstand variability of dividend receipts from its operating companies associated with regulatory and other risks described below.

Item 2. **Properties**

As of December 31, 2016, 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. Currently, GT Capital has no plans to acquire properties. 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, 2016:

Location	**No. of Branches**
Metro Manila	441
Luzon (excluding Metro Manila)	285
Visayas	136
Mindanao	97
Total	**959**

Federal Land

Land Bank
As of December 31, 2016, Fed Land owned a total land bank with an aggregate area of 108.0 hectares. The table below provides a breakdown of Fed Land's land bank.

Location	**Area (in hectares)**
Macapagal, Pasay City	29.5
Fort Bonifacio, Taguig	5.3
Marikina	14.4
Mandaluyong	3.5
Iloilo	0.3
Paco, Manila	0.6
Makati City	0.4
Binan, Laguna	30.0
Gen. Trias, Cavite	18.3
Sta. Rosa, Laguna	5.3
Greenhills, San Juan	0.4
	108.0

Fed Land's major real properties that generate lease income from lease of commercial and office spaces are the GT International Tower and the Philippine AXA Life Centre (Phil AXA Centre). Fed Land owns eight floors in Phil AXA Centre. In December 2012, Fed Land acquired the whole building of GT International Tower. Both are high-rise office buildings located in Metro Manila's Makati Central Business District. Fed land also owns Bluebay Walk that generates lease income from retail establishments.

GT International Tower has 41 floors, and 536 parking slots, with an aggregate floor area of 46,458.21 square meters. One floor is used as Fed Land's principal headquarters, measuring 1,168 sq.m.

The office property at Phil AXA Centre measures 7,335 sq. m. of floor area, comprising 25 units. The units are owned by Horizon Land, a wholly-owned subsidiary of Fed Land. Leases at the Phil AXA Centre are typically for periods ranging from three to five years and generally require tenants to supply a three-month security deposit. Rent is paid on a fixed per square meter basis. Lease contracts also provide for a pre-agreed annual increase over the term of the lease. As of December 31, 2016, the Phil AXA Centre occupancy rate is at 89%. Within 2016, approximately 11% of Fed Land's office leases at Phil AXA Centre are scheduled to expire. Most of these leases are being reviewed for contract renewal, and a majority of the available spaces are currently being negotiated for leases with new tenants.

Bluebay Walk has a total area of 13,687 square meters, which is currently being leased out to retail concessionaires, for a period ranging from 3 to 15 years. Rent is paid on a fixed per square meter basis and variable rent is based on a certain percentage of sales of the retail concessionaire. Lease contracts also provide for a pre-agreed annual increase over the term of the lease. As of December 31, 2016, the occupancy rate is at 90.0%.

Pro-Friends

Pro-Friends head office is located in Tinio St., Mandaluyong City and has other offices in Haig St., Mandaluyong City, Col. Bonny Serrano Ave., Quezon City, Cavite, Iloilo and Cagayan de Oro. Pro-Friends landbank as of December 31, 2016 is as follows:

Project/Location	**Area (in hectares)**
Lancaster	1,600.6
Iloilo	170.9
Micara	73.5
Bellefort	115.6
Carmona	87.9
	2,048.5

Toyota Motor Philippines

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's Marketing Division holds office at the 31st and 28th floors of 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. In November 2012, TMP received approval to sell a portion of this property. The remaining area is currently leased to Toyota Bicutan, Parañaque, a branch of Toyota Makati, Inc., which is a wholly-owned subsidiary of TMP. Part of the leased property serves as a stockyard for new vehicles of Toyota Makati and Toyota Bicutan.

Philippine AXA Life Insurance Corporation and Subsidiary

AXA Philippines
AXA Philippines' head office is currently under lease at the 2nd, 33rd, 34th and 35th floor of GT Tower International. AXA continues to own the premises occupied by its customer relations 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 Skyland Plaza, Sen. Gil Puyat Ave. corner Tindalo 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 21 branches nationwide: 4 in Metro Manila; 11 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 one to three years renewable under mutually-acceptable terms and conditions.

Metro Pacific Investments Corporation

Toll Roads Segment
NLEX Corp and CIC, owns 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. NLEX Ventures Corporation (NVC), a wholly owned subsidiary of NLEX Corp, acquired parcels of land located in Valenzuela City. NVC plans to develop the land properties for commercial use and 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.

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 DOTC). 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.

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 tertiary hospital located in Marikina Metro Maila.
- 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.
- SHHM is a hospital located in Malolos, Bulacan.
- MegaClinic is a mall-based diagnostic and ambulatory care center located in Metro Manila.

<u>*Lease Arrangements.*</u>
Lease Arrangements. East Manila Hospital Managers Corp. (EMHMC), CVHMC and MPZHC entered into lease agreements with Servants of the Holy Spirit, Inc., Roman Catholic Archbishop of Manila and Western Mindanao Medical Center, Inc. (WMMC) for the management and operation of OLLH, CSMC and WMMC, 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. The lease of MPZHC us for a period of 20 years and may be renewed under terms and conditions mutually acceptable. As consideration for the lease agreement, MPZHC pays fixed fees while EMHMC and CVHMC pay fixed and variable monthly rates, where the variable rate is based on the prior year's net revenues.

<u>Toyota Manila Bay</u>

The following table provides a breakdown of TMBC outlets' properties as of December 31, 2016.

Outlet	Leases or Owned	Lot Area	Remarks
TMB	Leased	2, 976.8 sqm	Service Parking
		1, 174.0 sqm	Service Parking
		4, 662.0 sqm	Stockyard
		2, 988.0 sqm	Stockyard
		2, 516.0 sqm	Body and Paint Parking
	Owned	5, 000.0 sqm	Showroom and Service
TDM	Owned	8,891.1 sqm	Stockyard and Service
		1,000.0 sqm	Showroom and Service
		1,000.0 sqm	Showroom and Service
		7,954.0 sqm	Brand New Stockyard
TAS	Leased	4,631.28 sqm	Showroom and Service
		1,802.2 sqm	Service and Stockyard
		4,000.0 sqm	Brand New Stockyard
TCI	Owned	3,542.0 sqm	Showroom and Service
		9,721.5 sqm	Service and Stockyard
TMSS	Leased	2,062.5 sqm	Showroom and Service
		408.0 sqm	Service Parking
		1,812.00 sqm	Brand New Unit Stockyard

TFSPH

As of December 31, 2016, TFSPH leases its office at GT Tower International located at 32/F and 42/F GT Tower International, 6813 Ayala Avenue corner H. V. Dela Costa St., Makati City, Metro Manila, Philippines.

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

LESSOR	**ADDRESS**	**TERMS**	**Expiry**	**LOT AREA**
SKYLAND BROKERAGE INC.	Champaca St., United Paranaque Subd. 4 (UPS4), Paranaque City	5 yrs.	Apr 30, 2019	3,000 SQM
BEDEK LEASING CORP.	JP Rizal St., Brgy. Sala, Cabuyao, Laguna	3 yrs	Mar 1, 2020	4,218 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
As of December 31, 2016, the MBT Group was a party to various unresolved legal proceedings which arose in the ordinary course of its operations, including several suits and claims relating to the MBT Group's lending operations. In the opinion of MBT's management, if such unresolved legal proceedings are decided adversely, they will not have a material adverse effect on the MBT Group or its consolidated financial condition.

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 nine (9) 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 various legal actions arising in the ordinary course of business.

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

PCFI
Pro-Friends 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
The Group is a party to various legal matters and claims arising in the ordinary course of business. Below are the various legal proceedings of MPIC which are also properly disclosed in their 2016 Audited Consolidated Financial Statements. The ultimate outcome of these matters cannot be presently determined.

<u>Water Segment</u>
Rate Rebasing Adjustment. MWSS released Board of Trustees Resolution No. 2013-100-RO dated September 12, 2013 and RO Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 reducing Maynilad's 2012 average all-in basic water charge by 4.82% or Php1.46 per cubic meter (cu.m.) or Php0.29 per cu.m. over the next five years. Maynilad has formally notified its objection and initiated arbitration proceedings. On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel.

On December 17, 2013, the Regulatory Office released Resolution No. 13-011-CA regarding the implementation of a status quo for Maynilad's Standard Rates and FCDA for any and all its scheduled adjustments until such time that the Appeals Panel has issued the Final Award.

On January 5, 2015, Maynilad officially received the Appeals Panel's award dated December 29, 2014 (the "Arbitral Award") upholding Maynilad's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41% or its equivalent of Php4.06 per cu.m. This increase has effectively been reduced to Php3.06 per cu.m., following the integration of the Php1.00 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 Arbitral 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 Arbitral 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 Arbitral 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.

On February 20, 2015, Maynilad wrote the Philippine Government, through the DOF, to call on the Undertaking 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. 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 Php3.4 billion in revenue losses that it had sustained as a direct result of the MWSS' 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, referred to arbitration before a three-member panel appointed 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 Arbitral Award of a tariff adjustment of Php0.64 per cu.m. which, net of the Php1.00 CERA, actually translates to a tariff adjustment of negative Php0.36 per cu.m. as opposed to the Arbitral Award of Php3.06 per cu.m. tariff adjustment, net of CERA. For being contrary to the Final 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 Php31.25 per cu.m. or an upward adjustment of Php2.35 per cu.m. as partial implementation of the Arbitral Award. With the discontinuance of CERA, the net adjustment in average water charge is 4.32% or Php1.35 per cu.m.

In the fourth quarter of 2015, the Arbitration Tribunal was constituted. On February 17, 2016, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking and to update its claim. Evidentiary hearings were completed in December 2016. As of that date, the result is still pending. As at December 31, 2016 and 2015, Maynilad's revenue losses due to the delayed implementation of the Arbitral Award are estimated at Php8.2 billion and Php6.1 billion, respectively.

As at March 1, 2017, management cannot determine with reasonable certainty the probable outcome of the arbitration proceedings. As such, the consolidated financial statements do not include any adjustments that might result from arbitration proceeding.

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 Php357.1 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, 2016 and 2015 amounted to Php1.0 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. As at March 1, 2017, the case is still pending.

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 have been reflected by virtue of the Debt and Capital Restructuring Agreement (DCRA) entered into in 2005. Accordingly, Maynilad has recognized these additional charges, referred to as Tranche B Concession Fees in the DCRA, amounting to US$30.1 million. The Receiver determined an additional amount of Tranche B Concession Fees of US$6.8 million. As at December 31, 2015 and 2014, Maynilad had recognized Tranche B Concession Fees of US$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 Php5.1 billion as at December 31, 2016 and 2015, respectively. 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 P=985.3 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 US$14.0 million to fully settle the claim of MWSS, Maynilad reversed the amount of accrued interest in excess of the US$14.0 million settlement offer. The remaining balance of Php607.2 million as at December 31, 2016 and 2015, 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.

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.

<u>Toll Operations Segment</u>

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 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 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.

As at March 1, 2017, NLEX Corp has yet to receive regulatory approval for all the petitions for the approval of the PTRA. As of December 31, 2016, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX, is approximately at Php4.4 billion (VAT-exclusive).

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 Php719.0 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 Php877 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 1, 2017, CIC has yet to receive regulatory approval for all the petitions filed on the PTRA. As of December 31, 2016, 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 Php1.1 billion (VAT-exclusive and net of PRA share).

Value-Added Tax (VAT). In view of RMC 39–2011, NLEX Corp started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011.

Through all the years that the issues of VAT are being discussed, NLEX Corp received the following VAT assessments:

- NLEX Corp received a Formal Letter of Demand from the BIR on March 16, 2009 requesting NLEX Corp to pay deficiency VAT plus penalties amounting to P=1,010.5 million for taxable year 2006.
- NLEX Corp received a Final Assessment Notice from the BIR dated November 15, 2009, assessing NLEX Corp for deficiency VAT plus penalties amounting to P=557.6 million for taxable year 2007.
- NLEX Corp received a Notice of Informal Assessment from the BIR dated October 5, 2009, assessing NLEX Corp for deficiency VAT plus penalties amounting to P=470.9 million for taxable year 2008.
- On May 21, 2010, the BIR issued a Notice of Informal Conference assessing NLEX Corp for deficiency VAT plus penalties amounting to P=1.0 billion 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 Php1,010.5 million and Php584.6 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, and 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). NLEX Corp has filed several Petitions for Review under Section 226 of the Local Government Code with the Local Board of Assessment Appeals ("LBAA") of the Province of Bulacan on July 15, 2008 and April 16, 2013, seeking to declare as null and void certain tax assessments and 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 of the North Luzon Expressway and categorizing the North Luzon Expressway as a commercial property, subject to real property tax. As at September 18, 2013, the total amount of tax assessed by the Province of Bulacan against NLEX Corp was Php304.9 million. The LBAA has yet to determine whether said properties in fact covers portions of the NLEX, which NLEX Corp argues are part of the public domain and exempt from real property tax.

On 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. On October 4, 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF–BLGF to hold the enforcement of any collection remedies in abeyance.

The outcome of the claims on RPT 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 Segment

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 Distribution Utility (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 Energy Regulatory Commission (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 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 Distribution Utilities 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 Rules for Setting Distribution Rates (RDWR) for Privately-Owned Distribution Utilities Entering Performance Based Regulation (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. The consumer group moved for a resetting of the January 23, 2017 hearing. The next hearing is set on March 17, 2017.

In a Notice dated November 16, 2016, the ERC approved the draft "Regulatory Asset Base ("RAB") Roll Forward Handbook for Privately Owned Electricity Distribution Utilities (DUs)" (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.

MERALCO also files with the ERC its applications for over/under-recoveries of pass-through costs. These consist mainly of differential generation, transmission and system loss charges technically referred to as over/under-recoveries, which are refundable/recoverable from the customers, as allowed by law.

Interim Average Rate for RY 2016. On June 11, 2015, MERALCO filed its application for the approval of a proposed Interim Average Rate of Php1.3939 per kWh and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved an Interim Average Rate of Php1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. As at March 1, 2017, intervenors are set to present their own evidence after the ERC rules on pending motions.

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 the generating companies, specifically MPPCL, SMEC, SPPC, FGPC, and 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 Php4.15 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 Php9.3 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, including MPPCL, SN Aboitiz Power, Inc., Team Energy, PanAsia Energy, Inc., and San Miguel Energy Corporation (SMEC), 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 where the petitions are pending. MERALCO has filed a motion to intervene and a comment in intervention in the petition filed by SMEC and shall file similar pleadings in the cases filed by the other generators.

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 1, 2017, 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 motion for reconsideration of the October 10, 2016 Resolution.

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 Injuction 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.

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.

<u>Rail</u>
Claims with Grantors. In accordance with Schedule 5 of the LRT-1 Project Concession Agreement, LRMC is entitled to be compensated for the unavoidable incremental cost that the LRMC will incur to restore the Existing System to the level necessary to meet all of the baseline Existing System Requirements taking into consideration any Emergency Upgrade Contract executed by the Grantors for the same purpose, if the Existing System does not meet the ESR as certified by the Independent Consultant (IC).

LRMC is also entitled to receive compensation from the Grantors if the Grantors do not make available a minimum of one hundred (100) light rail vehicles or the system is not able to operate to a cycle time of no more than one hundred and six (106) minutes, or a combination of the two on the effective date. The compensation is based on the formula and procedures provided for in the concession agreement.

On October 30, 2015, LRMC submitted a letter to the DOTC representing its claim for ESR costs and LRV shortfall on the premise of the Grantors' obligation in relation to the condition of the Existing System prior or as of the effective date. Subsequently, on November 16, 2015, the Grantors sent a letter of dispute in response to the claims of LRMC.

As at December 31, 2016, LRMC submitted five letters (first to fifth Balancing Payments) to the DOTC representing its claim for ESR costs and LRV shortfall on the premise of the Grantors obligation in relation to the condition of the Existing System prior or as of the Effective Date, fare deficit, and contractor and other additional costs incurred less Key Performance Indicator charges. These claims are still undergoing discussion as at March 1, 2017.

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 11, 2016, 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:

	2015	
1st Quarter (Jan 1 to Mar 31)	1,364	1,040
2nd Quarter (Apr 1 to June 30)	1,455	1,218
3rd Quarter (July 1 to Sept 30)	1,449	1,120
4th Quarter (Oct 1 to Dec 31)	1,377	1,215
	2016	
1st Quarter (Jan 1 to Mar 31)	1,456	1,215
2nd Quarter (Apr 1 to June 30)	1,520	1,340
3rd Quarter (July 1 to Sept 30)	1,620	1,401
4th Quarter (Oct 1 to Dec 31)	1,428	1,120

Source: Bloomberg

As of December 31, 2016, the closing price of the Company's shares of stock is Php1270.00 per share.

Holders

As of December 31, 2016, the Company had 73 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 December 31, 2016 are as follows:

NAME OF STOCKHOLDER	**NO. OF SHARES ***	**RATIO (%) TO TOTAL AMOUNT SUBSCRIBED**
1. GRAND TITAN CAPITAL HOLDINGS, INC.	89,427,110	51.3064%
2. PCD NOMINEE (NON-FILIPINO)	59,881,402	34.3554%
3. PCD NOMINEE (FILIPINO)	24,387,086	13.9914%
4. TY, GEORGE SIAO KIAN	200,000	0.1147%
5. TY, ARTHUR VY	100,000	0.0574%
TY, ALFRED VY	100,000	0.0574%
6. TY, MARY VY	99,000	0.0568%
7. BLOOMINGDALE ENTERPRISES, INC.	30,650	0.0176%
8. DE CASTRO, SALUD D.	20,000	0.0115%
9. CHAN, ASUNCION C.	6,000	0.0034%
10. CHOI, ANITA C.	4,000	0.0023%
11. MAR, PETER OR ANNABELLE C. MAR	3,000	0.0017%
12. BAGUYO, DENNIS G.	2,250	0.0013%
13. CHOI, DAVIS C.	2,000	0.0011%
CHOI, DENNIS C.	2,000	0.0011%
CHOI, DIANA C.	2,000	0.0011%
CROSLO HOLDINGS, CORP.	2,000	0.0011%
14. SYCIP, WASHINGTON Z.	1,800	0.0010%
15. CHUA, JOSEPHINE TY	1,500	0.0009%
16. CHUA, ROBERT S.	1,200	0.0007%
17. ANG, GERRY	1,000	0.0006%
BAUTISTA, CARMELO MARIA LUZA	1,000	0.0006%
BELMONTE, MIGUEL	1,000	0.0006%

BESHOURI, CHRISTOPHER P.	1,000	0.0006%
CUA, SOLOMON	1,000	0.0006%
PARAS, WILFREDO A.	1,000	0.0006%
PUNO, RODERICO	1,000	0.0006%
VALENCIA, RENATO C.	1,000	0.0006%
18. CHAM, MARGARET T. ITF INIGO	700	0.0004%
CHAM, MARGARET T. ITF MARGARIT	700	0.0004%
CHAM, MARGARET T. ITF PAOLO	700	0.0004%
CHUA, ALEXANDER GABRIEL TY ITF	700	0.0004%
CHUA, ALEXANDER GABRIEL TY ITF	700	0.0004%
CHUA, KENNETH GABRIEL TY ITF	700	0.0004%
CHUA, KENNETH GABRIEL TY ITF	700	0.0004%
DY BUNCIO, ANJANETTE TY ITF	700	0.0004%
DY BUNCIO, ANJANETTE TY ITF	700	0.0004%
DY BUNCIO, ANJANETTE TY ITF	700	0.0004%
TY, ALESANDRA T. ITF ALEXA	700	0.0004%
TY, ALESANDRA T. ITF	700	0.0004%
TY, ALFRED VY ITF ANDREI	700	0.0004%
TY, ALFRED VY ITF ARYANE	700	0.0004%
TY, ALFRED VY ITF AUGUSTO	700	0.0004%
TY, ARTHUR VY ITF ALISA	700	0.0004%
TY, ARTHUR VY ITF ANDREW RYAN	700	0.0004%
TY, ARTHUR VY ITF ARIC JUSTIN	700	0.0004%
19. MEDIACOM EQUITIES, INC.	640	0.0004%
20. CHUA, JEANNE FRANCES T. ITF	500	0.0003%
ESTEBAN, LINDA S.	500	0.0003%
KAWPENG, CHRISTOPHER C.	500	0.0003%
KAWPENG, DANIEL C.	500	0.0003%
KAWPENG, DAVID C.	500	0.0003%
KAWPENG, EDWIN C.	500	0.0003%
KAWPENG, TOMAS C.	500	0.0003%

* 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 2014, 2015 and 2016, the Company paid cash dividends to its stockholders as follows:

Year	Common stock	Total	Voting Preferred Stock	Total	Record Date	Payment Date
2014	Php3.00 per share (regular)	Php522.9 million	-	-	April 17, 2015	May 4, 2015
2015	Php3.00 per share (regular)	Php522.9 million	-	-	April 17, 2015	May 4, 2015
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

On March 21, 2017, the Board of Directors of the Company approved the declaration of cash dividends for common and voting preferred stockholders as follows:

Year	Common stock	Total	Voting Preferred Stock	Total	Record Date	Payment Date
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

Recent Sale of Unregistered or Exempt Securities
On March 13, 2015, the BOD of the GT Capital approved the issuance of 174,300,000 voting preferred shares with a par value of ten centavos (Php0.10) per share through a 1:1 Stock Rights Offering to all stockholders of record as of March 25, 2015, offered to eligible shareholders from April 1 to 8, 2015 and issued on April 13, 2015. This transaction is exempt under SRC Rule 10.1(e), sale to existing shareholders.

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 prices of the Perpetual Preferred Shares Series A and Series B are Php1,016 per share and Php1,020 per share, respectively, as of December 31, 2016

Dividends
On December 15, 2016, 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	Php11.5748 per share	Php56.01 million	January 3, 2017	January 27, 2017
2017	Php11.5748 per share	Php56.01 million	March 30, 2017	April 27, 2017
2017	Php11.5748 per share	Php56.01 million	July 3, 2017	July 27, 2017
2017	Php11.5748 per share	Php56.01 million	October 3, 2017	October 27, 2017

Series B

Year	Perpetual Preferred Stock (GTPPB)	Total	Record Date	Payment Date
2017	Php12.7373 per share	Php91.21 million	January 3, 2017	January 27, 2017
2017	Php12.7373 per share	Php91.21 million	March 30, 2017	April 27, 2017
2017	Php12.7373 per share	Php91.21 million	July 3, 2017	July 27, 2017
2017	Php12.7373 per share	Php91.21 million	October 3, 2017	October 27, 2017

Item 7. **Management's Discussion and Analysis or Plan of Operation**

CALENDAR YEAR ENDED DECEMBER 31, 2016 VERSUS YEAR ENDED DECEMBER 31, 2015

GT Capital Consolidated Statement of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2016**	2015 (As restated)	**Amount**	**Percentage**
REVENUE				
Automotive operations	**177,709**	120,802	56,907	47%
Real estate sales	**12,438**	9,000	3,438	38%
Interest income on real estate sales	**1,721**	1,462	259	18%
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	**541**	328	213	65%
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%
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 35% from Php10.46 billion to Php14.16 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 35% from Php10.46 billion to Php14.16 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 65% from Php0.33 billion to Php0.54 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) Php3.92 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 Php1.17 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 Php1.60 billion and Php0.17 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 Statement of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2016**	2015 (As restated)	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%)

	Audited December 31		**Increase (Decrease)**	
	2016	2015 (As restated)	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 PCFI and TMP 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 million 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).

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, 2014, 2015 and 2016.

	In Million Pesos, except for percentages		
Income Statement	**2014**	**2015 (As Restated)**	**2016**
Total Revenues	121,887	139,949	202,124
Net Income attributable to Equity Holders of GT Capital Holdings	9,153	12,115	14,634
Balance Sheet			
Total Assets	218,263	304,366	265,446
Total Liabilities	112,321	167,834	124,208
Equity attributable to GT Capital Holdings, Inc.	79,347	90,131	114,805
Return on Equity *	12.2%	14.3%	14.3%

**Net income attributable to GT Capital divided by the average equity where average equity is the sum of equity attributable to GT Capital at the beginning and end of the year divided by 2.*

The following are the key performance indicators of the component companies for the years ended December 31, 2014, 2015 and 2016.

Banking

Metrobank

The following are the major performance measures used by Metrobank for 2014, 2015 and 2016.

In Billion Pesos, except for percentages and ratios			
	2014	**2015**	**2016**
Net income attributable to equity holders	20.1	18.6	18.1
Net interest margin on average earning assets	3.7%	3.5%	3.5%
Operating efficiency ratio[1]	56.1%	59.2%	56.5%
Return on average assets[2]	1.4%	1.1%	1.0%
Return on average equity[3]	14.1%	10.8%	9.3%

	2014	**2015**	**2016**
Total assets	1,604.5	1,760.7	1,876.0
Total liabilities	1,445.8	1,557.4	1,670.5
Equity attributable to equity holders of the parent company	150.1	203.3	196.0
Tier 1 capital adequacy ratio[4]	12.1%	14.3%	12.5%
Total capital adequacy ratio[4]	16.0%	17.8%	15.5%
Non-performing loans ratio[5]	1.0%	1.0%	0.9%
Non-performing loans coverage ratio[6]	165.2%	110.7%	113.0%

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, 2015 and 2016 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 dropped from Php18.6 billion in 2015 to Php18.1 billion in 2016. This was primarily due to a 10.7% increase in operating expenses from Php39.9 billion to Php44.2 billion and a 256.6% increase in provision for credit and impairment losses from Php2.1 billion to Php7.3 billion.

Net interest income grew by 8.1% from Php49.0 billion in 2015 to Php52.9 billion in 2016 mainly due to the growth in loans and receivables reaching Php1.1 trillion driven by strong demand from the commercial and consumer segments and lower interest expenses on deposit liabilities with CASA ratio at 60.9%. Net interest margin remained at 3.5%.

Non-interest income amounted to Php25.2 billion, 36.9% higher as compared to previous year. The major components include trading and securities and foreign exchange gains, (Php8.1 billion); service charges, fees and commissions (Php10.3 billion); and miscellaneous income (Php6.8 billion).

Total assets increased by 6.5% from Php1.8 trillion in 2015 to Php1.9 in 2016 primarily due to growth in loans and receivables, interbank loans receivables, and securities purchased under resale agreements offset by a decrease in investment securities. Investments to total assets ratio dropped from 28.0% to 18.9%.

Likewise, total liabilities increased by 7.3% from Php1.6 trillion to Php1.7 trillion primarily due to increase in CASA deposits. Metrobank issued Long-term Negotiable Certificate of Deposits (LTNCD) amounting to Php8.7 billion on September 19, 2016.

Property Development

Federal Land and Property Company of Friends

The following are the major performance measures used by Fed Land and PCFI for 2014, 2015 and 2016.

	In Million Pesos, except for percentages and ratios		
	2014**	**2015*****	**2016**
Real Estate Sales *	6,997.9	10,461.9	14,646.0
Revenues	9,375.2	13,258.9	17,285.1
Net income attributable to equity holders of the parent	1,486.4	2,824.3	2,995.0
	2014**	**2015*****	**2016**
Total assets	53,325.6	100,425.4	107,936.9
Total liabilities	25,379.1	48,483.0	48,214.0
Total equity attributable to equity holders of the parent	27,856.4	51,838.1	59,618.3
Current ratio[1]	4.7x	3.6x	5.0x
Debt to equity ratio[2]	0.5x	0.7x	0.5x

** Includes interest income on real estate sales*
*** Fed Land only*
**** GT Capital invested 22.68% in PCFI in August 2015*
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*

In 2016, Fed Land launched four (4) projects namely: (i) Axis Residences Tower 2, a joint venture vertical residential condominium project with Robinsons Land Corporation, situated in Pioneer St., Mandaluyong City, Metro Manila; (ii) AVEIA, a 45-hectare joint venture horizontal project with Alveo Land Corp, situated in Brgy. Malamig, Biñan City, Laguna; (iii) Peninsula Garden Midtown Homes (PGMH) Tower 7 (Mango), a vertical residential condominium project located in Paco, Manila; and (iv) Six Senses Residences (SSR) Tower 6 (i-Imagine), a vertical residential condominium project located in Metropolitan Park (MetroPark), Pasay City.

For the year, Fed Land completed five (5) vertical residential condominium projects namely: (i) Park West Tower situated in Grand Central, Bonifacio Global City, Taguig City; (ii) Marco Polo Residences Tower 2 located in Cebu City; Peninsula Garden Midtown Homes [PGMH] (iii) Tower 4 (Mandarin) and (iv) Tower 5 (Narra), both located in Paco, Manila; and (v) Four Seasons Riviera (FSR) Tower 2 (Lotus), located in Binondo, Manila. Average overall percentage-of-completion of ongoing development projects improved from 45.0% in 2015 to 49.0% in 2016.

The initial subscription by GT Capital of its 22.7% stake in PCFI, pursuant to the aforementioned agreement, also included ceding by the Maplecrest Group, Inc. (formerly Pro Friends Group, Inc.), then PCFI's principal shareholder, of control in favor of GT Capital. Consequently, the financial statements of PCFI have been fully consolidated into GT Capital since August 1, 2015.

On June 30, 2016, GT Capital subscribed to an additional 28.3% equity stake in PCFI for Php8.76 billion, pursuant to an agreement entered into by GT Capital and PCFI on August 6, 2015. This increased GT Capital's direct equity stake in PCFI from 22.7% to 51%.

GT Capital's property investments recorded Php17.3 billion in consolidated revenues, of which real estate sales accounted for Php14.6 billion. Together, the two property developers reported a net income amounting to Php3.0 billion in 2016.

Combined assets of the property group grew by 7.6% from Php100.4 billion in 2015 to Php107.9 billion in 2016. For Fed Land, the increase was primarily due to consolidation of Federal Land Orix Corp. (100%), which was previously classified as an investment in joint venture, upon acquiring the 40% ownership from Orix Risingsun Properties Incorporated (ORPI) in December 23, 2016. For PCFI, the increase was a result of GT Capital's additional subscription of Php8.76 billion. The equity infusion was used to increase its land bank and partially prepay its outstanding loans.

Life and Non-Life Insurance

Charter Ping An Insurance Corporation (CPAIC)

The following are the major performance measures used by CPAIC for the first quarter of 2015 and 2016 ending March 31.

In Million Pesos	1Q 2015	1Q 2016	Inc/(Dec)	%
Gross Premiums	828.9	1,032.1	203.2	24.5%
Gross Underwriting Contribution	138.2	(64.1)	(202.3)	(146.4%)
Net Income	44.3	(173.1)	(217.4)	(491.1%)
	2015	**1Q 2016**	**Inc/(Dec)**	**%**
Total Assets	7,872.9	8,111.5	238.6	3.0%
Total Liabilities	6,411.3	6,804.2	392.9	6.1%
Total Equity	1,461.6	1,307.3	(154.3)	(10.6%)

CPAIC generated a 24.5% increase in gross premium written (GPW) from Php828.9 million in the first quarter of 2015 to Php1.0 billion in the first quarter of 2016 due to a reallocation of GPW from property to motor car insurance lines with a combined 73% share of GPW as of March 31, 2016.

CPAIC, however, incurred additional reinsurance costs from property insurance of Php198 million arising from catastrophic property losses experienced in 2015 and prior years thereby resulting to higher premium ceded expenses which more than doubled from Php108.0 million to Php366.1 million. CPAIC thereby incurred a net loss of Php173.1 million for the period in review.

On April 4, 2016, GT Capital sold its 100% direct equity stake in CPAIC to AXA Philippines. GT Capital, however, continues to have an indirect interest in CPAIC through its 25.3% interest in AXA Philippines, while First Metro Investment Corporation (FMIC) has a 28.2% interest in AXA Philippines. FMIC is a subsidiary of Metrobank.

Philippine AXA Life Insurance Corporation and Subsidiary (AXA Philippines)

The following are the major performance measures used by AXA Philippines for the period ended 2014, 2015 and 2016.

In Million Pesos, except ratios				
	Stand-alone			Consolidated[1]
	2014	2015	2016	2016
Gross Premiums	18,404.5	22,923.3	21,624.9	25,227.7
Net income after tax	1,223.9	1,383.5	1,666.0	1,129.7
Premium Margin (%)[2]	17.7%	17.3%	20.5%	
Net Profit Margin (%)[3]	6.3%	5.7%	7.2%	
Total Assets	68,007.2	79,978.1	90,316.7	97,299.9
Total Liabilities	63,915.0	74,810.4	83,853.2	91,440.0
Total Equity	4,092.1	5,167.7	6,463.5	5,859.9
Solvency ratio[4]	350%	477%	220%	164%

Notes:

(1) Includes Charter Ping An for nine months, effective April 1, 2016

(2) Premium margin (%) is the ratio of Premium margin over Premium Revenues.

(3) Net profit margin (%) is the ratio of Net profit over Total Revenues.

(4) 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 4.9% expressed in Annualized Premium Equivalent (APE) from Php4.7 billion in 2015 to Php5.0 billion in 2016. The increase in APE was driven by the growth in Regular Premium of 17.1% partially offset by a decline in Single Premium of 21.2% arising from the volatility in capital markets. The reported sales mix of life insurance, thus, was changed to 55%/45% in 2016 from the previous 66%/34% in 2015 (Single Premium vs. Regular Premium). By distribution platform, bancassurance and sales agency accounted for 71% and 29% of premium revenues, respectively.

Likewise, CPAIC gross earned premiums rose by 18.7% from Php3.0 billion to Php3.6 billion for the last nine months of 2016 (April to December) mainly due to the growth in the motor car insurance line.

Consolidated gross premiums of AXA Philippines increased by 10.1% from Php22.9 billion in 2015 to Php25.2 billion in 2016 as CPAIC gross premiums were included for the first time.

Consolidated net income of AXA Philippines reached Php1.1 billion in 2016. This includes CPAIC's net loss of Php0.5 billion incurred for the last nine months of 2016 (April to December). The net loss is mainly driven by the typhoons Lawin and Nina and a fire loss in the fourth quarter of 2016. Excluding CPAIC, AXA Philippines grew its net income by 20% from Php1.4 billion in 2015 to Php1.7 billion in 2016.

On April 4, 2016, AXA Philippines completed the acquisition of CPAIC from GT Capital.

Power and Infrastructure

Global Business Power Corporation (GBPC)

The following are the major performance measures used by GBPC for the first five months of 2015 and 2016.

	In Million Pesos, except ratios			
	5M 2015	**5M 2016**	**Inc (Dec)**	%
Net Fees*	7,058.3	6,839.7	(218.6)	*(3.1%)*
Net income attributable to equity holders	839.1	859.3	20.2	*2.4%*
Kilowatt-hour sales (in million)	1,402.0	1,458.5	56.5	*4.0%*
	2015	**5M 2016**	**Inc (Dec)**	%
Total assets	74,360.8	73,771.3	(589.5)	*(0.8%)*
Total liabilities	43,945.7	42,020.5	(1,925.1)	*(4.4%)*
Total equity	30,415.2	31,750.8	1,335.6	*4.4%*

***comprising energy fees realized by the operating companies as stipulated in their respective Power Purchase Agreements with their respective customers, net of adjustments*

For the first five months ending May 31, 2016, GBPC's net fees, comprising energy fees and fuel pass-through costs, declined from Php7.1 billion in 2015 to Php6.8 billion in 2016. Despite the 4.0% growth in kilowatt-hour sales from 1.4 billion kilowatt-hours in 2015 to 1.5 billion kilowatt-hours in 2016, net fees declined mainly due to lower fuel prices.

Power plant operation and maintenance decreased by 14.7% from Php3.9 billion to Php3.4 billion due to lower fuel costs including lower purchased power expenses. Net income attributable to equity holders slightly improved from Php839.1 million in the first five months ended May 31, 2015 to Php859.3 million in the first five months ended May 31, 2016.

On May 26, 2016, GT Capital acquired 4.73% of FMIC's direct equity stake in GBPC for a total consideration of Php3.26 billion thereby bringing GT Capital's direct equity stake in GBPC to 56%.

On May 27, 2016, GT Capital sold its 56% equity stake in GBPC to Beacon PowerGen Holdings, Inc., a wholly owned subsidiary of Beacon Electric, an associate of MPIC, for a total consideration of Php22.06 billion. With this transaction, from June 1, 2016, GT Capital has no power to govern the financial and operating policies of GBPC due to loss of power to cast the majority votes at board meetings. Accordingly, GT Capital derecognized related assets, liabilities and non-controlling interest of GBPC effective June 1, 2016.

On June 30, 2016, GT Capital acquired the 22% stake in GBPC from Orix P&E Philippines Corporation (Orix). On the same day, GT Capital sold the same shares to JG Summit Holdings, Inc. Both transactions are in line with the Tag-Along Right of Orix and GT Capital's decision to continue its indirect participation in the power industry.

Metro Pacific Investments Corporation (MPIC)

On May 27, 2016, GT Capital subscribed to 3.6 billion common shares of MPIC for a total subscription price of Php21.96 billion. On the same day, GT Capital entered into a Sale and Purchase Agreement with Metro Pacific Holdings, Inc. (MPHI), with GT Capital as the buyer and MPHI as the seller of 1.3 billion common shares of MPIC for a total consideration of Php7.93 billion. After said transactions, GT Capital owned 4.9 billion common shares of MPIC. This represents 15.55% of the total issued and outstanding common shares of MPIC.

GT Capital and MPHI signed on the same date, a Shareholder's Agreement whereby GT Capital was entitled to nominate at least two (2) out of fifteen (15) directors of MPIC. GT Capital was also entitled to nominate one (1) out of three (3) members in each of the Audit and Risk Management Committee (ARMC) and Governance Committee (GC) of MPIC. In addition, GT Capital has veto rights on the certain corporate acts such as the declaration or payment of any dividend or other distribution with respect to the shares of capital stock of MPIC and the adoption of an Annual Budget or Business Plan, including plans for capital calls, and any amendment to such.

The combination of GT Capital's 15.55% ownership over MPIC, representation in the Board of Directors (BOD), ARMC and GC of MPIC, and veto rights on certain corporate acts provided GT Capital with the ability to exercise significant influence over the operating and financial policies of MPIC. Through its presence and participation at the board and its sub-committees, GT Capital can influence the operating and financial policies of MPIC. Accordingly, GT Capital accounted for its investment in MPIC as an associate using equity method of accounting.

MPIC is the Philippines' largest infrastructure conglomerate, which 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. (Maynilad), which manages Metro Manila's widest water distribution network, and Metro Pacific Tollways Corporation (MPTC), operator of the country's largest toll road network.

For the year 2016, MPIC's share in the consolidated operating core income increased by 20% from Php12.6 billion in 2015 to Php15.1 billion in 2016, primarily reflecting the following:

- Increase in the effective shareholding in Meralco from 32.48% to 41.22% beginning May 30, 2016, higher preferred dividend income from Beacon Electric Asset Holdings, Inc. (Beacon Electric), acquisition of 42% effective share in GBPC beginning June 2016 (core net income contribution to MPIC from June to December is Php489 million, net of acquisition financing costs) and lower interest expense in Beacon Electric,
- Higher share in the Tollway business arising from robust traffic growth on all roads held by MPTC including its investments in Don Muang Tollway Public Company Ltd. (DMT) of Thailand and CII B&R of Vietnam and the first full-year contribution from SCTEX,
- Growth in the Healthcare sector mainly due to increasing patient revenues across existing hospitals and contributions from new hospital acquisitions, namely, Manila Doctors Hospital (MDH), Sacred Heart Hospital of Malolos, Inc. and Marikina Valley Medical Center (MVMC),
- First full-year contribution from Light Rail Manila Corporation (LRMC).

The consolidated operating core income represents MPIC's share in the stand-alone core income of the operating companies, net of consolidation adjustments. Including the head office operating, interest expenses and non-recurring items, reported net income grew by 20% from Php9.5 billion in 2015 to Php11.5 billion in 2016.

The group estimated its capital expenditures for 2017 to reach Php79 billion composed of: (i) Meralco (Php22 billion); Toll roads (Php24 billion); Maynilad (Php13 billion); and Hospitals, Rails and the Parent Company (Php20 billion).

Automobile Assembly and Importation, Dealership and Financing

Toyota Motor Philippines (TMP)

The following are the major performance measures used by TMP for 2014, 2015 and 2016.

	In Million Pesos, except for ratios		
	2014	**2015**	**2016**
Sales	104,886.9	114,289.4	155,832.5
Gross Profit	14,628.9	18,298.5	21,072.3
Operating Profit	9,859.3	13,909.0	15,669.0
Net income attributable to Parent	7,208.8	10,194.6	11,929.0
	2014	**2015**	**2016**
Total Assets	26,681.4	32,278.3	36,003.4
Total Liabilities	14,757.1	17,049.9	18,511.1
Total Equity	11,923.3	15,228.4	17,492.3
Total Liabilities to Equity ratio*	1.2x	1.1x	1.1x

**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 registered a 36.3% growth from Php114.3 billion in 2015 to Php155.8 billion in 2016 as wholesale volume grew by 32.0% from 122,817 units to 162,085 units. In 2016, TMP exhibited record retail sales of 158,728 units, a 27.0% increase from 125,027 of previous year. The improvement was attributed to the continued strong sales for the Vios, Wigo, Fortuner, Hiace, Innova, Avanza and Hilux models. With this feat, TMP earned its 15th Triple Crown award which means Number 1 in passenger car sales, Number 1 in commercial vehicle sales and Number 1 in overall sales, across all 14 regions. Vios and Fortuner also earned the Number 1 spot in passenger car and commercial vehicles sales, respectively.

Overall market share improved from 38.9% in 2015 to 39.4% in 2016 due to higher sales volume arising from the launching of the Full Model Change (FMC) Fortuner in March and Innova in April, respectively. These two (2) models were the second and fifth best sellers of TMP in 2016 accounting for 29% of total sales.

The higher sales volume, lower CKD parts costs, sales price increase, Vios improvement, higher spare parts profit and cost reductions were offset by unfavorable foreign exchange, increase in operating and overhead expenses and increased sales of lower margin models. This resulted in a slight decline in gross profit and operating margins from 15.9% and 12.0% to 13.5% and 10.1%, respectively. Net profit margin, on the other hand, slightly decreased from 9.0% to 7.8%. Consolidated net income attributable to equity holders, however, grew by 17.0% from Php10.3 billion to Php12.2 billion mainly due to the aforementioned profit increasing factors.

In 2016, TMP inaugurated one (1) new dealer outlet - Toyota Tarlac in Tarlac City thereby bringing TMP's majority-owned dealerships to six (6) outlets. TMP also owns Toyota Makati with one (1) branch Toyota Bicutan, Toyota San Fernando in Pampanga with one (1) branch in Plaridel Bulacan, both located in Luzon and Lexus Manila, situated in Bonifacio Global City, Taguig City.

Toyota Financial Services Philippines Corporation (TFSPC)

The following are the major performance measures used by TFSPC for 2014, 2015 and 2016.

	In Million Pesos, except for ratios		
	2014	**2015**	**2016**
Gross Interest Income	2,433.7	3,026.7	3,641.7
Net Interest Income	1,423.2	1,767.7	2,148.8
Net Income	398.0	515.5	555.1
Finance Receivable	28,357.0	33,304.4	43,789.93
Total Assets	39,424.8	44,278.4	55,581.4
Total Equity	3,842.7	4,369.4	4,941.5

TFSPC recorded a 20.3% growth in gross interest income from Php3.0 billion in 2015 to Php3.6 billion in 2016, as gross loans and receivables increased by 31.5% from Php33.3 billion to Php43.8 billion on a year-on-year basis.

Booking volume grew by 41.7% from 20,560 units to 29,138 units in 2016 attributed to the strong sales bookings.

Net income, likewise, increased by 7.7% from Php515.5 million to Php555.1 million due to: 1) a 19.5% increase in operating expenses, mainly rental and collection fees; and 2) 18.6% increase in interest expenses from new loan availments.

Toyota Manila Bay Corporation (TMBC)

The following are the major performance measures used by TMBC for 2014, 2015 and 2016.

	In Million Pesos, except for ratios*		
	2014	**2015**	**2016**
Net Sales	16,572.8	18,593.8	23,995.6
Gross Profit	1,100.8	1,288.5	1,421.8
Net Income	147.4	168.0	297.4
	2014	**2015**	**2016**
Total Assets	3,658.5	3,863.8	4,896.7
Total Liabilities	2,751.6	2,797.2	3,551.6
Total Equity	906.8	1,066.6	1,345.1

**pro-forma consolidated figures of TMBC and TCI only*

On March 7, 2016, the SEC approved the merger of TMBC and TCI. TMBC is the surviving corporation and absorbed the entire assets and liabilities of TCI. As of March 1, 2016, TMBC consolidated the financials of TCI on a line-by-line basis.

Consolidated sales, comprising of vehicle sales, spare parts and maintenance services, grew by 29.0% from Php18.6 billion in 2015 to Php24.0 billion in 2016. Vehicle sales, accounting for 93.6% of TMBC's revenues, increased by 29.7% from Php17.5 billion to Php22.7 billion. Retail sales volume grew by 16.9% from 18,641 units to 21,797 units due to strong demand of FMC Fortuner and Innova, thereby resulting to a 30.6% increase in gross profit per unit from Php30,103 to Php39,328. In 2016, FMC Fortuner contributed Php253.0 million out of the Php857.2 million in vehicle gross profit generated.

Sales from spare parts and maintenance services, accounting for a combined 6.4% of revenues, increased by 18.9% and 16.5%, respectively.

Consolidated net income in 2016 significantly increased by 77.0% from Php168.0 million to Php297.4 million due to higher vehicle sales from FMC models and increased ancillary income from financing and insurance commissions.

TMBC owns five (5) auto dealer outlets namely Toyota Manila Bay, Toyota Abad Santos, Toyota Cubao and Toyota Marikina, all situated within Metro Manila; and Toyota Dasmariñas in Cavite.

Except for (ii), (iv), (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 2017 capital expenditures ("capex") budget is presented as follows:

Component Company	**In Php billions**	**Nature**	**Funding source**
Metrobank	5.0	Branch expansion/renovation, systems enhancement	Internal
Fedland*	3.0	Capital calls in JVs and office buildings	Internal and Debt
PCFI*	8.0	Land bank and land development	Internal and Debt
TMP	3.8	Model upgrades and logistics expansion	Internal
TMBC	1.7	Dealership expansion and renovation	Internal
TFS	0.2	Provincial expansion and leasehold improvements	Internal
AXA Philippines**	0.6	Branch and marketing expansion and IT upgrade	Internal
GTCap-Parent	25.0	Acquisitions: financial services and infrastructure	Internal and Debt
Total	**47.3**		

**excludes construction of vertical residential buildings and house construction*
***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, 2015 VERSUS YEAR ENDED DECEMBER 31, 2014

GT Capital Consolidated Statement of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2015 (As restated)**	2014 (As restated)	**Amount**	**Percentage**
REVENUE				
Automotive operations	**120,802**	108,816	11,986	11%
Real estate sales	**9,000**	5,841	3,159	54%
Interest income on real estate sales	**1,462**	1,157	305	26%
Equity in net income of associates and joint venture	**5,616**	3,421	2,195	64%
Sale of goods and services	**547**	583	(36)	(6%)
Rent income	**840**	764	76	10%
Interest income on deposits and investments	**328**	223	105	47%
Commission income	**194**	80	114	143%
Other income	**1,160**	1,002	158	16%
	139,949	121,887	18,062	15%
COSTS AND EXPENSES				
Cost of goods and services sold	**74,941**	70,597	4,344	6%
Cost of goods manufactured and sold	**27,838**	24,213	3,625	15%
General and administrative expenses	**7,482**	7,133	349	5%
Cost of real estate sales	**6,512**	4,334	2,178	50%
Interest expense	**2,164**	1,392	772	55%
Cost of rental	**272**	270	2	1%
	119,209	107,939	11,270	10%
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**20,740**	13,948	6,792	49%
PROVISION FOR INCOME TAX	**4,299**	2,569	1,730	67%
INCOME FROM CONTINUING OPERATIONS, NET OF TAX	**16,441**	11,379	5,062	44%
NET INCOME FROM DISCONTINUED OPERATIONS	**4,500**	3,772	728	19%
NET INCOME	**20,941**	15,151	5,790	38%
ATTRIBUTABLE TO:				
Equity holders of the parent company				
Profit for the year from continuing operations	**10,396**	7,776	2,620	34%
Profit for the year from discontinued operations	**1,719**	1,377	342	25%
	12,115	9,153	2,962	32%
Non-controlling interest				
Profit for the year from continuing operations	**6,045**	3,603	2,442	68%
Profit for the year from discontinued operations	**2,781**	2,395	386	16%
	8,826	5,998	2,828	47%
	20,941	15,151	5,790	38%

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 32% from Php9.15 billion in 2014 to Php12.12 billion in 2015. The increase was principally due to the 15% increase in consolidated revenues from Php121.89 billion in 2014 to Php139.95 billion in 2015.

The revenue growth came from the following component companies:

(1) auto sales from Toyota Motor Philippines Corporation ("TMP") and Toyota Cubao, Inc. ("TCI') as combined sales increased from Php108.82 billion to Php120.81 billion accounting for 86% 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 49% from Php7.00 billion to Php10.46 billion;
(3) higher equity in net income of associates and joint venture which grew by 64% from Php3.42 billion to Php5.62 billion; and
(4) Increase in other income from Php1.00 billion to Php1.16 billion.

Core net income attributable to equity holders of the Parent Company recorded 26% growth from Php9.1 billion to Php11.4 billion after excluding the following:

(1) Php0.4 billion non-recurring income of Global Business Power Corporation ("GBPC") comprising collection of insurance proceeds;
(2) Php0.2 billion gain recognized by Fed Land from its land asset swap, net of tax; and
(3) Php0.1 billion amortization of fair value adjustments arising from business combination.

GT Capital finalized on August 20, 2015 the acquisition of an initial 22.68% of PCFI for Php7.24 billion, upon fulfillment of all closing conditions, including execution of an irrevocable proxy covering 51% of the total issued and outstanding capital stock of PCFI (the "Irrevocable Proxy") by Pro Friends Group, Inc. (the selling shareholder) in favor of GT Capital. By virtue of its payment for the 22.68% interest and the Irrevocable Proxy, GT Capital consolidated PCFI's financial statements beginning September 1, 2015.

On November 5, 2015, GT Capital signed a Sale and Purchase Agreement to sell 100% of its direct equity stake in Charter Ping An Insurance Corporation ("CPAIC") to Philippine AXA Life Insurance Corporation ("AXA Philippines"). The completion of the transaction is subject to closing conditions including receipt of regulatory approvals and is expected to be completed within the first half of 2016. With the impending sale, Philippine Financial Reporting Standards (PFRS) 5 prescribe the presentation of CPAIC's results of operations separate from the "Income from Continuing Operations", wherein all income, expenses and income taxes of CPAIC in 2015 are presented under "Income from Disposal Group". For comparability, 2014 and 2013 Consolidated Statements of Income were also restated to show CPAIC's 2014 and 2013 results of operations separate from the "Income from Continuing Operations".

Fed Land, PCFI, GBPC, TMP and TCI are consolidated in the financial statements of the Company. The other component companies Metropolitan Bank & Trust Company ("Metrobank" or "MBT'), AXA Philippines, Toyota Manila Bay Corporation ("TMBC"), and Toyota Financial Services Philippines Corporation ("TFSPH") are accounted for through equity accounting. As previously discussed, the operations of CPAIC is presented separately in the income statement under "Income from Disposal Group".

Of the ten (10) component companies, TMP, GBPC, AXA Philippines TFSPH, Fed Land, TMBC and TCI posted growths in their respective net income. Metrobank, PCFI, and CPAIC reported declines in their respective net income for the year.

Automotive operations comprising the sale of assembled and imported auto vehicles and spare parts grew by 11% from Php108.8 billion to Php120.8 billion principally driven by the 13% increase in wholesales volume from 108,658 units to 122,817 units and continued expansion in the dealer outlets from 45 to 49.

Real estate sales and interest income on real estate sales rose by 49% from Php7.0 billion to Php10.5 billion. Fed Land's sales contributed 71%, mostly from its middle-market development projects. PCFI's low cost and economic housing projects contributed the remaining balance representing sales from September to December 2015.

Equity in net income of associates and joint venture, increased by 64% from Php3.4 billion to Php5.6 billion due to the following:

(1) Improved core net income of Metrobank from Php10.5 billion to Php18.0 billion;
(2) Growth in net income of AXA Philippines from Php1.2 billion to Php1.4 billion; and
(3) Higher net income of TFSPC from Php397.9 million to Php515.5 million.

Sale of goods and services decreased by 6% from Php583.1 million to Php547.0 million due to the decline in Fed Land's sale of petroleum products, on a wholesale and retail basis, in the Blue Wave malls.

Rent income from the lease of GT Tower International office building, the Blue Wave malls, Blue Bay Walk and Philippine AXA Life Center Condominium grew by 10% from Php764.5 million to Php840.5 million.

Interest income on deposits and investments increased by 47% from Php223.5 million to Php327.4 million due to an increase in cash available for short-term placements by GT Capital and subsidiaries.

Commission income more than doubled from Php79.5 million to Php194.2 million due to increases in the unit sales of Grand Hyatt Residences and Marco Polo Residences Tower 3.

Other income grew by 16% from Php1.0 billion to Php1.2 billion due to the following:

(1) Php787.3 million from Fed Land comprising real estate forfeitures, gain on asset swap, management fees and other income; and
(2) Php279.6 million from TMP's ancillary income from its majority-owned dealers, gain on sale of fixed assets, dividend income and other income.

Consolidated costs and expenses increased by 10% from Php107.9 billion to Php119.2 billion with the following breakdown:

(1) Php101.0 billion from TMP comprising cost of goods manufactured, cost of goods and services sold, general and administrative expenses and interest expenses;
(2) Php8.1 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;
(3) Php6.4 billion from TCI consisting of cost of goods and services sold, general and administrative expenses and interest expenses;
(4) Php2.0 billion from GT Capital representing interest expenses and general and administrative expenses; and
(5) Php1.7 billion from PCFI comprising cost of real estate sales, general and administrative expenses and interest expenses.

Cost of goods and services sold increased by 6% from Php70.6 billion to Php74.9 billion with TMP's and TCI's completely built-up units and spare parts accounting for Php74.4 billion and the balance of Php0.5 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 15% from Php24.2 billion in 2014 to Php27.8 billion in 2015.

General and administrative expenses rose by 5% from Php7.1 billion to Php7.5 billion. TMP accounted for Php4.6 billion comprising advertising and sales promotion expenses, salaries, taxes and licenses and delivery and handling. Fed Land contributed Php2.0 billion comprising salaries, commissions, taxes and licenses, advertising expenses and other general and administrative expenses. TCI accounted for Php0.4 billion consisting of salaries, advertising and promotions, commission and utilities expenses. PCFI contributed P0.3 billion comprising of salaries, commissions, professional fees, advertising and taxes and licenses. The remaining P0.2 billion came from GT Capital's salaries, professional fees and taxes and licenses.

Cost of real estate sales increased by 50% from Php4.3 billion to Php6.5 billion arising from the increase in real estate sales. Fed Land contributed 82% while PCFI accounted for the remaining balance.

Interest expense increased by 55% from Php1.4 billion to Php2.2 billion with GT Capital, Fed Land, TMP, PCFI and TCI accounting for Php1.8 billion, Php142.0 million, Php100.4 million, Php99.6 million and Php13.4 million, respectively.

Provision for income tax increased by 67% from Php2.6 billion to Php4.3 billion mainly increases in taxable income from TMP, Fed Land and GBPC.

Income from discontinued operations amounting to Php4.5 billion represent the after tax-operating income of CPAIC and GBPC.

Net income attributable to non-controlling interest grew by 47% from Php6.0 billion to Php8.8 billion due to an increase in the net income of subsidiaries which are not wholly-owned.

Consolidated net income attributable to equity holders of the Parent Company increased by 32% from Php9.2 billion in 2014 to Php12.1 billion in 2015.

GT Capital Consolidated Statement of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2015 (As restated)**	2014	Amount	Percentage
ASSETS				
Current Assets				
Cash and cash equivalents	**37,861**	29,702	8,159	27%
Short-term investments	**1,861**	1,309	552	42%
Reinsurance assets	**-**	3,879	(3,879)	(100%)
Receivables	**27,056**	16,223	10,833	67%
Inventories	**51,490**	31,426	20,064	64%
Due from related parties	**370**	171	199	116%
Prepayments and other current assets	**7,673**	5,468	2,205	40%
Assets of disposal group classified as held for sale	**8,434**	-	8,434	100%
Total Current Assets	**134,745**	88,178	46,567	53%
Noncurrent Assets				
Available-for-sale investments	**3,195**	4,127	(932)	(23%)
Receivables – net of current portion	**6,682**	4,897	1,785	36%
Land held for future development	**15,357**	-	15,357	100%
Investment properties	**10,797**	8,643	2,154	25%
Investments in associates and joint venture	**60,265**	47,451	12,814	27%
Property and equipment	**51,972**	44,801	7,171	16%
Goodwill and intangible assets	**19,727**	17,806	1,921	11%
Deferred tax asset	**748**	1,726	(978)	(57%)
Other noncurrent assets	**878**	634	244	38%
Total Noncurrent Assets	**169,621**	130,085	39,536	30%
TOTAL ASSETS	**304,366**	218,263	86,103	39%
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	**22,129**	19,280	2,849	15%
Insurance contract liabilities	**-**	5,665	(5,665)	(100%)
Short term debt	**7,318**	2,347	4,971	212%

Current portion of long term debt	**6,924**	3,061	3,863	126%
Current portion of liabilities on purchased properties	**637**	783	(146)	(19%)
Customers' deposits	**3,691**	2,549	1,142	45%
Dividends payable	**2,861**	2,034	827	41%
Due to related parties	**174**	176	(2)	(1%)
Income tax payable	**1,013**	476	537	113%
Other current liabilities	**520**	882	(362)	(41%)
Liabilities of disposal group classified as held for sale	**6,444**	-	6,444	100%
Total Current Liabilities	**51,711**	37,253	14,458	39%

	Audited December 31		**Increase (Decrease)**	
	2015 (As restated)	2014	Amount	Percentage
Noncurrent Liabilities				
Long term debt – net of current portion	**81,847**	42,118	39,729	94%
Bonds payable	**21,801**	21,775	26	0%
Liabilities on purchased properties – net of current portion	**2,146**	2,729	(583)	(21%)
Pension liabilities	**2,219**	2,261	(42)	(2%)
Deferred tax liabilities	**5,501**	3,532	1,969	56%
Other noncurrent liabilities	**2,609**	2,653	(44)	(2%)
Total Noncurrent Liabilities	**116,123**	75,068	41,055	55%
TOTAL LIABILITIES	**167,834**	112,321	55,513	49%
EQUITY				
Equity attributable to equity holders of Parent Company				
Capital stock	**1,760**	1,743	17	1%
Additional paid-in capital	**46,695**	46,695	-	-
Treasury shares	**(6)**	(2)	(4)	200%
Retained earnings				
Unappropriated	**33,264**	24,431	8,833	36%
Appropriated	**8,760**	6,000	2,760	46%
Other comprehensive loss	**(918)**	(103)	(815)	791%
Other equity adjustments	**576**	583	(7)	(1%)
	90,131	79,347	10,784	14%
Non-controlling interests	**46,401**	26,595	19,806	74%
TOTAL EQUITY	**136,532**	105,942	30,590	29%
TOTAL LIABILITIES AND EQUITY	**304,366**	218,263	86,103	39%

The major changes in the balance sheet items of the Company from December 31, 2014 to December 31, 2015 are as follows:

Total assets of the Group increased by 39% or Php86.1 billion from Php218.3 billion as of December 31, 2014 to Php304.4 billion as of December 31, 2015. Total liabilities increased by 49% or Php55.5 billion from Php112.3 billion to Php167.8 billion while total equity rose by 29% or Php30.6 billion from Php105.9 billion to Php136.5 billion.

In August 2015, GT Capital acquired control over PCFI by virtue of the Irrevocable Proxy and the Php7.24 billion payment representing a 22.68% direct equity interest. As a result, GT Capital consolidated PCFI's balance sheet on a line-by-line basis.

In November 2015, GT Capital signed a Sale and Purchase Agreement with AXA Philippines to sell 100% of its direct equity stake in CPA. As a result, Philippine Financial Reporting Standards (PFRS) 5 prescribe a separate presentation of CPA's assets and liabilities under "Assets of disposal group classified as held for sale", and "Liabilities of disposal group classified as held for sale", respectively.

Cash and cash equivalents increased by Php8.2 billion reaching Php37.9 billion with GBPC, TMP, GT Capital, PCFI, Fed Land and TCI accounting for Php14.9 billion, Php13.5 billion, Php6.9 billion, Php1.4 billion, Php1.1 billion and Php69.8 million, respectively.

Short-term investments increased by 42% from Php1.3 billion to Php1.9 billion, with TMP and GBPC contributing Php1.8 billion and Php67.0 million, respectively.

Receivables increased by 67% from Php16.2 billion to Php27.1 billion with PCFI contributing Php11.0 billion comprising of installment contract receivables and other receivables; Fed Land contributing Php6.9 billion, a majority of which were installment contract receivables, rent receivable and other receivables: TMP contributing Php5.1 billion consisting of trade and non-trade receivables; GBPC contributing Php3.4 billion representing outstanding billings for energy fees and passed-through fuel costs arising from the delivery of power and other receivables; and TCI accounting for Php706.5 million representing trade receivables from the sale of automobiles and after-sales maintenance services.

Inventories increased by Php20.1 billion from Php31.4 billion to Php51.5 billion with Fed Land contributing Php34.2 billion comprising land and improvements, condominium units for sale and inventory with construction-in-progress; PCFI contributing Php9.6 billion comprising of landbank, land improvements, materials inventory, ongoing construction of house inventory and condominium units for sale; and TMP contributing Php6.0 billion mostly finished goods. The balance of Php1.8 billion came from GBPC representing coal and spare parts and supplies (Php1.5 billion) and TCI representing automobiles and spare parts (Php182 million).

Due from related parties increased by Php199 million from Php171 million to Php370 million primarily due to consolidation of PCFI's due from related parties amounting to Php218 million, which was offset by collections of Php19 million from Fed Land's related parties.

Prepayments and other current assets grew by 40% from Php5.5 billion to Php7.7 billion with Fed Land contributing Php4.0 billion consisting of advances to contractors and suppliers, prepaid expenses, current input tax, deferred input tax and creditable withholding taxes; GBPC contributing Php2.0 billion consisting advances to contractors and suppliers, current input tax, deferred input tax and prepaid expenses; PCFI contributing Php946.0 million comprising of advances to contractors and suppliers, cash advances to agents, and input tax; and TMP contributing Php711.7 million comprising of ad valorem tax deposit and prepaid expenses. The balance of Php82 million came from TCI (Php52 million) and GT Capital (Php30 million).

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 (AFS) investments amounted to Php8.4 billion.

Noncurrent receivables from Fed Land (Php4.1 billion) and PCFI (Php4.7 billion) unit buyers who opted for long-term payment arrangements and various GBPC electric cooperatives (Php0.4 billion) rose by 36% from Php4.9 billion to Php6.7 billion.

Land held for future development consisting of PCFI's undeveloped land amounted to Php15.4 billion.

Available-for-sale investments declined by 23% from Php4.1 billion to Php3.2 billion primarily due to a change in the presentation of CPAIC's available-for-sale investments to "Assets of Disposal Group Classified as Held-For-Sale", and offset by mark-to-market gain on GBP's AFS investments.

Investments in associates and joint venture increased by 27% from Php47.5 billion to Php60.3 billion due to: 1) Php8.3 billion additional investment in Metrobank via stock rights offering; 2) Php0.5 billion investment of Fed Land in a joint venture with Alveo Land Corporation, a wholly-owned subsidiary of Ayala Land, Inc., through Alveo

Federal Land Communities, Inc.; 3) Php5.6 billion share in net income of associates and JCE; 4) Php1.1 billion share in other comprehensive loss; and 5) Php0.2 billion effect of intra-group elimination on sale of inventories and land within the group; offset by Php0.7 billion cash dividends received from associates and JCE.

Investment properties increased by 25% or Php2.2 billion from Php8.6 billion to Php10.8 billion due to the consolidation of PCFI's investment properties into GT Capital.

Property and equipment increased by 16% or Php7.2 billion from Php44.8 billion to Php52.0 billion mainly due to 1) Php5.7 billion of GBPC's ongoing construction in Panay Energy Unit 3 Plant Expansion, net of depreciation; 2) Php0.9 billion of TMP's ongoing capital expenditure projects, net of depreciation; and 3) Php0.6 billion from PCFI's fixed assets.

Other noncurrent assets reached Php878.1 million, consisting of: 1) Php462.6 million in non-current deposits of PCFI, Fed Land and TMPI; 2) Php342.3 million in non-current input tax of Fed Land, TMP and GBPC; and 3) Php73.2 million noncurrent prepaid expenses, retirement assets other assets.

Accounts and other payables increased by 15% from Php19.3 billion to Php22.1 billion with TMP, GBPC, Fed Land, PCFI, TCI and GT Capital accounting for Php11.4 billion, Php5.0 billion, Php3.7 billion, Php1.8 billion, Php355.4 million and Php186.2 million, respectively.

Short-term debt increased by Php5.0 billion from Php2.3 billion to Php7.3 billion due to the consolidation of PCFI's loans (Php4.5 billion), additional loan availments by Fed Land (Php480.0 million), TMP's dealer subsidiaries (Php1.1 billion) and TCI (Php1.8 billion) offset by loan payments made by TMP's dealer subsidiaries (Php1.0 billion) and TCI (Php1.9 billion).

Current portion of long-term debt more than doubled from Php3.1 billion to Php6.9 billion due the net effect of 1) consolidation of PCFI's current portion of long-term debt (Php1.3 billion), 2) reclassification of Fed Land's debt (Php2.0 billion) and GBPC's debt (Php2.9 billion) from non-current to current offset by payment of GBPC's debt (Php2.5 billion).

Current portion of liabilities on purchased properties declined by 19% from Php783.0 million to Php636.5 million due to principal payment made by Fed Land.

Customers' deposits increased by 45% from Php2.5 billion to Php3.7 billion mainly due to the consolidation of PCFI's customer deposits of Php1.2 billion.

Dividends payable increased by Php0.8 billion due to the net effect of GBPC's set-up of 2015 cash dividends payable in 2016 offset by the payment of 2014 cash dividends in April 2015.

Income tax payable increased by Php537.7 million from Php475.8 million to Php1.0 billion due to an increase in the subsidiaries' taxable income.

Other current liabilities declined by 41% from Php881.7 million to Php520.3 million mainly due to the Php298.8 million settlement of advances to GBPC's stockholders and Php125.1 million reclassification of CPAIC's other current liabilities to "Liabilities of disposal group classified as held for sale".

Liabilities of disposal group classified as held for sale amounted to Php6.4 billion comprising CPAIC's current and non-current liabilities such as Insurance Contract Liabilities.

Pension liabilities declined by 2% from Php2.3 billion to Php2.2 billion with TMP, GBPC, PCFI, Fed Land and TCI contributing Php1.3 billion, Php629.1 million, Php118.6 million, Php116.8 million and Php74.9 million, respectively.

Long-term debt-net of current portion increased by Php39.7 billion from Php42.1 billion to Php81.8 billion due to: 1) Php24.9 billion loan availment of GT Capital, net of Php0.1 billion deferred financing cost, to finance its investment in the Metrobank stock rights offering, investment in the Series B preferred shares of Fed Land and investment in PCFI; 2) Php6.8 billion loan availment of GBPC, net of Php0.2 billion transaction cost to partially finance the construction of GBPC's power plants; 3) Php3.8 billion availment of Fed Land to finance the acquisition of additional land bank and working capital requirements; 4) consolidation of Php9.8 billion long-term loans of PCFI to finance acquisition of land bank and working capital requirements, these were offset by 1) the reclassification of GBPC and Fed Land's debt amounting to Php2.9 billion and Php2.0 billion, respectively from non-current to current and 2) Php0.5 billion amortization of fair valued adjustments in GBPC's long-term debt.

Liabilities on purchased properties, net of current portion, declined by 21% from Php2.7 billion to Php2.1 billion due to Fed Land's scheduled principal payments.

Deferred tax liabilities increased by Php2.0 billion from Php3.5 billion to Php5.5 billion due to the set-up of deferred tax liability arising from the fair value increase in the net assets of PCFI as a result of the purchase price allocation and consolidation of PCFI.

Other noncurrent liabilities reached Php2.6 billion, composed of long-term accrued expenses of TMP, (Php1.4 billion); non-current retention payable and deferred output tax of Fed Land (Php1.0 billion); asset retirement obligation and decommissioning liability of GBPC (Php0.2 billion).

Capital stock increased by Php17 million due to GT Capital's issuance of voting preferred shares in April 2015.

Treasury shares amounted to Php6 million representing investment in shares of stock by CPAIC in GT Capital common shares of stock.

Unappropriated retained earnings increased by 36% from Php24.4 billion to Php33.3 billion due to: 1) the Php12.1 billion consolidated net income earned in 2015; and 2) Php6.0 billion reversal of 2014 appropriation of retained earnings, offset by Php0.5 billion cash dividends declared in March 2015 and Php8.8 billion appropriation of retained earnings.

Appropriated retained earnings increased by Php2.8 billion due to the Php8.8 billion 2015 appropriation for additional investments in PCFI offset by a Php6.0 billion reversal of 2014 appropriation of investment in Series "B" Fed Land's preferred shares.

Other comprehensive loss increased by Php815.4 million from Php102.5 million to Php917.9 million due to mark-to-market losses recorded on available-for-sale investments of GT Capital's subsidiaries and associates.

Non-controlling interest (NCI) increased by Php19.8 billion from Php26.6 billion to Php46.4 billion primarily due to: 1) Php17.0 billion set-up of non-controlling interest from the preliminary purchase price allocation of PCFI; 2) Php8.8 billion NCI share in the net income of TMP and GBP; and 3) Php0.3 billion NCI share in other comprehensive income offset by Php6.3 billion NCI share in dividends declared by TMP and GBPC.

CALENDAR YEAR ENDED DECEMBER 31, 2014 VERSUS YEAR ENDED DECEMBER 31, 2013

GT Capital Consolidated Statement of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2014**	2013	**Amount**	**Percentage**
REVENUE				
Automotive operations	**108,816**	74,359	34,457	46%
Net fees	**18,973**	16,944	2,029	12%
Real estate sales	**5,841**	4,702	1,139	24%
Interest income on real estate sales	**1,157**	749	408	54%
Equity in net income of associates and joint venture	**3,420**	3,588	(168)	(5%)
Net premium earned	**1,751**	505	1,246	247%
Sale of goods and services	**603**	657	(54)	(8%)
Rent income	**764**	592	172	29%
Interest income on deposits and investments	**439**	680	(241)	(35%)
Commission income	**213**	188	25	13%
Gain from previously held interest	**-**	2,046	(2,046)	(100%)
Other income	**1,146**	537	609	113%
	143,123	**105,547**	**37,576**	**36%**
COSTS AND EXPENSES				
Cost of goods and services sold	**70,597**	45,469	25,128	55%

Cost of goods manufactured and sold	**24,213**	19,986	4,227	21%
General and administrative expenses	**11,495**	9,281	2,214	24%
Power plant operation and maintenance expenses	**10,328**	8,945	1,383	15%
Cost of real estate sales	**4,334**	3,667	667	18%
Interest expense	**3,241**	3,462	(221)	(6%)
Net insurance benefits and claims	**784**	290	494	170%
Cost of rental	**270**	113	157	139%
	125,262	**91,213**	**34,049**	**37%**
INCOME BEFORE INCOME TAX	**17,861**	**14,334**	**3,527**	**25%**
PROVISION FOR INCOME TAX	**2,710**	1,803	907	50%
NET INCOME	**15,151**	**12,531**	**2,620**	**21%**
Attributable to:				
Equity holders of the Parent Company	**9,153**	8,640	**513**	**6%**
Non-controlling interest	**5,998**	3,891	2,107	54%
	15,151	**12,531**	**2,620**	**21%**

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 6% from Php8.6 billion in 2013 to Php9.2 billion in 2014. The increase was principally due to the 36% improvement in consolidated revenues from Php105.5 billion in 2013 to Php143.1 billion in 2014.

The revenue growth came from the following component companies: 1) auto sales from TMP and TCI as combined sales increased from Php74.4 billion to Php108.8 billion accounting for 76% of total revenue; 2) net fees from GBPC which increased from Php16.9 billion to Php19.0 billion accounting for 13% of total revenue; 3) higher real estate sales and interest income on real estate sales from Fed Land which grew by 28% from Php5.5 billion to Php7.0 billion; and 4) net premium earned from CPAIC which more than tripled from Php505 million to Php1.8 billion.

Core net income attributable to equity holders of the Parent Company grew by 38% from Php6.6 billion to Php9.1 billion after excluding the Php2.0 billion non-recurring income realized from the re-measurement of GT Capital's 36% previously-held interest in TMP following GT Capital's acquisition of control of TMP in 2013.

Fed Land, GBPC, TMP, CPA and TCI are consolidated in the financial statements of the Company. The other component companies MBT, AXA Philippines, TMBC, and TFSPH are accounted for through equity accounting.

Of the nine (9) component companies, TMP, GBPC, Fed Land and TMBC posted double-digit growths in their respective net income, while AXA Philippines reported a single digit growth in net income for the year. Metrobank, CPA, TCI and TFSPH reported declines in their respective net income for the year.

Auto sales rose by 46% from Php74.4 billion to Php108.8 billion due to continued strong demand for the all new Vios, new models mix – Corolla Altis, Wigo, and Yaris, sales volume increments across all other models, aggressive sales and promotions, and continued expansion in the dealer outlets from 42 to 45.

Net fees increased by 12% from Php16.9 billion to Php19.0 billion primarily due to new power purchase contracts with bilateral customers, additional Wholesale Electricity and Spot Market (WESM) compensation collected, and testing / commissioning of Toledo Power's Unit 1A.

Real estate sales and interest income on real estate sales rose by 28% from Php5.5 billion to Php7.0 billion driven by sales contributions from ongoing high-end and middle-market development projects situated in Pasay City, Escolta, Manila, Cebu, Bonifacio Global City, and Marikina City.

Equity in net income of associates and joint ventures, was 5% lower from Php3.6 billion in 2013 to Php3.4 billion in 2014 as the increase in AXA Philippines net income and Metrobank's core net income, excluding gains from the sale of a foreclosed asset to Fed Land and sale of non-financial assets to GT Capital, was offset by a decline in Fed Land's investment in venture as the turnover for the Grand Midori residential condominium project located in Legaspi Village, Makati City was completed in 2014.

Net premium earned from CPA comprising gross premiums on non-life insurance contracts, net of reinsurer's share, more than tripled from Php0.5 billion to Php1.8 billion due to the full-year consolidation of CPA in 2014.

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, decreased by 8% from Php657 million to Php603 million due to lower fuel sales arising from a series of fuel price increases and decreases during the year.

Rent income from Fed Land grew by 29% from Php592 million to Php764 million due to annual price escalations and the full year impact of Blue Bay Walk retail and commercial operations.

Interest income on deposits and investments declined by 35% from Php680 million to Php439 million due to a decline in placement rates earned on money market investments and termination of Fed Land's option agreement in 2013 which previously allowed Fed Land to earn interest income.

Commission income increased by 13% from Php188 million to Php213 million due to commissions contributed by CPA from its reinsurance business.

Gain from previously-held interest represents non-recurring income earned following GT Capital's acquisition of majority control of TMP in 2013.

Other income grew by 113% from Php537 million to Php1.1 billion with Fed Land contributing Php575 million comprising real estate forfeitures, management fees and other income, TMP contributing Php331 million from ancillary income, gain on sale of fixed assets, dividend income and other income. The remaining balance of Php240 million came from TCI (Php98 million), GBPC (Php85 million) and CPA (Php57 million).

Consolidated costs and expenses increased by 37% from Php91.2 billion to Php125.3 billion. TMP contributed Php95.1 billion comprising cost of goods sold for manufacturing and trading activities, general and administrative expenses and interest expenses. GBPC contributed Php15.6 billion comprising power plant operations and maintenance, general and administrative expenses and interest expenses. Fed Land contributed Php7.4 billion consisting of cost of real estate sales, cost of goods sold, general and administrative expenses and interest expenses. TCI contributed Php4.3 billion consisting of cost of goods and services sold, general and administrative expenses and interest expenses. CPAIC accounted for Php1.9 billion, which consisted of general and administrative expenses and net insurance benefits and claims. GT Capital Parent Company accounted for Php1.0 billion representing interest expenses and general and administrative expenses.

Cost of goods and services sold increased by 55% from Php45.5 billion to Php70.6 billion with TMP's and TCI's completely built-up units and spare parts accounting for Php70.1 billion and the balance of Php0.5 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 Php20.0 billion in the previous year to Php24 billion.

General and administrative expenses rose by 24% from Php9.3 billion to Php11.5 billion. TMP accounted for Php4.8 billion comprising advertising and sales promotion expenses, salaries, taxes and licenses and delivery and handling. GBPC contributed Php3.3 billion representing salaries, taxes and licenses, other general and administrative expenses, amortization of intangible assets-power purchase agreements, outside services and provision for impairment losses. Fed Land contributed Php1.8 billion comprising salaries, commissions, taxes and licenses, advertising expenses and other general and administrative expenses. CPA accounted for Php1.1 billion consisting of commissions and salaries. GT Capital contributed Php234 million principally salaries, taxes and licenses. The remaining balance of Php210 million came from TCI's salaries, advertising and promotions, commission and utilities expenses.

Power plant operations and maintenance expenses consisting of purchased power and repairs and maintenance from the power generation companies of GBPC increased by 15% from Php8.9 billion to Php10.3 billion mainly due to the increase in energy sales and purchased power expenses.

Cost of real estate sales increased by 18% from Php3.7 billion to Php4.3 billion arising from the increase in real estate sales.

Interest expense declined by 6% from Php3.5 billion to Php3.2 billion with GBPC, GT Capital, Fed Land, TMP and TCI accounting for Php1.8 billion, Php0.8 billion, Php0.5 billion, Php99 million and Php17 million, respectively.

Net insurance benefits and claims more than doubled from Php290 million to Php784 million, representing benefits and claims paid to policyholders.

Cost of rental more than doubled from Php113 million to Php270 million representing direct costs incurred by Fed Land in its leasing business.

Provision for income tax increased by 50% from Php1.8 billion to Php2.7 billion mainly increases in taxable income from TMP and Fed Land.

Consolidated net income attributable to equity holders of the Parent Company increased by 6% from Php8.6 billion in 2013 to Php9.2 billion in 2014.

GT Capital Consolidated Statement of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Php, except for percentages)	**2014**	**2013**	**Amount**	**Percentage**
ASSETS				
Current Assets				
Cash and cash equivalents	**29,702**	27,167	2,535	9%
Short-term investments	**1,309**	1,467	(158)	(11%)
Receivables	**16,223**	12,450	3,773	30%
Reinsurance assets	**3,879**	4,966	(1,087)	(22%)
Inventories	**31,426**	20,813	10,613	51%
Due from related parties	**171**	850	(679)	(80%)
Prepayments and other current assets	**5,468**	5,969	(501)	(8%)
Total Current Assets	**88,178**	**73,682**	14,496	20%
Noncurrent Assets				
Noncurrent receivables	**4,897**	4,929	(32)	(1%)
Available-for-sale investments	**4,127**	3,111	1,016	33%
Investments in associates and joint venture	**47,451**	40,559	6,892	17%
Investment properties	**8,643**	8,329	314	4%
Property and equipment	**44,801**	41,163	3,638	9%
Goodwill and intangible assets	**17,806**	18,275	(469)	(3%)
Deferred tax asset	**1,726**	1,109	617	56%
Other noncurrent assets	**634**	1,203	(569)	(47%)
Total Noncurrent Assets	**130,085**	**118,678**	11,407	10%
TOTAL ASSETS	**218,263**	**192,360**	25,903	13%

LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	**19,280**	20,837	(1,557)	(7%)
Insurance contract liabilities	**5,665**	6,684	(1,019)	(15%)
Short term debt	**2,267**	1,744	523	30%
Current portion of long term debt	**3,141**	3,364	(223)	(7%)
Current portion of liabilities on purchased properties	**783**	783	-	-
Customers' deposits	**2,549**	1,844	705	38%
Dividends payable	**2,034**	1,966	68	3%
Due to related parties	**176**	188	(12)	(6%)
Income tax payable	**476**	876	(400)	(46%)
Other current liabilities	**882**	907	(25)	(3%)
Total Current Liabilities	**37,253**	**39,193**	(1,940)	(5%)

	Audited December 31		Increase (Decrease)	
	2014	**2013**	**Amount**	**Percentage**
Noncurrent Liabilities				
Long term debt	**42,118**	40,584	1,534	4%
Bonds payable	**21,775**	9,883	11,892	120%
Liabilities on purchased properties	**2,729**	3,537	(808)	(23%)
Pension liability	**2,261**	1,704	557	33%
Deferred tax liability	**3,532**	3,252	280	9%
Other noncurrent liabilities	**2,653**	1,643	1,010	61%
Total Noncurrent Liabilities	**75,068**	60,603	14,465	24%
	112,321	99,796	12,525	13%
Equity				
Equity attributable to equity holders of GT Capital Holdings, Inc.				
Capital stock	**1,743**	1,743	-	-
Additional paid-in capital	**46,695**	46,695	-	-
Treasury shares	**(2)**	(6)	4	(67%)
Retained earnings	**30,431**	21,802	8,629	40%
Other comprehensive income	**(103)**	(437)	334	76%
Other equity adjustment	**583**	729	(146)	(20%)
	79,347	70,526	8,821	13%
Non-controlling interests	**26,595**	22,038	4,557	21%
Total Equity	**105,942**	92,564	13,378	14%
TOTAL LIABILITIES AND EQUITY	**218,263**	192,360	25,903	13%

The major changes in the balance sheet items of the Company from December 31, 2013 to December 31, 2014 are as follows:

Total assets of the Group increased by 13% or Php25.9 billion from Php192.4 billion as of December 31, 2013 to Php218.3 billion as of December 31, 2014. Total liabilities increased by 13% or Php12.5 billion from Php99.8

billion to Php112.3 billion while total equity rose by 14% or Php13.4 billion from Php92.6 billion to Php105.9 billion.

Cash and cash equivalents increased by Php2.5 billion reaching Php29.7 billion with GBPC, TMP, Fed Land, CPAIC and GT Capital accounting for Php15.6 billion, Php11.3 billion , Php1.7 billion, Php0.6 billion and Php0.5 billion, respectively.

Short-term investments amounted to Php1.3 billion mainly short-term placements of TMP.

Receivables increased by 30% from Php12.5 billion to Php16.2 billion with Fed Land, TMP and GBPC contributing Php5.4 billion, Php4.5 billion and Php3.6 billion, respectively, representing installment contract receivables, trade receivables with maximum 30 days credit terms, and outstanding billings for energy fees and pass-through fuel costs arising from the delivery of power. CPAIC and TCI contributed Php2.1 billion and Php681 million, respectively, representing premiums receivable and trade receivables.

Reinsurance assets representing balances due from reinsurance companies declined by 22% from Php5.0 billion to Php3.9 billion due to settlement of claims reinsured to reinsurers.

Inventories increased by 51% from Php20.8 billion to Php31.4 billion with Fed Land and GBPC contributing Php25.4 billion and Php1.0 billion, respectively, comprising Fed Land's condominium units for sale and land for development and GBPC's coal and spare parts and supplies. TMP and TCI also contributed Php4.8 billion and P0.2 billion consisting of completely-built-up units, completely-knocked down units and spare parts.

Due from related parties decreased by 80% from Php850 million to Php171 million due to collections received from the various subsidiaries of Fed Land.

Prepayments and other current assets decreased by 8% from Php6.0 billion to Php5.5 billion primarily the application of creditable withholding tax against income tax due and the application of input tax against output tax.

Available-for-sale investments increased by 33% from Php3.1 billion to Php4.1 billion comprising mark-to-market gains recognized by GBPC, CPAIC, and TMP.

Investments in associates and joint ventures increased by 17% from Php40.6 billion to Php47.5 billion due to acquisition of a 40% direct equity in TFSPH amounting to Php2.4 billion, acquisition of additional 19.25% of TMBC for a total purchase price of Php237 million, and share in net income of Php5.5 billion, net of cash dividends received from associates and joint ventures of Php1.2 billion, and share in other comprehensive loss of Php0.5 million.

Property and equipment grew by 9% from Php41.2 billion to Php44.8 billion mainly due to the completion of GBPC's Toledo Power plant expansion.

Deferred tax assets increased by 56% from Php1.1 billion to Php1.7 billion composed of TMP, (Php663 million), representing accrued retirement benefits, provision for claims and assessments and warranty payable; GT Capital, (Php627 million), comprising unrealized gain on sale of properties by Metrobank to Fed Land, and GBPC, (Php383 million), representing provision for retirement benefits and unrealized foreign exchange losses.

Other noncurrent assets decreased by 47% from Php1.2 billion to Php634 million mainly due to application of GBPC's advances to contractors against billings of contractors for Toledo Power's plant expansion.

Accounts and other payables decreased by 7% from Php20.8 billion to Php19.3 billion mainly the settlement of the Group's outstanding payables from previous year.

Insurance contract liabilities representing provisions for claims reported and loss adjustments incurred but not yet reported losses and unearned premiums decreased by 15% from Php6.7 billion to Php5.7 billion due to settlement of claims relating to 2013 catastrophes.

Short-term debt increased by Php523 million from Php1.7 billion to Php2.3 billion due to the inclusion of TCI's short term loans (Php635M), additional loan availments from TMP dealer subsidiaries for working capital requirements (Php577M) and additional loan availments of Fed Land subsidiaries (Php180M) offset by loan payments made by GT Capital and GBPC amounting to Php800 million and Php69 million respectively.

Current portion of long-term debt decreased by 7% from Php3.4 billion to Php3.1 billion due to loan principal payments made by GBPC.

Customers' deposits increased by 38% from Php1.8 billion to Php2.5 billion due to increase in reservation sales from new Fed Land projects.

Due to related parties current declined by 6% from Php188 million to Php176 million due to payments made by Fed Land to Metrobank.

Income tax payable declined by 46% from Php876 million to Php476 million due to income tax payments by GT Capital's subsidiaries.

Pension liability rose by 33% from Php1.7 billion to Php2.3 billion, of which TMP, GBPC, CPAIC, TCI, and Fed Land accounted for Php1.2 billion, Php771 million, Php111 million, Php98 million and Php77 million, respectively.

Bonds payable more than doubled from Php9.9 billion to Php21.8 billion due to issuance by GT Capital of Php12.0 billion in retail bonds, net of financing expenses.

Liabilities on purchased properties, net of current portion, declined by 23% from Php3.5 billion to Php2.7 billion due to payment by Fed Land.

Deferred tax liability increased by 9% from Php3.3 billion to Php3.5 billion mainly recognition of deferred tax effect of excess of realized gross profit on real estate sales.

Other noncurrent liabilities increased by 61% from Php1.6 billion to Php2.7 billion primarily due to the increase in Fed Land's retention payable to contractors for ongoing projects and the recognition of provisions relating to TMP's claims and assessments, product warranties and corporate social responsibility activities.

Treasury shares declined from Php6 million to Php2 million representing CPAIC's investment in shares of stock of GT Capital.

Retained earnings increased by 40% from Php21.8 billion to Php30.4 billion due to the Php9.2 billion net income earned for the period, net of Php0.5 billion cash dividends declared.

Other comprehensive income improved by 76% from a deficit of Php437 million to a deficit Php103 million due to mark-to-market gains recognized on AFS investments of subsidiaries and associates.

Other equity adjustments decreased by 20% from Php729 million to Php583 million arising from the following transactions: 1) GT Capital's acquisition of an additional 33.33% direct equity stake in CPAIC, (negative Php375.67 million); 2) GT Capital's sale of a 40% direct equity stake of TCI to Mitsui, (Php194.0 million); 3) GT Capital's acquisition of an additional 0.26% of TCI by GT Capital, (negative Php0.42 million); 4) GT Capital change in direct ownership in GBPC after FMIC waiver and partial waiver of its pre-emptive rights on its subscription to Panay Energy's equity call, (Php60.52 million); and 5) increase in GT Capital's direct equity stake in TCI after subscription to new primary common shares, (negative Php24.80 million).

Non-controlling interests increased from Php22 billion to Php26.6 billion representing the net effect of: 1) Php6.0 billion net income attributable to non-controlling interest for the year; 2) Php2.2 billion increase in non-controlling interest in GBPC arising from the equity call contribution to the Panay Energy Plant Expansion Project; 3) Php532 million increase in non-controlling interest in Panay Power Holdings arising from the equity call contribution to the Panay Energy Plant Expansion Project; 4) Php427 million other comprehensive income attributable to non-controlling interest; 5) Php105 million additional non-controlling interest relating to the sale of a 40% direct equity stake of TCI to Mitsui; 6) Php4.3 billion representing reversal of non-controlling interest relating to the cash dividends declared by TMP; and 7) Php336 million representing reversal of non-controlling interest arising from GT Capital's acquisition of the remaining 33.33% direct equity stake in CPAIC.

LIQUIDITY AND CAPITAL RESOURCES

In 2014, 2015 and 2016, 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, 2016, GT Capital's cash and cash equivalents reached Php20.95 billion.

The following table sets forth selected information from GT Capital's statement of cash flows for the periods indicated.

	In Million Pesos		
	2014	2015	2016
Net cash provided by (used in) operating activities	(3,386.0)	(468.8)	2,900.0
Net cash provided by (used in) investing activities	(10,687.0)	(25,508.0)	(33,933.0)
Net cash provided by (used in) financing activities	16,609.0	35,120.0	14,645.0
Effects of exchange rate changes on cash and cash equivalents	(1.1)	(89.2)	(468.0)
Net increase (decrease) in cash and cash equivalents	2,535.5	9,053.1	(16,907.0)
Cash and cash equivalents at the beginning of the period	27,166.9	29,702.4	37,861.0
Cash and cash equivalents of disposal group at end of the period	-	(894.5)	-
Cash and cash equivalents of continuing operations at end of the period	29,702.4	37,861.0	20,954.0

Cash flows from operating activities

Cash flow provided by (used in) operating activities amounted to (Php3.39 billion) in 2014, (Php0.47 billion) in 2015 and Php2.90 billion in 2016. In 2014, operating cash amounting to Php19.93 billion was used to increase receivables by Php1.79 billion and inventories by Php12.55 billion and partially settle accounts payable by Php1.13 billion, insurance contract liabilities by Php1.02 billion and other current liabilities by Php1.73 billion. In 2015, operating cash amounting to Php25.94 billion was used to increase receivables by Php1.52 billion, inventories by Php11.62 billion, land held for future development by Php0.83 billion and prepayments and other current assets by Php1.51 billion and partially settle accounts payable by Php0.6 billion and other current liabilities by Php2.16 billion. In 2016, operating cash amounting to Php22.76 billion was used to increase inventories by Php4.24 billion land held for future development by Php2.84 billion and prepayments and other current assets by Php1.80 billion.

Cash flows used in investing activities

Cash flows used in investing activities amounted to Php10.69 billion in 2014 and Php25.51 billion in 2015 and Php33.93 billion in 2016. In 2014, cash flows used in investing activities went to increase investment in associates and a joint venture by Php4.22 billion, property and equipment by Php6.66 billion, available-for-sale (AFS) investments by Php0.59 billion and acquisition of subsidiary- net of cash acquired amounting to Php0.28 billion. In 2015, cash flows used in investing activities went to increase investment in associates and a joint venture by Php8.83 billion, investment properties by Php0.48 billion, property and equipment by Php9.95 billion, AFS investments by Php0.53 billion and acquisition of subsidiary-net of cash acquired by Php6.90 billion. 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.

Cash flows from financing activities

Cash flows from financing activities amounted to Php16.61 billion in 2014, Php35.12 billion in 2015 and Php14.64 billion in 2016. In 2014, cash flows from financing activities came from issuance of bonds payable of Php11.88 billion and loan availments of Php7.66 billion, share of holders of non-controlling interest in the equity calls of Php2.68 billion which were used to pay for Php5.80 billion in loans and Php0.81 billion in liabilities on purchased properties of. In 2015, cash flows from financing activities came from loan availments of Php57.83 billion and issuance of voting preferred shares of Php0.02 billion which were used to partially settle Php21.91 billion in outstanding loans and Php0.73 billion in liabilities in purchased properties. 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 Php2.00 billion in redemption of non-controlling interest.

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.

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 are no disagreements with SGV & Co. on accounting and financial disclosure.

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) and Philippine Accounting Standards (PAS) which were adopted as of January 1, 2016.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new and amended PFRS and the Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which became effective beginning January 1, 2016.

The Group will also adopt several amended and revised standards and interpretations subsequent to 2016.

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 2016 and new PFRS and PAS that will be effective subsequent to 2016.

INDEPENDENT AUDITORS
The consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2014, 2015 and 2016 have been audited by SGV & Co. (a member firm of Ernst & Young Global Limited), independent auditors, as stated in their reports appearing herein.

The Company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period. 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, 2014, 2015 and 2016 for professional services rendered by SGV & Co. to the Company.

	2014	2015	2016
	(in Php million)		
Audit and Audit-Related Services	9.5	1.8	11.4
Non-Audit Services	–	–	–
Total	**9.5**	**1.8**	**11.4**

Audit fees for 2014, 2015 and 2016 amounted to Php1.8 million, Php1.8 million and Php2.1 million, respectively. SGV & Co. also rendered audit-related professional services in 2014 and 2016 relating to the Company's Bond Offering and Perpetual Preferred Shares Offering amounting to Php7.7 million and Php9.3 million, respectively. In 2016, SGV & Co. billed the Company a fee of Php0.04 million for validation of stockholders' votes during the 2016 annual stockholders' meeting. Tax consultancy services were secured from other entities other than the external auditor.

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:

Board of Directors

Office	Name	Age	Citizenship
Group Chairman	Dr. George S.K. Ty	84	Filipino
Chairman	Arthur Vy Ty	50	Filipino
Co-Vice Chairman	Francisco C. Sebastian	62	Filipino
Co-Vice Chairman	Alfred Vy Ty	49	Filipino
Director/President	Carmelo Maria Luza Bautista	59	Filipino
Director	Roderico V. Puno	53	Filipino
Director	David T. Go	63	Filipino
Independent Director	Jaime Miguel G. Belmonte	53	Filipino
Independent Director	Christopher P. Beshouri	54	American
Independent Director	Wilfredo A. Paras	70	Filipino
Independent Director	Peter B. Favila	68	Filipino
Adviser	Pascual M. Garcia III	63	Filipino
Adviser	Mary Vy Ty	76	Filipino
Adviser	Guillermo Co Choa	57	Filipino

Period of Directorship

Name	Date First Elected
Dr. George S.K. Ty	June 3, 2011
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
Roderico V. Puno	August 5, 2011
David T. Go	May 12, 2014
Jaime Miguel G. Belmonte	December 2, 2011
Christopher P. Beshouri	May 14, 2013
Wilfredo A. Paras	May 14, 2013
Peter B. Favila	May 11, 2015

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
Christopher C. Beshouri	- Member
David T. Go	- Member

Peter B. Favila	- Member
Pascual M. Garcia III	- Adviser

The members of the Risk Oversight Committee are:

Peter B. Favila	- Chairman
Wilfredo A. Paras	- Member
Christopher P. Beshouri	- Member
Roderico V. Puno	- Member

The members of the Compensation Committee are:

Jaime Miguel G. Belmonte	- Chairman
Christopher P. Beshouri	- Member
Alfred V. Ty	- Member

The members of the Nominations Committee are:

Wilfredo A. Paras	- Chairman
Carmelo Maria Luza Bautista	- Member
Peter B. Favila	- Member

The members of the Corporate Governance Committee are:

Christopher P. Beshouri	- Chairman
Wilfredo A. Paras	- Member
Jaime Miguel G. Belmonte	- Member

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last stockholders' meeting.

The business experience of the members of the Board for the last five (5) years is as follows:

Dr. George S.K. Ty, 84 years old, Filipino, served as GT Capital's Chairman of the Board since its inception in July 2007 until July 11, 2012. He is the current Group Chairman of GT Capital. Dr. Ty is also the founder of Metropolitan Bank & Trust Company (MBT), a listed company, and served as its Chairman from 1975 until 2006 when he became Group Chairman of the Metrobank Group of Companies. Dr. Ty graduated from the University of Santo Tomas and received his Doctorate in Humanities, Honoris Causa from the same university. He is concurrently the Chairman of the Board of Trustees of the Metrobank Foundation, Inc. (MBFI) and of the Board of Directors of Toyota Motor Philippines Corporation (TMP).

Arthur Vy Ty, 50 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 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), and MBFI and Director of Philippine AXA Life Insurance Corporation (AXA Philippines) and Federal Land, Inc. (Fed 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, 62 years old, Filipino, was elected as one of the Corporation's Vice Chairman in May 2016. Prior to assuming this post, he was Chairman of GT Capital since June 2014. He has been a member of the Board of Directors of GT Capital since 2014. He joined the Metrobank Group in 1997 when he was appointed as President of FMIC, a post he held for 14 years until he became its Chairman in 2011. He also currently serves as a director of listed companies, Metro Pacific Investments Corporation (MPIC) and MBT, as well as Fed Land and Property Company of Friends, Inc. (PCFI), subsidiaries of the Corporation. 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, 49 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 TMP. He graduated from the University of Southern California in 1989 with a degree in Business Administration. Some of his other current roles and positions include: Chairman, Lexus Manila; Chairman, Fed Land; Chairman, Bonifacio Landmark Realty and Development Corporation; Chairman, 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 Independent Director of MPIC, a listed company.

Carmelo Maria Luza Bautista, 59 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 39 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 has no directorships in other listed companies aside from GT Capital, however, he is currently serving as Director of Fed Land, TMP, PCFI, GT Capital Auto Dealership Holdings, Inc. ("GTCAD") and Toyota Subic, Inc. (TSI). He is also an Adviser to the Board of Trustees of GT Foundation, Inc.

Dr. David T. Go, 63 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.; Board Adviser and Treasurer of Toyota Financial Services Philippines Corporation (TFSPH); President of Toyota Motor Philippines Foundation, 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 TSI; Director of Lexus Manila; and President of Toyota Motor Phils. School of Technology, Inc. Dr. Go has no directorships in other listed companies aside from GT Capital.

Roderico V. Puno, 53 years old, Filipino, has been a director of the Corporation since August 5, 2011 and is the Managing Partner of Puno & Puno Law Offices. He earned his Bachelor of Arts, Major in Political Science, from the Ateneo de Manila University in 1985, his Bachelor of Laws degree from the same University in 1989, and his Masters of Law from Northwestern University in Chicago. He is a widely recognized expert in energy law and also specializes in general corporate law, banking and project finance, real estate, utilities regulation, securities, and infrastructure. He is currently the Corporate Secretary of Atlas Consolidated and Mining and Development Corporation, a listed company, First Philippine Industrial Park, and Rustan Supercenters, Inc. and a member of the Board of Trustees of the Knowledge Channel Inc. He concurrently served as Vice-President- Head of Legal, General Counsel, and Corporate Secretary for First Generation Corporation, a listed company, and Vice President-Legal for First Philippine Holdings Corporation, a listed company. Atty. Puno has no directorships in other listed companies aside from GT Capital.

Jaime Miguel G. Belmonte*, 53 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 Stargate Media Corporation (Director since 2000); Publisher 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.

Peter B. Favila*, 70 years old, Filipino, was elected as Independent Director on May 11, 2015. Prior to this, he served as GT Capital's Board Adviser since October 23, 2014. He is presently a Consultant to the Bangko Sentral ng Pilipinas (BSP) after completing his fixed term as Member of the Monetary Board. Likewise, Mr. Favila is the Chairman of the Supervisory Committee of the (ABF) Philippines Index Bond Fund and member of the Advisory Council of the Asian Bankers Association. He is a member of the Board of Trustees of the Ramos for Peace and Development Foundation, Inc. (RPDev) and Trustee of the Alay sa Kawal Foundation, Inc. With more than 40 years of experience in the field of banking and finance, he held various executive positions in both the public and private sector. In 2005, he was appointed Secretary of the Department of Trade and Industry (DTI) where, in his concurrent capacity as such, he chaired several attached agencies to DTI until the end of his term in 2010. Mr. Favila, in the private sector, has served as Senior Vice President of MBT; President/CEO of Security Banking Corporation; Vice-Chairman/President/CEO of Philippine National Bank; and President/CEO of Allied Banking Corporation. Prior to his stint in government service, he was elected as Chairman of the Philippine Stock Exchange. Mr. Favila has no directorships in other listed companies aside from GT Capital. Mr. Favila is a recipient of various recognitions and awards prominent of which are the Republic of the Philippine's Order of Lakandula with the rank of Bayani conferred by President Gloria Macapagal-Arroyo; the Gran Cruz Orden de Isabel la Catolica conferred by King Juan Carlos I of Spain; the Order of the Rising Sun, Gold and Silver Star conferred by His Majesty Emperor Akihito of Japan. Mr. Favila earned his Bachelor of Science degree in Commerce from the Santo Tomas University and completed his Advance Management Program at the Wharton School, University of Pennsylvania. He is an adopted member of Class 1982 of the Philippine Military Academy.

Christopher P. Beshouri*, 54 years old, American, was elected as Independent Director of GT Capital on May 14, 2013. He is Group President and COO of VICSAL Development Corporation, a diversified conglomerate owned and led by the Gaisano Family, with holdings in retail (Metro Retail stores), property (Taft, HT Land), and financial services (banking, investment banking, brokerage, and trust). Mr. Beshouri has no directorships in other listed companies aside from GT Capital. Prior to joining VICSAL, Mr. Beshouri was with McKinsey and Company for more than 15 years, where he held 3 distinct roles: President / CEO of Philippines (2005-2013), Chief of Staff of Asia (2004-2005), and Associate Principal (1997-2004). Mr. Beshouri also worked as a Senior Financial Economist and Director at the United States Treasury from 1989 to 1997, where he focused on financial markets and banking regulation. In addition, Mr. Beshouri was an Adjunct Professor of Georgetown University, College of Business from 1996-1997, a Consultant for the West Africa Country Operations of the World Bank in 1988, a Financial Auditor of the Catholic Relief Services from 1987 to 1988, and an Analyst and Research Assistant for the Federal Reserve Bank of Atlanta from 1984 to 1986. Mr. Beshouri holds a Bachelor of Arts Degree (Dual Major in Economics and Public Policy) from the Michigan State University, and a degree in Master of Public Affairs from Princeton University.

Wilfredo A. Paras*, 70 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.

** 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:

Pascual M. Garcia III, 63 years old, Filipino, was appointed as Board Adviser in May 2013. He is currently the President of Fed 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; Director, TFSPH; Director, Bonifacio Landmark Realty & Development Corp.; Chairman, Alveo-Federal Land Communities, Inc.; Vice Chairman, Cathay International Resources Corporation; and Chairman, Branchton Development Corp., Camarillo Development Corp., Firm Builders Realty Development Corp., Marcan Development Corp., Micara Land, Inc., and Williamton Holdings, Inc. Prior to joining Fed Land, he served as the President and Director of PSBank from 2001 to 2013. Mr. Garcia earned his Bachelor's degree in Commerce, Major in Management, from the Ateneo de Zamboanga University.

Mary Vy Ty, 76 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 Fed Land; Vice Chairman, Manila Medical Services, Inc.; Adviser, Horizon Land Development Corporation; Director, Grand Titan Capital Holdings, Inc.; 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, 57 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., Peter B. Favila, Wilfredo A. Paras and Renato C. Valencia, who were nominated by Mr. Carmelo Maria Luza Bautista, as well as Mr. Jaime Miguel G. Belmonte, nominated by Mr. Francisco H. Suarez Jr., 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 two (2) independent directors as defined by existing laws and regulations.

Aside from the above nominees for independent directors, the other nominees for director are Messrs. George S.K. Ty, Arthur Vy Ty, Alfred Vy Ty, Carmelo Maria Luza Bautista, David T. Go, Roderico V. Puno and Francisco C. Sebastian.

All the nominees, except Mr. Renato C. Valencia, are incumbent directors of GT Capital. The experience and qualifications of the nominated incumbent directors are found above. The experience and qualifications of Mr. Renato C. Valencia are as follows:

> **Renato C. Valencia,** 75 years old, currently holds the following positions: Chairman and Independent Director of iPeople Inc., a listed company; and Independent Director of MBT, EEI Corporation, Anglo Philippine Holdings, Inc. and Vulcan Industrial and Mining, Inc., all listed companies. He previously served as Independent Director of GT Capital from July 2012 until May 2013. His other past positions include: Director, House of Investments, Inc., a listed company; President and CEO, Roxas Holdings, Inc., a listed company; Director, Roxas and Company, Inc., a listed company; Director and Board Adviser, Philippine Veterans Bank; President and CEO of the Social Security System; Vice Chairman and Director, San Miguel Corporation, a listed company; Director, Philippine Long Distance Telephone Company, a listed company; Chairman, Philippine Savings Bank, a listed company; Advisory Board Member, Philippines Coca-Cola System Council; Director, Manila Electric Company, a listed company; Director, Bases Conversion Development Academy; Director, Fort Bonifacio Development Corporation; Board Member, Civil Aeronautics Board; Director, Philex Mining Corporation, a listed company; Director, Far East Bank & Trust Company; Director, Makati Stock Exchange;

Executive Vice President and Consultant, The International Corporate Bank; Senior Vice President, Family Bank & Trust Company; Senior Vice President and Vice President, Ayala Investment & Development Corporation; Assistant Vice President, Makati Leasing & Finance Corporation; Personnel and General Services Manager, Solid Mills Incorporated; Chairman, CEO, President and COO of Union Bank of the Philippines, a listed company; and other various positions in the Armed Forces of the Philippines. He is a graduate of Philippine Military Academy with a degree in B.S. Gen. Engineering, and also holds an MBA from the Asian Institute Management.

Review of qualifications of candidates nominated as Directors, including Independent Directors, is conducted by the Nominations Committee prior to the stockholders' 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 Corporate Governance Manual nominated the following for election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

Dr. George S. K. Ty

Arthur Vy Ty

Francisco C. Sebastian

Alfred Vy Ty

Carmelo Maria Luza Bautista

Dr. David T. Go

Jaime Miguel G. Belmonte

Atty. Roderico V. Puno

Wilfredo A. Paras

Peter B. Favila

Renato C. Valencia

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.

(i) **Executive Officers**

Name	**Office**	**Age**	**Citizenship**
Carmelo Maria Luza Bautista	President	59	Filipino
Francisco H. Suarez, Jr.	Executive Vice President/Chief Financial Officer	57	Filipino
Anjanette T. Dy Buncio	Treasurer	48	Filipino
Alesandra T. Ty	Assistant Treasurer	37	Filipino

Antonio V. Viray	Corporate Secretary	77	Filipino
Jeanne Frances T. Chua*	Assistant Corporate Secretary	51	Filipino
Jocelyn Y. Kho	Assistant Corporate Secretary	61	Filipino
Winston Andrew L. Peckson	First Vice President/Chief Risk Officer	65	Filipino
Jose B. Crisol, Jr.	First Vice President/Head, Investor Relations and Corporate Communication	50	Filipino
Susan E. Cornelio	Vice President/Head, Human Resources and Administration	44	Filipino
Richel D. Mendoza	Vice President/Chief Audit Executive	44	Filipino
Reyna Rose P. Manon-Og	Vice President/Controller and Head, Accounting and Financial Control	34	Filipino
Elsie D. Paras	Vice President/Deputy Chief Financial Officer	44	Filipino
Renee Lynn Miciano-Atienza	Assistant Vice President /Head, Legal and Compliance	34	Filipino

**Resigned effective March 22, 2017*

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
Anjanette T. Dy Buncio	Treasurer	2007-Present
Alesandra T. Ty	Assistant Treasurer	2012-Present
Antonio V. Viray	Corporate Secretary	2009-Present
Jeanne Frances T. Chua	Assistant Corporate Secretary	2015-March 22, 2017
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 and Corporate Communication	2012-Present
Susan E. Cornelio	Vice President/Head, Human Resources and Administration	2012-Present
Richel D. Mendoza	Vice President/Chief Audit Executive	2013-Present
Reyna Rose P. Manon-Og	Vice President/Controller and Head, Accounting and Financial Control	2011-Present
Elsie D. Paras	Vice President/Deputy Chief Financial Officer	2015-Present
Renee Lynn Miciano-Atienza	Assistant Vice President /Head, Legal and Compliance	May 2016-Present

Francisco H. Suarez Jr., 57 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 GTCAD and the Corporate Secretary of TFSPH and TMBC. 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 and two series of perpetual preferred shares. Mr. Suarez brings to the Company over 35 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 Science degree in Applied Economics and is a candidate for the Master in Business Administration degree at the Ateneo de Manila University.

Antonio V. Viray, 77 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.

Jeanne Frances T. Chua*, 51 years old, Filipino, was appointed as Assistant Corporate Secretary on May 12, 2015. She concurrently serves as: Vice President of Legaspi Import & Export Corporation; and Director and Senior Vice President of Century Savings Bank Corporation. She holds a Bachelor of Science degree in Finance from Santa Clara University. **Resigned effective March 22, 2017*

Jocelyn Y. Kho, 62 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 and Corporate Secretary, Federal Homes, Inc.; Director 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 Vice President, Horizon Royale Holdings, Inc.; Director and Treasurer, Grand Estate Property Corporation; Director and Vice President, Ausan Resources 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, 48 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 Fed Land; Adviser and Treasurer of PCFI; Senior Vice President of MBFI; Vice President of GT Metro Foundation; and Corporate Secretary of Pro Oil Corporation. She graduated from the International Christian University in Tokyo, Japan with a Bachelor of Science degree in Economics.

Alesandra T. Ty, 37 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; Director of ORIX Metro Leasing and Finance Corporation and Sumisho Motorcycle Finance Corp.; Corporate Secretary and Corporate Treasurer of FMIC; Corporate Secretary of MBFI and 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, 65 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., 50 years old, Filipino, serves as First Vice President and Head of the Investor Relations and Corporate Communication Division 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 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 Bachelor of Science degree in Economics from the University of the Philippines in Diliman, and completed the Strategic Business Economics Program of the University of Asia and the Pacific. He finished his primary and secondary education at the Ateneo De Manila University.

Susan E. Cornelio, 44 years old, Filipino, joined the Corporation on July 4, 2012 as the Head of the Human Resources Division. Prior to this, she served as Vice President and Head of the Compensation and Benefits Department of Sterling Bank of Asia. Before this, she was Assistant Vice President and Head of the Compensation and Benefits Department of United Coconut Planters Bank. Her other past employments include: MBT, ABN AMRO, Solidbank, and Citytrust, among others. She holds a degree of Bachelor of Science major in Accounting from the Sta. Isabel College and a Master Certificate in Human Resources from Cornell University's School of Industrial and Labor Relations.

Richel D. Mendoza, 45 years old, Filipino, joined the Corporation on October 1, 2013 as its Chief Audit Executive. She served as Board Director of the Institute of Internal Auditors (IIA) Philippines from 2004-2012 prior to her appointment as its Chief Operating Officer in 2012. Richel is a seasoned internal audit practitioner with 17 years of experience from listed company Roxas Holdings, Inc., serving as Senior Auditor in one of its subsidiaries, Central Azucarera Don Pedro, until she became the Group Internal Audit Head. She gained her audit background from SGV & Co. Richel has a Masters in Business Administration degree from De La Salle University Graduate School of Business and a Bachelor of Science degree in Business Administration Major in Accounting from University of the East, Magna Cum Laude. Richel is a Certified Public Accountant, a Certified Internal Auditor (CIA), and an IIA Quality Assurance Validator, Trainer and CIA Reviewer. She completed the Diploma Program in Corporate Finance at the Ateneo Graduate School of Business – Center for Continuing Education.

Reyna Rose P. Manon-og, 34 years old, Filipino, was appointed the Corporation's controller in October 2011. She is a Certified Public Accountant and a cum laude graduate of Bicol University. 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.

Elsie D. Paras, 44 years old, Filipino, serves as GT Capital's Vice President for Corporate Planning and Business Development and Deputy Chief Finance 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, 34 years old, Filipino, is Assistant 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 and TSI; 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 the 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
George S.K. Ty	
Toyota Motor Philippines Corporation	Chairman/Director
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	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
Metro Pacific Investment Corporation	Independent Director
Philippine Long Distance Telephone Company	Director
Carmelo Maria Luza Bautista	
Toyota Motor Philippines Corporation	Director
Federal Land, Inc.	Director
Property Company of Friends, Inc.	Director
GT Capital Auto Dealership Holdings, Inc.	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/Director
Wilfredo A. Paras	
Philex Mining Corporation	Independent Director
Anjanette Ty Dy Buncio	
Federal Land, Inc.	Director/Senior Vice President
Alesandra T. Ty	
Philippine AXA Life Insurance Corporation	Director/Treasurer

Francisco H. Suarez, Jr.

GT Capital Auto Dealership Holdings, Inc.	Director/Treasurer
Toyota Subic, Inc.	Director/Treasurer

Winston Andrew L. Peckson

First Metro Philippine Equity Exchange Traded Fund, Inc.	Director

Renee Lynn Miciano-Atienza

GT Capital Auto Dealership Holdings, Inc.	Director
Toyota Subic, Inc.	Director

The following will be nominated as officers to the Board at the Organizational meeting:

Office	**Name**
Group Chairman	Dr. George S. K. Ty
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.
Head, Investor Relations & Corporate Communications	Jose B. Crisol, Jr.
Chief Risk Officer	Winston Andrew L. Peckson
Head, Human Resources & Administration	Susan E. Cornelio
Chief Audit Executive	Richel D. Mendoza
Controller and Head, Accounting and Financial Control	Reyna Rose P. Manon-Og
Deputy Chief Financial Officer	Elsie D. Paras
Head, Legal and Compliance	Renee Lynn Miciano-Atienza

The following will be nominated as advisers to the Board at the Organizational meeting:

Adviser	Pascual M. Garcia III
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 2015, 2016, and 2017. The amounts (in Php millions) set forth in the table below have been prepared based on what the Corporation paid its executive officers in 2015 and 2016, and what the Corporation expects to pay in 2017.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Named Executive Officers*....................................	2015	27.565	13.803	-
	2016	35.032	17.932	-
	2017**	38.534	19.725	-
All other Officers as a Group	2015	17.559	3.106	-
	2016	18.787	3.324	-
	2017**	20.666	3.656	-

** Named executive officers include: Carmelo Maria Luza Bautista (President), Francisco H. Suarez, Jr. (Chief Financial Officer), Winston Andrew L. Peckson (Chief Risk Officer), Jose B. Crisol (Head, Investor Relations and Corporate Communications), and Elsie D. Paras (Deputy Chief Financial Officer)*
*** Figures for the year 2017 are estimates*

Summary compensation table of Directors

Remuneration Item	Executive Directors	**Non-Executive Directors** (other than independent directors)	Independent Directors
Per diem Allowance	Php 0.99 million	Php 6.32 million	Php 4.42 million
Bonuses	PhP 0.60 million	PhP14.20 million	PhP 3.25 million
Transportation Allowance			PhP 0.33 million

Employment contracts between the Company and named executive officers
The Company has no special employment contracts with the named executive officers.

Warrants and options outstanding
There are no outstanding warrants or options held by the CEO, the named 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, 2016, 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. 4th Floor Metrobank Plaza, Sen. Gil Puyat Ave., Makati City	Same as the Record Owner **Arthur Vy Ty** is authorized to vote the shares held by Grand Titan Capital Holdings, Inc.	Filipino	89,427,110	51.31%
Voting Preferred	Grand Titan Capital Holdings, Inc. 4th Floor Metrobank Plaza, Sen. Gil Puyat Ave., Makati City	Same as the Record Owner	Filipino	170,490,640	97.81%
Common	PCD Nominee Corp. (Non-Filipino)	Various Clients[1]	Foreign	59,881,402	34.36%
Common	PCD Nominee Corp. (Filipino)	Various Clients[1]	Filipino	24,387,086	13.99%

(1) PCD Nominee Corporation ("PCNC") 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 PCNC (Filipino/Non-Filipino) remains with the lodging stockholder.

Security Ownership of Management as of December 31, 2016

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	Dr. George S. K. Ty	200,000 (D)	Filipino	0.1147%
Common	Arthur V. Ty	100,000 (D) 2,100 (I)	Filipino	0.0574% 0.0012%
Common	Alfred V. Ty	100,000 (D) 2,100 (I)	Filipino	0.0574% 0.0012%

Common	Anjanette T. Dy Buncio	46,547 (I)	Filipino	0.0267%
Common	Francisco C. Sebastian	100 (D) 20,000 (I)	Filipino	0.0000% 0.0115%
Common	Carmelo Maria Luza Bautista	1,000 (D) 12,000 (I)	Filipino	0.0006% 0.0069%
Common	Francisco H. Suarez, Jr.	5,000 (I)	Filipino	0.0029%
Common	Alesandra T. Ty	1,700 (I)	Filipino	0.0010%
Common	Roderico V. Puno	1,000 (D)	Filipino	0.0006%
Common	Jaime Miguel G. Belmonte	1,000 (D)	Filipino	0.0006%
Common	Wilfredo A. Paras	1,000 (D)	Filipino	0.0006%
Common	Christopher P. Beshouri	1,000(D) 700 (I)	American	0.0006% 0.0004%
Common	Jeanne Frances T. Chua *(Resigned effective March 22, 2017)*	200 (D) 500 (I)	Filipino	0.0001% 0.0003%
Common	Winston Andrew L. Peckson	271 (I)	Filipino	0.0002%
Common	Peter B. Favila	200 (I)	Filipino	0.0001%
Common	David T. Go	100 (D)	Filipino	0.0000%
Common	Renee Lynn Miciano-Atienza	25(I)	Filipino	0.0000%
Common	Antonio V. Viray	0	Filipino	0.0000%
Common	Jocelyn Y. Kho	0	Filipino	0.0000%
Common	Susan E. Cornelio	0	Filipino	0.0000%
Common	Jose B. Crisol	0	Filipino	0.0000%
Common	Richel D. Mendoza	0	Filipino	0.0000%
Common	Reyna Rose P. Manon-Og	0	Filipino	0.0000%
Common	Elsie D. Paras	0	Filipino	0.0000%
Total		**405,400 (D)** **91,143(I)** **496,543 (D) and (I)**		**0.2850%**

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, 2016.

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**
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.

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, 2016 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.	February 1, 2016	Appointment of Mr. Winston Andrew L. Peckson as Chief Risk Officer effective February 1, 2016
2.	February 19, 2016	Press release of GBPC: Manila Electric Co. enters into interim power supply agreements with Toledo Power Co. and Panay Power Corp., which are operated by GBPC
3.	March 10, 2016	Promotion of Atty. Renee Lynn Miciano-Atienza to Assistant Vice President effective April 1, 2016
4.	March 10, 2016	Notice of Annual Stockholders' Meeting to be held on May 11, 2016
5.	March 10, 2016	Amendment to By-Laws (Moving the date of the annual/regular meeting of the stockholders from the second Monday of May to the second Wednesday of May)
6.	March 10, 2016	Declaration of regular cash dividends at Three Pesos (PhP3.00) per share
7.	March 10, 2016	Declaration of special cash dividends at Three Pesos (PhP3.00) per share
8.	March 10, 2016	Declaration of regular cash dividends in favor of its Voting Preferred stockholders at a dividend rate of 3.77%, the 3-year PDST-R2 rate on issue date (April 13, 2015)
9.	March 15, 2016	Approval by the SEC of the merger of TMBC and Toyota Cubao, Incorporated
10.	March 22, 2016	Press release: GT Capital Full-Year 2015 Net Income Up 32% to Php12.1 Billion.
11.	March 23, 2016	Amended Notice of Annual Stockholders' Meeting (Updated Time, Venue, and Agenda of Annual Stockholders' Meeting)
12.	March 28, 2016	Confirmation with clarification of the news article that was posted in BusinessWorld Online on March 27, 2016 entitled "Ty firm eyes majority

		stake in Profriends by 2017"
13.	April 4, 2016	Execution of Deed of Absolute Sale for the disposition of GT Capital's 100% stake in Charter Ping An to AXA Philippines
14.	April 4, 2016	Press release: AXA Philippines completes its acquisition of Charter Ping An from GT Capital
15.	May 2, 2016	Press release: Application of Meralco with the Energy Regulatory Commission for the Approval of Power Supply Agreements with GBPC subsidiaries.
16.	May 4, 2016	Notice of 1Q 2016 Briefing
17.	May 11, 2016	Stockholders' approval of the amendment of Section 1, Article II of the Corporation's Amended By-laws, moving the date of the Annual Stockholders' Meeting from the second Monday of May to the second Wednesday of May
18.	May 11, 2016	Amended Amendments to By-Laws (Included date of approval of stockholders)
19.	May 11, 2016	Results of Annual Stockholders' Meeting held on May 11, 2016
20.	May 11, 2016	Results of the Organizational Meeting held on May 11, 2016
21.	May 13, 2016	Amended Results of the Annual Stockholders' Meeting (Included the President under Item 4(b)(ii) Appointment of Officers)
22.	May 13, 2016	Amended Results of Annual Stockholders' Meeting (Included the Group Chairman, Chairman, and Co-Vice Chairmen under "List of elected officers for the ensuing year with their corresponding shareholdings in the Issuer")
23.	May 17, 2016	Press release: GT Capital Reports First Quarter 2016 Net Income of Php2.95 Billion
24.	May 19, 2016	Confirmation with clarification of philSTAR.com news article entitled "GT Capital sets capex at P57 B"
25.	May 19, 2016	Increase in Shareholdings of Francisco C. Sebastian
26.	May 25, 2016	Confirmation with clarification of news article that was posted in The Standard (Internet Edition) on May 24, 2016 entitled "Coal plant rising in La Union"
27.	May 25, 2016	Amended Amendments to By-Laws (Included date of approval by the SEC)
28.	May 27, 2016	Press release: MPIC forms strategic alliance with the GT Capital Group and deepens participation in the power sector with initial investment in

		GBPC
29.	May 27, 2016	GT Capital to acquire 15.6% total stake in MPIC for P29,890,000,000.00
30.	May 27, 2016	GT Capital Group disposes of 56% equity stake in GBPC in favor of Beacon PowerGen Holdings, Inc. for P22 Billion.
31.	May 31, 2016	Implementation of the regular block sale transaction between GT Capital and MPIC
32.	June 23, 2016	Approval by the Board of Directors of Public Offering of GTPPA and GTPPB
33.	June 24, 2016	Creation and Issuance of GTPPA and GTPPB for the Base Issue
34.	June 30, 2016	GT Capital acquires 22% stake in GBPC for Php8.6 Billion
35.	June 30, 2016	GT Capital disposes 22% stake in GBPC for Php8.6 Billion
36.	June 30, 2016	Press release: GT Capital Consolidates Its Majority Ownership in Pro-Friends for Php8.76 Billion
37.	June 30, 2016	GT Capital subscribes to 28.3% of PCFI for Php8.76 Billion
38.	July 4, 2016	Filing of Preliminary Prospectus for the Offering of GTPPA and GTPPB
39.	July 15, 2016	Incorporation of Toyota Subic, Inc.
40.	July 27, 2016	Notice of 1H 2016 Briefing
41.	August 5, 2016	Press release: GT Capital First-Half 2016 Net Income Rises 62% to Php9.1 Billion
42.	August 11, 2016	Clarification and confirmation of the news article that was posted in Inquirer.net on August 11, 2016 entitled "$172M GT Capital shares placed out"
43.	August 17, 2016	Increase in Shareholdings of Francisco C. Sebastian
44.	August 18, 2016	Increase in Shareholdings of Anjanette Ty Dy Buncio
45.	September 8, 2016	Approval of GT Capital's Registration Statement and the offering of GTPPA and GTPPB by the SEC, per a letter received by the Corporation on September 8, 2016
46.	September 15, 2016	Increase in Shareholdings of Christopher P. Beshouri

47.	October 5, 2016	Notice of briefing for trading participants and the general public on GT Capital's Follow-on Public Offer of GTPPA and GTPPB
48.	October 14, 2016	Announcement of Dividend Rates in connection with its Offering of GTPPA and GTPPB: 1. GTPPA- 4.6299% 2. GTPPB- 5.0949%
49.	October 14, 2016	Issuance by the SEC of the Certificate of Permit to Offer Securities for Sale of GT Capital's GTPPA and GTPPB
50.	October 21, 2016	Increase in Shareholdings of Mr. Winston Andrew L. Peckson
51.	October 26, 2016	Press release: GT Capital Lists Php12.0 Billion Perpetual Preferred Shares
52.	November 4, 2016	Increase in Shareholdings of Ms. Elsie D. Paras
53.	November 4, 2016	Increase in Shareholdings of Mr. Jose B. Crisol, Jr.
54.	November 4, 2016	Increase in Shareholdings of Atty. Renee Lynn Miciano-Atienza
55.	November 4, 2016	Increase in Shareholdings of Ms. Alesandra T. Ty
56.	November 4, 2016	Increase in Shareholdings of Mr. Francisco H. Suarez, Jr.
57.	November 8, 2016	Notice of 9M 2016 Briefing
58.	November 14, 2016	Press release: GT Capital January to September 2016 Net Income Up 46% to Php12.3 Billion
59.	November 21, 2016	Clarification and confirmation of the news article that was posted in Business Mirror (Internet Edition) on November 20, 2016 entitled "GT Capital eyes second perpetual preferred share sale after strong investor appetite"
60.	November 24, 2016	Increase in Shareholdings of Mr. Carmelo Maria Luza Bautista
61.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 1st quarter of 2017 for GTPPA
62.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 2nd quarter of 2017 for GTPPA
63.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 3rd quarter of 2017 for GTPPA
64.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 4th quarter of 2017 for GTPPA
65.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 1st quarter of 2017 for GTPPB

66.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 2nd quarter of 2017 for GTPPB
67.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 3rd quarter of 2017 for GTPPB
68.	December 15, 2016	Approval by the Board of Directors of the declaration of cash dividends for the 4th quarter of 2017 for GTPPB
69.	December 21, 2016	Disclosure of number of GTPPA and GTPPB

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on __________, 2017.

GT Capital Holdings, Inc.

By:

Arthur V. Ty Chairman	**Carmelo Maria Luza Bautista** President
Francisco H. Suarez, Jr. Chief Financial Officer	**Atty. Antonio V. Viray** Corporate Secretary
Reyna Rose P. Manon-og Comptroller	**Atty. Renee Lynn Miciano-Atienza** Head, Legal and Compliance

APR 11 2017

SUBSCRIBED AND SWORN to before me this _____ day of _________ 2017 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Arthur V. Ty	EC7338861	April 13, 2016	DFA Manila
Carmelo Maria L. Bautista	EC0813466	April 11, 2014	DFA NCR South
Francisco H. Suarez, Jr.	P1376139A	December 28, 2016	DFA Manila
Antonio V. Viray	EB8044627	May 7, 2013	DFA NCR East
Reyna Rose P. Manon-og	EB6020710	July 25, 2012	DFA Legazpi
Renee Lynn Miciano-Atienza	EC6658919	February 2, 2016	DFA Manila

Doc No. 133;
Page No. 27;
Book No. 9;
Series of 2017.

Notary Public

ATTY. MELISSA B. REYES
NOTARY PUBLIC FOR MAKATI CITY UNTIL DEC. 31, 20[illegible]
ROLL NO. 41369 / APPOINTMENT NO. M-173
IBP NO. 0983825 / PTR. NO. 5909867
45/F GT TOWER INTERNATIONAL, AYALA AVENUE
CORNER H.V. DE LA COSTA, MAKATI CITY

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B. 2016 Audited Financial Statements - Metropolitan Bank and Trust Company

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the certified public accountant primarily responsible for performing the compilation services related to the preparation and presentation of the parent company and consolidated financial statements for GT Capital Holdings, Inc. in accordance with applicable financial reporting framework and reports as required by accounting and auditing standards for GT Capital Holdings, Inc. for the period ended December 31, 2016. GT Capital Holdings, Inc. (the Company) is responsible for the preparation and fair presentation of the parent company and consolidated financial statements.

In discharging this responsibility, I hereby declare that I am the Controller and Head of Accounting and Financial Control Department of GT Capital Holdings, Inc., reporting directly to the Chief Financial Officer.

Furthermore, in the compilation services for preparation of the financial statements and accompanying notes to the financial statements, we were not assisted by nor did not avail of the services of SyCip Gorres Velayo & Co. which is the group's external auditors who rendered the audit opinion for the said financial statements and accompanying notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

Reyna Rose P. Manon-og
CPA Certificate No. 108509
Tax Identification No. 300-068-188-0000
PTR no. 5923968, January 16, 2017, Makati City
PRC Accreditation No. 2209, December 14, 2016, Manila

March 21, 2017

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 company and consolidated financial statements including the schedules attached therein, as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, 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 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: ______________________
Arthur V. Ty, Chairman of the Board

Signature: ______________________
Carmelo Maria L. Bautista, President

Signature: ______________________
Francisco H. Suarez, Jr., Chief Financial Officer

March 21, 2017

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

SUBSCRIBED AND SWORN to before me on MAR 2 2 2017, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

Arthur V. Ty	TIN No. 121-526-580
Carmelo Maria L. Bautista	TIN No. 106-903-668
Francisco H. Suarez, Jr.	TIN No. 126-817-465

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Series of 2017

ATTY. MELISSA B. REYES
NOTARY PUBLIC FOR MAKATI CITY UNTIL DEC. 31, 2018
ROLL NO. 41369 / APPOINTMENT NO. M-173
IBP NO. 0983825 / PTR. NO. 5909887
45/F GT TOWER INTERNATIONAL, AYALA AVENUE
CORNER H.V. DE LA COSTA, MAKATI CITY

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. de la 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	836-45000	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
73	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	836-45000	

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.*

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International
Ayala Avenue corner H.V. de la 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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated 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.

Acquisition of Metro Pacific Investments Corporation (MPIC)

In 2016, the Group acquired 15.55% of the common shares of MPIC, an entity listed in the Philippine Stock Exchange, for a total consideration of ₱29.89 billion.

The acquisition of MPIC is significant to our audit as it is a major acquisition during the year and the amounts involved are material to the consolidated financial statements. PFRS requires that when an entity acquires an associate, fair values are attributed to the investee's identifiable assets and liabilities. Significant assumptions and judgments about the future results of business such as revenue growth, gross margins and discount rates were applied to cash flow forecasts for the valuation as disclosed in Note 3 to the consolidated financial statements. The disclosures in relation to the acquisition of MPIC are included in Note 8 to the consolidated financial statements.

Audit Response

We have discussed with management and its external valuation specialist the valuation methodologies and inputs used in the provisional purchase price allocation, and reviewed the share purchase agreement covering the acquisition. We have considered the qualifications and objectivity of the external valuation specialist involved in the preparation of the provisional purchase price allocation. We also involved our internal specialists in the review of the valuation methodologies and key assumptions. These assumptions include the expected traffic volume or billed water volume, toll or tariff rates, gross margins and discount rates. We compared the gross margins, traffic volume and water volume against historical data and industry forecasts, and we compared the toll or tariff rates used with the concession agreements. We reviewed the discount rates by assessing whether the underlying parameters used represent current market assumptions of risks specific to the assets being valued. We have also assessed and validated the adequacy and appropriateness of the related disclosures in the consolidated financial statements.

Finalization of the Purchase Price Allocation of Property Company of Friends, Inc. (PCFI)

In 2015, the Group acquired controlling interest in PCFI. PFRS requires the Group to recognize the acquisition at the fair value of the consideration. Any difference between the cost of the investment and the fair values of the assets acquired and liabilities assumed is recognized as goodwill. In 2015, 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 2016 is significant to our audit because it requires significant management estimation, particularly, on the use of comparable properties for the valuation of land, and the use of discount rates and cost projections for the valuation of inventories. Goodwill recognized amounted to ₱2.84 billion. The significant estimates used and disclosures in relation to the finalization of the purchase price allocation of PCFI are included in Notes 3 and 31 to the consolidated financial statements.

Audit Response

We reviewed the purchase price allocation, focusing on the valuation of land and inventories. We evaluated whether a consistent and generally accepted method for the valuation of land and inventories was applied. We involved our internal specialists in the review of management's methodologies and assumptions used in arriving at the fair values of land and inventories. We compared the discount rates to published reference rates, and compared cost projections with industry and historical data. We reviewed the comparable properties used by management's external appraisers and assessed whether the adjustments made to arrive at the concluded value properly considered differences in characteristics such as location, size and shape. We considered the qualifications and objectivity of management's external appraisers.

Revenue Recognition

The Group applies the percentage of completion (POC) method in determining real estate revenue and costs. The POC is based on the proportion of cost incurred to date over total estimated cost of the real estate project. The cost of sales is determined on the basis of the total estimated costs applied with the POC of the project. The Group's real estate revenue and costs accounts for 6.15% of total consolidated revenue and 4.22% of the total consolidated costs and expenses, respectively. The estimation of the total cost of the real estate project requires technical inputs by management's specialists (project development engineers). In addition, one of the criteria required to initiate revenue recognition is the collection of a certain percentage of buyer's payments of total selling price (buyer's equity). It is the reaching of this level of collection that management has assessed that it is probable that economic benefits will flow to the Group because of the buyers' continuing commitment with the sales agreement. The assessment of the stage of completion and level of buyer's equity involves significant management judgment as disclosed in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's processes for determining the POC, including the cost accumulation process, and for determining and updating of total estimated costs, and performed tests of the relevant controls on these processes. We have discussed with the project development engineers to understand their qualifications, experience and reporting responsibilities. For selected projects, we traced costs accumulated to the supporting documents. We visited selected project sites and made relevant inquiries with project engineers. We performed test computation of the percentage of completion calculation of management. For selected projects, we obtained the approved total estimated costs and any revisions thereto and the supporting details. We likewise performed inquiries with the project development engineers for the revisions. 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. We traced the analysis to supporting documents.

Assessment of Goodwill and Intangible Assets

In prior years, the Group has expanded its activities through acquisitions of businesses. As a result, the Group's net assets include goodwill and customer relationships, an intangible asset with an indefinite life. As of December 31, 2016, the Group has goodwill and customer relationships intangible asset amounting to ₱8.68 billion and ₱3.88 billion, respectively. Under PFRS, the Group is required to test goodwill and intangible assets with indefinite useful life for impairment at least on an annual basis.

The recoverable amount for each cash-generating unit (CGU) has been calculated based on value-in-use. These recoverable amounts use discounted future cash flows forecasts in which management makes estimates over certain key inputs, such as expected gross margins, discount rates and long-term growth rates. Due to the high level of estimation involved, and the significance of the carrying amounts, this is a key area that our audit focused on. 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 obtained an understanding of the Group's impairment assessment process and related controls. We involved our internal specialists to evaluate the assumptions and methodologies that were used, in particular those relating to discount rates and long-term growth rates. We assessed the reasonableness of cash flow projections and expected gross margins, and compared key inputs, such as discount rates and growth rates to externally available industry, economic and financial data and the Group's own historical data and performance. We also assessed the reliability of management's forecast through a review of actual performance against previous forecasts.

We considered the adequacy of the Group's disclosures in respect of impairment testing, and whether the disclosures in relation to the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuations.

Provision for Credit Losses on Loans and Receivables of Metropolitan Bank and Trust Company (MBTC)

The Group's 26.47% interest in MBTC is accounted for under the equity method. The Group's share in the profit of MBTC, after tax, for the year ended December 31, 2016 was ₱6.41 billion and the Group's share in MBTC's net assets as of December 31, 2016 was ₱50.83 billion. In the context of the audit of the consolidated financial statements, the key matter relating to the Group's share in the profits and net assets of MBTC is on the adequacy of allowance for credit losses on loans and receivables.

MBTC's loans and receivables consist of corporate and consumer loans including credit card receivables. The appropriateness of the allowance for credit losses on these loans and receivables is a key area of judgment for the management. MBTC determines the allowance for credit losses on an individual basis for individually significant loans and receivables, and collectively for loans and receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount involve various assumptions and factors such as the financial condition of the counterparty, estimated future cash flows from the loans and receivables and estimated net selling prices of the collateral.

Audit Response

We obtained an understanding of MBTC's impairment calculation process and performed tests of relevant controls. For allowance for credit losses calculated on an individual basis, we selected samples of impaired loans and obtained an understanding of the borrower's business and financial capacity. We also tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses. This was done by assessing whether the forecasted cash flows are based on the borrower's current financial condition, checking the payment history of the borrower including payments made subsequent to yearend, agreeing the value of the collateral to the appraisal reports, checking whether the discount rate represents the original effective interest rate (EIR) or the current EIR of the loan, and re-performing the impairment calculation. For allowance for credit losses calculated on a collective basis, we tested the underlying models and the inputs to those models, such as historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of loss rates and net flow rates to the Group's records and subsidiary ledgers, testing the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the allowance for credit losses.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated 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, 2016 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 Vicky Lee Salas.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 5908709, January 3, 2017, Makati City

March 21, 2017

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Millions)

	December 31	
	2016	2015 (As restated – Note 31)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱20,954**	₱37,861
Short-term investments (Note 4)	**1,598**	1,861
Available-for-sale investments (Note 10)	**1,284**	–
Receivables (Note 5)	**22,798**	27,056
Inventories (Note 6)	**52,060**	51,490
Due from related parties (Note 27)	**80**	370
Prepayments and other current assets (Note 7)	**6,992**	7,673
	105,766	126,311
Assets of disposal group classified as held-for-sale (Note 12)	**–**	8,434
Total Current Assets	**105,766**	134,745
Noncurrent Assets		
Available-for-sale investments (Note 10)	**1,443**	3,195
Receivables - net of current portion (Note 5)	**7,141**	6,682
Land held for future development (Note 6)	**18,464**	15,357
Investment properties (Note 9)	**14,314**	10,797
Investments in associates and joint venture (Note 8)	**94,828**	60,265
Property and equipment (Note 11)	**9,367**	51,972
Goodwill and intangible assets (Note 13)	**12,802**	19,727
Deferred tax assets (Note 29)	**540**	748
Other noncurrent assets (Note 14)	**781**	878
Total Noncurrent Assets	**159,680**	169,621
	₱265,446	₱304,366

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Note 15)	**₱21,177**	₱22,129
Short-term debt (Note 17)	**6,697**	7,318
Current portion of long-term debt (Note 17)	**1,581**	6,924
Current portion of liabilities on purchased properties (Notes 20 and 27)	**166**	637
Customers' deposits (Note 18)	**3,839**	3,691
Dividends payable (Note 27)	**589**	2,861
Due to related parties (Note 27)	**195**	174
Income tax payable	**202**	1,013
Other current liabilities (Note 19)	**638**	520
	35,084	45,267
Liabilities of disposal group classified as held-for-sale (Note 12)	**–**	6,444
Total Current Liabilities	**35,084**	51,711

(Forward)

	December 31	
	2016	2015 (As restated – Note 31)
Noncurrent Liabilities		
Long-term debt – net of current portion (Note 17)	**₱56,475**	₱81,847
Bonds payable (Note 17)	**21,848**	21,801
Liabilities on purchased properties - net of current portion (Notes 20 and 27)	**1,993**	2,146
Pension liability (Note 28)	**1,671**	2,219
Deferred tax liabilities (Note 29)	**5,052**	5,501
Other noncurrent liabilities (Note 21)	**2,085**	2,609
Total Noncurrent Liabilities	**89,124**	116,123
	124,208	167,834
Equity		
Equity attributable to equity holders of the Parent Company		
Capital stock (Note 22)	**2,960**	1,760
Additional paid-in capital (Note 22)	**57,437**	46,695
Treasury shares (Note 22)	**–**	(6)
Retained earnings – unappropriated (Note 22)	**39,961**	33,264
Retained earnings – appropriated (Note 22)	**14,900**	8,760
Reserve of disposal group classified as held-for-sale (Note 12)	**–**	(75)
Net unrealized gain on available-for-sale investments (Note 10)	**186**	823
Net unrealized loss on remeasurements of defined benefit plans (Note 28)	**(221)**	(305)
Equity in net unrealized loss on available-for-sale investments of associates (Note 8)	**(2,547)**	(969)
Equity in translation adjustments of associates (Note 8)	**677**	502
Equity in net unrealized loss on remeasurements of defined benefit plans of associates and joint venture (Note 8)	**(869)**	(898)
Equity in cash flow hedge reserve of a joint venture (Note 8)	**12**	4
Equity in other equity adjustments of associates (Note 8)	**(13)**	–
Other equity adjustments (Note 22)	**2,322**	576
	114,805	90,131
Non-controlling interests (Note 22)	**26,433**	46,401
Total Equity	**141,238**	136,532
	₱265,446	₱304,366

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		
	2016	2015 (As restated – Notes 12 and 31)	2014 (As restated – Note 12)
CONTINUING OPERATIONS			
REVENUE			
Automotive operations (Note 35)	**₱177,709**	₱120,802	₱108,816
Real estate sales (Note 35)	**12,438**	9,000	5,841
Equity in net income of associates and joint venture (Note 8)	**6,366**	5,616	3,421
Interest income (Note 23)	**2,262**	1,790	1,380
Rent income (Notes 9 and 30)	**826**	840	764
Sale of goods and services	**620**	547	583
Commission income	**192**	194	80
Gain on revaluation of previously held interest (Note 31)	**125**	–	–
Other income (Note 23)	**1,586**	1,160	1,002
	202,124	139,949	121,887
COSTS AND EXPENSES			
Cost of goods and services sold (Note 25)	**122,060**	74,941	70,597
Cost of goods manufactured and sold (Note 25)	**33,792**	27,838	24,213
General and administrative expenses (Note 26)	**12,837**	7,482	7,133
Cost of real estate sales (Note 6)	**7,586**	6,512	4,334
Interest expense (Note 17)	**3,326**	2,164	1,392
Cost of rental (Note 30)	**326**	272	270
	179,927	119,209	107,939
INCOME BEFORE INCOME TAXES FROM CONTINUING OPERATIONS	**22,197**	20,740	13,948
PROVISION FOR INCOME TAX (Note 29)	**4,586**	4,299	2,569
NET INCOME FROM CONTINUING OPERATIONS	**17,611**	16,441	11,379
NET INCOME FROM DISCONTINUED OPERATIONS (Note 12)	**4,916**	4,500	3,772
NET INCOME	**₱22,527**	₱20,941	₱15,151
ATTRIBUTABLE TO:			
Equity holders of the Parent Company			
Profit for the year from continuing operations	**₱10,631**	₱10,396	₱7,776
Profit for the year from discontinued operations	**4,003**	1,719	1,377
	14,634	12,115	9,153
Non-controlling interests			
Profit for the year from continuing operations	**6,980**	6,045	3,603
Profit for the year from discontinued operations	**913**	2,781	2,395
	7,893	8,826	5,998
	₱22,527	₱20,941	₱15,151
Basic/Diluted Earnings Per Share from Continuing Operations Attributable to Equity Holders of the Parent Company (Note 34)	**₱60.99**	₱59.64	₱44.61
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 34)	**₱83.96**	₱69.51	₱52.51

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	Years Ended December 31		
	2016	2015 (As restated – Notes 12 and 31)	2014 (As restated – Note 12)
NET INCOME FROM CONTINUING OPERATIONS	**₱17,611**	₱16,441	₱11,379
NET INCOME FROM DISCONTINUED OPERATIONS (Note 12)	**4,916**	4,500	3,772
NET INCOME	**22,527**	20,941	15,151
OTHER COMPREHENSIVE INCOME			
CONTINUING OPERATIONS			
Items that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments (Note 10)	**1,065**	414	938
Equity in other comprehensive income of associates and joint venture (Note 8):			
Changes in fair value of available-for-sale investments	**(1,578)**	(891)	(83)
Cash flow hedge reserve	**8**	4	–
Translation adjustments	**175**	111	(26)
Other equity adjustments	**(13)**	–	–
	(343)	(362)	829
Items that may not be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans (Note 28)	**(20)**	260	(302)
Equity in remeasurement of defined benefit plans of associates (Note 8)	**26**	(404)	154
Income tax effect	**(2)**	43	44
	4	(101)	(104)
OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS	**(339)**	(463)	725
OTHER COMPREHENSIVE INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	**19**	(39)	36
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(320)**	(502)	761
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱22,207**	₱20,439	₱15,912
ATTRIBUTABLE TO:			
Equity holders of the Parent Company			
Total comprehensive income for the year from continuing operations	**₱9,812**	₱9,571	₱7,975
Total comprehensive income for the year from discontinued operations	**4,004**	1,729	1,512
	13,816	11,300	9,487
Non-controlling interests			
Total comprehensive income for the year from continuing operations	**7,478**	6,358	4,024
Total comprehensive income for the year from discontinued operations	**913**	2,781	2,401
	8,391	9,139	6,425
	₱22,207	₱20,439	₱15,912

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company																
(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)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 10)	Net Unrealized Gain (Loss) on Remeasurements of Defined Benefit Plans (Note 28)	Equity in Net Unrealized Gain (Loss) on Available-for-Sale Investments of Associates (Note 8)	Equity in Translation Adjustments of Associates (Note 8)	Equity in Net Unrealized Loss on Remeasurements of Defined Benefit Plans of Associates and Joint Venture (Note 8)	Equity in Cash flow Hedge Reserve of Joint Venture	Equity in Other Equity Adjustments of associates	Reserve of Disposal Group Classified as Held for Sale	Other Equity Adjustments (Note 22)	Total	Attributable to Non-controlling Interests (Note 22)	Total Equity
Balance at January 1, 2016	**₱1,760**	**₱46,695**	**(₱6)**	**₱8,760**	**₱33,268**	**₱823**	**(₱305)**	**(₱969)**	**₱502**	**(₱898)**	**₱4**	**₱–**	**(₱75)**	**₱576**	**₱90,135**	**₱53,708**	**143,843**
Adjustments to reflect final purchase price allocation (Note 31)	–	–	–	–	**(4)**	–	–	–	–	–	–	–	–	–	**(4)**	**(7,307)**	**(7,311)**
At January 1, 2016 (As restated)	**1,760**	**46,695**	**(6)**	**8,760**	**33,264**	**823**	**(305)**	**(969)**	**502**	**(898)**	**4**	–	**(75)**	**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 31)	–	–	–	–	–	–	–	–	–	–	–	–	–	**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)**	**(1,198)**	**92**	–	–	–	–	–	–	–	**(1,199)**	**(18,068)**	**(19,267)**
Total comprehensive income	–	–	–	–	**14,634**	**561**	**(8)**	**(1,578)**	**175**	**18**	**8**	**(13)**	**19**	–	**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**	**₱186**	**(₱221)**	**(₱2,547)**	**₱677**	**(₱869)**	**₱12**	**(₱13)**	**₱–**	**₱2,322**	**₱114,805**	**₱26,433**	**₱141,238**
Balance at January 1, 2015	₱1,743	₱46,695	(₱2)	₱6,000	₱24,432	₱618	(₱419)	(₱78)	₱391	(₱615)	₱–	₱–	₱–	₱582	₱79,347	₱26,595	₱105,942
Issuance of capital stock	17	–	–	–	–	–	–	–	–	–	–	–	–	–	17	–	17
Effect of business combination (Notes 10 and 31)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	16,996	16,996
Dividends declared (Note 22)	–	–	–	–	(523)	–	–	–	–	–	–	–	–	–	(523)	(6,309)	(6,832)
Appropriation during the period	–	–	–	8,760	(8,760)	–	–	–	–	–	–	–	–	–	–	–	–
Reversal of appropriation upon completion of expansion and acquisition	–	–	–	(6,000)	6,000	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of treasury shares	–	–	(4)	–	–	–	–	–	–	–	–	–	–	–	(4)	–	(4)
Return of deposits	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(15)	(15)
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	–	–	(6)	(6)	(5)	(11)
Total comprehensive income	–	–	–	–	12,115	217	66	(891)	111	(283)	4	–	(39)	–	11,300	9,139	20,439
Reclassification to reserves of disposal group	–	–	–	–	–	(12)	48	–	–	–	–	–	(36)	–	–	–	–
Balance at December 31, 2015	₱1,760	₱46,695	(₱6)	₱8,760	₱33,264	₱823	(₱305)	(₱969)	₱502	(₱898)	₱4	₱–	(₱75)	₱576	₱90,131	₱46,401	₱136,532
Balance at January 1, 2014	₱1,743	₱46,695	(₱6)	₱–	₱21,802	₱80	(₱216)	₱5	₱417	(₱723)	₱–	₱–	₱–	₱729	₱70,526	₱22,038	₱92,564
Effect of business combination (Note 31)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	42	42
Acquisition of non-controlling interest (Notes 22 and 31)	–	–	–	–	–	–	–	–	–	–	–	–	–	(340)	(340)	(373)	(713)
Appropriation during the period	–	–	–	9,000	(9,000)	–	–	–	–	–	–	–	–	–	–	–	–
Reversal of appropriation upon completion of expansion and acquisition	–	–	–	(3,000)	3,000	–	–	–	–	–	–	–	–	–	–	–	–
Dividends declared (Note 22)	–	–	–	–	(523)	–	–	–	–	–	–	–	–	–	(523)	–	(523)
Sale of direct interest in a subsidiary (Note 22)	–	–	–	–	–	–	–	–	–	–	–	–	–	193	193	105	298
Dividends paid to non-controlling interest (Note 22)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(4,320)	(4,320)
Effect of equity call (Note 22)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,146	2,146
Acquisition of treasury shares (Note 22)	–	–	4	–	–	–	–	–	–	–	–	–	–	–	4	–	4
Non-controlling interest on deposit for future stock subscription (Note 22)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	532	532
Total comprehensive income	–	–	–	–	9,153	538	(203)	(83)	(26)	108	–	–	–	–	9,487	6,425	15,912
Balance at December 31, 2014	₱1,743	₱46,695	(₱2)	₱6,000	₱24,432	₱618	(₱419)	(₱78)	₱391	(₱615)	₱–	₱–	₱–	₱582	₱79,347	₱26,595	₱105,942

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31		
	2016	2015 (As restated – Note 31)	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱22,197**	₱20,740	₱13,948
Income before income tax from discontinued operations (Note 12)	**4,955**	4,726	3,912
Income before income tax	**27,152**	25,466	17,860
Adjustments for:			
Equity in net income of associates and joint venture (Note 8)	**(6,366)**	(5,616)	(3,421)
Interest expense (Notes 17)	**4,106**	3,932	3,241
Depreciation and amortization (Note 11)	**2,717**	3,414	3,203
Interest income (Notes 12 and 23)	**(2,327)**	(2,052)	(1,595)
Pension expense (Note 28)	**349**	454	344
Gain on disposal of direct ownership in subsidiaries (Note12)	**(1,769)**	–	–
Realization of previously deferred gain (Note 12)	**(1,918)**	–	–
Gain on remeasurement of previously held interest (Note 31)	**(125)**	–	–
Dividend income (Notes 12 and 23)	**–**	(49)	(53)
Gain on disposal of property and equipment (Notes 11 and 23)	**(50)**	(30)	(90)
Gain on sale of available-for-sale investments (Notes 10 and 23)	**–**	(18)	(12)
Provisions (Note 26)	**468**	350	445
Loss on impairment of available-for-sale investments (Note 26)	**–**	–	10
Unrealized foreign exchange losses (Note 26)	**468**	89	1
Operating income before changes in working capital	**22,705**	25,940	19,933
Decrease (increase) in:			
Short-term investments	**(36)**	408	157
Receivables	**1,055**	(1,520)	(1,794)
Reinsurance assets	**–**	1,005	1,086
Inventories	**(4,245)**	(11,618)	(12,554)
Land held for future development (Note 6)	**(2,842)**	(831)	–
Due from related parties	**290**	137	274
Prepayments and other current assets	**(1,802)**	(1,511)	603
Increase (decrease) in:			
Accounts and other payables	**3,420**	1,510	(1,131)
Insurance contract liabilities	**–**	(613)	(1,019)
Customers' deposits	**116**	466	705
Due to related parties	**–**	(2)	(12)
Other current liabilities	**870**	(2,162)	(1,732)
Cash provided by operations	**19,531**	11,209	4,516
Dividends paid (Note 22)	**(9,817)**	(6,005)	(4,775)
Interest paid	**(4,447)**	(4,163)	(2,955)
Income tax paid	**(5,456)**	(4,216)	(2,832)
Interest received	**2,324**	1,993	1,542
Dividends received (Note 8)	**1,018**	918	1,247
Contributions to pension plan assets (Note 28)	**(304)**	(205)	(129)
Net cash provided by (used in) operating activities	**2,849**	(469)	(3,386)

(Forward)

	Years Ended December 31		
	2016	2015 (As restated - Note 1)	2014
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Disposal of property and equipment	**₱115**	₱566	₱675
Sale of available-for-sale investments	**–**	271	566
Sale of subsidiaries (Note 12)	**7,438**	–	–
Disposal of investment property	**86**	140	–
Additions to:			
Investments in associates and joint venture (Note 8)	**(33,767)**	(8,833)	(4,225)
Investment properties (Note 9)	**(649)**	(485)	(87)
Property and equipment (Note 11)	**(6,396)**	(9,954)	(6,664)
Available-for-sale investments	**(1,280)**	(526)	(594)
Intangible assets (Note 13)	**(196)**	(29)	(12)
Acquisition of subsidiary, net of cash acquired (Note 31)	**886**	(6,902)	(282)
Decrease (increase) in other noncurrent assets	**(170)**	243	(64)
Net cash used in investing activities	**(33,933)**	(25,509)	(10,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loan availments (Note 17)	**46,648**	57,830	7,660
Issuance of bonds payable	**–**	–	11,875
Issuance of capital stock (Note 22)	**11,942**	17	–
Payment of loans payable	**(41,384)**	(21,911)	(5,800)
Increase (decrease) in:			
Due to related parties	**21**	–	–
Liabilities on purchased properties	**(623)**	(730)	(809)
Other noncurrent liabilities	**(117)**	(162)	1,006
Non-controlling interests (Note 22)	**(1,842)**	76	2,677
Net cash provided by financing activities	**14,645**	35,120	16,609
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(468)**	(89)	(1)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(16,907)**	9,053	2,535
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**37,861**	29,702	27,167
CASH AND CASH EQUIVALENTS OF DISPOSAL GROUP AT END OF YEAR (Note 12)	**–**	(894)	–
CASH AND CASH EQUIVALENTS OF CONTINUING OPERATION AT END OF YEAR (Note 4)	**₱20,954**	₱37,861	₱29,702

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

GT Capital Holdings, Inc. (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. (Fed Land) and Subsidiaries (Fed 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 Fed 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 Fed 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 Fed 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 Co. (MBTC or Metrobank), Metro Pacific Investments Corporation (MPIC), Philippine AXA Life Insurance Corporation (AXA Philippines or Phil AXA) and Toyota Financial Services Philippines Corporation (TFSPC).

The registered office address of the Parent Company is at the 43rd Floor, GT Tower International, Ayala Avenue corner H.V. de la 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 available-for-sale (AFS) investments which 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).

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:

	Country of Incorporation	Direct Percentages of Ownership December 31 2016	2015	2014	Effective Percentages of Ownership December 31 2016	2015	2014
Fed Land and Subsidiaries	Philippines	**100.00**	100.00	100.00	**100.00**	100.00	100.00
PCFI and Subsidiaries	-do-	**51.00**	22.68	–	**51.00**	22.68	–
Toyota and Subsidiaries	-do-	**51.00**	51.00	51.00	**51.00**	51.00	51.00
TMBC and Subsidiaries (Note 31)	-do-	**58.05**	–	–	**58.05**	–	–
GTCAD and Subsidiary*	-do-	**100.00**	–	–	**100.00**	–	–
Charter Ping An (Note 12)	-do-	–	100.00	100.00	–	100.00	100.00
Toyota Cubao, Inc. (TCI) and Subsidiary (Note 31)	-do-	–	53.80	52.01	–	53.80	52.01
Global Business Power Corp. (GBPC) and Subsidiaries (Note 12)	-do-	–	51.27	51.27	–	52.45	52.45

**GTCAD was incorporated on June 13, 2016 and has not started commercial business operations.*

Fed Land's Subsidiaries

	Percentage of Ownership 2016	2015	2014
Horizon Land Property and Development Corp. (HLPDC)	**100.00**	100.00	100.00
Omni - Orient Management Corp. (Previously as Top Leader Property Management Corp.) (TLPMC)	**100.00**	100.00	100.00
Federal Land Orix Corporation (FLOC)*	**100.00**	–	–
Central Realty and Development Corp. (CRDC)	**75.80**	75.80	75.80
Federal Brent Retail, Inc. (FBRI)	**51.66**	51.66	51.66
FLI - Management and Consultancy, Inc. (FMCI)**	**–**	–	100.00
Baywatch Project Management Corporation (BPMC)**	**–**	–	100.00

** On December 23, 2016,Fed Land acquired the 40% ownership in FLOC from Orix Risingsun Properties Incorporated (ORPI). As a result of the purchase, Fed Land gained control in FLOC and accounted for its investment as a subsidiary as of December 31, 2016.*
*** On July 4, 2014, the BOD of Fed Land approved the merger of Fed Land and its two subsidiaries namely FMCI and BPMC, where Fed Land will be the surviving entity and the two subsidiaries will be the absorbed entities. The SEC approved the merger on March 20, 2015.*

PCFI's Subsidiaries

	Percentage of Ownership	
	2016	2015
Micara Land, Inc.	**100.00**	100.00
Firm Builders Realty Development Corporation	**100.00**	100.00
Marcan Development Corporation (MDC)*	**100.00**	100.00
Camarillo Development Corporation (CDC)**	**100.00**	–
Branchton Development Corporation (BDC)***	**100.00**	–
Williamton Financing Corporation (WFC)**** (Note 31)	**100.00**	–

** MDC was incorporated on November 25, 2015.*
***On March 31, 2016 CDC was incorporated and has not started commercial business operations.*
****On June 14, 2016, BDC was incorporated and has not started commercial business operations.*
*****On June 23, 2016, PCFI acquired 100% of WFC from Maplecrest Group, Inc. (formerly known as Profriends Group, Inc.)*

Toyota's Subsidiaries

	Percentage of Ownership		
	2016	2015	2014
Toyota Makati, Inc. (TMI)	**100.00**	100.00	100.00
Toyota Sta. Rosa Laguna, Inc. (TSRLI)*	**100.00**	100.00	–
Lexus Manila, Inc. (LMI)	**75.00**	75.00	75.00
Toyota San Fernando Pampanga, Inc. (TSFI)	**55.00**	55.00	55.00

**TSRLI was incorporated on June 24, 2015.*

TMBC's Subsidiaries

	Percentage of Ownership
	2016
Oxfordshire Holdings, Inc. (OHI)	**100.00**
TMBC Insurance Agency Corporation (TIAC)*	**100.00**

**TIAC was incorporated on May 4, 2016*

GTCAD has 55% ownership in Toyota Subic, Inc. (TSI). TSI was incorporated on July 14, 2016 and has not started commercial business operations.

GBPC's Subsidiaries

	Percentage of Ownership		
	2016*	2015	2014
ARB Power Venture, Inc. (APVI)	–	100.00	100.00
Toledo Holdings Corp. (THC)	–	100.00	100.00
Toledo Cebu Int'l Trading Resources Corp. (TCITRC)	–	100.00	100.00
Toledo Power Company (TPC)	–	100.00	100.00
GBH Power Resources, Inc. (GPRI)	–	100.00	100.00
Global Energy Supply Corp. (GESC)	–	100.00	100.00
Mindanao Energy Development Corporation (MEDC)	–	100.00	100.00
Global Hydro Power Corporation (GHPC)	–	100.00	100.00
Global Renewables Power Corporation (GRPC)	–	100.00	100.00
Global Luzon Energy Development Corporation (GLEDC)	–	100.00	49.00
Global Formosa Power Holdings, Inc. (GFPHI)	–	93.20	93.20
Panay Power Holdings Corp (PPHC)	–	89.30	89.30
Panay Power Corp. (PPC)	–	89.30	89.30
Panay Energy Development Corp. (PEDC)	–	89.30	89.30
Cebu Energy Development Corp. (CEDC)	–	52.19	52.19

**On May 27, 2016, the Group sold its entire 56% investment in GBPC to Beacon Powergen Holdings, Inc. (Beacon) (Note 12).*

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.

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 except for PCFI which uses fair value model in accounting for its 'Investment properties'. The carrying values of the investment properties of PCFI are adjusted to eliminate the effect of revaluation or fair value gain and to recognize the related accumulated depreciation based on the original acquisition cost to align the measurement with the Group's accounting policy. 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'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 'Effect of uniting of interest' 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 Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) which were adopted as of January 1, 2016.

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 to PFRS 10, PFRS 12 and Philippine Accounting Standard (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The impact of the revised standards adopted effective January 1, 2016 has been reflected in the consolidated financial statements, as applicable.

Significant Accounting Policies

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
The Group measures financial instruments, such as AFS investments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their 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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>

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 (FVPL), 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 FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL 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.

As of December 31, 2016 and 2015, the Group has no financial assets and financial liabilities at FVPL and HTM investments. The Group's financial instruments include loans and receivables, AFS investments and other financial liabilities.

Determination of fair value
The fair value for financial instruments traded in active markets as at the reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and asking price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

'Day 1' 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 FVPL. 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 FVPL, HTM investments, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. 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 statement 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 FVPL 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. 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.

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 statement 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.

Derecognition of Financial Assets and Liabilities

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. This is not generally the case with master netting agreements, where the related assets and liabilities are presented at gross in the consolidated statement of financial position.

<u>Inventories</u>

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, and condominium units held for sale.

Land and improvements consists of properties that is held for future real estate projects and 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. Upon commencement of real estate project, the subject land is transferred to ‘Condominium units held for sale’.

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.

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.

Power inventories

Inventories, at GBPC Group, which consist of coal, industrial fuel, lubricating oil, spare parts and supplies are stated at the lower of cost and NRV. Cost is determined using the weighted average method while the NRV is the current replacement cost. In determining the NRV, the Group considers any adjustment necessary for obsolescence.

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 jointly-controlled entity 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 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 in associates and joint venture' account in the consolidated statement 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 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 25 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.

Construction-in-progress (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.

Construction-in-progress (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.

Power plant construction in progress represents power plant complex under construction and is stated at cost. Cost of power plant construction in progress includes purchase price of the components, capitalized borrowing cost, cost of testing and other directly attributable cost of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. CIP is not depreciated until such time that the relevant assets are ready for 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	5
Leasehold improvements	2 to 10 or lease term (whichever is shorter)
Machinery, tools and equipment	3 to 5
Building	20 to 40
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.

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 power purchase agreements, 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.

Power Purchase Agreements (PPA)
PPA pertain to the electricity power purchase agreements (EPPAs) which give GBPC the right to charge certain electric cooperatives for the electricity to be generated and delivered by GBPC. This is recognized initially at fair value which consists of the cost of the power generation and the fair value of future fee payments. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The PPA is amortized using the straight-line method over the estimated economic useful life which is the life of the EPPAs, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated economic useful life ranges from 4 to 25 years. The amortization period and the amortization method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

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.

Franchise
Franchise fee is amortized over the franchise period which ranges from 3 to 5 years. 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.

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.

Deposits
Deposits are stated at cost. Cost is the fair value of the asset given up at the date of transfer to the affiliates. This account is treated as a real option money to purchase and develop a property that is held by a related party or an equity instrument to be issued upon exercise of option. The deposit granted to affiliates charges an interest and other related expenses in lieu of the time value in use of option money granted to the affiliates (Note 23).

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 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
Except for customer relationship, where an indication of impairment exists, the carrying amount of intangible assets with finite useful lives is assessed and written down immediately to its recoverable amount. 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.

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.

Value-Added Tax (VAT)
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.

Assets Held for Sale and Non-current assets held for distribution to equity holders of the parent and disposal group

The Group classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group classifies a disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. Such disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets held for sale are included under ‘Prepayments and other current assets’ in the consolidated statements of financial position.

Assets and liabilities of disposal group classified as held-for-sale are presented separately in the consolidated statements of financial position.

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 (loss) from disposal group’ 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 condominium units 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 contract receivables.

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.

Deposits for future stock subscriptions
Deposits for future stock subscriptions are recorded based on the amounts received from stockholders and amounts of advances to be converted to equity.

Retained earnings
The amount included in retained earnings includes profit or loss attributable to the Group's equity holders and reduced by dividend on common 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.

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.

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.

Net fees
Net fees consist of energy fees for the energy and services supplied by the operating companies as provided for in their respective PPA or EPPA with respective customers. Energy fee is recognized based on actual delivery of energy generated and made available to customers multiplied by the applicable tariff rate, net of adjustments, as agreed upon between the parties. In case the actual energy delivered by PPC and GPRI to customers is less than the minimum energy off-take, PPC and GPRI shall reimburse their customers for the difference between the actual cost for sourcing the shortfall from another source and tariff rate, multiplied by the actual shortfall. On the other hand, if the customers fail to accept the minimum supply, the customers shall be subject to penalty equivalent to the cost of power unused or not accepted on an annual basis. For TPC, energy fee is recognized based on actual delivery of energy generated and made available to its customers, multiplied by the applicable tariff rate, net of adjustments, as agreed upon between TPC and its customers.

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. When the sale of real estate does not meet the requirements for revenue recognition, the sale is accounted under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventories continue to be reported in the consolidated statement of financial position as 'Inventories' and the related liability as deposit under 'Customers' deposits'.

In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-01, 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, 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 Fed 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 percentage of completion 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.

Power plant operation and maintenance expenses

Power plant operations mainly represent depreciation of power plants, costs of coal and start-up fuel. Repairs and maintenance mainly represent cost of materials and supplies consumed and the cost of restoration and maintenance of the power plants. Purchased power represents power purchased from National Power Corporation (NPC).

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.

Benefits and claims

Benefits and claims consists of benefits and claims paid to policyholders, which includes changes in the valuation of Insurance contract liabilities, except for changes in the provision for unearned premiums which are recorded in insurance revenue. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Net insurance benefits and claims represent gross insurance contract benefits and claims and gross change in insurance contract liabilities less reinsurer's share.

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 when 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 restated using the closing exchange rates prevailing at reporting date. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at reporting date are credited to or charged against current operations.

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.

Decommissioning liability
The decommissioning liability arose from the Group’s obligation, under the Environmental Compliance Certificates of certain subsidiaries of GBPC, to decommission or dismantle their power plant complex at the end of its useful lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as an ‘Accretion of decommissioning liability’ under the ‘Interest expense’ account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the power plant complex, the excess shall be recognized immediately in the consolidated statement of profit or loss.

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 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.

<u>Standards Issued But Not Yet Effective</u>
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 financial statements.

Effective beginning on or after January 1, 2017

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

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

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

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

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

  The Group is assessing the impact of adopting the amendments.

Effective beginning on or after January 1, 2018

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

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

The amendments are not applicable to the Group since it does not have share-based payment transactions.

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

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

  The Group is assessing the impact of adopting the amendments.

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

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

  The Group does not anticipate early adopting PFRS 15 and is currently assessing its impact.

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

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group’s financial liabilities. The adoption will also have an effect on the Group’s credit losses. The Group does not anticipate early adopting PFRS 9 and is currently assessing its impact.

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

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

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

Effective beginning on or after January 1, 2019

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

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

Deferred effectivity

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

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

3. 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 board of directors 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, 2016, 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 both its significant shareholding and its representation in MPIC's Board of Directors.

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.

Collectibility of the sales price
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.

Operating lease commitments – the Group as lessee
The Group has entered into a lease contract with its related parties with respect to the parcels of land where its retail malls are located. The Group has determined that all significant risks and rewards of ownership of the leased property remains with the lessor since the leased property, together with the buildings thereon, and all permanent fixtures, will be returned to the lessor upon termination of the lease.

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.

Financial assets not quoted in an active market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Distinction between real estate inventories and investment properties
The Group determines whether a property will be classified as real estate inventories or investment properties. In making this judgment, the Group considers whether the property is held for sale in the ordinary course of business (real estate inventories) or which are held primarily to earn rental and capital appreciation and are not occupied substantially for use by, or in the operations of the Group (investment properties).

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.

Assets and liabilities of disposal group classified as held-for-sale
On November 5, 2015, the Parent Company signed an agreement to sell 100% of Charter Ping An Insurance Company (CPAIC) to AXA Philippines for ₱2.30 billion, subject to closing conditions.

Management assessed that said transaction met the criteria for recognition of disposal group classified as held-for-sale for the following reasons:

- the Parent Company will recover the carrying amount of the investment in CPAIC through a sale transaction rather than through continuing use;
- CPAIC shares are available for immediate sale and can be sold in its current condition, subject to terms that are usual and customary;
- a pre-completion committee was organized to facilitate completion of the sale transaction; and;

For more details on the assets and liabilities of disposal group classified as held-for-sale, refer to Note 12.

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.

The carrying amount of installment contracts receivables amounted to ₱19.29 billion and ₱22.57 billion as of December 31, 2016 and 2015, respectively (Note 5). The Group recognized real estate sales in 2016, 2015 and 2014 amounting to ₱12.44 billion, ₱9.0 billion and ₱5.84 billion, respectively.

Estimating allowance for impairment losses
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.

As of December 31, 2016 and 2015, the carrying values of these receivables and due from related parties are disclosed in Notes 5 and 27, respectively:

	2016	2015
Receivables (Note 5)	**₱29,939**	₱33,738
Due from related parties (Note 27)	**80**	370

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.

Gasoline retail, petroleum products and chemicals
The Group provides allowance for inventory losses whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The allowance account is reviewed regularly to reflect the appropriate valuation in the financial records.

The carrying value of the Group's inventories is disclosed in Note 6.

Estimating the useful life of customer relationship
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 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 value of the customer relationship is disclosed in Note 13.

As of December 31, 2016 and 2015, the carrying values of investment property, property and equipment, intangible assets from power purchase agreements, customer relationship, software costs and franchise are as follow:

	2016	2015
Investment properties (Note 9)	**₱14,314**	₱10,797
Property and equipment (Note 11)	**9,367**	51,972
Power purchase agreements - net (Note 13)	**–**	7,260
Customer relationship (Note 13)	**3,883**	3,883
Software costs - net (Note 13)	**238**	115
Franchise - net (Note 13)	**2**	2

Evaluating asset impairment
The Group reviews investment properties, investments in and advances to associates and joint venture, input VAT, creditable withholding tax, property and equipment, power purchase agreements, software costs, franchise 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, software cost and franchise. The following table sets forth the carrying values of investment properties, investments in associates and joint venture, input VAT, creditable withholding tax, property and equipment, power purchase agreements, customer relationship software costs, franchise and other noncurrent assets as of December 31, 2016 and 2015:

	2016	2015
Investment properties (Note 9)	**₱14,314**	₱10,797
Investments in associates and joint venture (Note 8)	**94,828**	60,265
Input VAT (Note 7)	**1,603**	3,299
Creditable withholding taxes (Note 7)	**569**	398
Property and equipment (Note 11)	**9,367**	51,972
Power purchase agreements - net (Note 13)	**–**	7,260
Customer relationship (Note 13)	**3,883**	3,883
Software - net (Note 13)	**238**	115
Franchise - net (Note 13)	**2**	2
Other noncurrent assets (Note 14)	**781**	878

Estimating impairment of AFS investments
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.

As of December 31, 2016 and 2015, the carrying values of AFS investments are as follow:

	2016	2015
AFS - current (Note 10)	**₱1,284**	₱–
AFS - noncurrent (Note 10)	**1,443**	3,195

The change in fair value of AFS investments is recorded in the consolidated statements of comprehensive income. Net unrealized gain on AFS investments amounted to ₱186.22 million and ₱823.41 million as of December 31, 2016 and 2015, respectively (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 revenue growth, discount rates for long term growth rate and inflation rate. 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 the decommissioning liability
The Group has a legal obligation to decommission or dismantle its power plant asset at the end of its useful life. The Group recognizes the present value of the obligation to dismantle the power plant asset and capitalizes the present value of this cost as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest ranging from 1.36% to 3.52% per annum to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense which is included under 'Interest expense' in the consolidated statement of comprehensive income.

Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of comprehensive income as it occurs.

While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates. The amount and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Decommissioning liability amounted to ₱248.93 million as of December 31, 2015 (Note 21).

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 21.

Purchase price allocation of investment in PCFI
The valuation of PCFI's land and inventories for the finalization of the purchase price allocation involves estimates such as the use of comparable properties, discount rates and cost projections.

Purchase price allocation of investment in MPIC
The Parent Company is required to perform a purchase price allocation for its investment in MPIC. 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.

4. Cash, Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

	2016	2015
Cash on hand	**₱28**	₱11
Cash in banks (Note 27)	**15,186**	16,348
Cash equivalents (Note 27)	**5,740**	21,502
	₱20,954	₱37,861

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 0.01% to 2.50% in 2016, from 0.25% to 2.50% in 2015, and from 0.50% to 3.75% in 2014.

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 0.75% to 2.50% in 2016, from 0.16% to 1.70% in 2015, and from 0.20% to 2.00% in 2014 (Note 27).

5. Receivables

This account consists of:

	2016	2015 (As restated – Note 31)
Installment contracts receivables	**₱19,293**	₱22,565
Trade receivables	**8,031**	9,282
Loans receivable	**643**	681
Nontrade receivables	**399**	437
Accrued rent and commission income	**378**	534
Management fee receivables	**182**	–
Accrued interest receivable	**152**	148
Dividends receivable (Note 27)	**–**	60
Others	**883**	319
	29,961	34,026
Less: Allowance for credit losses	**22**	288
	₱29,939	₱33,738

Total receivables shown in the consolidated statements of financial position follow:

	2016	2015 (As restated – Note 31)
Current portion	**₱22,798**	₱27,056
Noncurrent portion	**7,141**	6,682
	₱29,939	₱33,738

Noncurrent receivables consist of:

	2016	2015 (As restated – Note 31)
Trade receivables	**₱–**	₱341
Installment contracts receivables	**6,498**	5,660
Loans receivable	**643**	681
	₱7,141	₱6,682

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 follow:

	2016	2015 (As restated – Note 31
Installment contracts receivables	**₱20,152**	₱23,558
Less: Unearned interest income	**859**	993
	19,293	22,565
Less: Noncurrent portion	**6,498**	5,660
Current portion	**₱12,795**	₱16,905

Installment contracts receivables are collected over a period of one to 10 years. The fair value upon initial recognition for Fed Land is derived using the discounted cash flow methodology using discount rates ranging from 8.00% to 12.00% in 2016 and 2015. PCFI's installment receivables bear annual interest rates ranging from 14.00% to 21.00% and 18.00% to 21.00% in 2016 and 2015, respectively, computed on the diminishing balance of the principal.

Movements in the unearned interest income in 2016 and 2015 follow:

	2016	2015
Balance at beginning of year	**₱993**	₱1,058
Additions	**1,159**	1,223
Accretion (Note 23)	**(1,293)**	(1,288)
Balance at end of year	**₱859**	₱993

Trade Receivables
The details of trade receivables follow:

	2016	2015
Current:		
Automotive	**₱8,031**	₱5,433
Power	**–**	₱3,508
	8,031	8,941
Noncurrent:		
Power	**–**	341
	₱8,031	₱9,282

Trade receivables from power pertain to outstanding billings for energy fees and pass through fuel costs arising from the delivery of electricity, while trade receivables for automotive pertain to receivables from sale of vehicles and/or parts and services.

Trade receivables are noninterest-bearing and generally have 30 days to one year term.

In 2016, trade and loans receivable from power were deconsolidated upon disposal of GBPC (Note 12).

Loans Receivable
Loans receivable from various counterparties pertain to long-term receivables as follows:

	2016	2015
Real estate (Note 27)	**₱643**	₱634
Power	**–**	47
Balance at end of year	**₱643**	₱681

Loans receivable for real estate relate to a loan agreement (Loan) with Cathay International Resources Corp. (Borrower), an affiliate. On December 21, 2012, Fed Land agreed to lend to the Borrower a total amount of ₱705.00 million with a nominal and effective 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 (Note 27). Fed 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 2016 and 2015 amounted to ₱8.73 million and ₱8.30 million, respectively.

On June 8, 2015, the Board of Fed Land approved the conversion of this receivable to equity in exchange for the common shares of CIRC. Fed 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, 2016 and 2015 amounted to ₱643.04 million and ₱634.31 million, respectively.

Accrued Rent and Commission Income
Accrued rent and commission income from real estate business pertain to rent and commission from third party real estate developers already earned but not yet collected, with a 15 to 30 days term.

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).

Dividends Receivable
Dividends receivable pertains to receivable from Federal Land Orix Corporation (FLOC) for dividends earned but not yet received as of December 31, 2015 (Note 27). Dividends receivable in 2015 was collected in 2016.

Others
Other receivables include receivable from employees, receivable from Bureau of Internal Revenue (BIR) and management fee receivables (Note 27).

Allowance for Credit Losses
Changes in the allowance for credit losses on receivables are as follows:

	December 31, 2016			
	Trade Receivables	**Insurance Receivables**	**Other Receivables**	**Total**
Balance at beginning of year	**₱7**	**₱–**	**₱281**	**₱288**
Provision for credit losses	**16**	–	**5**	**21**
Reversal	**(23)**	–	**(4)**	**(27)**
Effect of sale of a subsidiary (Note 12)		–	**(260)**	**(260)**
Balance at end of year	**₱–**	**₱–**	**₱22**	**₱22**
Individual impairment	**₱–**	**₱–**	**₱22**	**₱22**
Collective impairment	–	–	–	–
	₱–	**₱–**	**₱22**	**₱22**
Gross amount of receivables individually impaired before deducting any impairment allowance	**₱–**	**₱–**	**₱22**	**₱22**

	December 31, 2015			
	Trade Receivables	Insurance Receivables	Other Receivables	Total
Balance at beginning of year	₱–	₱16	₱199	₱215
Provision for credit losses (Note 26)	10	–	85	95
Write-off	(3)	–	(3)	(6)
Effect of disposal group classified as held-for-sale (Note 12)	–	(16)	–	(16)
Balance at end of year	₱7	₱–	₱281	₱288
Individual impairment	₱7	₱–	₱281	₱288
Collective impairment	–	–	–	–
	₱7	₱–	₱281	₱288
Gross amount of receivables individually impaired before deducting any impairment allowance	₱7	₱–	₱281	₱288

6. Inventories and Land Held for Future Development

Inventories

This account consists of:

	2016	2015 (As restated – Note 31)
At cost		
Real estate		
Land and improvements	**₱34,323**	₱34,548
Condominium units held for sale	**5,582**	5,127
Construction in progress	**3,091**	2,620
Materials and supplies	**1,068**	1,471
Gasoline retail and petroleum products (Note 25)	**9**	7
Food (Note 25)	**1**	1
Power		
Coal	**–**	633
Industrial fuel and lubricating oil	**–**	98
Automotive		
Finished goods	**5,754**	1,954
Work-in-process	**29**	80
Raw materials in transit	**217**	2,045
	50,074	48,584
At NRV		
Power		
Spare parts and supplies (Note 12)	**–**	775
Automotive		
Spare parts	**1,986**	2,131
	1,986	2,906
	₱52,060	₱51,490

A summary of movements in real estate inventories (excluding materials and supplies, gasoline retail and petroleum products, and food) follows:

	2016			
	Condominium units held for sale	**Land and improvements**	**Construction in progress**	**Total**
Balance at beginning of the year	**₱5,127**	**₱34,548**	**₱2,620**	**₱42,295**
Construction and development costs incurred	**5,371**	**1,110**	**3,801**	**10,282**
Land acquired during the year	**86**	**–**	**–**	**86**
Borrowing costs capitalized	**69**	**326**	**1,180**	**1,575**
Cost of sales during the year	**(4,264)**	**(2,143)**	**(1,179)**	**(7,586)**
Transfer from construction in progress to condominium units for sale	**972**	**–**	**(972)**	**–**
Transfer to land held for future development	**(265)**	**–**	**–**	**(265)**
Transfers to investment property (Note 9)	**(1,288)**	**(361)**	**(1,729)**	**(3,378)**
Transfer from construction in progress to land and improvements	**42**	**(42)**	**–**	**–**
Elimination of intragroup transactions	**–**	**(36)**	**–**	**(36)**
Reclassifications	**(280)**	**922**	**(642)**	**–**
Others	**12**	**(1)**	**12**	**23**
Balance at end of the year	**₱5,582**	**₱34,323**	**₱3,091**	**₱42,996**

	2015 (As restated – Note 31)			
	Condominium units held for sale	Land and improvements	Construction in progress	Total
Balance at beginning of the year	₱5,268	₱18,825	₱1,325	₱25,418
Effect of business combination (Note 31)	273	5,833	894	7,000
Construction and development costs incurred	2,231	426	3,301	5,958
Land acquired during the year	–	9,050	–	9,050
Land acquired through exchange	–	987	–	987
Land disposed through exchange	–	(621)	(28)	(649)
Borrowing costs capitalized	155	221	614	990
Cost of sales during the year	(5,279)	(171)	(1,062)	(6,512)
Transfer from construction in progress to condominium units for sale	1,967	–	(1,967)	–
Transfer to land held for future development	–	(29)	–	(29)
Transfer from land and improvements to condominium units for sale	921	(921)	–	–
Transfers to investment property (Note 9)	(393)	535	(44)	98
Transfer from construction in progress to land and improvements	–	413	(413)	–
Allowance for impairment losses	(16)	–	–	(16)
Balance at end of the year	₱5,127	₱34,548	₱2,620	₱42,295

Fed Land's capitalized borrowing costs in its real estate inventories amounted to ₱970.37 million and ₱836.92 million in 2016 and 2015, respectively, for loans specifically used to finance Fed Land's project construction with interest rates ranging from 2.55% to 6.27% and 3.00% to 6.27% in 2016 and 2015, respectively. Also, Fed Land's capitalized borrowing costs in respect of its general borrowing amounted to ₱17.79 million and ₱3.02 million in 2016 and 2015, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 6.57% and 7.34% in 2016 and 2015, respectively. Said capitalized interest is added to 'Condominium units held for sale' account and recognized as expense upon the sale of condominium units.

PCFI's borrowing cost capitalized as part of real estate inventories amounted to ₱587.04 million and ₱150.04 million in 2016 and 2015, respectively. The capitalization rate used to determine the borrowings eligible for capitalization is 5.10% and 6.38% as of December 31, 2016 and 2015, respectively.

Certain real estate inventories of PCFI with an aggregate carrying value of ₱120.18 million and ₱608.95 million as of December 31, 2016 and 2015, respectively, are mortgaged/pledged as security for loans payable to various local banks (Note 17).

Inventories charged to 'Cost of real estate sales' amounted to ₱7.59 billion and ₱6.51 billion in 2016 and 2015, respectively.

Inventories charged to 'Cost of goods and services sold' amounted to ₱120.65 billion and ₱73.79 billion in 2016 and 2015, respectively (Note 25).

Inventories charged to 'Cost of goods manufactured and sold' amounted to ₱33.79 billion and ₱27.84 billion in 2016 and 2015, respectively (Note 25).

Allowance for inventory write-down on power and automotive spare parts inventories follows:

	2016	2015
Beginning balance	**₱98**	₱131
Effect of sale of a subsidiary (Note 12)	**(10)**	–
Provision for inventory write-down	**1**	1
Reversal	**(20)**	(34)
	₱69	₱98

Land Held for Future Development
Land held for future development consist of properties of PCFI for future developments and is carried at cost.

The rollforward analysis of this account follow:

	2016	2015
Beginning of the year	**15,357**	–
Efferct of business combination (Note 31)	**–**	14,527
Additions	**2,842**	801
Transfers	**265**	29
	18,464	15,357

7. Prepayments and Other Current Assets

This account consists of:

	2016	2015
Advances to contractors and suppliers	**₱2,526**	₱2,159
Input VAT	**1,603**	3,299
Prepaid expenses	**988**	969
Ad-valorem tax	**595**	189
Creditable withholding taxes (CWT)	**569**	398
Advances to officers, employees, agents and brokers (Note 27)	**391**	325
Deposit to landowners	**262**	–
Assets held for sale	**–**	253
Others	**58**	81
	₱6,992	₱7,673

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.

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.

Prepaid expenses mainly include unamortized commission expense for pre-sold and incomplete real estate units and prepayments for supplies, taxes and licenses, rentals and insurance.

CWT are attributable to taxes withheld by third parties arising from net fees, service fees, real estate revenue, auto sales and rental income.

Advances to officers and employees amounting to ₱45.07 million and ₱57.94 million as of December 31, 2016 and 2015, 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 ₱49.55 million and ₱13.04 million as of December 31, 2016 and 2015, respectively, pertain to mobilization funds granted to agents to finance their sales-related needs. These advances are subjected to liquidation within 30 days after the release of cash advance. Cash advances to brokers amounting to ₱296.82 million and

₱254.11 million as of December 31, 2016 and 2015, 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.

Deposits to land owners 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 between the company and the land owner upon fulfillment by both parties of certain undertakings and conditions.

Assets held for sale as of December 31, 2015 pertains to vehicles used in the Asia-Pacific Economic Cooperation (APEC) 2015 event which are available for sale in its present condition. During the year, TMPC entered into an agreement with the APEC Business Advisory Council (ABAC) Philippines for the sponsorship of vehicles. In return, TMPC is allowed to use APEC 2015 and/or APEC CEO Summit logos in the materials to be used to market and sell vehicles prior to and succeeding the event to ensure proper disposal of vehicles by TMPC to the market.

The ad-valorem tax represents advance payments to the 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.

Others include deferred import charges, marginal deposits set aside for payment to the contractors and suppliers, security deposit for operating leases, and for power delivery and ancillary services, and deposit for purchase of external services and materials.

8. Investments in Associates and Joint Venture

This account consists of:

	2016	2015
Investments in associates	**₱86,617**	₱51,574
Investments in joint venture	**8,211**	8,691
	₱94,828	₱60,265

The movements in the Group's investments in associates follow:

	2016	2015
Cost		
Balance at beginning of year	**₱33,403**	₱25,124
Acquisitions/additional investments during the year	**33,211**	8,279
Disposal of Group's indirect interest in a subsidiary (Note 12)	**(3,564)**	–
Balance at end of year	**63,050**	33,403
Accumulated equity in net income		
Balance at beginning of year	**22,151**	17,256
Equity in net income for the year	**6,003**	5,047
Realized gain on sale of subsidiaries (Note 12)	**1,918**	–
Elimination of advisory income from an associate	**(105)**	–
Unrealized gain on sale of properties	**–**	(152)
Balance at end of year	**29,967**	22,151
Dividends received		
Balance at beginning of year	**(₱4,868)**	(₱4,179)
Dividends received during the year	**(964)**	(689)
Balance at end of year	**(5,832)**	(4,868)
Accumulated equity in other comprehensive income		
Balance at beginning of year	**(1,355)**	(297)
Equity in net unrealized gain on AFS investments for the year	**(1,578)**	(891)
Translation adjustments	**175**	111
Net unrealized loss on remeasurements of defined benefit plans	**18**	(278)
Other equity adjustments	**(13)**	–
Balance at end of year	**(2,753)**	(1,355)
Effect of elimination of intragroup profit		
Balance at beginning of year	**2,243**	2,091
Elimination during the year	**(58)**	152
Balance at end of year	**2,185**	2,243
	₱86,617	₱51,574

With the sale of GBPC, the share in the consideration from the sale of indirect ownership previously included in the carrying amount of investment in associate amounting to ₱3.56 billion was released.

The movements in the Group's investment in joint venture follow:

	2016	2015
Cost		
Balance at beginning of year	**₱7,330**	₱6,756
Acquisitions/additional investments	**556**	574
Effect of step-up acquisition of FLOC and TMBC (Note 31)	**(1,359)**	–
Balance at end of year	**6,527**	7,330

(Forward)

	2016	2015
Accumulated equity in net income		
Balance at beginning of year	**₱1,950**	₱1,228
Equity in net income for the year	**468**	722
Effect of step up acquisition of FLOC and TMBC (Note 31)	**(746)**	–
Balance at end of year	**1,672**	1,950
Dividends received		
Balance at beginning of year	**(540)**	(480)
Dividends declared during the year	–	(60)
Effect of step up acquisition of FLOC and TMBC (Note 31)	**540**	–
Balance at end of year	–	(540)
Accumulated equity in other comprehensive income		
Balance at beginning of year	**(6)**	(4)
Effect of step up acquisition of FLOC and TMBC (Note 31)	**11**	–
Equity in net unrealized loss on remeasurements of defined benefit plans	**(1)**	(6)
Equity in cash flow hedge reserve	**8**	4
Balance at end of year	**12**	(6)
Effect of elimination of intragroup profit		
Balance at beginning of year	**(43)**	(43)
Reversal of previous year elimination	**43**	–
Balance at end of year	**–**	(43)
	₱8,211	₱8,691

Details regarding the Group’s associates and joint venture follow:

	Nature of Business	Country of Incorporation	Effective Percentages of Ownership	
			2016	2015
Associates:				
MBTC	Banking	Philippines	**26.47**	25.22
MPIC	Infrastructure	-do-	**15.55**	–
Phil AXA	Insurance	-do-	**25.33**	25.33
Crown Central Properties Corporation (CCPC)	Real estate	-do-	**48.00**	48.00
Joint venture:				
Bonifacio Landmark Realty and Development Corporation (BLRDC)	Real estate	-do-	**70.00**	70.00
Alveo Federal Land Communities, Inc. (AFLCI)	-do-	-do-	**50.00**	50.00
ST 6747 Resources Corporation (STRC)	-do-	-do-	**50.00**	–
TFSPC	Financing	-do-	**40.00**	40.00
TMBC*	Automotive Operations	-do-	–	60.00
FLOC**	Real estate	-do-	–	60.00

** On March 7, 2016, the SEC approved the merger of TMBC and TCI, with TMBC as the surviving corporation and TCI as the absorbed corporation. (see Note 31).*
*** On December 23, 2016,Fed Land acquired the 40% ownership of Orix Risingsun Properties Incorporated (ORPI) in FLOC. As a result of the purchase, Fed Land gained control in FLOC and accounted for its investment as investment in subsidiary as of December 31, 2016.*

The carrying values of the Group's investments in associates and joint venture follow:

	2016	2015
Associates:		
MBTC	**₱53,792**	₱50,222
MPIC	**31,353**	–
Phil AXA	**1,392**	1,275
CCPC	**80**	77
	86,617	51,574
Joint venture:		
BLRDC	**4,485**	4,279
TFSPC	**2,870**	2,642
AFLCI	**607**	574
STRC	**249**	–
TMBC	**–**	844
FLOC	**–**	352
	8,211	8,691
	₱94,828	₱60,265

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**
2016					
MBTC	**March 16, 2016**	**₱1.00**	**₱3,180**	**April 1, 2016**	**April 8, 2016**
MPIC	**August 3, 2016**	**0.032**	**893**	**September 1, 2016**	**September 26, 2016**
2015					
MBTC	January 27, 2015	₱1.00	₱2,745	March 26, 2015	March 31, 2015
FLOC	December 11, 2015	0.18	100	December 31, 2015	February 1, 2016

Investment in MBTC

On January 21, 2015, the BOD of MBTC approved the entitlement of one (1) rights share for every 6.3045 common shares held by eligible shareholders as of record date of March 18, 2015. The offer price was ₱73.50 per share and the offer period was from March 23 to 27, 2015. As of March 18, 2015, the Parent Company held 689.2 million shares and is entitled to 109.3 million shares.

In March 2015, the Parent Company exercised its stock rights and subscribed for additional shares which aggregated to 112.6 million shares with a total cost of ₱8.28 billion. This increased the Parent Company's investment in MBTC from ₱22.48 billion to ₱30.76 billion. Consequently, the Parent Company's percentage of ownership in MBTC increased from 25.11% to 25.22%.

On various dates in 2016, the Parent Company acquired an aggregate of 39,825,710 shares of Metrobank for a total consideration of ₱3.04 billion. This increased the Parent Company's ownership interest in Metrobank from 25.22% to 26.47%. The purchase price allocation will be finalized in 2017.

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 1.3 billion common shares of MPIC for a total consideration of ₱7.93 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 (Note 27).

Also, on May 27, 2016, the Parent Company and MPHI signed a Shareholders' agreement whereby the Parent Company is entitled 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, representation in the Board of Directors (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. Through its presence and participation at the BOD, AC, RMC and GC meetings, the Parent Company can influence 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.

As of December 31, 2016, the purchase price allocation relating to the Parent Company's acquisition of MPIC has been prepared on a preliminary basis. The provisional value of the assets acquired and liabilities assumed as of date of acquisition is currently being finalized. The difference between the total consideration and the net assets amounting to ₱784.45 million was initially allocated to notional goodwill, and is included in the carrying amount of the investment in MPIC.

Investment in BLRDC

On June 8, 2012, Fed Land and ORIX Risingsun Properties, Inc. (ORIX) entered into a joint venture agreement for the creation of BLRDC, with Fed Land owning 70% and Orix owning 30% to develop three (3) main projects, namely (1) residential condominium project, (2) hotel/office building, and (3) operation of the hotel.

Fed Land does not exercise control at 70% of BLRDC, but instead exercises joint control because Fed Land and Orix have contractually agreed to share control over the economic activities of BLRDC.

Investment in AFLCI

On April 29, 2015, Fed 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.

Investment in STRC
In June 2016, SM Development Corporation entered into an agreement with Fed Land to incorporate a joint venture company, STRC, in which Fed 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.

Investment in TFSPC
On August 29, 2014, GT Capital signed a Sale and Purchase Agreement with MBTC and Philippine Savings Bank (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.

Investment in TMBC
On March 7, 2016, TMBC and TCI merged, with TMBC as the surviving entity. The Group assessed that it has control over TMBC and accounted for its investment as a subsidiary (Note 31).

Investment in FLOC
On December 23, 2016, Fed Land entered into a stock purchase agreement with ORPI acquiring the remaining 40% interest in FLOC for a consideration of ₱289.00. As a result of the purchase, Fed Land gained control in FLOC and accounted for its investment as investment in subsidiary as of December 31, 2016 (Note 31).

The following tables present the financial information of the Group's associates and joint venture as of and for the years ended December 31, 2016 and 2015 :

	Associates								Joint venture	
	MBTC**	Phil AXA**	MPIC	CCPC	BLRDC	AFLCI	STRC	TFSPC**	TMBC	FLOC
2016										
Current assets			**₱31,800**	**₱201**	**₱6,320**	**₱1,381**	**₱287**		**₱–**	**₱–**
Noncurrent assets			**319,802**	**35**	**390**	**10**	**1,483**		**–**	**–**
Total assets	**₱1,876,009**	**₱68,007**	**351,602**	**236**	**6,710**	**1,391**	**1,770**	**₱55,581**	**–**	**–**
Current liabilities			**27,044**	**60**	**1,399**	**155**	**1,275**		**–**	**–**
Noncurrent liabilities			**136,477**	**–**	**3,243**	**29**	**–**		**–**	**–**
Total liabilities	**1,670,456**	**63,915**	**163,521**	**60**	**4,642**	**184**	**1,275**	**50,640**	**–**	**–**
Net assets	**₱205,553**	**₱4,092**	**₱188,081**	**₱176**	**₱2,068**	**₱1,207**	**₱495**	**₱4,941**	**₱–**	**₱–**
Revenues	**₱78,171**	**₱10,649**	**₱72,715**	**₱31**	**₱1,560**	**₱273**	**₱–**	**₱2,187**	**₱–**	**₱–**
Expenses	**51,494**	**9,943**	**51,778**	**21**	**1,090**	**225**	**5**	**1,411**	**–**	**–**
Net income	**20,316**	**586**	**16,779**	**6**	**294**	**34**	**(2)**	**555**	**–**	**–**
OCI	**(7,156)**	**(362)**	**1,468**	**–**	**–**	**–**	**–**	**30**	**–**	**–**
Total comprehensive income	**13,160**	**224**	**18,247**	**6**	**294**	**34**	**(2)**	**585**	**–**	**–**
2015										
Current assets			₱–	₱196	₱3,095	₱220	₱–		₱1,842	₱1,072
Noncurrent assets			–	25	6,846	927	–		667	42
Total assets	₱1,760,692	₱79,978	–	221	9,941	1147	–	₱44,278	2,509	1,114
Current liabilities			–	50	2,042	4	–		1,653	500
Noncurrent liabilities			–	–	2,235	–	–		65	35
Total liabilities	1,557,382	74,810	–	50	4,277	4	–	39,909	1,718	535
Net assets	₱203,310	₱5,168	₱–	₱171	₱5,664	₱1,143	₱–	₱4,369	₱791	₱579
Revenues	₱67,402	₱7,189	₱–	₱40	₱3,843	₱–	₱–	₱1,911	₱12,555	₱232
Expenses	41,931	5,264	–	24	3,047	–	–	1,180	12,328	58
Net income	20,643	1,384	–	12	428	–	–	515	138	95
OCI	(3,225)	(358)	–	–	–	–	–	13	–	–
Total comprehensive income	17,418	1,026	–	12	428	–	–	528	138	95

*** MBTC, Phil AXA and TFSPC do not present classified statements of financial position.*

Fair Value of Investment in Associates and Joint venture
Phil AXA and CCPC as well as BLRDC, AFLCI, STRC and TFSPC are private companies and there are no quoted market prices available for their shares.

As of December 31, 2016 and 2015, the fair value of the Group's investment in PSE-listed entities follow (Note 32):

	2016	2015
MBTC	**₱61,026**	₱64,553
MPIC	**32,536**	–

The net assets and liabilities of MBTC and Phil AXA consist mainly of financial assets and financial liabilities.

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 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.

In the ordinary course of the Group's business, the Parent Company issues guarantee for the completion of Fed Land's ongoing real estate projects (Note 36).

As of December 31, 2016 and 2015, there were no agreements entered into by the associates and joint venture 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, 2016 and 2015, accumulated equity in net earnings amounting to ₱25.81 billion and ₱18.69 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, 2016 and 2015, the Group has no share on commitments and contingencies of its associates and joint venture.

9. Investment Properties

The composition and rollforward analysis of this account follow:

	December 31, 2016			
	Land and Improvements	**Building and Improvements**	**Construction In Progress**	**Total**
Cost				
At January 1	**₱5,361**	**₱5,244**	**₱961**	**₱11,566**
Additions	**–**	**226**	**211**	**437**
Disposals	**(62)**	**(133)**	**–**	**(195)**
Reclassification	**1,201**	**(1,201)**	**–**	**–**
Transfers (Note 6)	**361**	**1,288**	**1,729**	**3,378**
At December 31	**6,861**	**5,424**	**2,901**	**15,186**
Accumulated Depreciation				
At January 1	**67**	**702**	**–**	**769**
Depreciation (Note 11)	**5**	**207**	**–**	**212**
Disposals	**(62)**	**(47)**	**–**	**(109)**
At December 31	**10**	**862**	**–**	**872**
Net Book Value at December 31	**₱6,851**	**₱4,562**	**₱2,901**	**₱14,314**

	December 31, 2015			
	Land and Improvements	Building and Improvements	Construction In Progress	Total
Cost				
At January 1	₱5,105	₱4,006	₱–	₱9,111
Effect of business combination (Note 31)	2,248	107	36	2,391
Additions	32	412	41	485
Disposals	(140)	–	–	(140)
Transfers	(535)	393	44	(98)
Others	(1,349)	326	840	(183)
At December 31	5,361	5,244	961	11,566
Accumulated Depreciation				
At January 1	62	407	–	469
Depreciation (Note 11)	5	187	–	192
Reclassification	–	108	–	108
At December 31	67	702	–	769
Net Book Value at December 31	₱5,294	₱4,542	₱961	₱10,797

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 ₱826.59 million, ₱840.46 million and ₱764.49 million in 2016, 2015 and 2014, respectively (Note 30).

Construction-in-progress pertains to the accumulated cost incurred for the development and redevelopment of the Fed Land's malls and is expected to be completed in 2017.

The depreciation of the investment properties amounted to ₱212.24 million, ₱191.76 million and ₱74.55 million in 2016, 2015 and 2014, respectively.

The aggregate fair value of the Group's investment properties amounted to ₱15.33 billion and ₱14.93 billion as of December 31, 2016 and 2015, respectively. The fair value of the Group's investment properties has 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 in 2014 and PACI in 2015.

10. Available-for-sale Investments

This account consists of:

	2016	2015
Current:		
Quoted (Note 27)	**₱1,284**	₱–
Noncurrent:		
Quoted	**962**	2,714
Unquoted	**481**	481
	1,443	3,195
	₱2,727	₱3,195

Unquoted AFS investments are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable valuation of arriving at a reliable fair value.

Unquoted AFS investments in Toyota Autoparts Philippines, Inc. (TAPI), representing 5.00% ownership interest, amounted to ₱466.20 million as of December 31, 2016 and 2015. Also included in the balance are AFS investments of Fed Land and TMBC amounting to ₱9.94 million and ₱0.67 million, respectively.

Unquoted AFS of Fed 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 Fed Land's real estate projects. The preferred shares have no active market and the Group does not intend to dispose these investments since these are directly related to the continuity of its business.

Movements in the net unrealized gain on AFS investments follow:

	2016		
	Attributable to Parent Company	**Non-controlling Interest**	**Total**
Balance at beginning of year	**₱823**	**₱729**	**₱1,552**
Net changes shown in other comprehensive income			
Fair value changes on AFS investments	**561**	**505**	**1,066**
Effect of sale of a subsidiary (Note 12)	**(1,198)**	**(941)**	**(2,139)**
Balance at end of year	**₱186**	**₱293**	**₱479**

	2015		
	Attributable to Parent Company	Non-controlling Interest	Total
Balance at beginning of year	₱618	₱533	₱1,151
Effect of business combination (Note 31)		(1)	(1)
Net changes shown in other comprehensive income			
Fair value changes on AFS investments*	205	197	402
Realized gain on sale on AFS investments (Note 27)	(18)	–	(18)
Effect of disposal group classified as held-for-sale (Note 12)	18	–	18
Balance at end of year	₱823	₱729	₱1,552

**Includes unrealized loss from disposal group classified as held-for-sale amounting to ₱30.14 million.*

11. Property and Equipment

The composition and rollforward analysis of this account follow :

2016	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Machinery, Tools and Equipment	Land and Building	Boilers and Powerhouse	Turbine Generations and Desox System	Building and Land Improvements	Electrical Distribution System	Other Property and Equipment	Construction-in-Progress	Total
Cost												
At January 1	₱399	₱461	₱313	₱3,461	₱1,878	₱14,368	₱11,653	₱6,767	₱3,170	₱7,630	₱10,306	₱60,406
Effect of business combination (Note 31)	14	28	–	7	898	–	–	301	–	–	42	1,290
Effect of deconsolidation (Note 12)	(34)	(11)	(14)	(2,713)	(62)	(14,744)	(11,655)	(5,062)	(3,177)	(6,096)	(10,701)	(54,269)
Additions	314	253	5	220	198	2	–	289	–	2,731	2,537	6,549
Disposals and reclassifications	(152)	(9)	–	6	(153)	374	2	48	7	(315)	(1,406)	(1,598)
At December 31	541	722	304	981	2,759	–	–	2,343	–	3,950	778	12,378
Accumulated Depreciation and Amortization												
At January 1	164	233	90	527	30	4,433	580	678	423	1,276	–	8,434
Effect of deconsolidation (Note 12)	(39)	(16)	(8)	(194)	(2)	(5,010)	(617)	(543)	(475)	(248)	–	(7,152)
Depreciation and amortization	145	113	36	210	40	577	37	208	51	832	–	2,249
Disposals and reclassifications	(83)	(14)	–	(5)	–	–	–	–	1	(419)	–	(520)
At December 31	187	316	118	538	68	–	–	343	–	1,441	–	3,011
Net Book Value at December 31	₱354	₱406	₱186	₱443	₱2,691	₱–	₱–	₱2,000	₱–	₱2,509	₱778	₱9,367

2015	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Machinery, Tools and Equipment	Land and Building	Boilers and Powerhouse	Turbine Generations and Desox System	Building and Land Improvements	Electrical Distribution System	Other Property and Equipment	Construction-in-Progress	Total
Cost												
At January 1	₱367	₱400	₱559	₱3,279	₱1,705	₱19,840	₱9,982	₱5,564	₱3,171	₱3,828	₱2,318	₱51,013
Effect of business combination (Note 31)	18	130	6	122	56	–	–	381	–	–	–	713
Reclassification to assets of disposal group classified as held-for-sale (Note 12)	(64)	(40)	(173)	–	–	–	–	(182)	–	–	–	(459)
Additions	55	74	65	55	94	16	–	73	–	65	9,456	9,953
Disposals and reclassifications	23	(103)	(144)	5	23	(5,488)	1,671	931	(1)	3,737	(1,468)	(814)
At December 31	399	461	313	3,461	1,878	14,368	11,653	6,767	3,170	7,630	10,306	60,406
Accumulated Depreciation and Amortization												
At January 1	137	230	333	308	22	3,123	489	514	304	752	–	6,212
Reclassification to assets of disposal group classified as held-for-sale (Note 12)	(44)	(30)	(124)	–	–	–	–	(44)	–	–	–	(242)
Depreciation and amortization	166	86	45	202	8	1,312	101	208	119	494	–	2,741
Disposals and reclassifications	(95)	(53)	(164)	17	–	(2)	(10)	–	–	30	–	(277)
At December 31	164	233	90	527	30	4,433	580	678	423	1,276	–	8,434
Net Book Value at December 31	₱235	₱228	₱223	₱2,934	₱1,848	₱9,935	₱11,073	₱6,089	₱2,747	₱6,354	₱10,306	₱51,972

The property and equipment of CEDC, property and equipment of TPC (except TPC1A's construction in progress), and the property and equipment (except non-utility assets) of PPC and PEDC, with aggregate carrying value of ₱45.08 billion as of December 31, 2015 have been mortgaged/pledged as security for their long-term debt (Note 17).

Construction-in-progress as of December 31, 2016 pertains to TMBC's building construction and Toyota group's machineries and building improvements which are expected to be completed in 2017 and 2018, respectively. Construction-in-progress as of December 31, 2015 pertains to the accumulated cost incurred for the PEDC Unit 3 Expansion project which started in 2014.

In 2016, property and equipment pertaining to GBPC's Group were deconsolidated due to the disposal of GBPC (Note 12).

Gain on disposal of property and equipment amounted to ₱49.60 million, ₱29.61 million and ₱90.17 million in 2016, 2015 and 2014, respectively (Note 23).

Fully depreciated boilers and powerhouse, buildings and land improvements and other property and equipment with cost of ₱4.21 billion and ₱6.37 billion as of December 31, 2016 and 2015, respectively, are still being used in the Group's operations.

Details of depreciation and amortization follow:

	2016	2015 (As restated – Note 12)	2014 (As restated – Note 12)
Continuing operations			
Property and equipment	**₱1,433**	₱731	₱599
Intangible assets (Note 13)	**55**	17	8
Investment properties (Note 9)	**212**	192	74
	1,700	940	681
Depreciation and amortization attributable to discontinued operations			
Property and equipment	**825**	2,010	2,044
Intangible assets (Note 13)	**192**	463	478
	1,017	2,473	2,522
	₱2,717	₱3,413	₱3,203

Breakdown of depreciation and amortization in the consolidated statements of income and consolidated statements of financial position follow:

	2016	2015 (As restated – Note 12)	2014 (As restated – Note 12)
Consolidated statements of income			
Cost of goods manufactured	**₱888**	₱570	₱388
Cost of rental (Notes 30)	**200**	183	172
Cost of goods and services	**40**	37	–
General and administrative expenses (Note 26)	**495**	344	287

(Forward)

	2016	2015 (As restated − Note 12)	2014 (As restated − Note 12)
Attributable to disposal group classified as held-for-sale (Note 12)	**₱−**	₱20	₱32
Attributable to discontinued operations (Note 12)	**1,018**	2,259	2,324
	2,641	3,413	3,203
Consolidated statements of financial position			
Real estate inventories	**76**	−	−
	₱2,717	₱3,413	₱3,203

12. Disposal of Assets

Sale of Investment in Global Business Power Corporation
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 (Note 27). 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

Certain AFS investments of GBPC were retained by the Group and did not form part of the assets that were sold and deconsolidated. The carrying value of these AFS investments amounted to ₱858.32 million as of December 31, 2016.

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 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. Accordingly, the consolidated statements of income for the years ended December 31, 2015 and 2014 have been restated to present the results of operation of GBPC as ‘Net income from discontinued operations’.

The results of operations of GBPC included in the consolidated financial statements are presented below:

	2016	2015	2014
Net fees (Note 35)	**₱6,840**	₱18,391	₱18,973
Interest income	**65**	183	140
Sale of goods and services	**32**	89	20
Other income	**17**	644	129
Revenue	**6,954**	19,307	19,262
Power plant operation and maintenance expenses (Note 24)	**3,273**	9,477	10,328
General and administrative expenses	**1,474**	3,402	3,303
Interest expense	**780**	1,768	1,848
Cost and expenses	**5,527**	14,647	15,479
Income before income tax	**1,427**	4,660	3,783
Provision for income tax	**34**	210	111
Net income	**1,393**	4,450	3,672
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**	₱4,450	₱3,672

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 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). As of December 31, 2015, the investment in Charter Ping An was accounted as a non-current asset held-for-sale in accordance with PFRS 5. As required by PFRS 5, the assets and liabilities of Charter Ping An, together with the results of operations, are classified separately from continuing operations. As a result, GT Capital reclassified all the assets, liabilities, and accumulated other comprehensive income to 'Assets of disposal group classified as held-for-sale', 'Liabilities of disposal group classified as held-for-sale' and 'Reserve of disposal group classified as held-for-sale', respectively, in the statement of financial position.

On April 4, 2016, the Parent Company completed the sale of Charter Ping 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 Charter Ping An included in the 'Net income from discontinued operations' are presented below:

	2016	2015	2014
Net premiums earned (Note 16)	**₱389**	₱1,996	₱1,751
Interest income	**22**	79	75
Commission income	**42**	159	133
Finance and other income	**10**	110	58
Revenue	**463**	2,344	2,017

(Forward)

	2016	2015	2014
Net insurance benefits and claims (Note 16)	**₱287**	₱1,122	₱784
General and administrative expenses	**335**	1,155	1,103
Interest expense	**−**	1	1
Cost and expenses	**622**	2,278	1,888
Income (loss) before income tax	**(159)**	66	129
Provision for income tax	**5**	16	29
Net income (loss)	**(164)**	50	100
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 direct ownership and the realization of the above previously deferred gain of ₱78.22 million.

The major classes of assets and liabilities classified as held-for-sale as of December 31, 2015 are as follows:

Assets	
Cash and cash equivalents	₱894
Short term investments	2
Receivables	1,824
Reinsurance assets (Note 16)	2,875
Deferred acquisition cost	359
Prepayments and other current assets	67
Available-for-sale investments	1,588
Property and equipment	217
Goodwill (Note 13)	554
Deferred tax assets	47
Other noncurrent assets	7
Assets of disposal group classified as held-for-sale	₱8,434
Liabilities	
Accounts and other payables	₱1,090
Insurance contract liabilities (Note 16)	5,052
Other current liabilities	143
Pension liability (Note 28)	127
Deferred tax liabilities	32
Liabilities of disposal group classified as held-for-sale	6,444
Net assets directly associated with disposal group	₱1,990
Reserve of disposal group classified as held-for-sale	
Net unrealized loss on AFS investments	(₱18)
Net unrealized loss on remeasurement of defined benefit plan	(57)
	(₱75)

The net cash flows directly associated with the disposal group are as follows:

	2016	2015	2014
The net cash flows directly associated with disposal group:			
Operating	**₱2,392**	₱5,751	₱6,568
Investing	**(1,886)**	(6,964)	(4,902)
Financing	**(1,956)**	771	3,684
Net cash inflow (outflow)	**(₱1,450)**	(₱442)	₱5,350

The earnings (loss) per share attributable to equity holders of the Parent Company from disposal group for the years ended December 31, 2016, 2015 and 2014 were computed as follows (amounts in millions except for earnings per share):

	2016	2015	2014
Net income attributable to equity holders of the Parent Company from disposal group	**₱4,003**	₱1,719	₱1,377
Weighted average number of shares	**174**	174	174
	₱23.01	₱9.88	₱7.91

13. **Goodwill and Intangible Assets**

Goodwill and intangible assets consist of:

	2016	2015 (As restated - Note 31)
Goodwill (Note 31)	**₱8,679**	₱8,467
Customer relationship	**3,883**	3,883
Software costs – net	**238**	115
Franchise – net	**2**	2
Power purchase agreements – net	**–**	7,260
	₱12,802	₱19,727

<u>Goodwill</u>
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:

	2016					
	Toyota	**THC**	**TCI**	**PCFI**	**TMBC**	**Total**
Balances at beginning of year	**₱5,597**	**₱24**	**₱5**	**₱2,841**	**₱–**	**₱8,467**
Effect of sale of a subsidiary (Note 12)	**–**	**(24)**	**–**	**–**	**–**	**(24)**
Effect of merger (Note 31)	**–**	**–**	**(5)**	**–**	**5**	**–**
Additions through business combinations (Note 31)	**–**	**–**	**–**	**–**	**236**	**236**
Balances at end of year	**₱5,597**	**₱–**	**₱–**	**₱2,841**	**₱241**	**₱8,679**

	2015 (As restated – Note 31)					
	Toyota	THC	TCI	PCFI	Ping An	Total
Balances at beginning of year	₱5,597	₱24	₱5	₱–	₱554	₱6,180
Reclassification to asset of disposal group classified as held-for-sale (Note 12)	–	–	–	–	(554)	(554)
Additions through business combinations (Note 31)	–	–	–	2,841	–	2,841
Balances at end of year	₱5,597	₱24	₱5	₱2,841	₱–	₱8,467

Toyota

The recoverable amount of Toyota CGU was based on value-in-use 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 11.52% in 2016 and 11.00% in 2015. Cash flows beyond the three-year period are extrapolated using a steady growth rate of 2.66% in 2016 and 3.30% in 2015. The carrying value of goodwill amounted to ₱5.60 billion as of December 31, 2016. No impairment loss was recognized for goodwill arising from the acquisition of Toyota.

The calculations of value in use 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 value-in-use 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 value in use 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 8.27% in 2016 and 8.92% in 2015. Cash flows beyond the forecast period are extrapolated using a long-term growth rate of 3.0% in 2016 and 2015. The carrying value of goodwill amounted to ₱2.84 billion as of December 31, 2016. No impairment loss was recognized on the goodwill arising from the acquisition of PCFI (Note 31).

The calculations of value in use 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 value-in-use of PCFI, using the same projected cash flows, impairment will be recognized when either of the following is applied:

- Pre-tax discount rate is greater than 9.59%;
- Discounted free cash flows to firm decreased by more than 24.52%; or
- Growth rate is less than 1.33%.

TMBC
The recoverable amount of TMBC CGU was based on value in use 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 10.55%. Cash flows beyond the forecast period are extrapolated using a long-term growth rate of 2.66%. The carrying value of goodwill amounted to ₱241.06 million as of December 31, 2016. No impairment loss was recognized on the goodwill arising from the acquisition of TMBC (Note 31).

The calculations of value in use 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 value-in-use of TMBC, using the same projected cash flows, impairment will be recognized when either of the following is applied:

- Pre-tax discount rate is greater than 11.21%;
- Discounted free cash flows to equity decreased by more than 11.64%; or
- Growth rate is less than 1.43%.

Power Purchase Agreements
Power purchase agreements pertain to the EPPA with certain electric cooperatives. The EPPAs were accounted for as intangible assets as GBPC has the right to charge the electric cooperatives for the electricity to be generated and delivered by GBPC.

The rollforward analysis of the Group's power purchase agreements is as follows:

	2016	2015
Balance at beginning of year	**₱7,260**	₱7,722
Attributable to discontinued operations	**(191)**	(462)
Effect of sale of a subsidiary	**(7,069)**	–
Balance at end of year	**₱–**	₱7,260

In 2016, the power purchase agreements were deconsolidated following the disposal of GBPC (Note 12).

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 value-in-use 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 11.52% and 11.00% in 2016 and 2015, respectively. Cash flows beyond the forecast period are extrapolated using a steady growth rate of 2.66% and 3.30% in 2016 and 2015, respectively . The carrying value of the customer relationship amounted to ₱3.88 billion as of December 31, 2016 and 2015, respectively. No impairment loss was recognized for the customer relationship arising from the acquisition of Toyota.

The value-in-use calculations 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;
- EBIT margin on key customers – A 7.34% 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:

	2016	2015
Cost		
Balance at beginning of year	**₱186**	₱70
Additions	**192**	28
Effect of business combination (Note 31)	**–**	16
Effect of sale of a subsidiary (Note 12)	**(41)**	–
Reclassifications	**35**	72
	372	186
Accumulated Amortization		
Balance at beginning of year	**71**	50
Amortization (Note 11)	**54**	17
Attributable to discontinued operations	**1**	1
Disposal/reclassification	**35**	3
Effect of sale of a subsidiary (Note 12)	**(27)**	–
	134	71
Net Book Value	**₱238**	₱115

Franchise

Franchise fee pertains to the Fed Land Group's operating rights for its fast food stores with estimated useful lives of three to five years.

The amortization of the franchise fee amounting to ₱0.46 million, ₱0.26 million and ₱0.22 million in 2016, 2015 and 2014, 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):

	2016	2015	2014
Attributable to discontinued operations (Note 12)	**₱192**	₱463	₱478
Software cost	**54**	17	8
Franchise	**1**	–	–
	₱247	₱480	₱486

14. **Other Noncurrent Assets**

This account consists of:

	2016	2015
Deferred input VAT	**₱69**	₱505
Rental and other deposits	**519**	480
Escrow fund (Note 27)	**132**	48
Retirement asset (Note 28)	**2**	5
Others	**59**	3
	781	1,041
Less: Allowance for impairment losses on deferred input VAT	**–**	(163)
	₱781	₱878

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 the agreed deposit of PCFI to MBTC − Trust Banking Group (Escrow agent) which is equivalent to 20.00% of the approved loan or credit accommodations granted to the former by MBTC.

The rollforward analysis of allowance for impairment losses on deferred input VAT follows:

	2016	2015
Balance at beginning of year	**₱163**	₱146
Provision (Note 26)	**–**	25
Write-off	**–**	(8)
Effect of sale of a subsidiary (Note 12)	**(163)**	–
	₱–	₱163

15. **Accounts and Other Payables**

This account consists of:

	2016	2015 (As restated - Note 31)
Telegraphic transfers and drafts and acceptances payable	**₱6,903**	₱6,237
Trade payables	**5,119**	6,794
Accrued expenses	**3,352**	2,696
Deferred output tax	**1,111**	2,184
Accrued commissions	**759**	670
Customer advances	**625**	398
Accrued interest payable	**487**	827
Due to landowners	**483**	107
Payable for customer's refund	**360**	110
Nontrade payables	**329**	90
Provision for other expenses	**327**	638
Royalty payable	**312**	303
Retentions payable	**281**	345
Others	**729**	730
	₱21,177	₱22,129

The details of trade payables are as follows:

	2016	2015
Automotive	**₱3,418**	₱2,779
Real estate	**1,695**	1,695
Power	**–**	2,319
Others	**6**	1
	₱5,119	₱6,794

Trade payables of 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 power pertain to billing received from suppliers of fuels.

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.

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.

The details of accrued expenses are as follows:

	2016	2015
Dealers' incentives, supports and promotions	**₱1,993**	₱1,278
Employee benefits	**625**	442
Freight, handling and transportation	**96**	76
Taxes	**90**	1
Utilities and services	**87**	114
Repairs and maintenance	**36**	–
Regulatory fees and charges	**22**	30
Rent	**6**	–
Professional fees	**1**	6
Importation costs	**–**	175
Management and marketing fees	**–**	15
Others	**396**	559
	₱3,352	₱2,696

Accrued expenses are noninterest-bearing and are normally settled within a fifteen (15) to sixty (60) day term.

Accrued regulatory fees and charges mainly pertain to expenses related to the benefit of host communities (Energy regulation 1-94). It also includes accrued charges that arise due to differences in interpretations of regulatory provisions applicable to the power industry.

Deferred output tax pertains mostly to VAT on the uncollected portion of the contract price of sold units.

Accrued interest payables are normally settled within a 15 to 60 day term.

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.

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.

Retentions payable represent a portion of construction cost withheld by the Fed Land Group and paid to the contractors upon completion of the project. Retentions payable due beyond one year are presented as noncurrent payable (Note 21).

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 TMP's present technical feasibility for the commercial production of newer car models.

Due to land owners represents liabilities to various real estate property sellers. These are noninterest-bearing and will be settled within one year.

Others include refunds from cancelled sales from Fed Land and other government-related payables which are noninterest-bearing and are normally settled within one year. These also include other noninterest-bearing payables which are all due within one year.

16. Insurance Contract Liabilities

Insurance contract liabilities as of December 31, 2015 is included under 'Liabilities of disposal group classified as held-for-sale'.

Insurance contract liabilities as of December 31, 2015 may be analyzed as follows:

	2015		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported and loss adjustment expenses	₱2,907	₱2,113	₱794
Provision for IBNR	44	–	44
Total claims reported and IBNR	2,951	2,113	838
Provision for unearned premiums	2,101	762	1,339
Total insurance contract liabilities	₱5,052	₱2,875	₱2,177

Provisions for claims reported by policyholders and IBNR may be analyzed as follows:

	2015		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱3,678	₱3,070	₱608
Claims incurred during the year	1,454	335	1,119
Increase in IBNR	3	–	3
Claims paid during the year	(2,184)	(1,292)	(892)
	₱2,951	₱2,113	₱838

Provision for unearned premiums may be analyzed as follows:

	2015		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱1,987	₱810	₱1,177
New policies written during the year	4,114	1,955	2,159
Premiums earned during the year	(3,999)	(2,003)	(1,996)
	₱2,102	₱762	₱1,340

In addition, reinsurance assets consist of the following:

	2015
Reinsurance recoverable on unpaid losses	₱2,113
Deferred reinsurance premiums	762
	₱2,875

17. Short-term Debt, Long-term Debt and Bonds Payable

This account consist of:

			2016				
			Long-term debt				
	Interest Rates	**Short-term debt**	**Corporate notes**	**Loans payable**	**Subtotal**	**Bonds payable**	**Total**
Parent Company	**2.60% - 5.93%**	**₱3,000**	**₱–**	**₱25,000**	**₱25,000**	**₱22,000**	**₱50,000**
Fed Land Group	**2.55% - 6.27%**	**1,222**	**4,925**	**14,081**	**19,006**	**–**	**20,228**
PCFI Group	**3.50% - 7.18%**	**–**	**–**	**12,489**	**12,489**	**–**	**12,489**
TMPC Group	**2.55% - 4.20%**	**1,890**	**–**	**245**	**245**	**–**	**2,135**
TMBC Group	**2.60% - 5.94%**	**585**	**–**	**1,500**	**1,500**	**–**	**2,085**
		6,697	**4,925**	**53,315**	**58,240**	**22,000**	**86,937**
Less: Deferred financing cost		**–**	**–**	**184**	**184**	**152**	**336**
		6,697	**4,925**	**53,131**	**58,056**	**21,848**	**86,601**
Less: Current portion of long-term debt		**–**	**25**	**1,556**	**1,581**	**–**	**1,581**
		₱6,697	**₱4,900**	**₱51,575**	**₱56,475**	**₱21,848**	**₱85,020**

			2015 (As restated – Note 31)				
			Long-term debt				
	Interest Rates	Short-term debt	Corporate notes	Loans payable	Subtotal	Bonds payable	Total
Parent Company	2.60% - 5.93%	₱–	₱–	₱25,000	₱25,000	₱21,980	₱46,980
Fed Land Group	2.55% - 6.27%	740	4,950	12,395	17,345	–	18,085
PCFI Group	3.50% - 7.18%	4,500	–	11,200	11,200	–	15,700
TMPC Group	2.55% - 4.20%	1,532	–	244	244	–	1,776
GBPC Group		–	–	35,545	35,545	–	35,545
TCI and Subsidiary		546	–	–	–	–	546
		7,318	4,950	84,384	89,334	21,980	118,632
Less: Deferred financing cost		–	–	563	563	179	742
		7,318	4,950	83,821	88,771	21,801	117,890
Less: Current portion of long-term debt		–	25	6,899	6,924	–	6,924
		₱7,318	₱4,925	₱76,922	₱81,847	₱21,801	₱110,966

Short-term debt

Parent Company Short -Term Loans

In 2016, the Parent Company obtained short-term loans with various non-affiliated banks with aggregate principal amount of ₱19.00 billion to finance acquisitions with annual fixed interest rates ranging from 2.60% to 3.00%. Of the ₱19.00 billion short-term loans, ₱16.00 billion were paid during the year.

As of December 31, 2016, outstanding short-term loans payable amounted to ₱3.00 billion and bear interest rates of 2.60% for ₱1.50 billion and 3.00% for ₱1.50 billion.

Fed Land Group Short -Term Loans
These are unsecured short-term borrowings over 60 to 180 day terms obtained from affiliated and non-affiliated local banks for Fed Land Group's working capital requirements with interest rates ranging from 2.55% to 4.00% and 3.00% to 4.00% in 2016 and 2015, respectively.

PCFI Group Short -Term Loans
These are unsecured short-term borrowings with terms of one year or less for PCFI Group's working capital requirements with interest rates ranging from 3.50% to 4.16% in 2016 and 3.75% to 4.30% in 2015. As of December 31, 2016, all short-term loans of PCFI are paid.

Toyota Group Short -Term Loans
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 2.55% to 2.90% in 2016 and 2015.

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 the working capital requirements with interest rates of 2.60% in 2016.

TCI Short -Term Loans
These are unsecured short-term borrowings over 90 to 120 day terms obtained from various non-affiliated local banks to finance the working capital requirements with interest ranging 2.50% to 3.75% in 2015.

Interest expense charged to operations from the above-mentioned short-term loans amounted to ₱355.71 million and ₱70.23 million in 2016 and 2015, respectively. Interest expense capitalized amounted to ₱33.72 million and ₱15.17 million in 2016 and 2015, respectively.

Fed Land - Corporate Notes
₱5.0 Billion 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, 2016 and 2015, outstanding balance amounted to ₱4.92 billion and ₱4.95 billion, respectively. As of December 31, 2016 and 2015, 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, 2016 and 2015, the Group has complied with the loan covenants.

Interest expense charged to operations amounted to nil in 2016 and 2015. Interest expense capitalized amounted to ₱222.62 million and ₱288.85 million in 2016 and 2015, respectively.

Long-term Loans
Parent Company Long -Term Loans
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%, various terms ranging from ten (10) to 13 years and maturity dates ranging from 2025 to 2028. As of December 31, 2016 and 2015, the carrying value of these long-term loans payable amounted to ₱24.89 billion and ₱24.88 billion, respectively. Unamortized financing cost as of December 31, 2016 and 2015 amounted to ₱0.11 billion and ₱0.12 billion, repsectively.

As of December 31, 2016 and 2015, the movement of the deferred financing cost is as follows:

	2016	2015
Balances at beginning of year	**₱121**	₱–
Additions	**–**	125
Amortization	**(9)**	(4)
Balances at end of year	**₱112**	₱121

Total interest expense incurred on these long-term loans payable in 2016 and 2015 amounted to ₱1.41 billion (including amortization of deferred financing cost of ₱8.99 million) and ₱0.57 billion, (including amortization of deferred financing cost amounting to ₱4.00 million), respectively.

Fed Land Long-Term Loans
Non-affiliated loans
On December 22, 2014, Fed Land obtained unsecured loans from various non-affiliated banks amounting to ₱6.60 billion. The loan will be paid as follows: ₱2.00 billion payable in full after 10 years from drawdown date with fixed interest rate of 5.84% 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 payment starting at the end of 5th year and 60.00% on maturity date with fixed interest rate of 5.67% per annum; ₱1.10 billion payable at 40% quarterly payment at the end of 5th year to 9th year and 60.00% on maturity date with fixed interest rate of 5.05% per annum.

In 2015 and 2016, the Fed Land Group obtained long-term loans with various non-affiliated local banks with an aggregate principal amount of ₱4.24 billion. Said loans bear fixed interest rates ranging from 5.00% to 6.07%, various terms ranging from five (5) to ten (10) years and maturity dates ranging from 2020 to 2026.

As of December 31, 2016 and 2015, the carrying value of these long-term loans payable amounted to ₱10.84 billion and ₱10.40 billion, respectively, net of unamortized deferred financing cost.

Affiliated loans
On August 25, 2011, Fed Land obtained both partially secured and fully secured peso-denominated loans with an aggregate amount of ₱2.00 billion from MBTC, an affiliate 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. 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 the Fed Land obtained a 5 year loan from MBTC with a principal amount of ₱2.00 billion and interest rate of 2.80% and will mature on August 25, 2021.

On various dates in 2016, the Fed Land Group obtained long-term loans from MBTC with an aggregate principal amount of ₱1.24 billion. Said loans bear fixed interest rates of 2.55%, with terms of five (5) years and maturity date of 2021.

As of December 31, 2016 and 2015, the carrying value of these affiliated long-term loans payable amounted to ₱3.22 billion and ₱2.00 billion, respectively, net of unamortized deferred financing cost.

As of December 31, 2016, the deferred financing cost is as follows:

	2016
Balances at beginning of year	**₱–**
Additions	**18**
Amortization	**–**
Balances at end of year	**₱18**

Interest expenses charged to operations amounted to ₱4.12 million and nil in 2016 and 2015, respectively. Interest expense capitalized from the above-mentioned loans payable amounted to ₱784.83 million and ₱535.9 million, in 2016 and 2015, respectively.

PCFI Long-Term Loans

Non-affiliated Loans

On December 19, 2016, WFC availed ₱3.00 billion 5-year fixed rate notes from a non-affiliated local bank which will be 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%.

In December 2015, PCFI entered into a ₱6.00 billion five -year Loan Facility Agreement with a non-affiliated local bank, of which ₱1.00 billion, ₱1.50 billion and ₱1.50 billion were drawn on December 14, December 17 and December 28, respectively to fund permanent working capital requirements. In 2016, another ₱1.00 billion and ₱1.00 billion were drawn on May 30 and June 13, respectively. The loan is payable in 36 quarters starting March 2017 and bears fixed rate interestof 6.00%.

In July 2015, PCFI issued ₱1.00 billion three-year fixed notes to a non-affiliated local bank to fund maturing obligations and project development. The loan is payable at the end of the term and bears fixed rate of 5.29%.

In 2013, PCFI issued ₱2.00 billion five-year fixed rate notes to a non-affiliated local bank, of which ₱0.50 billion, ₱0.75 billion, and ₱0.75 billion were drawn in January, March and May, respectively. The principal amount of these loans shall be payable in 16 quarterly installments commencing on fifth quarter from the initial drawdown date which is on January 18, 2013. These notes bear fixed rate of 6.23% used to finance working capital for land development, house construction and land acquisition. The note was paid in full in August 25, 2016.

In January 2012, PCFI issued ₱3.00 billion five (5)-year fixed rate notes to non-affiliated local banks and a financial institution which will be 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%. As of December 31, 2016 and 2015, the outstanding balance is at ₱1.00 billion and ₱1.32 billion, respectively.

Affiliated Loans
In July 2015, PCFI issued ₱1.50 billion three (3)-year fixed notes to an affiliated local bank to fund maturing obligations and project development. The loan is payable at the end of the term and bears fixed rate of 5.29%.

In March 2011, PCFI entered into a Notes Facility Agreement with FMIC whereby PCFI issued ₱1.50 billion five (5)-year fixed rate corporate notes to finance its general corporate operations including land banking. The note is payable in 20 quarterly installment commencing on March 2, 2011 with interest rate based on the latest PDST-F plus 2.50% plus gross receipts tax. The note was paid in full in March 2, 2016.

As of December 31, 2016 and 2015, the movement of the deferred financing cost is as follows:

	2016	2015
Balances at beginning of year	**₱41**	₱29
Additions	**25**	38
Amortization	**(19)**	(26)
Balances at end of year	**₱47**	₱41

Total interest expense incurred in 2016 and 2015 from the aforementioned loans payable amounted to ₱913.75 and ₱840.13 million, respectively. Interest expense capitalized as part of real estate inventories amounted to ₱587.04 million and ₱695.90 million in 2016 and 2015, 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 1.75; maintaining debt-to-equity financial ratio of 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, 2016.

Loans Payable - TMPC Group
As of December 31, 2016 and 2015, this account consists of unsecured long-term debt of the following entities:

	2016	2015
TAPI	**₱79**	₱79
Other entities	**166**	165
	₱245	₱244

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 (Note 27).

The other long-term unsecured interest-bearing loans consist of a 2.7% interest-bearing ten (10)-year term loan with a maturity date of October 23, 2026. These loans are automatically renewed upon maturity for another ten (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 ₱7.82 million, ₱7.82 million, and ₱7.77 million in 2016, 2015 and 2014.

TMBC Long-Term Loans
On March 21, 2016, TMBC entered into a Term Loan Facility with non-affiliated local bank amounting to ₱1.50 billion to finance the construction of building, with interest rates ranging from 4.85% to 5.94% and payable for a period of ten (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 ₱416.68 million as of December 31, 2016.

TMBC is required to maintain the following financial ratios during the term of the loans:

- Minimum current ratio of 1.0x - defined as Current Assets divided by Current Liabilities
- Maximum debt to equity ratio of 4.0x - defined as Total Liabilities divided by Total Tangible Net Worth (Total Equity - Intangibles)
- Minimum Debt Service Ratio 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, 2016, TMBC has complied with the required financial ratios.

Interest expense on long-term loans payable amounted to ₱16.58 million in 2016.

As of December 31, 2016, the carrying value of long-term loans payable amounted to ₱1.49 billion, net of unamortized deferred financing cost of ₱7.43 million.

Bonds Payable - Parent Company
₱10.00 billion GT Capital bonds due 2020 and 2023
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 an 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 February 27, 2013.

The net proceeds will be 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 dates, 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 ten-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.

₱12.00 billion GT Capital bonds due 2019, 2021 and 2024
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 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, 2016 and 2015, the movement of the deferred financing cost is as follows:

	2016	2015
Balances at beginning of year	**₱179**	₱205
Amortization	**(27)**	(26)
Balances at end of year	**₱152**	₱179

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, 2016 and 2015, the Parent Company has complied with its bond covenants. Total interest expense incurred on bonds payable in 2016, 2015 and 2014 amounted to ₱1.15 billion (including amortization of deferred financing cost of ₱27.51 million), ₱1.15 billion (including amortization of deferred financing cost of ₱26.11 million), ₱762.95 million (including amortization of deferred financing cost of ₱16.25 million), and respectively.

Loans payable - GBPC Group
As of December 31, 2015 this account comprised of GBPC Group’s loans payable to the following entities:

	2015
CEDC	₱10,928
PEDC	17,457
TPC	7,000
PPC	160
	35,545
Less: Current portion	2,914
	₱32,631

CEDC, PEDC and TPC
On June 18, 2009, CEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16.00 billion to partially finance the construction of its power plant. The agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement.

On February 26, 2010, PEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14.00 billion to partially finance the construction of the power plant. The agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement.

On March 26, 2015, PEDC entered into an Amended and Restated Omnibus Agreement (AROA) with various lenders for an additional aggregate principal amount of up to ₱11.00 billion (the Phase II Facility) to partially finance Panay expansion project, of which ₱7.00 billion has been drawn as of December 31, 2015. The AROA includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement.

On March 7, 2013, TPC entered into an Omnibus Agreement (the Agreement) with various lenders in the aggregate principal amount of up to ₱7.00 billion (the Facility) to partially finance the on-going construction of the expansion project. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement.

According to the agreements entered by CEDC and PEDC, CEDC and PEDC are required to meet certain financial ratios, such as debt-to-equity ratio and core equity ratio. As of December 31, 2015, CEDC, PEDC and TPC have complied with all the required financial ratios.

Interest expense incurred in connection with the aforementioned loans amounted to ₱0.40 billion, ₱1.05 billion, and ₱1.21 billion in 2016, 2015 and 2014, respectively for CEDC and ₱0.39 billion, ₱1.04 billion, and ₱1.12 billion in 2016, 2015 and 2014, respectively for PEDC.

Interest expense capitalized as part of construction cost of TPC1A amounted to ₱206.08 million in 2015. Interest expense charged to current operations amounted to ₱142.86 million and ₱155.49 million in 2016 and 2015, respectively.

CEDC, PEDC and TPC's loans are secured by (i) a real estate mortgage on all present and future assets, including the parcels of land where their power plants are located owned by THC, a related party, (ii) chattel mortgage on all present and future movable properties, (iii) pledge agreement on the shares of Global Formosa and Abovant in CEDC and shares of PPHC in PEDC, and shareholder advances and subordinated loans, if any, (iv) assignment agreement on CEDC's and PEDC's future revenues and (v) grantee rights of TPC for special use agreement in protected areas no. 2008-003 issued by the DENR - regional office no. VII on March 18, 2009. The chattel mortgage shall cover to the extent of principal amount of ₱100.00 million for both CEDC and PEDC.

As of December 31, 2015, the movement of the deferred financing cost is as follows:

	2016	2015
Balances at beginning of year	**₱402**	₱265
Additions	**1**	181
Amortization	**(18)**	(44)
Effect of sale of a subsidiary (Note 12)	**(385)**	
Balances at end of year	**₱–**	₱402

The agreements prohibit CEDC, PEDC and TPC to amend or modify its charter documents if any such amendment or modification would have a material adverse effect; assign or otherwise transfer, terminate, amend, or grant any waiver or forbearance or exercise any election under any material provision of the agreements or project document; make any prepayment, whether voluntary or involuntary, or repurchase of any long-term debt or make any repayment of any such long-term debt other than those allowed in the agreements unless, in any such case, it shall at the option of any lender contemporaneously make a proportionate prepayment or repayment of the principal amount then outstanding of the Lender's outstanding participation in the loan. The agreements also prohibit CEDC, PEDC and TPC to acquire by lease any property or equipment, or to acquire rights-of-way to any property, which may have a material adverse effect; enter into contract of indebtedness except those permitted under the agreement such as indebtedness incurred in the ordinary course of business; and form or have any subsidiaries, advances or investments and issue preferred shares, unless certain conditions are complied with. Moreover, CEDC, PEDC and TPC are prohibited from entering into contract of merger or consolidation unless CEDC, PEDC and TPC are the surviving entities and after giving effect to such event, no event of default will result), selling, leasing or disposing all or any of its property (unless in the ordinary course of the business) where such conveyance, sale or lease would have a material adverse effect to CEDC, PEDC and TPC.

Events of Default include, among others, failure to pay when due the principal or interest due and any other amount payable under the Agreement; revocation, withdrawal, or modification of any government approval required to be obtained by CEDC, PEDC and TPC in a manner which would have a material adverse effect; Global Formosa and Abovant, and PPHC cease to maintain 51.00% of CEDC and PEDC, respectively, or cease to maintain management control over CEDC, PEDC and TPC, respectively; and failure to comply with the required financial ratios.

If any of the events of default occurs and is continuing, the trustee or the facility agent, as the case maybe, shall immediately give CEDC, PEDC and TPC written notice of such fact and inform the lenders. Without prejudice to the cure periods allowed under the Agreement, and upon written request by the majority lenders, the Facility Agent shall take one or more of the following actions:

i. declare the principal of, and all accrued interest on, payable with respect to the loan under the Facility to be, and the same shall thereupon become, immediately due and payable without any further notice and without any presentment, demand or protest; and/or
ii. declare any undrawn portion of the Facility to be terminated, whereupon such portion of the Facility shall be forthwith terminated.

The Group is in compliance with the loan covenants as of December 31, 2015.

PPC
<u>MBTC Loans</u>
On November 6, 2009, PPC entered into a ₱300.00 million, seven-year term loan Agreement with MBTC. Proceeds from the loan were used to settle a loan in 2009. This loan bears interest at the 3-month T-bill rate plus a 2.00% spread and is covered by a Mortgage Trust Indenture. PPC's power plant is mortgaged for the aforementioned obligations.

As of December 31, 2015, a portion of the long-term loan amounting to ₱42.86 million which will mature within one year from the reporting date is presented as current liability.

Interest charged to operations related to this loan amounted to ₱0.61 million, ₱2.64 million, and ₱3.64 million in 2016, 2015 and 2014, respectively.

On August 24, 2006, PPC entered into a ₱1.20 billion, 10-year term loan Agreement with MBTC, to finance its general corporate requirements. This loan is covered by a Mortgage Trust Indenture. In March 2007, Section 1.01 of the ₱1.20 billion, 10-year term loan Agreement was amended increasing loan facility from ₱1.20 billion to ₱1.36 billion and changing the reference rate from MART1 rate to PDST-F rate.

As of December 31, 2015, a portion of the long-term loan amounting to ₱115.39 million maturing within one year from the reporting date are presented as current liability.

Interest charged to operations related to this loan amounted to ₱1.52 million, ₱8.29 million and ₱11.33 million in 2016, 2015 and 2014, respectively.

In accordance with the loan agreements with MBTC, PPC is restricted from performing certain corporate acts without the prior consent of MBTC, the more significant of which relate to entering into merger or consolidation where PPC is not the surviving entity, declaring dividends to stockholders, acting as guarantor or surety of obligation and acquiring treasury stock. PPC is also required to maintain certain financial ratios.

As of December 31, 2015, PPC has complied with the required financial ratios, (i.e. current ratio of 1:1).

The total carrying value of the property, plant and equipment of GBPC pledged as collateral for the above-mentioned loans are as follows:

	2015
CEDC	₱15,122
PEDC	12,386
PEDC3	8,251
TPC1A	8,304
PPC	1,016
	₱45,079

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
Fed Land - Corporate Notes	DER	2:1
Parent Company - Long-term loans and bonds	DER	2.3:1
PCFI	DSCR	1.5x
PCFI	DER	2:1

As of December 31, 2016 and 2015, the Group has complied with the foregoing financial ratios.

18. Customers' Deposits

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.

This account also includes excess of collections over the recognized receivables based on percentage of completion.

As of December 31, 2016 and 2015, the balance of this account amounted to ₱3.84 billion and ₱3.69 billion, respectively (Note 27).

19. Other Current Liabilities

This account consists of:

	2016	2015
Withholding taxes payable	**₱360**	₱354
VAT payable	**253**	155
Others	**25**	11
	₱638	₱520

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

Liabilities on purchased properties are payables to various real estate property sellers. Under the terms of the agreements executed by Fed Land covering the purchase of certain real estate properties, the titles of the subject properties shall be transferred to Fed Land only upon full payment of the real estate loans.

In 2013, various parcels of land were acquired by Fed Land for a total consideration aggregating ₱2.57 billion. The outstanding obligation pertaining to these transactions amounted to nil and ₱0.47 billion as of December 31, 2016 and 2015, respectively.

In 2012, Fed 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, 2016 and 2015 amounted to ₱2.16 billion and ₱2.31 billion, respectively.

Total outstanding liabilities on purchased properties (including current portion) amounted to ₱2.16 billion and ₱2.78 billion as of December 31, 2016 and 2015, respectively (Note 27).

21. Other Noncurrent Liabilities

This account consists of:

	2016	2015
Provisions	**₱974**	₱1,424
Retention payable - noncurrent portion	**805**	684
Refundable and other deposits	**297**	243
Finance lease obligation - net	**9**	9
Decommissioning liability	**–**	249
	₱2,085	₱2,609

Provisions consist of:

	2016	2015
Claims and assessments	**₱775**	₱1,211
Product warranties	**199**	213
	₱974	₱1,424

Retention payable represents a portion of construction cost withheld by the Group and paid to the contractors after an agreed period commencing the completion of the project.

PPC, PEDC, CEDC, TPC and GPRI have legal obligations to decommission or dismantle their power plant assets at the end of their useful lives. In this regard, PPC, PEDC, CEDC, TPC and GPRI established their respective provisions to recognize estimated decommissioning liability.

Changes in the decommissioning liability are as follows:

	2016	2015
Balances at beginning of year	**₱249**	₱287
Accretion expense for the year	**2**	8
Provisions during the year	**–**	(46)
Effect of sale of a subsidiary (Note 12)	**(251)**	–
Balances at end of year	**₱–**	₱249

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.

22. **Equity**

Capital stock and additional paid-in capital
As of December 31, 2016 and 2015, the paid-up capital consists of the following (amounts in millions, except for number of shares):

	Shares		Amount	
	2016	2015	**2016**	2015
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**	–	**1,200**	–
Common stock - ₱10.00 par value				
Authorized	**298,257,000**	298,257,000		
Issued and outstanding	**174,300,000**	174,300,000	**1,743**	1,743
Treasury shares	–	5,000	–	(6)
Additional paid-in capital			**57,437**	46,695
			₱60,397	₱48,449

The Parent Company's common shares with par value of ₱10.00 were listed on the Philippine Stock Exchange on April 20, 2012.

Amendment of Articles of Incorporation to Create Voting Preferred Shares of Stock
On October 23, 2014, the Board of Directors 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 with the following features, rights and privileges:

a. The Issue value shall be determined by the Board of Directors at the time of the issuance of the shares;
b. The Dividend Rate shall be determined by the Board of Directors at the time of the issuance of the shares, equivalent to 3-year PDST-R2 to be repriced every ten years and payable annually;
c. The Voting Preferred Shares shall be non-cumulative and the holders thereof are entitled to the payment of current but not past dividends;
d. The Voting Preferred Shares shall be non-participating in any other of further dividends beyond that specifically payable on the shares;
e. The Voting Preferred Shares shall be redeemable at par value, at the sole option of the Corporation, under terms and conditions approved by the Board of Directors;
f. Holders of Voting Preferred Shares shall be entitled to one vote for each share in his name on the books of the Corporation;
g. Holders of Voting Preferred Shares shall have no pre-emptive rights to any issue of shares, Common or Preferred;
h. The Voting Preferred Shares will not be listed at and will not be tradable in the Philippine Stock Exchange; and
i. Other features, rights and privileges determined by the Board of Directors.

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 of 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 of Articles of Incorporation to Create Perpetual Preferred Shares of Stock
On March 13, 2015, the BOD of the Parent Company approved the amendment of 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.

The perpetual preferred shares shall have the following features, rights and privileges:

a. The issue value and dividend rate shall be determined by the BOD at the time of the issuance thereof;

b. The perpetual preferred shares shall be entitled to the payment of current as well as any accrued or unpaid dividends before any dividends can be paid to the holders of common shares. No dividend shall be declared or paid on the common shares unless the full accumulated dividends on all the perpetual preferred shares for all past dividend periods and for the current dividend period shall have been declared and paid by the Corporation;

c. The holders of perpetual preferred shares shall have preference over holders of common shares in the distribution of corporate assets in the event of dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary;

d. The perpetual preferred shares shall not be entitled to vote, except in those cases specifically provided by law;

e. The perpetual preferred shares shall be non-participating in any other further dividends beyond that specifically payable thereon;

f. The perpetual preferred shares shall be non-convertible to common shares or voting preferred shares;

g. The perpetual preferred shares shall be redeemable at the option of the corporation under such terms that the board may approve at the time of the issuance thereof;

h. The perpetual preferred shares shall have no pre-emptive rights to any issue of shares, common or preferred; and

i. Other features, rights and privileges as determined by the BOD.

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.

As of December 31, 2016 and 2015, the total number of stockholders of common shares of the Parent Company is 73 and 71, respectively.

Retained earnings
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 ₱0.60 billion was reversed on December 15, 2016 upon dividend declaration on perpetual preferred shares.

On December 17, 2015, the BOD of the Parent Company approved the appropriation of retained earnings amounting to ₱8.76 billion to be earmarked for the following:

Project Name	Timeline	Amount
Tranche 2 of PCFI Acquisition	2016	₱6.26 billion
Tranche 3 of PCFI Acquisition	2017	2.50 billion
		₱8.76 billion

Subsequent to the completion of Tranches 2 and 3 of the PCFI acquisition, the said appropriation was reversed in July 2016.

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 10, 2016	₱0.00377	₱0.66	April 8, 2016	May 4, 2016
Perpetual Preferred Shares				
Series A				
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 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	Record date	Payment date
March 10, 2016	₱6.00	₱1,045.80	April 8, 2016	May 4, 2016
March 13, 2015	3.00	522.87	April 17, 2015	May 4, 2015
March 11, 2014	3.00	522.89	April 8, 2014	May 2, 2014

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, 2015 and 2014.

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	Record date	Payment date
Fed Land	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
	December 7, 2015	Preferred Shares-A	₱240.00	December 31, 2015	January 15, 2016
	December 7, 2015	Preferred Shares-B	249.24	December 31, 2015	January 15, 2016
	December 12, 2014	Common	100.00	December 31, 2014	February 28, 2015
Toyota	May 4, 2016	Common	9,890.73	December 31, 2015	May 2016
	May 13, 2015	Common	7,025.38	December 31, 2014	May 2015
	April 29, 2014	Common	4,608.60	December 31, 2013	May 2014
PCFI	December 13, 2016	Preferred Shares-A	1,334.64	June 29, 2016	December 15, 2016
GBPC	December 9, 2015	Common	2,600.00	December 31, 2015	April 2016
	November 20, 2014	Common	2,200.00	December 31, 2014	April 2015

Treasury shares

As of December 31, 2016 and 2015, treasury shares of the Group amount to nil and ₱6.14 million, respectively. This pertains to the original acquisition cost of 5,000 shares of the Parent Company held by Ping An.

Other equity adjustments

2016

<u>PCFI</u>

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.

2015

<u>TCI</u>

In June 2015, the Parent Company acquired 2,705,295 shares of TCI for a total consideration of ₱13.50 million, resulting to 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.

2014
Charter Ping An
On January 27, 2014, the Parent Company acquired the remaining 33.33% equivalent to 1.71 million shares of Charter Ping An's outstanding capital stock from FMIC for a total consideration of ₱712.00 million. Prior to the said acquisition, the Parent Company's ownership interest in Charter Ping An was at 66.67%. This acquisition was accounted for as an equity transaction in the consolidated financial statements and resulted in the recognition of negative other equity adjustments amounting to ₱375.67 million.

TCI
On April 23, 2014, the Parent Company acquired 0.20 million shares equivalent to 0.26% of TCI for a total consideration of ₱1.00 million, resulting in 89.31% direct ownership over TCI. This acquisition was accounted for as an equity transaction and resulted in the recognition of negative other equity adjustments amounting to ₱0.42 million.

In June 2014, the Parent Company subscribed to 33.00 million shares of TCI for a total consideration of ₱33.00 million, resulting to 92.48% direct ownership over TCI. The acquisition was accounted for as an equity transaction resulting in the recognition of negative other equity adjustments amounting to ₱24.79 million.

On June 23, 2014, the Parent Company sold 45.00 million shares of TCI to Mitsui for a total consideration of ₱298.71 million. This represents 40.47% of TCI's outstanding capital stock. As a result, the Parent Company's direct ownership over TCI is 52.01% as of September 30, 2014. This acquisition was accounted for as an equity transaction and resulted in the recognition of other equity adjustments amounting to ₱193.95 million.

Non-controlling interests
The following table presents the rollforward of non-controlling interests:

	2016	2015 (As restated – Note 31)
Beginning balance	**₱46,401**	₱26,595
Share of non-controlling interest shareholders on:		
Net income	**7,893**	8,826
Other comprehensive income	**498**	313
Preferred shares redemption of a subsidiary	**(2,000)**	–
Acquisition of additional interests in a subsidiary	**(1,746)**	–
Sale of direct interest in a subsidiary (Note 12)	**(19,390)**	–
Effect of business combination (Note 31)	**687**	16,996
Acquisition of non-controlling interests in consolidated subsidiaries	–	(5)
Cash dividends paid to non-controlling interest shareholders	**(5,910)**	(6,309)
Return of deposits	–	(15)
	₱26,433	₱46,401

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 2016	Direct Ownership 2015	Effective Ownership 2016	Effective Ownership 2015
TMPC	Motor	**49.00**	49.00	**49.00**	49.00
TMBC	Motor	**41.95**	–	**41.95**	–
PCFI	Real Estate	**49.00**	77.32	**49.00**	77.32
GBPC	Power	**–**	48.73	**–**	47.55

Carrying value of material non-controlling interests

	2016	2015
TMPC	**₱11,390**	₱10,201
PCFI	**13,967**	25,254
GBPC	–	16,874

Net income for the period allocated to material non-controlling interests

	2016	2015
TMPC	**₱6,030**	₱5,063
PCFI	**814**	962
GBPC	**913**	2,781

The following table presents the financial information of subsidiaries with material NCI as of and for the years ended December 31, 2016 and 2015:

	2016		2015		
	TMPC	**PCFI***	GBPC	TMPC	PCFI*
Statement of Financial Position					
Current assets	**₱29,226**	**₱21,391**	₱21,883	₱27,276	₱21,648
Non-current assets	**6,778**	**18,884**	52,478	5,015	14,504
Current liabilities	**16,059**	**6,034**	12,402	14,111	9,127
Non-current liabilities	**2,452**	**11,658**	31,543	2,950	10,078
Dividends paid to non-controlling interests	**4,858**	**1,032**	2,851	3,448	–
Statement of Comprehensive Income					
Revenues	**156,693**	**4,126**	19,308	114,945	2,948
Expenses	**140,761**	**3,767**	(14,963)	(100,876)	(1,625)
Net income	**12,130**	**233**	4,202	10,299	1,264
Total comprehensive income	**12,165**	**213**	3,514	10,242	1,283
Statement of Cash Flows					
Net cash provided by operating activities	**12,164**	**2,597**	5,232	11,480	744
Net cash used in investing activities	**(2,865)**	**(3,183)**	(6,739)	(2,241)	(3,090)
Net cash provided by (used in) financing activities	**(9,605)**	**2,235**	771	(6,998)	3,269

**Amounts in statements of comprehensive income and cash flows of PCFI are from the acquisition date, August 20, 2015, to December 31, 2015.*

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 2016 and 2015.

The Parent Company considers total equity as its capital amounting to ₱78.28 billion and ₱59.49 billion as of December 31, 2016 and 2015, 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:

	2016	2015 (As restated – Note 31)	2014 (As restated – Note 12)
Interest income on:			
Installment contract receivables (Note 5)	**₱1,721**	₱1,462	₱1,157
Cash and cash equivalents (Note 4)	**373**	268	160
Short-term investments (Note 4)	**26**	20	25
Receivables (Note 5)	**119**	–	–
Others	**23**	40	38
	₱2,262	₱1,790	₱1,380

Interest income on installment contract receivables consist of accretion of unamortized discount of Fed Land and interest income from collections of Fed Land and PCFI. Accretion of unamortized discount amounted to ₱1.29 billion in 2016 and 2015. Interest income from collections amounted to ₱1.29 billion and ₱0.17 billion in 2016 and 2015, respectively.

Other Income
This account consists of:

	2016	2015 (As restated - Note 31)	2014 (As restated - Note 12)
Ancillary income	**₱665**	₱306	₱250
Real estate forfeitures, charges and penalties	**235**	266	434
Management fee (Note 27)	**234**	64	78
Gain on disposal of property and equipment	**50**	30	90
Gain on asset swap	**–**	337	–
Dividend income	**–**	14	25
Others	**402**	143	125
	₱1,586	₱1,160	₱1,002

Gain on asset swap came from the deed of exchange entered into by Fed Land with Bases Conversion Development Authority (BCDA) in 2015 wherein Fed Land transferred to BCDA its road access lot in exchange of BCDA's two parcels of land which was valued at ₱0.10 million per square meter.

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 Fed Land and PCFI in the administration of different projects related to the joint venture (Note 27).

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.

Others also include charges from tenants of Fed Land pertaining to electricity and other utilities; these were recorded by Fed Land as other income upon receipt of the payments from the tenants.

24. Power Plant Operation and Maintenance Expenses

Power plant operation and maintenance expenses included in 'Net Income from Discontinued Operations' consists of (Note 12):

	2016	2015	2014
Power plant operations expenses	**₱2,766**	₱7,263	₱8,098
Repairs and maintenance and others	**296**	1,069	1,007
Purchased power	**211**	1,145	1,223
	₱3,273	₱9,477	₱10,328

Power plant operations mainly represent costs of coal and fuel consumed in the operations. This also includes depreciation of the power plant.

Repairs and maintenance and others mainly represent cost of materials and supplies consumed and the cost of restoration and maintenance of power plants.

25. Cost of Goods Manufactured and Sold and Cost of Goods and Services Sold

Cost of goods manufactured and sold consists of:

	2016	2015	2014
Raw materials, beginning	**₱1,382**	₱885	₱528
Purchases	**29,486**	25,184	21,822
Total materials available for production	**30,868**	26,069	22,350
Less: Raw materials, end	**1,329**	1,382	885
Raw materials placed in process	**29,539**	24,687	21,465

(Forward)

	2016	2015	2014
Direct labor	**₱372**	₱329	₱312
Manufacturing overhead	**3,876**	2,901	2,414
Total cost of goods placed in process	**33,787**	27,917	24,191
Work-in-process, beginning	**68**	43	53
Total Cost of goods in process	**33,855**	27,960	24,244
Less: Work-in-process, ending	**13**	68	43
Total cost of goods manufactured	**33,842**	27,892	24,201
Finished goods, beginning	**63**	21	43
Total goods available for sale/transfer	**33,905**	27,913	24,244
Less: Finished goods, ending	**66**	63	21
Other transfers	**47**	12	10
	₱33,792	₱27,838	₱24,213

Cost of goods and services sold consists of:

	2016	2015	2014
Beginning inventory			
Automotive	**₱1,891**	₱2,293	₱2,899
Gasoline, retail and petroleum products	**7**	6	8
Food	**1**	1	1
	1,899	2,300	2,908
Add: Net purchases	**125,624**	73,386	71,107
Total inventories available for sale	**127,523**	75,686	74,015
Less: Ending inventory (Note 6)			
Automotive	**6,861**	1,891	2,293
Gasoline, retail and petroleum products	**9**	7	6
Food	**1**	1	1
	120,652	73,787	71,715
Cost adjustments	**764**	712	(1,614)
Internal and other transfers	**(82)**	(357)	(339)
Direct labor	**38**	27	7
Overhead (Note 30)	**688**	772	828
	₱122,060	₱74,941	₱70,597

Overhead includes rent expense and common usage and service area charges.

26. General and Administrative Expenses

This account consists of:

	2016	2015 (As restated − Note 31)	2014 (As restated − Note 12)
Salaries, wages and employee benefits (Notes 27 and 28)	**₱2,866**	₱1,920	₱1,574
Taxes and licenses	**2,010**	991	792
Advertising and promotions	**1,838**	1,313	2,037
Commissions	**1,394**	725	554
Delivery and Handling	**586**	427	361
Depreciation and amortization (Note 11)	**495**	344	287
Unrealized foreign exchange loss	**474**	115	42
Professional fees	**429**	133	79
Light, water and other utilities	**420**	352	276
Provisions for other expenses	**327**	−	−
Repairs and maintenance	**258**	108	177
Office supplies	**244**	138	91
Outside services	**223**	70	65
Transportation and travel	**183**	132	112
Rent (Note 30)	**149**	74	70
Provision of product warranties	**121**	119	190
Communications	**93**	45	29
Entertainment, amusement and recreation	**89**	65	34
Administrative and management fees	**55**	16	23
Insurance	**40**	27	20
Loss on asset disposal	**38**	−	−
Royalty and service fees	**13**	10	7
Others	**492**	358	313
	₱12,837	₱7,482	₱7,133

Other expenses include membership and subscription fees, dealer development, corporate events and contractual services and donations and contributions pertain to real properties and fund given to TMP School of Technology to finance its building construction and operations.

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.

As of December 31, 2016 and 2015, the Group has not made any provision for probable losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

The following table shows the related party transactions included in the consolidated financial statements.

	December 31, 2016		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Associates			
Cash and cash equivalents	₱2,173	₱13,468	Savings, current and time deposits accounts earning annual interest rate ranging from 0.1% to 2.5%
Short-term investments	14	1,310	Within one (1) year, interest rates ranging from 0.1% to 3.0%
Commission receivable		11	Noninterest-bearing; unsecured; no impairment
Rent receivables		12	Noninterest-bearing; unsecured; no impairment
Vehicle Receivables		345	Noninterest-bearing; unsecured; no impairment
Due from related parties		21	Noninterest-bearing; unsecured; no impairment
Receivables from sharing of expenses	30	27	Noninterest-bearing; unsecured; no impairment
Other receivables		6	Noninterest-bearing; unsecured; no impairment
Available-for-sale investments	1,284	1,284	Investment in UITF
Investments in subsidiaries, associates and joint venture (Note 8)	32,934	32,934	Initial investment in MPIC and additional investment in MBTC
Investments in subsidiaries, associates and joint venture (Note 8)	241	241	Advisory fees of FMIC capitalized
Other noncurrent assets		47	Unsecured; no impairment
Accounts and other payables	6	10	Within one (1) year, non-interest-bearing
Customers' deposits		18	Refundable deposits
Due to related parties		20	Non-interest bearing; due and demandable; Unsecured, no impairment
Loans payable	128	5,901	With interest ranging from 2.55% to 5.29%; Unsecured, no impairment
Vehicle & service sales	263	65	
Commission income	2		
Interest income	60		Interest from bank deposits with an associate at 0.38% to 2.5% per annum
Management fee income	3		Services related to administering the different projects of the group
Rent income	67		
Dividend income	964		Dividend income from associate
Gain on sale of AFS investments	16		Realized gain on UITF
Joint venture			
Cash and cash equivalents		44	Savings, current and time deposits accounts earning annual interest rate ranging from 0.38% to 1.75%
Management fee receivables		39	Unsecured; no impairment
Commission receivable		74	Unsecured; no impairment
Financing Receivables		251	Unsecured; no impairment
Other receivables		6	Unsecured; no impairment
Management fee income	39		
Rent income	6		
Commission income	115		
Vehicle & Service Sales	81		
Rent income	27		

(Forward)

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2016		
Other related parties			
Cash and cash equivalents	₱457	₱5,198	Savings, current and time deposits accounts earning annual interest rate ranging from 0.25% to 2.5%
Commission receivable		15	Noninterest-bearing; unsecured; no impairment
Trade receivables	7,890	691	Noninterest-bearing; unsecured; no impairment
Rent receivables		1	Noninterest-bearing; unsecured; no impairment
Vehicle Receivables		169	Noninterest-bearing; unsecured; no impairment
Nontrade receivables	3	5	Receivable arising from reimbursable expenses and other nontrade transactions
Receivables from sharing of expenses	7	6	Noninterest-bearing; unsecured; no impairment
Prepaid expenses and others	1	3	Unsecured; no impairment
Due from related parties		59	Noninterest-bearing; unsecured; no impairment
Financing Receivables		70	Unsecured; no impairment
Other receivables		436	Noninterest-bearing; unsecured; no impairment
Loans receivables		643	With interest of 3.15%; payable in 2022; unsecured
Accounts and other payables	110,625	7,054	Noninterest-bearing; unsecured; no impairment
Customers’ deposits		22	Noninterest-bearing; unsecured; no impairment
Due to related parties		175	Noninterest-bearing; unsecured; no impairment
Royalty payable	83	7	Noninterest-bearing; unsecured; no impairment
Loans payable	3	79	5 years, with interest of 4.20%
Liabilities on purchased properties (Note 20)		2,159	With 3.00% interest; payable annually until 2026; unsecured
Bonds payable	20	20	GT Capital bonds held by a subsidiary of an associate
Additional paid-in capital	25	25	Underwriting selling,and management fee
Vehicle & service sales	₱536	₱149	
Interest income	259		Interest from promissory note with subsidiary of an associate
Commission income	23		
Rent income	40		
Insurance expense	5		
Interest expense	102		
Advisory fee	178		Advisory fee paid to FMIC for acquisitions of the Parent Company
Key management personnel			
Short-term employee benefits	606		
Post-employment benefits	58		

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2015		
Associates			
Cash and cash equivalents	₱6,428	₱29,358	Savings, current and time deposits accounts earning annual interest rate ranging from 0.25% to 2.5%
Short-term investments	22	2,011	Within one (1) year, interest rate ranging from 0.16% to 2.50%
Interest receivables	3	17	Interest from cash and cash equivalents
Interest income	189		Interest income from cash and cash equivalents and short-term investments
Trade receivables		71	Noninterest-bearing; due within 30 days
Commission receivable		10	Noninterest-bearing; due and demandable
Rent receivable		21	
Other receivables		35	Noninterest-bearing; due and demandable
Deposits		1	Refundable deposits
Inventories	1,763		Purchased of land from an associate
Due from related party		26	Noninterest-bearing; due and demandable
Investments in associates and joint venture	8,279	8,279	Stock rights offering; additional investment in MBTC
Escrow fund	48	48	Agreed deposit with MBTC-Trust Banking Group equivalent to 20% of approved loan credit accommodation
Accounts and other payables		12	Unsecured; no impairment
Due to related party		1	Noninterest-bearing; due and demandable
Loans payable		11,621	With interest ranging from 3.75% to 6.20%, Unsecured with quarterly interest payment
Accrued interest payable	1,205	57	Interest on loans payable
Dividend income	689		Dividend income from associate
Management fee income	5		Services related to administering the different projects of the group
Rent income	72		Unsecured; no impairment
Documentation and processing fee	1		Unsecured; no impairment

(Forward)

Category	Amount/ Volume	Outstanding Balances	December 31, 2015 Terms and Conditions/Nature
Guarantee fee			Unsecured; no impairment
Rent expense	₱2		Unsecured; no impairment
Insurance expense	9		Unsecured; no impairment
General and Administrative expenses	1		Utilities, outside services, repairs and maintenance
Joint venture			
Dividend receivable	60	60	Dividend receivable from FLOC
Trade receivables	10,166	204	Sale of vehicles and spare parts under the renewable dealership agreement
Nontrade receivables	7	1	Noninterest-bearing; 30 days term; unsecured
Commission receivable		189	Commission earned from the sale of condominium units where FedLand acted as agents
Commission income	190		Unsecured; no impairment
Rent receivable		7	Noninterest-bearing; due and demandable
Management fee receivable		7	Unsecured; no impairment
Receivable from sharing of expenses		3	Unsecured; no impairment
Other receivables		3	Unsecured; no impairment
Trade payables	346	34	Payables arising from swapping of vehicles, parts and accessories between dealerships, sales adjustments, warranty, sales promotions and reimbursable expenses.
Management fee income	48		Unsecured; no impairment
Rent income	50		Unsecured; no impairment
Representation expense	2		Representation expense paid
Other related parties			
Cash and cash equivalents	666	6,422	Savings, current and time deposits accounts earning annual interest rate ranging from 0.25% to 3.0%
Interest income	22		Interest from promissory note with subsidiary of an associate
Trade receivables	9,419	918	Arising from export sales to TMAP and sale of vehicles to other parties
Due from related party		344	Noninterest-bearing; due and demandable
Inventories	7,844		Purchased of land to other related parties
Management fee receivable		2	Noninterest-bearing; due and demandable
Nontrade receivables	173	5	Receivable arising from reimbursable expenses and other nontrade transactions
Other receivables		3	Noninterest-bearing; due and demandable
Rent receivable		14	Noninterest-bearing; due and demandable
Commission receivable		29	Unsecured; no impairment
Deposits		85	Unsecured; no impairment
Receivables from sharing of expenses	65	65	Noninterest-bearing; due and demandable
Loans receivables		636	With interest of 3.15%; Payable in 2022; Unsecured
Property and equipment	11		Purchased of vehicles
Trade payables	74,626	6,248	Purchase of raw materials , spare parts and vehicles for sale
Royalty payable		7	Unsecured; no impairment
Dividends payable	14	1,267	Non-interest bearing; payable in 2016
Liabilities on purchased properties (Note 20)		2,783	With 3.00% interest; payable annually until 2026; unsecured
Loans payable	3	1,232	With 3.00% to 6.20% interest; payable annually until 2026
Accrued interest payable		15	Unsecured; no impairment
Interest expense	76	135	Unsecured; no impairment
Due to related party		173	Noninterest-bearing operational advances which are due and demandable
Other payables	22		Unsecured; no impairment
Commission income	19		Unsecured; no impairment
Documentation and processing fee	14		Unsecured; no impairment
Rent expense	6		Unsecured; no impairment
Rent income	59		Unsecured; no impairment
Royalty and technical assistance expense	45		Unsecured; no impairment
Miscellaneous expenses	1		Information technology services; Payment for title verification report for land title
Key management personnel			
Short-term employee benefits	590		
Post-employment benefits	102		

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 Philippine Savings Bank, which are subsidiaries of MBTC. Cash and cash equivalents earn interest at the prevailing investment rates.

Available-for-sale investments
In 2016, the Parent Company invested in UITF products of MBTC. As of December 31, 2016, the Parent Company's investment in UITF amounted to ₱1.28 billion.

Operating advances
Due from and to related parties consist mostly of operating advances which are noninterest-bearing and due and demandable.

Long-term loans receivable
In 2012, Fed Land entered into a loan agreement with Cathay International Resources Corp. (Borrower). Fed Land agreed to lend to the Borrower a total amount of ₱705.00 million with a nominal interest rate of 3.15% annually. The outstanding balance of long-term loans receivable as of December 31, 2016 and 2015 amounted to ₱643.04 and ₱634.31 million, respectively (Note 5).

Affiliated bank loans
The Group's loans payable to an affiliated commercial bank bears interest rates ranging from 2.55% to 5.29% and 3.75% to 6.20% per annum for 2016 and 2015, respectively.

Management fee
Management fee amounting to ₱41.76 million and ₱52.76 million in 2016 and 2015, respectively, pertains to the income received from a joint venture of Fed Land with FLOC and MBTC (Note 23).

Lease agreements
Fed Land entered into operating lease agreements for the use of office spaces in GT Tower International Building. The terms of lease ranges from 5 to 10 years and 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 ₱179.47 million and ₱195.25 million for 2016 and 2015, 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 Charter Ping An 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 Charter Ping for a final consideration of ₱2.10 billion (Note 12).

Compensation of key management personnel for the years ended December 31, 2016, 2015 and 2014 follow:

	2016	2015	2014
Short-term employee benefits	**₱606**	₱590	₱514
Post-employment benefits	**59**	102	50
	₱665	₱692	₱564

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, 2016 and 2015 amounted to ₱1.51 billion and ₱1.31 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, 2016 and 2015 (in absolute amounts):

	December 31, 2016		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Associate			
Savings deposit		**₱73,792**	Savings account with annual interest of 1%, unsecured and no impairment;
Time deposit		**99,134,000**	With annual interest of 3.88%, 1 - 3 months maturity; unsecured and no impairment
Money market		**4,007,832**	
Investment in equity securities		**8,349,000**	Unsecured with no impairment
Investment in UITF		**7,603,581**	Unsecured with no impairment
Interest income	**₱323,091**		Income earned from savings and time deposit
Gain on sale of shares	**230,060**		Income from sale of shares
Gain on sale of UITF	**115,820**		Income from sale of UITF
Mark-to-market gain	**484,811**		Gain from mark-to-market of shares
Parent			
Investment in equity securities		**7,366,000**	Unsecured with no impairment
Gain on sale of shares	**281,865**		Income from sale of shares

	December 31, 2015		
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
Associate			
Savings deposit		₱206,193	Savings account with annual interest of 1%, unsecured and no impairment;
Time deposit	₱20,595	55,049,000	With annual interest of 3.88%, 1 - 3 months maturity; unsecured and no impairment
Money market	121,944	9,560,588	
Investment in equity securities		17,829,810	Unsecured with no impairment
Interest income	96,172		Income earned from savings and time deposit
Gain on sale of shares	647,825		Income from sale of shares
Mark-to-market gain	501,253		Gain from mark-to-market of shares
Parent			
Investment in equity securities		6,676,000	Unsecured with no impairment
Mark-to-market gain	2,154,404		Gain from mark-to-market of shares
Gain on sale of shares	1,184,833		Income from sale of shares

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:

		2016		
		Actuarial Assumptions		
	Date of Actuarial Valuation	**Expected Return on Plan Assets**	**Salary Rate Increase**	**Discount Rate**
Real estate	**December 31, 2016**	**3.50%**	**8.00%**	**5.31%**
Automotive	**-do-**	**4.25 - 8.00%**	**5.00% - 7.00%**	**5.21% to 5.86%**
Financial	**-do-**	**3.50%**	**7.00%**	**5.53%**

		2015		
		Actuarial Assumptions		
	Date of Actuarial Valuation	Expected Return on Plan Assets	Salary Rate Increase	Discount Rate
Real estate	December 31, 2015	3.33%	6.33%	5.05%
Power	-do-	5.00%	8.00%	4.87% - 5.20%
Non-life insurance	-do-	7.00%	10.00%	5.12%
Automotive	-do-	9.00%	5.00% to 7.00%	4.83% to 5.07%
Financial	-do-	3.50%	7.00%	5.11%

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 statement of financial position follow:

	2016	2015
Retirement asset (Note 14)	**(₱2)**	(₱5)
Retirement liability	**1,671**	2,219
Net retirement liability	**₱1,669**	₱2,214

The net pension liability and asset recognized in the Group's statements of financial position are as follows:

2016

					Net benefit cost						Remeasurements in other comprehensive income					
	January 1, 2016	**Effect of business combination (Note 31)**	**Effect of sale of a subsidiary (Note 12)**	**Balance after business combination**	**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, 2016**
Present value of defined benefit obligation	**₱3,523**	**₱86**	**(₱771)**	**₱2,838**	**₱221**	**₱187**	**₱6**	**₱414**	**(₱88)**	**₱–**	**₱100**	**(₱13)**	**(₱68)**	**₱19**	**₱–**	**₱3,183**
Fair value of plan assets	**(1,309)**	**(21)**	**96**	**(1,234)**	**–**	**(58)**	**–**	**(58)**	**76**	**3**	**–**	**–**	**–**	**3**	**(301)**	**(1,514)**
Net defined benefit liability	**₱2,214**	**₱65**	**(₱675)**	**₱1,604**	**₱221**	**₱129**	**₱6**	**356**	**(₱12)**	**₱3**	**₱100**	**(₱13)**	**(₱68)**	**₱22**	**₱(301)**	**₱1,669**

2015

				Net benefit cost					Remeasurements in other comprehensive income								
	January 1, 2015	Effect of business combination	Balance after business combination	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, 2015	Effect of disposal group classified as held-for-sale (Note 12)	December 31, 2015
Present value of defined benefit obligation	₱3,518	₱110	₱3,628	₱334	₱166	₱11	₱511	(₱107)	₱–	(₱104)	(₱92)	(₱62)	(₱258)	₱–	₱3,774	(₱251)	₱3,523
Fair value of plan assets	(1,261)	–	(1,261)	–	(57)	–	(57)	75	14	–	–	–	14	(204)	(1,433)	124	(1,309)
Net defined benefit liability	₱2,257	₱110	₱2,367	₱334	₱109	₱11	₱454	(₱32)	₱14	(₱104)	(₱92)	(₱62)	(₱244)	(₱204)	₱2,341	(₱127)	₱2,214

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:

	2016	2015
Cash and cash equivalents	**₱46**	₱67
Investment in government securities	**966**	952
Investment in equity securities	**258**	186
Investment in debt and other securities	**86**	71
Receivables	**125**	26
Investment in mutual funds	**21**	7
Others	**15**	2
Liabilities	**(3)**	(2)
	₱1,514	₱1,309

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:

		2016	2015
	Possible Fluctuations	**Increase (Decrease)**	Increase (Decrease)
Discount rates	**+1%**	**(₱202)**	(₱61)
	-1%	**232**	63
Turnover rate	**+1%**	**–**	(74)
	-1%	**–**	83
Future salary increase rate	**+1%**	**244**	202
	-1%	**(216)**	(166)

The Group expects to contribute ₱381.46 million to its defined benefit pension plan in 2017.

The average duration of the defined benefit retirement liability at the end of the reporting period is 17.48 years for the Group.

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

Less than 1 year	₱240
More than 1 year to 5 years	813
More than 5 years to 10 years	2,274
More than 10 years to 15 years	2,010
More than 15 years to 20 years	1,296
More than 20 years	4,955

The Group does not currently have any asset-liability matching study.

29. **Income Taxes**

Provision for income tax account consists of:

	2016	2015 (As restated – Note 31)	2014
Current	**₱4,377**	₱4,241	₱ 2,815
Deferred	**126**	(5)	(286)
Final	**83**	63	40
	₱4,586	₱4,299	₱2,569

The components of the Group's deferred taxes as of December 31, 2016 and 2015 are as follows:

Net deferred tax asset:

	2016	2015 (As restated - Note 31)
Deferred tax asset on:		
Retirement benefit obligation	**₱439**	₱553
Warranties payable and other provisions	**60**	90
Accrued expenses	**32**	22
Allowance for probable losses	**20**	52
Accrued dealers' incentives, support and promotions	**18**	17
Allowance for impairment losses	**9**	11
Deferred gross profit	**2**	2
NOLCO	–	281
Capitalized commissioning income	–	100
Decommissioning liability	–	71
Unamortized past service cost from pension obligation	–	12
Unamortized discount on receivables	–	9
Others	**2**	37
	582	1,257
Deferred tax liability on:		
Capitalized custom duties	**23**	20
Unrealized foreign exchange gain	**13**	8
Capitalized borrowing cost and guarantee fees	**3**	70
Deferred financing cost	**2**	108
Fair value adjustment on acquisition	–	205
Capitalized foreign exchange loss	–	48
Dismantling costs	–	43
Retirement asset	–	1
Others	**1**	6
	42	509
Net deferred tax asset	**₱540**	₱748

Net deferred tax liability:

	2016	2015 (As restated - Note 31)
Deferred tax asset on:		
Unrealized gain on sale of land	**₱718**	₱673
Accrued expenses	**194**	27
Deferred gross profit	**132**	131
Retirement benefit obligation	**109**	86
Prepaid commission	**89**	208
NOLCO	**68**	41
Unearned income	**34**	90
Unamortized discount on receivables	**18**	24
Fair value adjustment on acquisition	**15**	−
Allowance for probable losses	**5**	6
Excess of taxable gross profit over realized gross profit	**−**	50
Allowance for impairment losses	**−**	3
Others	**10**	−
	1,392	1,339
Deferred tax liability on:		
Fair value adjustment on acquisition	**5,437**	6,037
Capitalized borrowing cost and guarantee fees	**768**	479
Excess of book basis over tax basis of deferred gross profit	**112**	124
Unamortized discount on long-term payable	**33**	88
Lease differential	**15**	25
Retirement asset	**1**	2
Accrued income	**−**	50
Deferred financing costs − bonds	**−**	23
Others	**78**	12
	6,444	6,840
Net deferred tax liability	**₱5,052**	₱5,501

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.

As of December 31, 2016, 2015 and 2014, 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
2016	₱3,148	₱–	₱3,148	2019
2015	1,782	–	1,782	2018
2014	974	–	974	2017
2013	1,053	1,053	–	2016
	₱6,957	₱1,053	₱5,904	

MCIT

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2016	₱2	₱–	₱2	2019

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:

	2016	2015 (As restated – Note 12)	2014 (As restated – Note 12)
Provision for income tax computed at statutory rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Income subjected to final tax	**(0.06)**	(0.36)	(0.54)
Nondeductible interest and other expenses	**1.05**	0.71	0.74
Change in unrecognized deferred tax assets	**5.05**	3.38	2.56
Nontaxable income	**(17.28)**	(9.11)	(11.26)
Operating income within ITH	**(1.99)**	(6.32)	(6.32)
Others	**0.26**	(.53)	(0.01)
Effective income tax rates	**17.03%**	17.77%	15.17%
Continuing operations	**16.89%**	16.88%	14.39%
Disposal group	**0.14%**	0.89%	0.78%
	17.03%	17.77%	15.17%

Board of Investments (BOI) Incentives

Fed Land

The BOI issued a Certificate of Registrations 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: Marquinton-Cordova Tower and The Oriental Place are entitled to ITH in years 2008 to 2012, The Capital Towers-Beijing, Marquinton Gardens Terraces-Toledo, Oriental Gardens-Lilac and Peninsula Garden Midtown Homes-Tower A are entitled to ITH in years 2009 to 2013, Oriental Garden Heights - A, B and C in 2010 to 2014, Marquinton Garden Terraces - Valderrama Tower in 2010 to 2013, Peninsula Garden Midtown Homes (PGMH) - Maple Tower and Tropicana Garden City - Ibiza Tower are entitled to ITH from 2012 to 2015 and PGMH - Narra is entitled to ITH from 2014 to 2017.

PCFI

On various dates, the BOI issued in favor of PCFI a Certificate of Registration as a Developer of Low-Cost Mass Housing Project for its 86 real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the projects were granted an Income Tax Holiday for a period of three (3) to four (4) years commencing on various dates from 2008 to 2015 and expiring on various dates from 2012 to 2018.

TMP
TMP 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, TMP shall be entitled to Income Tax Holiday (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, TMP 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 TMP's enrollment of its locally-produced vehicle model to the CARS Program on June 27, 2016. Under the terms of registration, TMP shall be entitled to Fixed Investment Support and Production Volume Incentive 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 Fed Land Group's mall and gasoline station and lease of parking spaces with terms ranging from one (1) to ten (10) years. Rent expense included under 'General and administrative expenses' amounted to ₱164.53 million, ₱104.80 million and ₱98.49 million in 2016, 2015 and 2014, 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 ₱23.66 million, ₱20.57 million and ₱20.56 million in 2016, 2015 and 2014, respectively (Note 25).

As of December 31, 2016 and 2015, the future minimum rental payments are as follows:

	2016	2015
Within one year	**₱103**	₱94
After one year but not more than five years	**261**	200
More than five years	**263**	180
	₱627	₱474

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 ₱826.59 million, ₱840.46 million and ₱764.49 million, in 2016, 2015 and 2014, respectively (Note 9). The cost of rental services amounting ₱326.35 million, ₱271.61 million and ₱270.09 million in 2016, 2015 and 2014, respectively, includes maintenance fee, depreciation, repairs and maintenance, and taxes and licenses.

As of December 31, 2016 and 2015, the future minimum receipts from these lease commitments are as follows:

	2016	2015
Within one year	**₱586**	₱743
After one year but not more than five years	**1,118**	934
More than five years	**534**	476
	₱2,238	₱2,153

31. **Business Combinations and Disposals**

Acquisition of TMBC

On March 7, 2016, the SEC approved the merger of TMBC and TCI, with TMBC as the surviving corporation and TCI as the absorbed corporation. The merger resulted in GT Capital owning 58.05% of the merged corporation. Pursuant to the merger, GT Capital has majority representation in the BOD and the Executive Committee (ExCom) of TMBC. Management has assessed that it has the ability to direct the relevant activities of TMBC that most significantly affect its returns based on its majority representation in the BOD and the ExCom. As a result, the Group obtained control over TMBC and the financial statements of TMBC were consolidated in the financial statements of the Parent Company.

The consideration given to obtain control over TMBC was the carrying value of existing TCI shares exchanged for new TMBC shares. The transaction was accounted for as a business combination using the purchase method. The Parent Company's previously held interest was remeasured at fair value and a gain from remeasurement amounting to ₱73.76 million was recognized.

The Group elected to measure the NCI in TMBC at the proportionate share of the NCI in the identifiable net assets of TMBC. The cost of consideration included the proportionate share of NCI, the fair value of previously held interest and carrying value of existing TCI shares exchanged for new TMBC shares.

The fair values of the identifiable assets and liabilities of TMBC as of acquisition date are as follows:

Assets	
Cash and cash equivalents	₱177
Receivables	906
Inventories	467
Prepayments and other current assets	35
Property and equipment	1,290
Deferred tax assets	39
Other noncurrent assets	22
	2,936

(Forward)

Liabilities	
Accounts and other payables	₱526
Loans payable	810
Customer's deposits	32
Income tax payable	22
Other current liabilities	18
Deferred tax liabilities	198
Pension liabilities	67
	1,673
Net assets	₱1,263

The gross contractual amount of receivables acquired amounted to ₱913.06 million.

The aggregate consideration transferred consists of:

Proportionate share of non-controlling interests	₱530
Fair value of previously held interest in TMBC	969
	₱1,499

The business combination resulted in goodwill computed as follows:

Total consideration transferred	₱1,499
Less: Fair values of identifiable net assets	1,263
Goodwill	₱236

The goodwill of ₱236.06 million comprises the value of expected synergies arising from the acquisition of the dealership business. Goodwill is allocated entirely to the operations of TMBC, and none of the goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, TMBC contributed gross revenues and net income attributable to equity holders of the Parent Company amounting to ₱21.35 billion and ₱0.16 billion, respectively. If the business combination with TMBC took place at the beginning of the year, total revenues and net income attributable to equity holder of the Parent Company from TMBC would have been ₱24.30 billion and ₱0.17 billion, respectively.

<u>Acquisition of FLOC</u>
On December 23, 2016, Fed Land acquired 40.00% ownership in FLOC from ORPI amounting to ₱289.00 million in exchange for the 220,000,000 common shares of ORPI. As a result of the purchase, Fed Land gained control in FLOC and accounted for its investment as an investment in subsidiary as of December 31, 2016. Fed Land recognized a gain on revaluation of previously held interest amounting to ₱51.06 million. The goodwill recognized from the acquisition amounted to to ₱9.14 million.

<u>Acquisition of WFC</u>
On June 23, 2016, PCFI purchased 1,409,995 common shares and 2,499,996 preferred shares of WFC for a total consideration of ₱49.56 million. Subsequently, in various dates in June 2016, PCFI entered into a Subscription Agreement with WFC for the subscription of a total 200,000,000 common shares of WFC for ₱2.00 billion. The net assets of WFC are short-term financial instruments. The carrying values of the net assets of WFC approximate their fair values due to the short-term maturities of these financial instruments.

Acquisition of PCFI

On August 6, 2015, the Parent Company, Profriends Group Inc. (PGI) and PCFI entered into a Master Subscription Agreement (the Agreement). Subject to the terms of the Agreement, the Parent Company agreed to subscribe to PCFI's series A preferred shares representing 51.00% of all issued and outstanding capital stock over a three (3) year term ending on the third year from the execution of the Agreement.

The Parent Company finalized the acquisition of the initial 22.68% of PCFI for ₱7.24 billion on August 20, 2015, upon fulfillment of all Tranche 1 closing conditions. This includes the execution of an irrevocable proxy in favor of the Parent Company, covering 51.00% of the total issued and outstanding capital stock of PCFI ("the Irrevocable Proxy") by PGI, the selling shareholder. The Irrevocable Proxy gives the Parent Company the ability to direct the relevant activities of PCFI that will affect the amount of returns that the Parent Company will receive from its investment in PCFI. The Parent Company assessed that it has control over PCFI by virtue of the Irrevocable Proxy and payment for the 22.68% equity interest and accounted for PCFI as a subsidiary.

Assets acquired and liabilities assumed

The acquisition was accounted for as a business combination using the acquisition method. The Group elected to measure the non-controlling interest at the proportionate share of the non-controlling interest in the identifiable net assets of PCFI.

As permitted under the standards, the Group finalized its purchase price allocation of PCFI to consider additional information in 2016. The final purchase price allocation was retroactively adjusted in the 2016 financial statements. The effects of the retrospective adjustment is detailed below:

- Decrease in receivables by ₱865.25 million.
- Decrease in inventories by ₱13.76 billion.
- Decrease in accounts and other payables by ₱277.65 million.
- Decrease in long-term debt by ₱5.36 million.
- Decrease in net deferred tax liabilities by ₱4.30 billion.
- Decrease in unappropriated retained earnings by ₱4.11 million.
- Decrease in NCI by ₱7.31 billion.

The above adjustments resulted in the net increase in goodwill by ₱2.73 billion. Accordingly, the consolidated statement of financial position and consolidated statement of income for the year ended December 31, 2015 have been restated to reflect the results of the final purchase price allocation. Cost of real estate sales increased by ₱25.90 million and provision for income tax decreased by ₱7.77 million. Net income attributable to equity holders of the Parent Company decreased by ₱4.11 million and net income attributable to NCI decreased by ₱14.02 million.

The final allocation of the identifiable assets and liabilities of PCFI as of acquisition date are as follows:

Assets	(As restated)
Cash and cash equivalents	₱338
Short-term investments	962
Receivables	13,078
Inventories	23,147

(Forward)

Assets	(As restated)
Due from related parties	₱337
Prepayments and other current assets	1,120
Available-for-sale investments	2
Property and equipment	715
Intangible assets	13
Investment properties	2,390
Deferred tax assets	80
Other noncurrent assets	212
	42,394
Liabilities	
Accounts and other payables	₱1,992
Customer's deposits	676
Loans payable – current	7,725
Other current liabilities	1,944
Income tax payable	125
Loans payable – Noncurrent	5,408
Deferred tax liabilities on fair value increment	3,019
Pension liabilities	110
	20,999
Net assets	₱21,395

The gross contractual amount of receivables acquired amounted to ₱11.02 billion.

The aggregate consideration transferred consists of:

Cash consideration	₱7,240
Proportionate share of non-controlling interests	16,996
	₱24,236

The business combination resulted in goodwill computed as follows:

Total consideration transferred		₱24,236
Fair value of identifiable net assets	₱24,414	
Less: Deferred tax liabilities on fair value adjustments	(3,019)	21,395
Goodwill		₱2,841

The goodwill arising from acquisition consists largely of the synergies expected from having PCFI within the Group. Goodwill arising from the acquisition of PCFI Group is allocated entirely to the operations of PCFI. None of the goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, PCFI Group has contributed gross revenues of ₱2.95 billion and net income attributable to equity holders of the Parent Company amounting to ₱286.73 million to the Group for the year ended December 31, 2015. If the business combination with PCFI had taken place at the beginning of the year, total revenues and net income attributable to equity holders of the Parent Company from PCFI for the year ended December 31, 2015 would have been ₱7.05 billion and ₱458.63 million, respectively.

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 Other current assets (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 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 8.00% to 12.00% as of December 31, 2016 and 2015. 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, 2016 and 2015.

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.

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.

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).

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
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 2.55% to 7.18% and 2.67% to 7.10% for the year ended December 31, 2016 and 2015, 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 on December 20, 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.

	2016				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:					
Financial Assets					
AFS investments:					
Quoted equity securities	**₱962**	**₱104**	**₱2,142**	**₱–**	**₱2,246**
	₱962	**₱104**	**₱2,142**	**₱–**	**₱2,246**
(Forward)					
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Installment contracts receivables	**₱18,257**	**₱–**	**₱–**	**₱21,734**	**₱21,734**
Loans receivables	**643**	**–**	**–**	**610**	**610**
Non-financial Assets					
Investment in listed associates	**84,999**	**93,562**	**–**	**–**	**93,562**
Investment properties	**14,314**	**–**	**–**	**15,331**	**15,331**
	₱118,213	**₱93,562**	**₱–**	**₱37,675**	**₱131,237**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Liabilities on purchased properties	**2,158**	**–**	**–**	**2,582**	**2,582**
Loans payable	**64,938**	**–**	**–**	**67,112**	**67,112**
Bonds payable	**21,848**	**22,382**	**–**	**–**	**22,382**
	₱88,944	**₱22,382**	**₱–**	**₱69,694**	**₱92,076**

	2015				
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:					
Financial Assets					
AFS investments:					
Quoted equity securities	₱2,713	₱2,713	₱–	₱–	₱2,713
Assets of disposal group classified as held-for-sale:					
AFS investments					
Government securities	953	508	445	–	953
Quoted debt securities	386	386	–	–	386
Quoted equity securities	266	266	–	–	266
	₱4,318	₱3,873	₱445	₱–	₱4,318
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Installment contracts receivables	₱23,430	₱–	₱–	₱26,860	₱26,860
Loans receivables	634	–	–	585	585
Non-financial Assets					
Investment properties	10,797	–	–	14,931	14,931
	₱34,861	₱–	₱–	₱42,376	₱42,376
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Liabilities on purchased properties	2,783	–	–	2,606	2,606
Loans payable	96,618	–	–	99,639	99,639
Bonds payable	21,801	22,302	–	–	22,302
	₱121,202	₱22,302	₱–	₱102,245	₱124,547

As of December 31, 2016 and 2015, other than AFS investments, no transfers were made among the three levels in the fair value hierarchy.

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 and 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.
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, AFS investments, accounts and other payable, due to/from related parties, and loans payable.

Exposures to credit, liquidity and foreign currency, interest rate 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 financing and treasury function operates as a centralized service for 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, 2016 and 2015, 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 120 days past due.

AFS investments - quoted AFS investments is based on the quoted market bid prices at the close of business on the reporting date while the unquoted financial assets are unrated.

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

	December 31, 2016						
	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)	**₱20,927**	**₱–**	**₱–**	**₱20,927**	**₱–**	**₱–**	**₱20,927**
Short-term Investments	**1,598**	**–**	**–**	**1,598**	**–**	**–**	**1,598**
Receivables (Note 5)							
Trade receivables	**6,321**	**51**	**96**	**6,468**	**1,563**	**–**	**8,031**
Installment contracts receivable	**16,184**	**1,783**	**465**	**18,432**	**860**	**1**	**19,293**
Loans receivable	**643**	**–**	**–**	**643**	**–**	**–**	**643**
Dividends receivable	**5**	**–**	**–**	**5**	**–**	**–**	**5**
Accrued rent and commission income	**318**	**15**	**2**	**335**	**18**	**25**	**378**
Accrued interest receivable	**152**	**–**	**–**	**152**	**–**	**–**	**152**
Nontrade receivables	**207**	**108**	**44**	**359**	**26**	**14**	**399**
Management fee receivables	**182**	**–**	**–**	**182**	**–**	**–**	**182**
Others	**813**	**–**	**–**	**813**	**64**	**1**	**878**
Due from related parties (Note 27)	**80**	**–**	**–**	**80**	**–**	**–**	**80**
AFS investments (Note 10)							
Equity securities							
Quoted	**2,246**	**–**	**–**	**2,246**	**–**	**–**	**2,246**
Unquoted	**481**	**–**	**–**	**481**	**–**	**–**	**481**
	₱50,157	**₱1,957**	**₱607**	**₱52,721**	**₱2,531**	**₱41**	**₱55,293**

**Excludes cash on hand amounting to ₱28.03 million.*

	December 31, 2015 (As restated – Note 31)						
	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)	₱37,850	₱–	₱–	₱37,850	₱–	₱–	₱37,850
Short-term Investments	1,861	–	–	1,861	–	–	1,861
Receivables (Note 5)							
Trade receivables	7,183	1,615		8,798	222	262	9,282
Installment contracts receivable	19,047	2,370	477	21,894	670	1	22,565
Loans receivable	681	–	–	681	–	–	681
Dividends receivable	60	–	–	60	–	–	60
Accrued rent and commission income	481	11	10	502	11	21	534
Accrued interest receivable	148	–	–	148	–	–	148
Nontrade receivables	411	25	–	436	1	–	437
Others	220	1	–	221	95	3	319
Due from related parties	370	–	–	370	–	–	370
AFS investments (Note 10)							
Equity securities							
Quoted	2,714	–	–	2,714	–	–	2,714
Unquoted	481	–	–	481	–	–	481
	₱71,507	₱4,022	₱487	₱76,016	₱999	₱287	₱77,302

**Excludes cash on hand amounting to ₱10.80 million.*

As of December 31, 2016 and 2015, the aging analysis of past due but not individually impaired financial assets presented per class, is as follows :

	December 31, 2016								
	Neither Past Due nor Individually Impaired	Past Due but not 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)	**₱20,927**	**₱–**	**–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,927**
Short-term investments	**1,598**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,598**
Receivables (Note 5)									
Trade receivable	**6,468**	**514**	**518**	**232**	**226**	**73**	**1,563**	**–**	**8,031**
Installment contracts receivable	**18,432**	**259**	**253**	**131**	**50**	**167**	**860**	**1**	**19,293**
Loans receivable	**643**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**643**
Dividend receivable	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**
Accrued rent and commission income	**335**	**1**	**–**	**16**	**–**	**–**	**17**	**26**	**378**
Accrued interest receivable	**152**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**152**
Non-trade receivable	**359**	**6**	**9**	**4**	**7**	**1**	**27**	**13**	**399**
Management fee receivables	**182**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**182**
Others	**813**	**14**	**3**	**3**	**3**	**41**	**64**	**1**	**878**
Due from related parties	**80**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**80**
AFS investments (Note 10)									
Equity securities									
Quoted	**962**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**962**
Unquoted	**1,765**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,765**
	₱52,721	**₱794**	**₱783**	**₱386**	**₱286**	**₱282**	**₱2,531**	**₱41**	**₱55,293**

**Excludes cash on hand amounting to ₱28.03 million*

	December 31, 2015 (As restated – Note 31)								
	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)	₱37,850	₱–	–	₱–	₱–	₱–	₱–	₱–	₱37,850
Short-term investment	1,861	–	–	–	–	–	–	–	1,861
Receivables (Note 5)									
Trade receivable	8,798	37	23	27	132	3	222	262	9,282
Installment contracts receivable	21,895	184	121	139	41	184	669	1	22,565
Loans receivable	681	–	–	–	–	–	–	–	681
Dividend receivable	60	–	–	–	–	–	–	–	60
Accrued rent and commission income	501	5	2	1	2	2	12	21	534
Accrued interest receivable	148	–	–	–	–	–	–	–	148
Non-trade receivable	436	–	–	–	–	1	1	–	437
Others	221	12	1	1	81	–	95	3	319
Due from related parties	370	–	–	–	–	–	–	–	370
AFS investments (Note 10)									
Equity securities									
Quoted	2,714	–	–	–	–	–	–	–	2,714
Unquoted	481	–	–	–	–	–	–	–	481
	₱76,016	₱238	₱147	₱168	₱256	₱190	₱999	₱287	₱77,302

**Excludes cash on hand amounting to ₱10.80 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, 2016			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents* (Note 4)	**₱20,927**	**₱–**	**₱–**	**₱20,927**
Short-term investments	**1,598**	–	–	**1,598**
Receivables (Note 5)		–	–	
Trade receivables	**8,031**	–	–	**8,031**
Installment contracts receivables	**14,476**	**10,866**	**1,487**	**26,829**
Nontrade receivable	**399**	–	–	**399**
Accrued rent and commissions income	**379**	–	–	**379**
Dividends receivable	**5**	–	–	**5**
Accrued interest receivable	**152**	–	–	**152**
Loans receivable	**110**	**89**	**727**	**926**
Management fee receivables	**182**	–	–	**182**
Others	**879**	–	–	**879**
Due from related parties	**80**	–	–	**80**
AFS investments (Note 10)				
Equity Securities				
Quoted	**2,246**	–	–	**2,246**
Unquoted	**481**	–	–	**481**
Total undiscounted financial assets	**₱49,945**	**₱10,955**	**₱2,214**	**₱63,114**
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade payables	**₱5,120**	**₱–**	**₱–**	**₱5,120**
Telegraphic transfers and drafts and acceptances payable	**6,903**	–	–	**6,903**
Accrued expenses	**3,703**	–	–	**3,703**
Accrued interest payable	**487**	–	–	**487**
Accrued commissions	**759**	–	–	**759**
Customer advances	**625**	–	–	**625**
Royalty payable	**312**	–	–	**312**
Retentions payable	**257**	–	–	**257**
Due to landowners	**483**	–	–	**483**
Payable for customer's refund	**360**	–	–	**360**
Nontrade payables	**329**	–	–	**329**
Others	**399**	–	–	**399**
Customer's deposit	**3,839**	–	–	**3,839**
Dividends payable	**589**	–	–	**589**
Loans payable (Note 17)	**11,270**	**25,552**	**46,517**	**83,339**
Bonds payable (Note 17)	**1,126**	**15,681**	**11,064**	**27,871**
Due to related parties	**195**	–	–	**195**
Liabilities on purchased properties (Note 20)	**231**	**873**	**1,478**	**2,582**
Total undiscounted financial liabilities	**₱36,987**	**₱42,106**	**₱59,059**	**₱138,152**
Liquidity Gap	**₱12,958**	**(₱31,151)**	**(₱56,845)**	**(₱75,038)**

**Excludes cash on hand amounting to ₱28.03 million.*

	December 31, 2015 (As restated – Note 31)			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents* (Note 4)	₱37,850	₱–	₱–	₱37,850
Short-term investments (Note 4)	1,861	–	–	1,861
Receivables (Note 5)				
Trade receivables	8,897	385	–	9,282
Installment contracts receivables	17,009	6,944	2,832	26,785
Nontrade receivable	437	–	–	437
Dividends receivable	60	–	–	60
Accrued interest receivable	148	–	–	148
Loans receivable	116	109	772	997
Accrued rent and commissions income	534	–	–	534
Others	312	6	1	319
Due from related parties (Note 27)	370	–	–	370
AFS investments (Note 10)				
Equity Securities				
Quoted	2,714	–	–	2,714
Unquoted	481	–	–	481
Total undiscounted financial assets	₱70,789	₱7,444	₱3,605	₱81,838
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade payables	₱6,586	₱–	₱–	₱6,586
Telegraphic transfers and drafts and acceptances payable	6,237	–	–	6,237
Accrued expenses	2,521	–	175	2,696
Accrued interest payable	827	–	–	827
Accrued commissions	670	–	–	670
Insurance payable	–	–	–	–
Customer advances	398	–	–	398
Royalty payable	303	–	–	303
Retentions payable	345	684	–	1,029
Others	1,114	–	–	1,114
Customer's deposit (Note 18)	3,691	–	–	3,691
Dividends payable (Note 27)	2,861	–	–	2,861
Loans payable (Note 17)	16,269	38,079	63,440	117,788
Bonds payable (Note 17)	1,126	11,092	16,731	28,949
Due to related parties (Note 27)	174	–	–	174
Liabilities on purchased properties (Notes 20 and 27)	720	893	1,689	3,302
Total undiscounted financial liabilities	₱43,842	₱50,748	₱82,035	₱176,625
Liquidity Gap	₱26,947	(₱43,304)	(₱78,430)	(₱94,787)

**Excludes cash on hand amounting to ₱10.80 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 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$0.31 million and JP¥22.90 million as of December 31, 2016 and US$24.01 million and JP¥16.09 million as of December 31, 2015. Short-term investments denominated in foreign currency amounted to US$30.82 million and JP¥100.00 million as of December 31, 2016 and US$29.43 million and JP¥100.00 million as of December 31, 2015. Receivables denominated in foreign currency amounted to US$13.96 million and US$17.47 million as of December 31, 2016 and December 31, 2015, respectively. Advances to contractors denominated in foreign currency amounted to nil as of December 31, 2016 and US$6.73 million as of December 31, 2015. Accounts and other payables denominated in foreign currency amounted to US$138.38 million and JP¥53.19 million as of December 31, 2016 and US$159.77 million and JP¥92.08 million as of December 31, 2015.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱49.77 to US$1.00, the Philippine peso-U.S. dollar exchange rates, and ₱0.43 to JP¥1.00 as at December 31, 2016 and ₱47.06 to US$1.00, the Philippine peso-U.S. dollar exchange rates, and ₱0.39 to JP¥1.00 as at December 31, 2015.

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, 2016 and 2015. There is no other impact on the Group's equity other than those already affecting the statements of comprehensive income.

		Increase (Decrease) in Income Before Tax		
Reasonably Possible Change		**2016**	2015	2014
US$	**₱1.00**	**(₱93)**	(₱70)	₱20
	(1.00)	**93**	70	(20)
JP¥	**7.2%**	**2**	–	2
	(7.2%)	**(2)**	–	(2)

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	**2016**	2015	2014
100 basis points (bps)	**₱–**	(₱115)	(₱175)
100 bps	–	115	175

As of December 31, 2016, the Group has no financial instruments subject to floating interest rates.

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.

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 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
2016	**Increase by 28.85%**	₱1
	Decrease by 28.85%	(1)
2015	Increase by 14.45%	₱278
	Decrease by 14.45%	(278)
2014	Increase by 23.31%	₱55
	Decrease by 23.31%	(55)

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, 2016, 2015 and 2014 were computed as follows:

	2016	2015 (As restated - Notes 12 and 31)	2014 (As restated – Note 12)
Net income attributable to equity holders of the Parent Company from continuing operations	**₱10,631**	₱10,396	₱7,776
Weighted average number of shares	**174,300,000**	174,297,500	174,300,000
	₱60.99	₱59.64	₱44.61

The basic/diluted earnings per share attributable to equity holders of the Parent Company for the years ended December 31, 2016, 2015 and 2014 were computed as follows:

	2016	2015 (As restated - Note 31)	2014
Net income attributable to equity holders of the Parent Company	**₱14,634**	₱12,115	₱9,153
Weighted average number of shares	**174,300,000**	174,297,500	174,300,000
	₱83.96	₱69.51	₱52.51

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 four reportable segments as follows:

- 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;
- Power is engaged mainly in the generation and distribution of electricity; and
- Automotive operations is engaged in the assembly, manufacture, importation, sale and distribution of all kinds of automobiles including automobile parts, accessories, and instruments;
- Infrastructure, a new segment in 2016, is engaged in the water distribution, toll operation, power sector, hospitals and rail; and
- Others pertain to other corporate activities of the Group (i.e., capital raising activities, acquisitions and investments).

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, 2016 and 2015:

	December 31, 2016						
	Real Estate	Financial Institution	Automotive Operations	Power	Infrastructure	Others	Total
Revenue	₱12,438	₱–	₱177,709	₱–	₱–	₱–	₱190,147
Other income	2,372	–	887	–	–	90	3,349
Equity in net income of associates and joint venture	240	5,001	9	–	1,116	–	6,366
	15,050	5,001	178,605	–	1,116	90	199,862
Cost of goods and services sold	499	–	121,561	–	–	–	122,060
Cost of goods manufactured and sold	–	–	33,792	–	–	–	33,792
Cost of rental	326	–	–	–	–	–	326
Cost of real estate sales	7,586	–	–	–	–	–	7,586
General and administrative expenses	4,515	–	7,140	–	–	1,182	12,837
	12,926	–	162,493	–	–	1,182	176,601
Earnings before interest and taxes	2,124	5,001	16,112	–	1,116	(1,092)	23,261
Depreciation and amortization	373	–	1,245	–	–	6	1,624
EBITDA	2,497	5,001	17,357	–	1,116	(1,086)	24,885
Interest income	1,743	–	337	–	–	182	2,262
Interest expense	(433)	–	(159)	–	–	(2,734)	(3,326)
Depreciation and amortization	(373)	–	(1,245)	–	–	(6)	(1,624)
Pretax income	3,434	5,001	16,290	–	1,116	(3,644)	22,197
Provision for income tax	(669)	6	(3,909)	–	–	(14)	(4,586)
Net income	₱2,765	₱5,007	₱12,381	₱–	1,116	(3,658)	₱17,611
Net income from discontinued operations	₱–	₱87	₱–	₱4,829	₱–	₱–	4,916
Segment assets	₱113,472	₱55,921	₱49,052	₱858	₱31,353	₱14,790	₱265,446
Segment liabilities	₱47,555	₱–	₱22,032	₱13	₱–	₱54,608	₱124,208

	December 31, 2015 (As restated - Notes 12 and 31)					
	Real Estate	Financial Institution	Automotive Operations	Power	Others	Total
Revenue	₱9,000	₱–	₱120,802	₱–	₱–	₱129,802
Other income	2,339	–	401	–	1	2,741
Equity in net income of associates and joint venture	438	5,095	83	–	–	5,616
	11,777	5,095	121,286	–	1	138,159
Cost of goods and services sold	481	–	74,460	–	–	74,941
Cost of goods manufactured and sold	–	–	27,838	–	–	27,838
Cost of rental	272	–	–	–	–	272
Cost of real estate sales	6,512	–	–	–	–	6,512
General and administrative expenses	2,296	–	4,997	–	189	7,482
	9,561	–	107,295	–	189	117,045
Earnings before interest and taxes	2,216	5,095	13,991	–	(188)	21,114
Depreciation and amortization	249	–	880	–	5	1,134
EBITDA	2,465	5,095	14,871	–	(183)	22,248
Interest income	1,477	–	279	–	34	1,790
Interest expense	(242)	1	(119)	–	(1,804)	(2,164)
Depreciation and amortization	(249)	–	(880)	–	(5)	(1,134)
Pretax income	3,451	5,096	14,151	–	(1,958)	20,740
Provision for income tax	(497)	–	(3,771)	–	(31)	(4,299)
Net income	₱2,954	₱5,096	₱10,380	₱–	(₱1,989)	₱16,441
Net income from discontinued operations	₱–	₱50	₱–	4,450	₱–	₱4,500
Segment assets	₱111,881	₱62,573	₱43,746	₱76,561	₱9,605	₱304,366
Segment liabilities	₱51,732	₱6,444	₱18,421	₱42,531	₱48,706	₱167,834

	December 31, 2014 (As restated - Note 12 and 31)					
	Real Estate	Financial Institution	Automotive Operations	Power	Others	Total
Revenue	₱5,841	₱–	₱108,816	₱–	₱–	₱114,657
Other income	2,003	–	429	–	(3)	2,429
Equity in net income of associates and joint venture	358	2,988	75	–	–	3,421
	8,202	2,988	109,320	–	(3)	120,507
Cost of goods and services sold	540	–	70,057	–	–	70,597
Cost of goods manufactured and sold	–	–	24,213	–	–	24,213
Cost of rental	270	–	–	–	–	270
Cost of real estate sales	4,334	–	–	–	–	4,334
General and administrative expenses	1,834	7	5,021	–	271	7,133
	6,978	7	99,291	–	271	106,547
Earnings before interest and taxes	1,224	2,981	10,029	–	(274)	13,960
Depreciation and amortization	246	14	588	–	5	853
EBITDA	1,470	2,995	10,617	–	(269)	14,813
Interest income	1,170	–	192	–	18	1,380
Interest expense	(472)	1	(121)	–	(800)	(1,392)
Depreciation and amortization	(246)	(14)	(588)	–	(5)	(853)
Pretax income	1,922	2,982	10,100	–	(1,056)	13,948
Provision for income tax	(426)	628	(2,767)	–	(4)	(2,569)
Net income	₱1,496	₱3,610	₱7,333	₱–	(₱1,060)	₱11,379
Net income from discontinued operations	₱–	₱100	₱–	3,672	₱–	₱3,772
Segment assets	₱51,855	₱50,442	₱52,923	₱20,310	₱42,733	₱218,263
Segment liabilities	₱21,947	₱7,019	₱24,966	₱40,310	₱18,078	₱112,320

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:

	2016	2015 (As restated - Note 31)
Domestic	**₱194,228**	₱130,522
Foreign	**7,895**	9,427
	₱202,123	₱139,949

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, *Provisions, Contingent Liabilities and Contingent Assets*, 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 Fed Land's ongoing projects, the Parent Company issued Letters of Guarantee (LG) in favor of the Housing and Land Use Regulatory Board for a total guarantee amount of ₱1.39 billion and ₱1.36 billion as of December 31, 2016 and 2015, respectively.

37. Events after the Reporting Date

On January 27, 2017, cash divdends declared in favor of Parent Company's perpetual preferred stockholders amounting to ₱147.22 million were paid.

On February 21, 2017, the Parent Company disbursed ₱480.00 million as its pro-rata share in response to equity call from TFS to its stockholders.

On March 21, 2017, the BOD of the Parent Company approved the declaration of a regular cash dividend in the amount of Five Hundred Twenty Two Million Nine Hundred Thousand Pesos (₱522,900,000.00), or Three Pesos (₱3.00) per share in favor of GT Capital's common stockholders of record as of April 4, 2017, payable on or before April 20, 2017.

On March 21, 2017, the BOD of the Parent Company approved the declaration of a special cash dividend in the amount of Three Hundred Forty Eight Million Six Hundred Thousand Pesos (₱348,600,000.00), or Two Pesos (₱2.00) per share, in favor of Parent Company's common stockholders of record as of April 4, 2017, payable on or before April 20, 2017.

On March 21, 2017, 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 of April 4, 2017 and payment date of April 20, 2017.

38. Consolidated Statements of Cash Flows

Below are the noncash operating, investing and financing transactions of the Company:

	2016	2015	2014
Transfers between investment property and inventories (Note 6)	**₱1,288**	₱99	(₱182)
Transfer to land held for future development	**265**	29	–
Borrowing cost capitalized to inventories (Note 6)	**1,575**	990	710
Fair value of previously held interest	**969**	–	–
Gain on asset swap	**–**	337	–
Fair value of net assets acquired from business combinations (Note 31):			
Assets			
Cash and cash equivalents	**177**	338	489
Short-term investments		962	117
Receivables	**906**	13,078	101
Inventories	**467**	23,147	1
Due from related parties		337	301
Prepayments and other current assets	**35**	1,120	201
Available-for-sale investments		2	
Property and equipment	**1,290**	715	
Intangible assets	**–**	13	1
Liabilities			
Accounts and other payables	**526**	2,871	254
Customer's deposits	**32**	676	–
Loans payable – current	**810**	13,139	497
Other current liabilities	**18**	125	–
Income tax payable	**22**	–	–
Loans payable – Noncurrent	**–**	110	93
Deferred tax liabilities on fair value increment	**198**	7,313	71
Pension liabilities	**67**	110	–
Net assets deconsolidated due to sale of subsidiary			
Assets			
Cash and cash equivalents	**13,136**	–	–
Short-term investments	**300**	–	–
Receivables	**3,591**	–	–
Inventories	**1,523**	–	–
Prepayments and other current assets	**1,988**	–	–
Property and equipment	**47,117**	–	–
Goodwill and intangible assets	**7,105**	–	–
Deferred tax assets	**463**	–	–
Other noncurrent assets	**911**	–	–
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**	–	–

39. Approval for the Release of the Financial Statements

The accompanying financial statements of the Company were approved and authorized for issue by the Company’s BOD on March 21, 2017.

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

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

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

INDEPENDENT AUDITOR'S REPORT
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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 included in this Form 17-A and have issued our report thereon dated March 21, 2017. 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 68.1, As Amended (2011) and Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008 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.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 5908709, January 3, 2017, Makati City

March 21, 2017

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

DECEMBER 31, 2016

GT CAPITAL HOLDINGS, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2016

(In Millions)

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		₱2,277
Add: Net income actually earned during the period		
Net income during the period closed to Retained earnings	₱8,481	
Less: Non-actual/unrealized income net of tax	–	
Add: Non actual losses	–	8,481
Subtotal		10,758
Add (Less):		
Appropriations during the period	(15,500)	
Reversal of appropriation upon completion of the expansion and acquisition	9,360	
Dividend declaration during the period	(1,635)	(7,775)
Total Retained Earnings, end available for dividend declaration		₱2,983

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS

FOR THE YEAR ENDED DECEMBER 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2016**		**Adopted**	**Not Applicable**	**Not Early Adopted**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters		✓	
	Amendment 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: 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		✓	
	Amendments 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		✓	
PFRS 4	Insurance Contracts		✓	
	Amendments to PFRS 4: Financial Guarantee Contracts		✓	
	Amendments ot PFRS 4: Applying PFRS 9, Financial Instruments			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations		✓	
	Amendments to PFRS 5: Changes in methods of disposal			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Applicable	Not Early Adopted
PFRS 6	Exploration for and Evaluation of Mineral Resources		✓	
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and 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			✓
	Amendments to PFRS 7: Additional Hedge Accounting Disclosures (and consequential amendments) Resulting From the Introduction of the Hedge Accounting Chapter in PFRS 9			✓
	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	✓		
	Amendment to PFRS 8: Aggregation of segments, reconciliation of the total of the reportable segments' assets to the entity's assets	✓		
PFRS 9	Financial Instruments			✓
	Financial Instruments: Classification and Measurement of Financial Assets			✓
	Financial Instruments: Classification and Measurement of Financial Liabilities			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)			✓
	PFRS 9, Financial Instruments (2014)			✓
	Reissue to Incorporate a Hedge Accounting Chapter and Permit Early Application of the Requirements for Presenting in Other Comprehensive Income the "Own Credit" Gains or Losses on Financial Liabilities Designated under the Fair Value Option without Early Applying the Other Requirements of PFRS 9			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Applicable	Not Early Adopted
	Financial Instruments (final version), incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10 and PAS 28: 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	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 12: Classification of the Scope of the Standard			✓
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			✓
PFRS 16	Leases			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosures	✓		
	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: Comparative Information	✓		
	Amendments to PAS 1 (Revised): Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendment to PAS 7: Disclosure Initiative			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Applicable	Not Early Adopted
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets		✓	
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses			✓
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 and PAS 41, Agriculture: Bearer Plants		✓	
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution	✓		
	Amendments to PAS 19: Discount Rate: Regional Market Issue		✓	
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	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
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	✓		
	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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Applicable	Not Early Adopted
	Amendment to PAS 28: Measuring an Associate of Joint Venture at Fair Value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies		✓	
PAS 31	Interests in Joint Ventures (Replaced by PFRS 11)	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: 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	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting		✓	
	Amendments 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 : Proportionate Restatement of Accumulated Depreciation on Revaluation		✓	
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization		✓	
	Amendments to PAS 16 and 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 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives		✓	
	Amendments to PAS 39: Eligible Hedged Items		✓	
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Applicable	Not Early Adopted
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 8	Scope of PFRS 2		✓	
IFRIC 9	Reassessment of Embedded Derivatives		✓	
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives		✓	
IFRIC 10	Interim Financial Reporting and Impairment		✓	
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements		✓	
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation		✓	
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
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			✓
SIC-7	Introduction of the Euro		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Applicable	Not Early Adopted
SIC-10	Government Assistance – No Specific Relation to Operating Activities		✓	
SIC-12	Consolidation – Special Purpose Entities		✓	
	Amendment to SIC – 12: Scope of SIC 12		✓	
SIC-13	Joint venture – Non-Monetary Contributions by Venturers	✓		
SIC-15	Operating Leases – Incentives	✓		
SIC-21	Income Taxes – Recovery of Revalued Non- Depreciable Assets	✓		
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-31	Revenue – Barter Transactions Involving Advertising Services		✓	
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, 2016

(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
Equity securities				
Quoted	Various	₱2,246	₱2,246	₱11
Unquoted	Various	481	481	–

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
G.D. Laurel	Vice President	4	–	4	–	–	–	–
J.E. Trinidad	Assistant Vice President	2	–	–	–	2	–	2
M.Z. Amamangpang	Assistant Vice President	–	1	–	–	–	–	–
R.M. Quiza	Senior Manager	–	1	–	–	–	–	–
M.M. Reyes	Senior Manager	–	1	–	–	–	–	–
		₱6	₱3	₱ 4	₱–	₱2	₱–	₱2

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	Eliminations	GT Capital Balance
Omni Orient Management Corp.	Subsidiary of Federal Land, Inc.	₱4	₱–	₱4	₱–	₱4	(₱4)	–
Central Realty & Dev't Corp.	-do-	403	(55)	348	–	348	(348)	–
Horizon Land Property Development Corp.	-do-	2,984	(300)	2,684	–	2,684	(2,684)	–
Micara Land Inc.	Subsidiary of Property Company of Friends, Inc.	500	360	860	–	860	(860)	–
Firm Builders Realty Development Corporation	-do-	301	(156)	145	–	145	(145)	–
Williamton Holdings Inc.	-do-	65	(65)	–	–	–	–	–
Toyota San Fernando Pampanga, Inc.	Subsidiary of Toyota Motor Philippines Corp.	108	47	47	–	155	(155)	–
Toyota Makati, Inc.	-do-	149	(55)	(55)	–	93	(93)	–
TMP Logistics, Inc.	-do-	–	–	–	–	18	(18)	–
		₱4,514	(₱224)	₱4,033	₱–	₱4,307	(₱4,307)	₱–

Schedule D. Intangible Assets - Other Assets

Description (i)	Beginning balance (As restated)	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Power purchase agreements – net	₱7,260	−	(₱191)	₱−	(7,069)	₱−
Goodwill	8,467	236	−	−	(24)	8,679
Customer relationship	3,883	−	−	−	−	3,883
Software cost and license - net	115	192	(55)	−	(14)	238
Franchise - net	2	−	−	−		2
	₱19,727	₱428	(₱246)	₱−	(₱7,107)	₱12,802

Schedule E. Long Term Debt

Title of issue and type of obligation	Amount authorized by indenture	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
Bonds payable	₱10,000	₱−	₱9,936
Bonds payable	12,000	−	11,912
	22,000	−	21,848
Note Facility Agreement	4,925	25	4,900
Loans payable	2,000	−	1,991
Loans payable	200	−	199
Loans payable	536	−	533
Loans payable	300	−	299
Loans payable	200	−	199
Loans payable	6,600	−	6,600
Loans payable	2,200	−	2,200
Loans payable	800	−	800
Loans payable	200	−	200
Loans payable	335	−	335
Loans payable	140	−	140
Loans payable	120	−	120
Loans payable	200	−	199
Loans payable	250	−	249
TAP	79	−	79
TRP	91	−	91
HKR	76	−	76
Loans payable	1,500	−	1,492
Loans payable	2,000	667	−
Loans payable	500	167	−
Loans payable	500	167	−
Loans payable	10,000	555	8,416
Loans payable	2,500	−	2,469
Loans payable	7,000	−	6,970
Loans payable	6,000	−	5,974
Loans payable	2,000	−	1,991
Loans payable	4,000	−	3,981
Loans payable	2,000	−	1,991
Loans payable	4,000	−	3,981
	61,252	1,581	56,475
	₱83,252	₱1,581	₱78,323

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
Metropolitan Bank & Trust Co.	₱6,121	₱–
Metropolitan Bank & Trust Co.	3,500	1,500
Metropolitan Bank & Trust Co.	2,000	3,236
First Metro Investment Corporation	683	–
First Metro Investment Corporation	350	–
Toyota Autoparts Philippines, Inc.	79	79
First Metro Investment Corporation	50	–

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				

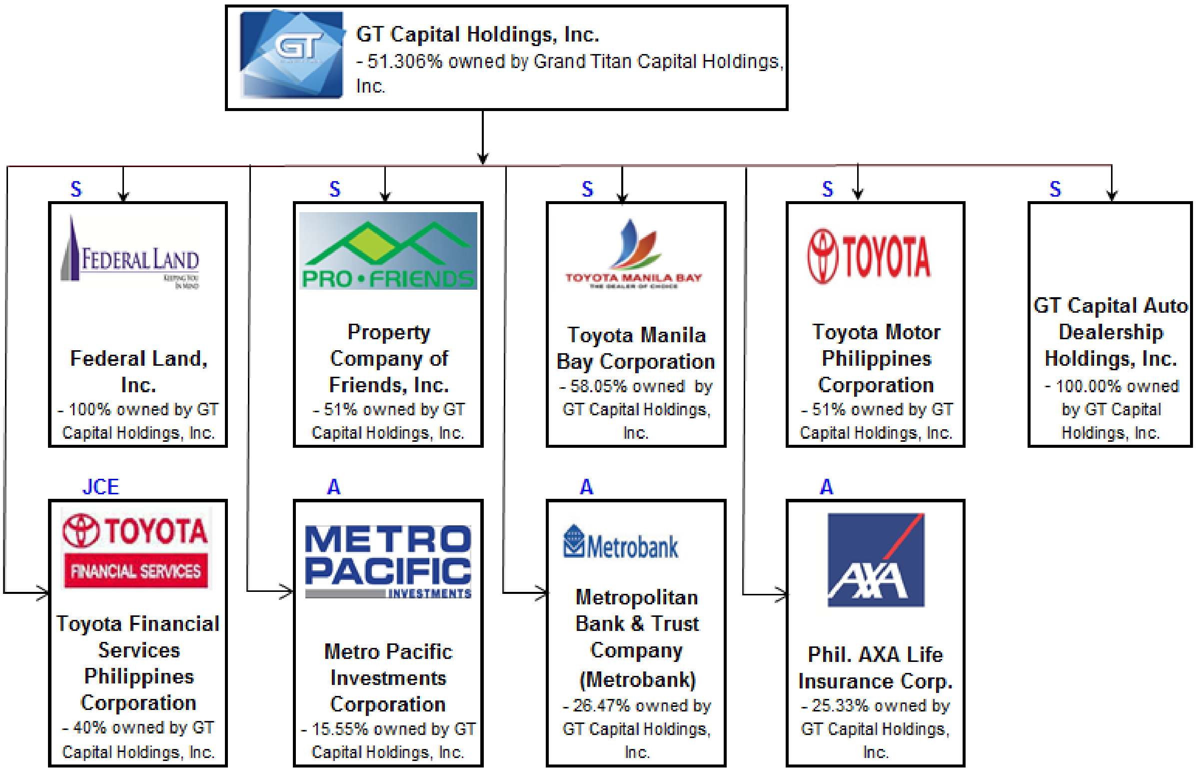
Schedule H. Capital Stock (in absolute amounts)

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	174,300,000	–	89,427,110	496,543	–
Voting preferred stock	174,300,000	174,300,000	–	170,490,640	720,448	–
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

FOR THE YEAR ENDED DECEMBER 31, 2016



LEGEND:

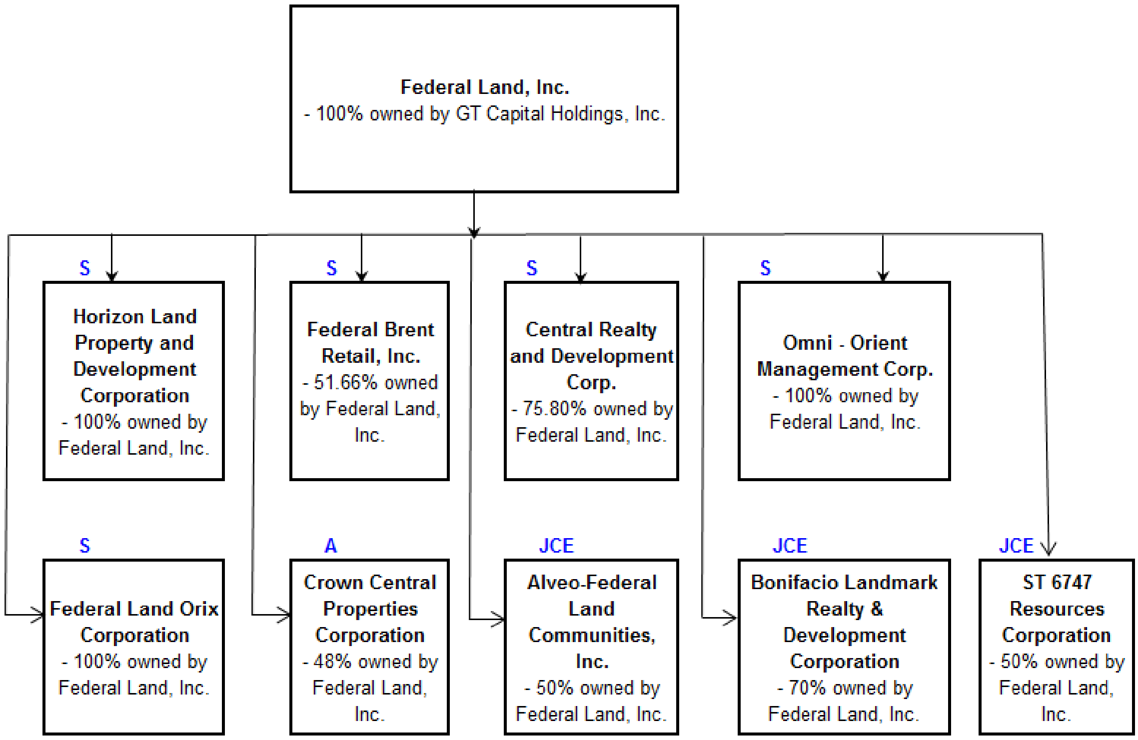
Subsidiary (S)

Associate (A)

Jointly Controlled Entity (JCE)

FEDERAL LAND, INC.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE
AS OF DECEMBER 31, 2016

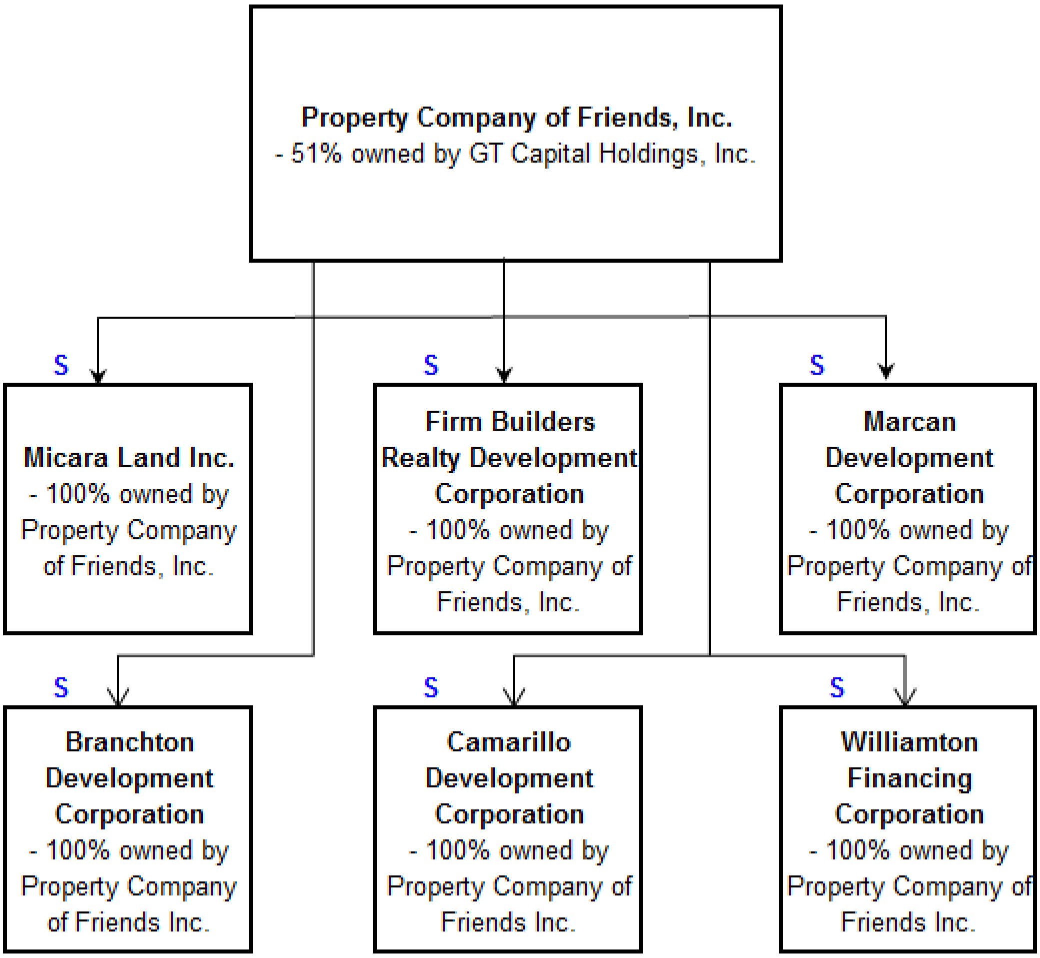


LEGEND:
Subsidiary (S)
Associate (A)
Jointly Controlled Entity (JCE)

PROPERTY COMPANY OF FRIENDS, INC.

SUBSIDIARIES

AS OF DECEMBER 31, 2016



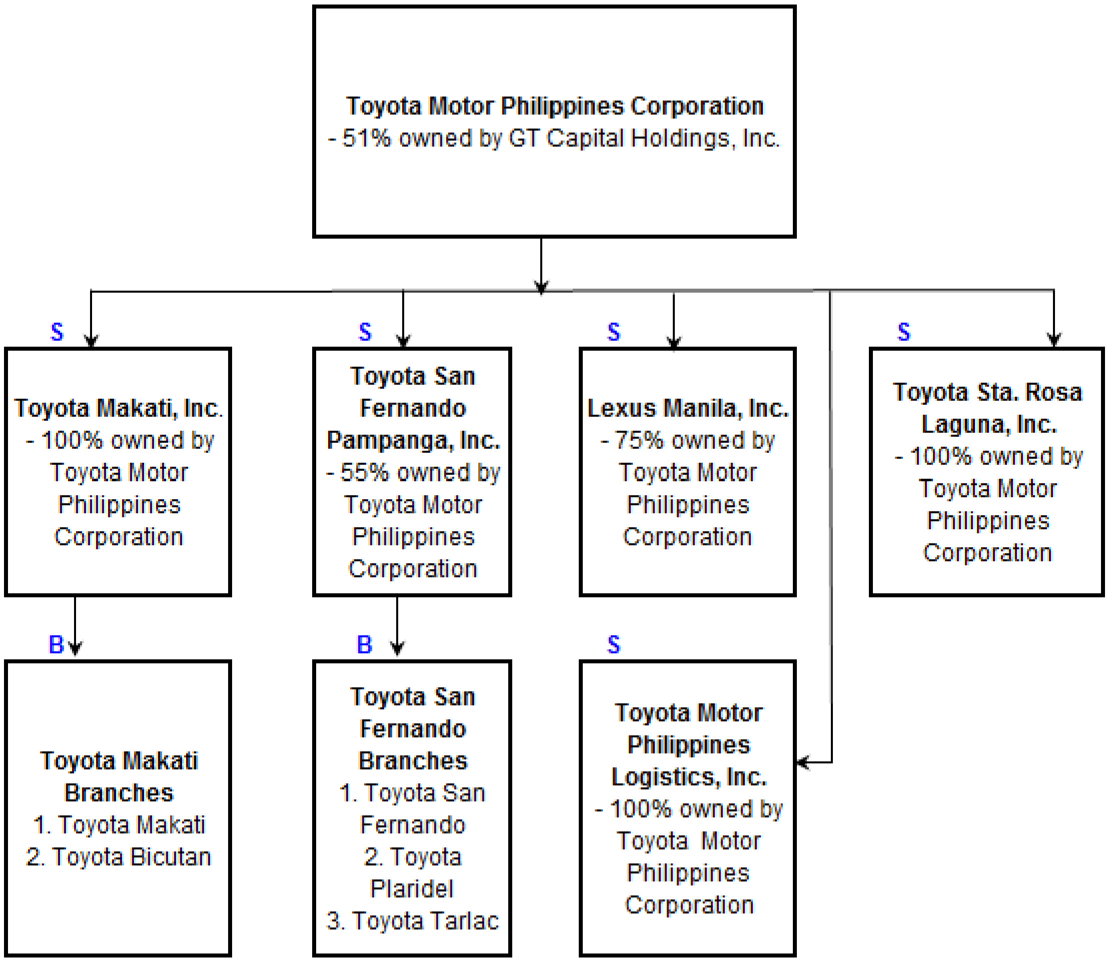
LEGEND:

Subsidiary (S)

TOYOTA MOTOR PHILIPPINES CORPORATION

SUBSIDIARIES

AS OF DECEMBER 31, 2016



LEGEND:

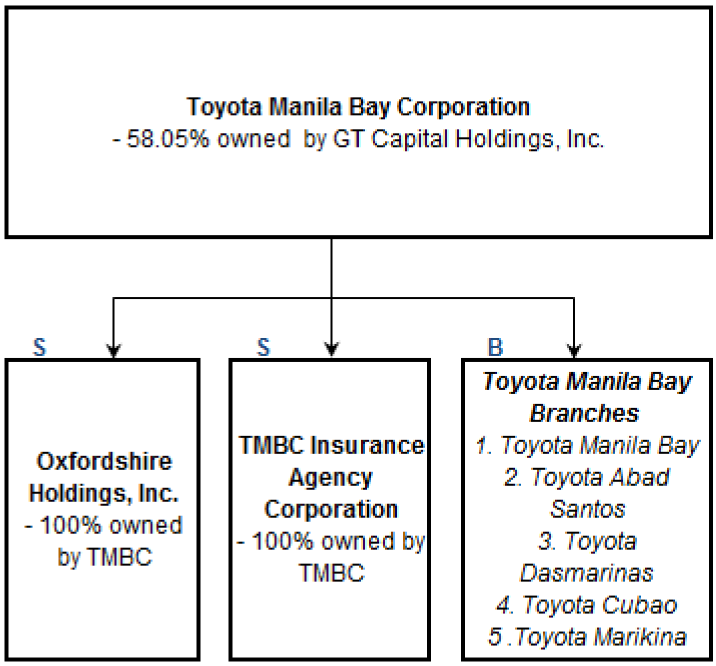
Subsidiary (S)

Branch (B)

TOYOTA MANILA BAY CORPORATION

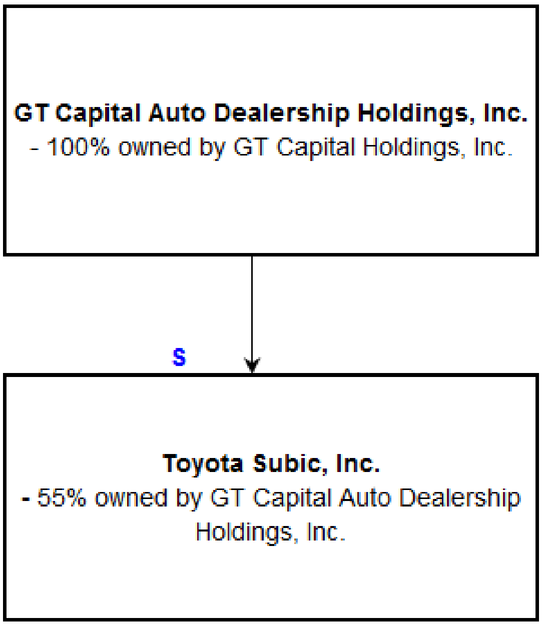
SUBSIDIARIES

AS OF DECEMBER 31, 2016



LEGEND:
Subsidiary (S)
Branch(B)

GT CAPITAL AUTO DEALERSHIP HOLDINGS, INC.
SUBSIDIARY
AS OF DECEMBER 31, 2016

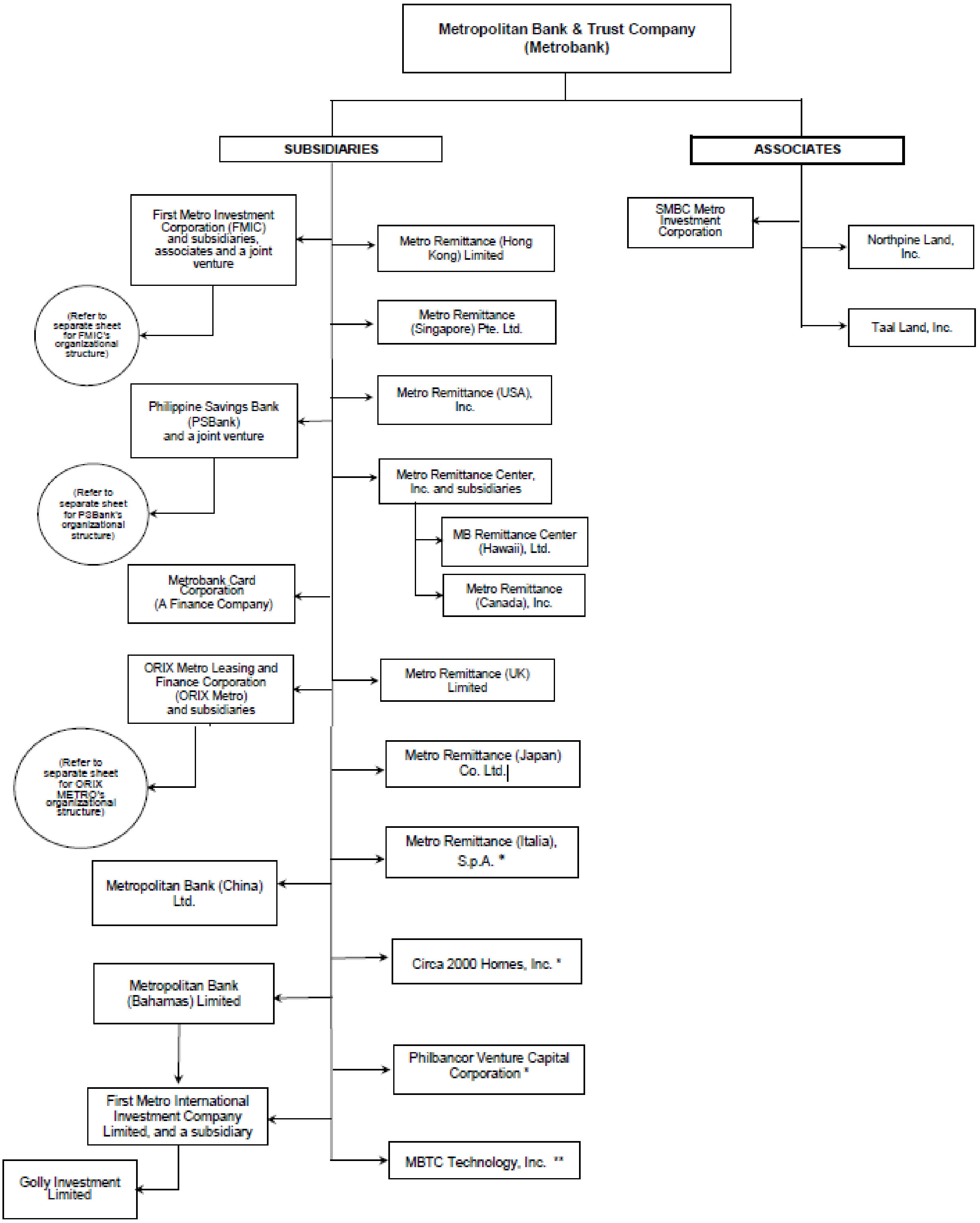


LEGEND:
Subsidiary (S)

METROPOLITAN BANK AND TRUST COMPANY

SUBSIDIARIES AND ASSOCIATES

AS OF DECEMBER 31, 2016

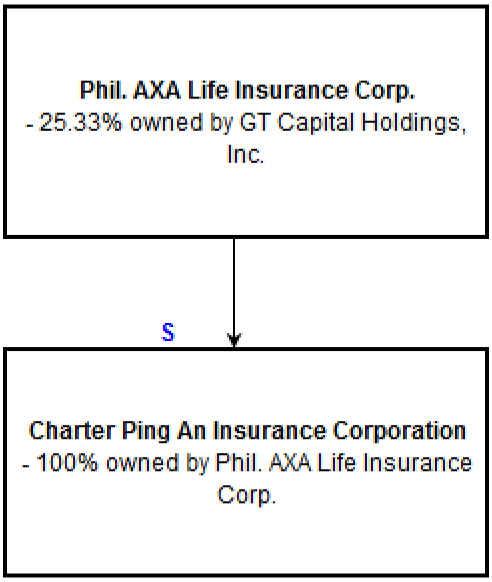


* *In process of dissolution*
** *In process of liquidation*

PHIL. AXA LIFE INSURANCE CORPORATION

SUBSIDIARY

AS OF DECEMBER 31, 2016

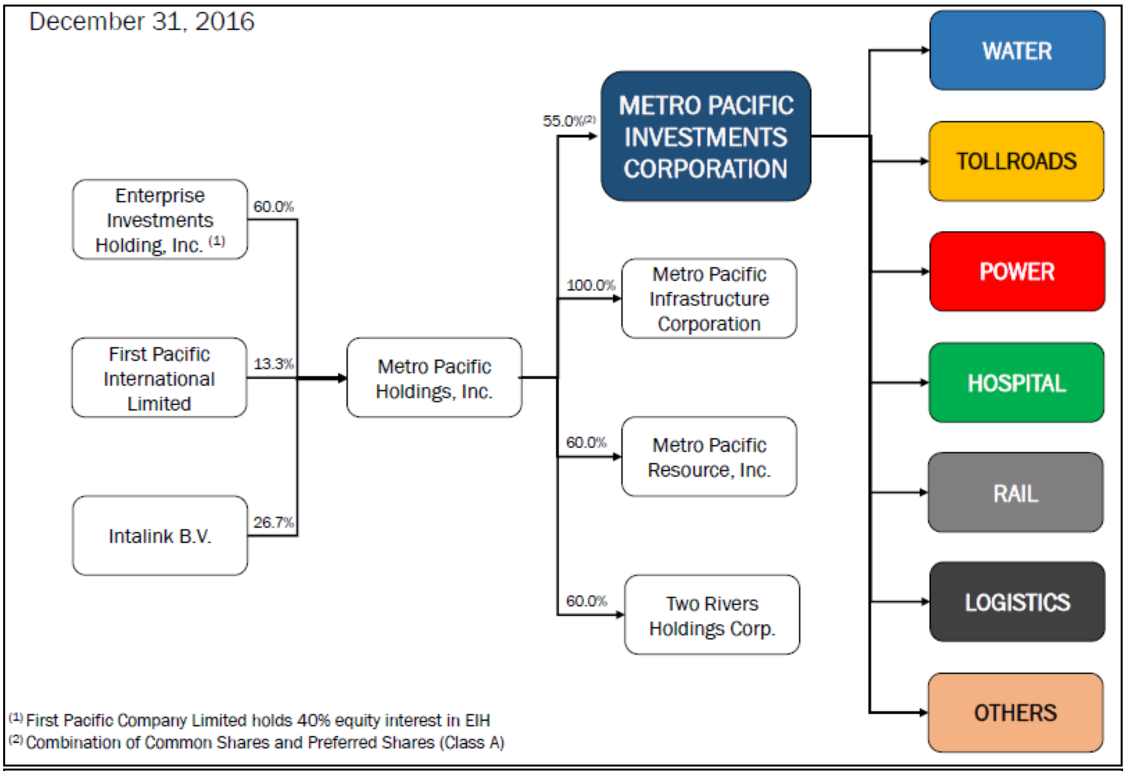


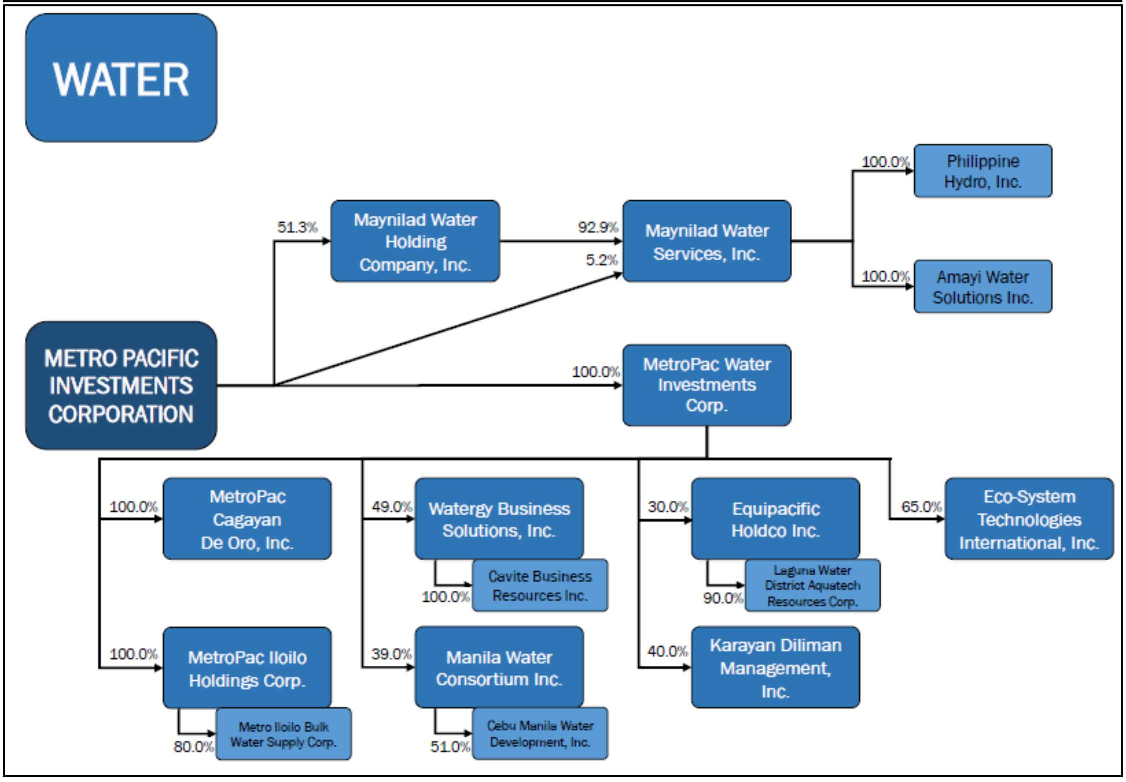
LEGEND:
Subsidiary (S)

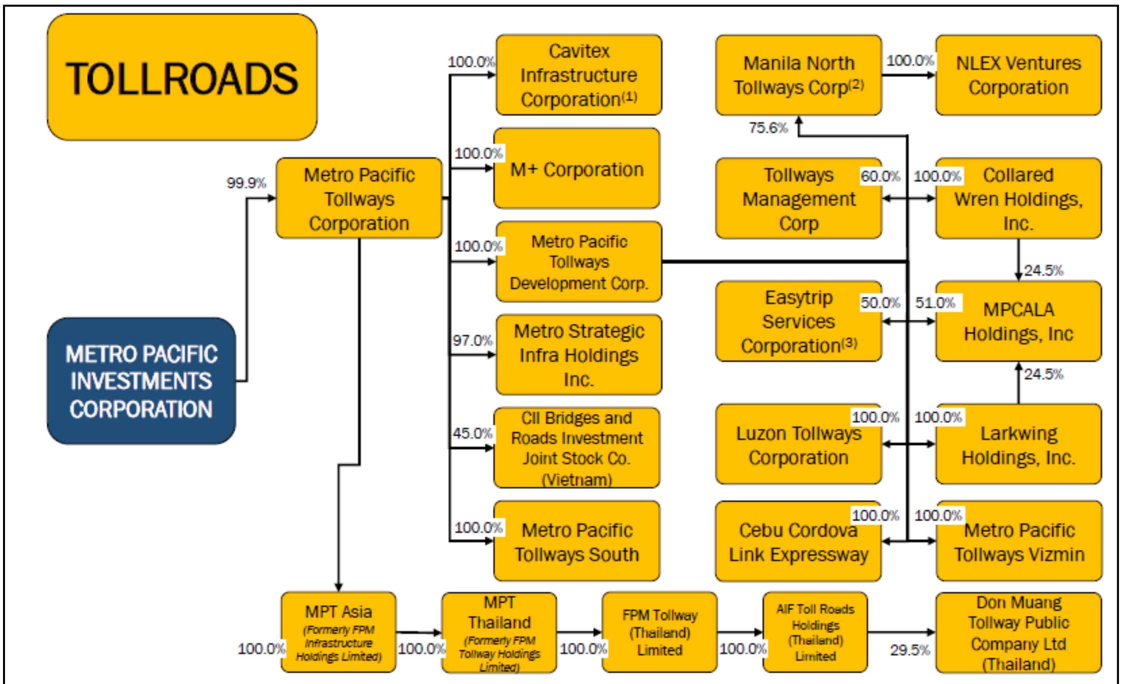
METRO PACIFIC INVESTMENTS CORPORATION

SUBSIDIARIES

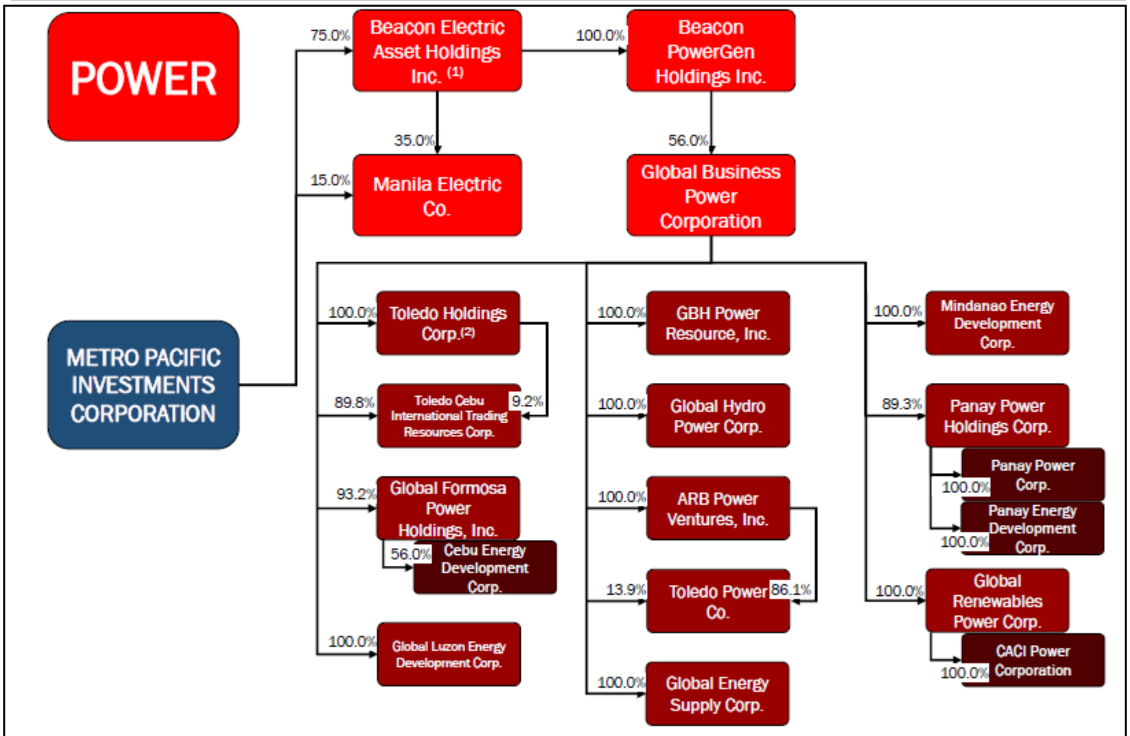
AS OF DECEMBER 31, 2016



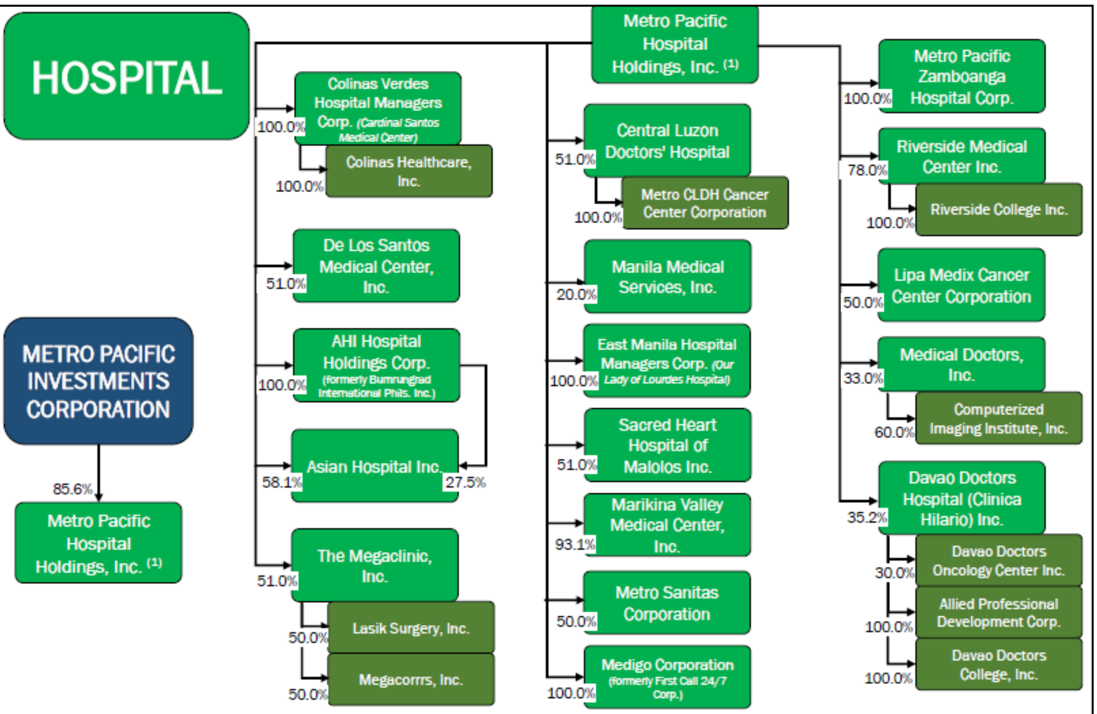




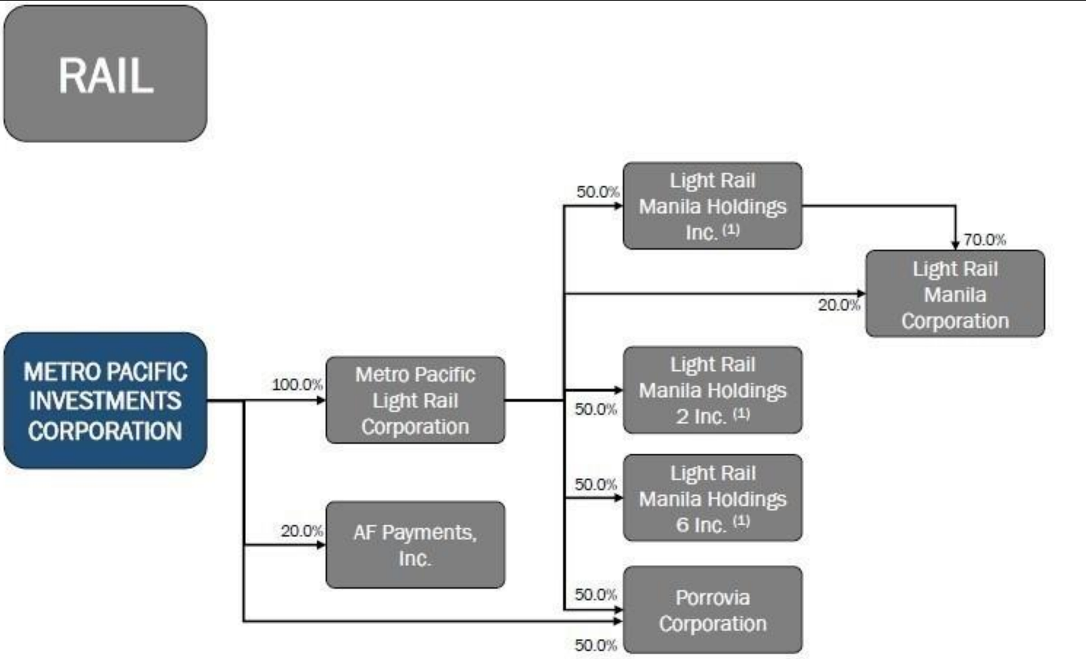
(1) By virtue of the Management Letter-Agreement, MPTC acquired control over CIC effective Jan 2, 2013.
(2) 4.6% is owned through 46% ownership in Egis Investment Partners Philippines Inc.
(3) ESC is a Joint venture between MPTDC and EGIS. Equity interest of 50% plus one share.



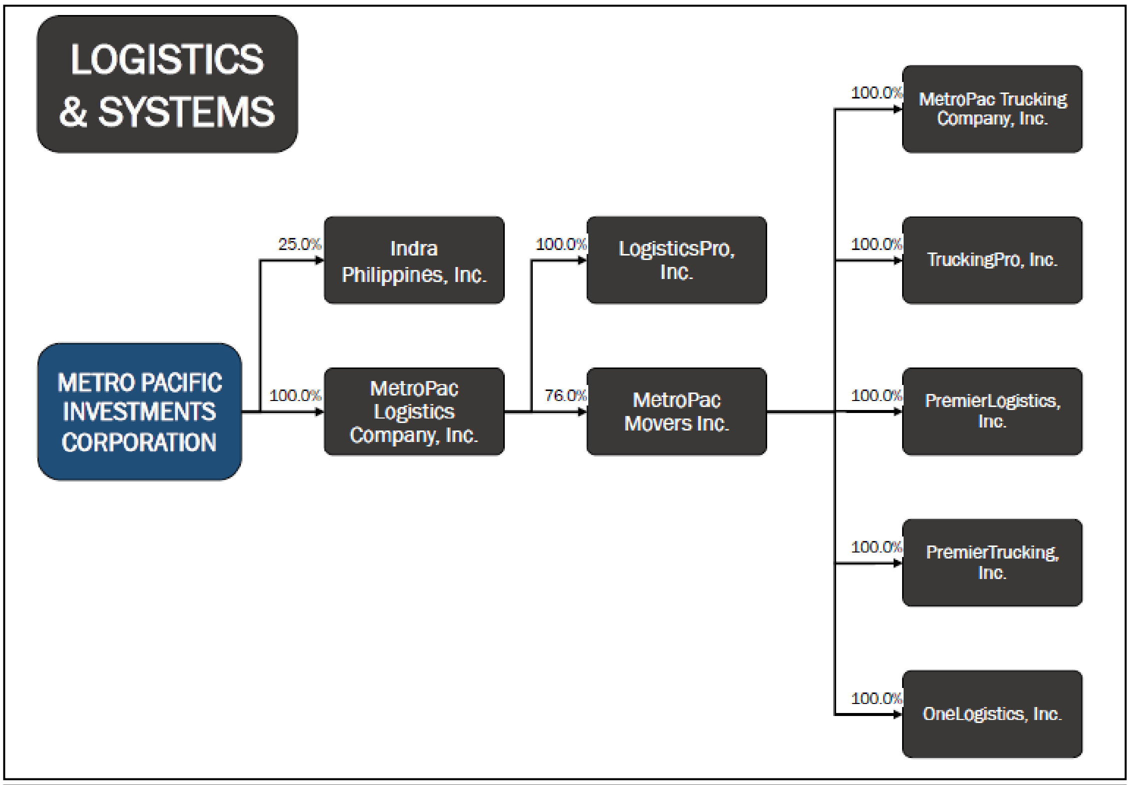
(1) MPIC's ownership of common and preferred shares at 75% but voting rights remain at 50% as per Omnibus Agreement between MPIC and PCEV.
(2) Includes beneficial ownership of the 16% share of GBH Cebu Limited Duration Company, which was dissolved in December 2014.

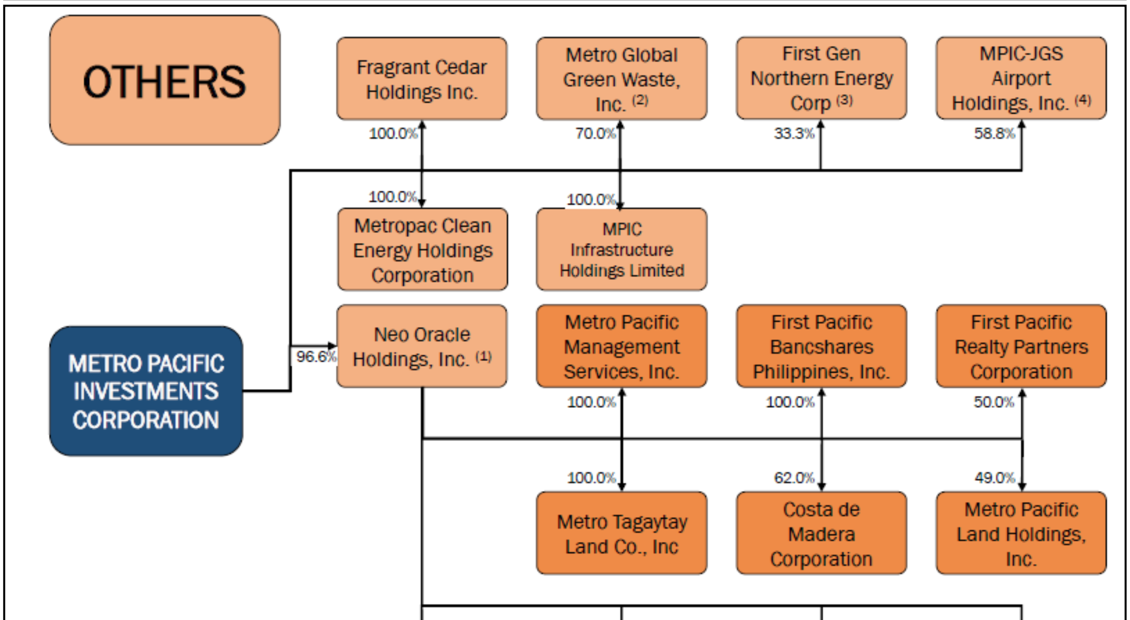


(1) GIC also holds an Exchangeable Bond issued by MPIC which can be exchanged into a 25.5% stake in NSHI in the future, subject to certain conditions.



(1) Controlling interest in LRMHI, LRMH2 and LRMH6. Equity interest of 50% plus one share.





(1) End of corporate life (under liquidation).
(2) BOD approved shortening of corporate life to until December 31, 2017.
(3) Corporate life has been shortened to until December 31, 2016.
(4) BOD approved shortening of corporate life to until February 15, 2016.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	2016	2015 (As restated)
Liquidity Ratio		
Current ratio	**3.01**	2.61
Current assets	**₱105,766**	₱134,745
Current liabilities	**35,084**	51,711
Solvency Ratio		
Total liabilities to total equity ratio	**0.88**	1.23
Total liabilities	**124,208**	167,834
Total equity	**141,238**	136,532
Debt to equity ratio	**0.63**	0.88
Total debt	**88,761**	120,674
Total equity	**141,238**	136,532
Asset to Equity Ratio		
Asset equity ratio	**2.31**	3.38
Total assets	**265,446**	304,366
Equity attributable to Parent Company	**114,805**	90,131
Interest Rate Coverage Ratio*		
Interest rate coverage ratio	**6.99**	9.76
Earnings before interest and taxes (EBIT)	**23,261**	21,114
Interest expense	**3,326**	2,164
Profitability Ratio		
Return on average assets	**5.14%**	4.64%
Net income attributable to Parent Company	**14,634**	12,115
Average assets	**284,906**	261,315
Return on Average Equity	**14.28%**	14.30%
Net income attributable to Parent Company	**14,634**	12,115
Average equity attributable to Parent Company	**102,468**	84,739
Income before income tax	**22,197**	20,740
Interest expense	**3,326**	2,164
Interest income	**2,262**	1,790
EBIT	**23,260**	21,114

*computed as EBIT/Interest Expense

Metrobank

February 23, 2017

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

Dear Mr. Zuño:

We submit a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 and the corresponding Management Discussion and Analysis.

Very truly yours,

Marilou C. Bartolome
Senior Vice President/Controller

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

COVER SHEET

2 0 5 7 3

SEC Registration Number

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

(Company's Full Name)

M e t r o b a n k   P l a z a, S e n.   G i l   P u y a t
A v e n u e,   U r d a n e t a   V i l l a g e ,   M a k a t i
C i t y ,   M e t r o   M a n i l a

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

MARILOU C. BARTOLOME

(Contact Person)

898-8805

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Fiscal Year)

1 7 - C

(Form Type)

0 4 | 2 6

Month *Day*

(Annual Meeting)

NONE

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

3,129

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.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

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

1. February 23, 2017
Date of Report

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

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

5. Manila
Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
Industry Classification Code:

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

1200
Postal Code

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

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

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

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

11. Indicate the item numbers reported herein:

Item No. 9 – Other Events

Attached is a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 and the corresponding Management Discussion and Analysis.

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

METROPOLITAN BANK & TRUST COMPANY
Issuer

By:

MARILOU C. BARTOLOME
Senior Vice President/Controller

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Group's statements of financial position and statements of income as of and for the three years in the period ended December 31, 2016 are presented below.

Statements of Financial Position
(Amounts in millions)

	December 31			Increase (Decrease) 2016 vs. 2015		Increase (Decrease) 2015 vs. 2014	
	2016	**2015**	**2014**	**Amount**	%	**Amount**	%
Assets							
Cash and Other Cash Items	₱26,553	₱32,536	₱34,943	(₱5,983)	**(18.39)**	(₱2,407)	**(6.89)**
Due from Bangko Sentral ng Pilipinas (BSP)	238,806	214,704	215,253	24,102	**11.23**	(549)	(0.26)
Due from Other Banks	44,315	36,864	38,200	7,451	**20.21**	(1,336)	(3.50)
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)	91,646	36,118	119,839	55,528	**153.74**	(83,721)	**(69.86)**
Financial Assets at Fair Value Through Profit of Loss (FVPL)	37,214	48,856	45,935	(11,642)	**(23.83)**	(2,921)	**6.36**
Available-for-Sale (AFS) Investments	316,855	235,158	207,711	81,697	**34.74**	27,447	**13.21**
Held-to-Maturity (HTM) Investments	-	208,432	129,076	(208,432)	**(100.00)**	79,356	**61.48**
Loans and Receivables	1,060,868	887,202	759,481	173,666	**19.57**	127,721	**16.82**
Investments in Associates and a Joint Venture	5,350	5,272	2,589	78	1.48	2,683	**103.63**
Property and Equipment	21,995	21,670	16,231	325	1.50	5,439	**33.51**
Investment Properties	8,474	8,195	10,037	279	3.40	(1,842)	**(18.35)**
Deferred Tax Assets	8,855	8,427	6,831	428	**5.08**	1,596	**23.36**
Goodwill	5,200	5,202	5,201	(2)	(0.04)	1	0.02
Other Assets	9,878	12,056	13,213	(2,178)	**(18.07)**	(1,157)	**(8.76)**
Total Assets	₱1,876,009	₱1,760,692	₱1,604,540	₱115,317	**6.55**	₱156,152	**9.73**

Liabilities and Equity							
Liabilities							
Deposit Liabilities	₱1,389,302	₱1,257,970	₱1,184,454	₱131,332	**10.44**	₱73,516	**6.21**
Bills Payable and Securities Sold Under Repurchase Agreements	161,376	176,791	140,399	(15,415)	**(8.72)**	36,392	**25.92**
Derivative Liabilities	4,612	4,145	3,071	467	**11.27**	1,074	**34.97**
Manager's Checks and Demand Drafts Outstanding	6,932	5,613	4,653	1,319	**23.50**	960	**20.63**
Income Taxes Payable	2,185	880	1,191	1,305	**148.30**	(311)	**(26.11)**
Accrued Interest and Other Expenses	7,067	8,187	9,874	(1,120)	**(13.68)**	(1,687)	**(17.09)**
Bonds Payable	11,498	11,516	11,444	(18)	(0.16)	72	0.63
Subordinated Debts	29,524	29,487	29,452	37	0.13	35	0.12
Deferred Tax Liabilities	312	451	457	(139)	**(30.82)**	(6)	(1.31)
Non-equity Non-controlling Interest	7,934	9,909	10,124	(1,975)	**(19.93)**	(215)	(2.12)
Other Liabilities	49,714	52,433	50,636	(2,719)	**(5.19)**	1,797	3.55
Total Liabilities	1,670,456	1,557,382	1,445,755	113,074	**7.26**	111,627	**7.72**

Equity							
Equity Attributable to Equity Holders of the Bank							
Common stock	₱63,603	₱63,603	₱54,896	₱-	-	₱8,707	**15.86**
Hybrid capital securities	-	6,351	6,351	(6,351)	**(100.00)**	-	-
Capital paid in excess of par value	42,139	42,139	19,312	-	-	22,827	**118.20**
Surplus reserves	1,653	1,506	1,371	147	**9.76**	135	**9.85**
Surplus	101,900	87,497	72,258	14,403	**16.46**	15,239	**21.09**
Treasury stock	(485)	(187)	(30)	(298)	**(159.36)**	(157)	**(523.33)**
Remeasurement losses on retirement plan	(4,007)	(3,530)	(2,440)	(477)	**(13.51)**	(1,090)	**(44.67)**
Net unrealized loss on AFS investments	(10,115)	(4,783)	(2,394)	(5,332)	**(111.48)**	(2,389)	**(99.79)**
Equity in other comprehensive income of associates	54	180	260	(126)	**(70.00)**	(80)	**(30.77)**
Translation adjustment and others	1,260	983	545	277	**28.18**	438	**80.37**
	196,002	**193,759**	**150,129**	**2,243**	**1.16**	**43,630**	**29.06**
Non-controlling Interest	9,551	9,551	8,656	-	-	895	**10.34**
Total Equity	205,553	203,310	158,785	2,243	1.10	44,525	**28.04**
Total Liabilities and Equity	₱1,876,009	₱1,760,692	₱1,604,540	₱115,317	**6.55**	₱156,152	**9.73**

Statements of Income

	December 31			Increase (Decrease) 2016 vs. 2015		Increase (Decrease) 2015 vs. 2014	
	2016	**2015**	**2014**	**Amount**	%	**Amount**	%
Interest Income	₱68,181	₱65,556	₱59,294	₱2,625	4.00	₱6,262	**10.56**
Interest and Finance Charges	15,235	16,582	13,531	(1,347)	**(8.12)**	3,051	**22.55**
Net Interest Income	52,946	48,974	45,763	3,972	**8.11**	3,211	**7.02**
Other Operating Income	25,225	18,428	29,131	6,797	**36.88**	(10,703)	**(36.74)**
Total Operating Income	78,171	67,402	74,894	10,769	**15.98**	(7,492)	**(10.00)**
Total Operating Expenses	51,494	41,931	46,843	9,563	**22.81**	(4,912)	**(10.49)**
Income Before Share in Net Income of Associates and a Joint Venture	26,677	25,471	28,051	1,206	4.73	(2,580)	**(9.20)**
Share in Net Income of Associates and a Joint Venture	261	409	443	(148)	**(36.19)**	(34)	**(7.67)**
Income Before Income Tax	26,938	25,880	28,494	1,058	4.09	(2,614)	**(9.17)**
Provision for Income Tax	6,622	5,237	6,459	1,385	**26.45**	(1,222)	**(18.92)**
Net Income	₱20,316	₱20,643	₱22,035	(₱327)	(1.58)	(₱1,392)	**(6.32)**
Attributable to:							
Equity holders of the Bank	₱18,086	₱18,625	₱20,113	(₱539)	(2.89)	(₱1,488)	**(7.40)**
Non-controlling interest	2,230	2,018	1,922	212	**10.51**	96	4.99
	₱20,316	₱20,643	₱22,035	(₱327)	(1.58)	(₱1,392)	**(6.32)**

Statements of Comprehensive Income

Net Income	₱20,316	₱20,643	₱22,035	(₱327)	**(1.58)**	(₱1,392)	**(6.32)**
Other Comprehensive Income (Loss) for the Year, net of tax							
Items that may not be reclassified to profit or loss:							
Change in remeasurement loss on retirement plan	(489)	(1,178)	363	689	**58.49**	(1,541)	**(424.52)**
Items that may be reclassified to profit or loss:							
Change in net unrealized loss on AFS investments	(5,464)	(2,397)	(2,015)	(3,067)	**(127.95)**	(382)	**(18.96)**
Change in equity in other comprehensive income of associates	(127)	(80)	(12)	(47)	**(58.75)**	(68)	**(566.67)**
Translation adjustment and others	(1,076)	430	(112)	(1,506)	**(350.23)**	542	**483.93**
	(7,156)	(3,225)	(1,776)	(3,931)	**(121.89)**	(1,449)	**(81.59)**
Total Comprehensive Income for the Year	₱13,160	₱17,418	₱20,259	(₱4,258)	**(24.45)**	(₱2,841)	**(14.02)**
Attributable to:							
Equity holders of the Bank	₱12,428	₱15,504	₱18,516	(₱3,076)	**(19.84)**	(₱3,012)	**(16.27)**
Non-controlling Interest	732	1,914	1,743	(1,182)	**(61.76)**	171	**9.81**
	₱13,160	₱17,418	₱20,259	(₱4,258)	**(24.45)**	(₱2,841)	**(14.02)**

Key Performance Indicators

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

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

For the Year 2016

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

For the Year 2015

Metrobank Group	₱58.97	₱5.86	10.83%	1.11%	3.54%
FMIC (a)	49.62	1.03	2.10%	0.55%	1.35%
PSBank	79.81	9.79	12.74%	1.49%	6.37%
MCC	7.07	2.69	39.33%	5.29%	14.26%

(a) FMIC and Subsidiaries

A separate schedule showing financial soundness indicators of the Group as of December 31, 2016 and 2015 is presented in Exhibit "A" as an attachment to this report.

2016 Performance

Financial Position

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

Cash and Other Cash Items decreased by ₱5.98 billion or 18.39% due to the lower level of cash requirements of the Parent Company and PSBank. Due from BSP which represents 12.73% of the Group's total assets increased by ₱24.10 billion or 11.23% coming from the increase in the balances of demand deposits and placement in overnight deposit facility of the BSP. Due from Other Banks also increased by ₱7.45 billion or 20.21% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went up by ₱55.53 billion or 153.74% wherein SPURA and interbank loans receivable increased by ₱41.08 billion and ₱14.45 billion, respectively.

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

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

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

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

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

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

Results of Operations

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

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

Other operating income of ₱25.23 billion improved by ₱6.80 billion or 36.88% from ₱18.43 billion in 2015 due to higher net trading and securities and foreign exchange gains by ₱6.33 billion or 351.75%, fee-based income by ₱0.54 billion or 5.46%, income from trust operations by ₱0.11 billion or 9.45% and miscellaneous income by ₱0.68 billion or 35.28%. On the other hand, for the year 2016, the Group reported a lower profit from disposal of foreclosed properties of ₱0.73 billion compared with ₱1.29 billion in 2015.

Total operating expenses increased by ₱9.56 billion or 22.81% from ₱41.93 billion in 2015 to ₱51.49 billion in 2016 with higher provision for credit and impairment losses by ₱5.28 billion or 256.58% (primarily from the Bank, PSBank and MCC), compensation and fringe benefits by ₱2.36 billion or 14.74%, depreciation and amortization by ₱0.41 billion or 14.28%, occupancy and equipment-related expenses by ₱0.23 billion or 8.76% and miscellaneous expenses by ₱1.46 billion or 11.94% net of the decline in taxes and licenses by ₱0.16 billion or 2.61%. Provision for income tax was higher by ₱1.39 billion from ₱5.24 billion to ₱6.62 billion on account of higher provision for corporate income tax.

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

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

Market share price was at ₱72.60 from ₱80.50 as of December 31, 2015 with a market capitalization of ₱230.9 billion as at December 31, 2016.

<u>2015 Performance</u>

Financial Position

The Metrobank Group closed the year 2015 with audited consolidated total assets at ₱1.76 trillion up by ₱156.15 billion from ₱1.60 trillion as of December 31, 2014. Consolidated total liabilities likewise increased to ₱1.56 trillion from ₱1.45 trillion as funds sourced from total deposit liabilities and bills payable and securities sold under repurchase agreements (SSURA) increased by ₱73.52 billion and ₱36.39 billion, respectively. Asset quality continues to improve with non-performing loans ratio at a low of 1.0%. Meanwhile, equity attributable to equity holders of the Bank grew by ₱43.63 billion or 29.06% from ₱150.13 billion to ₱193.76 billion.

Cash and Other Cash Items decreased by ₱2.41 billion or 6.89% due to the lower level of cash requirements of the Parent Company and PSBank. Due from BSP which represents 12.19% of the Group's total assets decreased by ₱0.55 billion or 0.26% due to lower balance of SDA maintained with the BSP. Interbank Loans Receivable and SPURA went down by ₱83.72 billion or 69.86% wherein SPURA dropped by ₱94.33 billion while interbank loans receivable increased by ₱10.61 billion.

Financial Assets at FVPL consist of HFT securities and derivative assets amounting to ₱42.91 billion and ₱5.94 billion, respectively, as of December 31, 2015 and ₱42.89 billion and ₱3.04 billion, respectively, as of December 31, 2014. AFS investments went up by ₱27.45 billion or 13.21% due to the net effect of the ₱37.93 billion and ₱1.36 billion increases in treasury notes and bonds and private debt securities, respectively, and the decline in government bonds and equity securities by ₱10.15 billion and ₱1.69 billion, respectively. HTM Investments went up by ₱79.36 billion or 61.48% due to the increases in treasury notes and bonds by ₱73.57 billion, government bonds by ₱4.63 billion and private investments by ₱1.16 billion.

Loans and Receivables, representing 50.39% and 47.33% of the Group's total assets as of December 31, 2015 and 2014, respectively, went up by ₱127.72 billion or 16.82% driven by the strong demand for loans from all segments.

Investments in Associates and a Joint Venture went up by ₱2.68 billion or 103.63% due to the reclassification of the FMIC's investment in Lepanto Consolidated Mining Corporation from AFS investments. Property and Equipment increased by ₱5.44 billion or 33.51% due to acquisition of various furniture and fixtures and the building under construction representing commercial and office spaces located at Bonifacio Global City (BGC), Taguig City. On the other hand, investment properties went down by ₱1.84 billion or 18.35% due to the sustained disposal of foreclosed real estate properties.

Deferred Tax Assets increased by ₱1.60 billion or 23.36% due to movements in the accounts with temporary tax differences. Other Assets consist of, among others, assets held under joint operations, software costs, inter-office float items, creditable withholding tax and miscellaneous assets. The decline of ₱1.16 billion or 8.76% was mainly due to the decrease in miscellaneous assets due to the reclassification of the commercial and office spaces located at BGC to Building under Construction offset by the increases in inter-office float items and software costs.

Deposit liabilities represent 80.77% and 81.93% of the consolidated total liabilities as of December 31, 2015 and 2014, respectively. The Group's deposit level, sourced by the Bank, PSBank and MBCL reached ₱1.26 trillion as of December 31, 2015, an increase of ₱73.52 billion or 6.21% from ₱1.18 trillion as of December 31, 2014. The increment came from demand deposits by ₱46.63 billion and savings deposits by ₱60.82 billion net of the decline in time deposits by ₱33.93 billion. Low cost deposits represent 55.75% and 50.14% of the Group's total deposits as of December 31, 2015 and 2014, respectively.

Bills Payable and SSURA representing 11.35% and 9.71% of the Group's total liabilities as of December 31, 2015 and 2014, respectively, went up by ₱36.39 billion or 25.92%. Higher balances of borrowings from local and foreign banks by ₱0.92 billion and ₱1.33 billion, respectively, deposits substitutes by ₱13.71 billion and SSURA by ₱20.44 billion accounted for the variance. Derivative Liabilities which represent mark-to-market of foreign currency forwards, interest rate swaps, cross currency swaps and foreign currency options with negative fair value increased by ₱1.07 billion or 34.97%.

The increase of ₱0.96 billion or 20.63% in Manager's Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income taxes payable decreased by ₱0.31 billion or 26.11% due to settlement of the 2014 income tax liabilities in April 2015 net of accrual for 2015. Accrued interest and other expenses payable decreased by ₱1.69 billion or 17.09% mainly due to payment of other bank expenses.

The growth of ₱43.63 billion or 29.06% in equity attributable to equity holders of the Bank was mainly attributable to the issuance of stock rights in April 2015 with total net proceeds of ₱31.54 billion; the ₱18.63 billion net income generated by the Group (excluding non-controlling interest) reduced by the additional ₱2.39 billion net unrealized loss recognized on AFS investments; the additional ₱1.09 billion remeasurement loss recognized on retirement plan; cash dividends payment of ₱2.75 billion; and coupon payment on HT1 capital securities of ₱0.51billion (USD11.25 million). The ₱0.90 billion or 10.34% increase in non-controlling interest was attributed to the net income generated by the majority-owned subsidiaries and net of cash dividend declared.

Results of Operations

Net income attributable to equity holders of the Bank reached ₱18.63 billion for the year 2015, ₱1.49 billion or 7.40% lower than the ₱20.11 billion net income recorded for the year 2014. The net decrease was attributed to lower other operating income by ₱10.70 billion and share in net income of associates and a joint venture by ₱0.03 billion offset by higher net interest income by ₱3.21 billion and decrease in total operating expenses and provision for income tax by ₱4.91 billion and ₱1.22 billion, respectively.

Interest income improved by ₱6.26 billion or 10.56% resulting from the increases in interest income on loans receivables by ₱4.35 billion (volume driven) and trading and investment securities by ₱2.84 billion net of the decline in interest income on interbank loans and SPURA by ₱1.16 billion. On the other hand, interest expense increased by ₱3.05 billion or 22.55% coming from the increases in interest expense on deposit liabilities by ₱1.86 billion and on bills payable and SSURA, subordinated debts and other borrowings by ₱1.19 billion. These resulted in a 7.02% or ₱3.21 billion growth in net interest income.

Other operating income of ₱18.43 billion was lower by ₱10.70 billion or 36.74% from ₱29.13 billion in 2014. For the year 2015, the Group reported a lower profit from the disposal of foreclosed properties of ₱1.29 billion compared with ₱10.20 billion in 2014 due to last year's profit realized from the sale of bank-owned property and ROPA and divestments of non-core assets. Trading and securities gain of ₱1.28 billion also decreased by ₱2.02 billion from ₱3.3 billion in

2014. Last year's gain realized from the sale of the Bank's 15% and PSBank's 25% ownerships in Toyota Financial Services Philippines Corporation (TFSPC) totaling to ₱0.91 billion and FMIC's 33.33% ownership in Charter Ping An Insurance Corporation (CPAIC) of ₱0.31 billion contributed to the variance in other operating income.

Total operating expenses decreased by ₱4.91 billion or 10.49% from ₱46.84 billion in 2014 to ₱41.93 billion in 2015 with lower provision for credit and impairment losses by ₱2.79 billion or 57.54%, compensation and fringe benefits by ₱1.23 billion or 7.14% and taxes and licenses by ₱0.89 billion or 12.68% offset by the increases in depreciation and amortization by ₱0.31 billion or 12.20%, occupancy and equipment-related expenses by ₱0.15 billion or 6.14% and miscellaneous expenses by ₱0.90 billion or 7.93%.

Share in net income of associates and a joint venture decreased by ₱0.03 billion or 7.67% due to lower net income of certain associates while income attributable to non-controlling interest went up by ₱0.10 billion or 4.99% with noted improvement on the results of operations of certain majority-owned subsidiaries.

Total comprehensive income went down by ₱2.84 billion from ₱20.26 billion in 2014 to ₱17.42 billion in 2015. The variance was attributed to the ₱1.39 billion decrease in the net income of the Group and the ₱1.45 billion decrease in other comprehensive income (resulted from the recognition of additional remeasurement losses on retirement plan). Total comprehensive income attributable to equity holders of the Bank went down to ₱15.50 billion from ₱18.52 billion in 2014.

Market share price as of December 31, 2015 was at ₱80.50 from ₱83.0 in 2014 with a market capitalization of ₱256.0 billion as at December 31, 2015.

Exhibit A

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF DECEMBER 31, 2016 AND 2015

		2016	2015
a)	Liquidity Ratio	40.27%	46.16%
b)	Loans to Deposits Ratio	76.25%	70.01%
c)	Debt to Equity Ratio	852.27%	803.77%
d)	Asset to Equity Ratio	957.14%	908.70%
e)	Return on Average Equity	9.28%	10.83%
f)	Return on Average Assets	0.99%	1.11%
g)	Net Interest Margin on Average Earning Assets	3.54%	3.54%
h)	Operating Efficiency Ratio	56.48%	59.15%
i)	Capital Adequacy Ratio	15.45%	17.75%
j)	Common Equity Tier 1 Ratio	12.54%	14.25%

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, 2016 and 2015, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in accordance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks as described in Note 2 to the financial statements.

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

Basis for Opinion

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Applicable to the audit of the consolidated and Parent Company financial statements

Adequacy of allowance for credit losses on loans and receivables

The Group's loans and receivables consist of corporate and consumer loans including credit card receivables. The appropriateness of the allowance for credit losses on these loans and receivables is a key area of judgment for the management. The Group determines the allowance for credit losses on an individual basis for individually significant loans and receivables, and collectively for loans and receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various assumptions and factors. This includes the financial condition of the counterparty, estimated future cash flows from the loans and receivables and estimated net selling prices of the collateral. The use of assumptions could produce significantly different estimates of allowance for credit losses. The disclosures in relation to the allowance for credit losses are included in Note 15 to the financial statements.

Audit response

We obtained an understanding of the Group's impairment calculation process and performed tests over relevant controls. For allowance for credit losses calculated on an individual basis, we selected a sample of impaired loans and obtained an understanding of the borrower's business and financial capacity. We also tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses. This was done by assessing whether the forecasted cash flows are based on the borrower's current financial condition, checking the payment history of the borrower including payments made subsequent to yearend, agreeing the value of the collateral to the appraisal reports, checking whether the discount rate represents the original effective interest rate (EIR) or the current EIR of the loan, and re-performing the impairment calculation. For allowance for credit losses calculated on a collective basis, we tested the underlying models and the inputs to those models, such as historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of loss rates and net flow rates to the Group's records and subsidiary ledgers, testing the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the allowance for credit losses.

Recoverability of deferred tax assets

The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process requires significant judgment, and is based on assumptions 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 obtained an understanding of the Parent Company and its subsidiaries' deferred income tax calculation process, including the applicable tax regulations. 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. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

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

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, 2016, there has been a significant and prolonged decline in the fair value of its subsidiary's significant associate. 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 obtained an understanding of the Group's impairment assessment process and the related controls. 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, 2016, the Group has goodwill amounting to ₱5.2 billion as a result of various business acquisitions, ₱5.0 billion of which came from the acquisition of Solidbank Corporation in 2000 which was merged with First Metro Investment Corporation. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. The Group performed the impairment testing using the VIU. 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) VIU. The assumptions used in the calculation of VIU are sensitive to estimates of future cash flows from business, discount rate and growth rate used to project the cash flows. The disclosures in relation to goodwill are included in Notes 3 and 11 to the financial statements.

Audit response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist to evaluate the assumptions and methodology used by the Group, in particular those relating to the forecasted cash flows of the CGU, long term growth rates of the future cash flows and the discount rate used in determining the present value of the future cash flows. Our testing of the assumptions include comparing the growth rate of the future cash flows to the historical performance of the CGU and assessing whether the discount rate used in determining the VIU represents current market assessment of risks associated with the CGU. We discussed with the Group's management the CGU's current business performance and prospects and how these were reflected in the Group's VIU calculation.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 19-2011 and 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. 19-2011 and 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908738, January 3, 2017, Makati City

February 22, 2017

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Millions)

	Consolidated		Parent Company		
	December 31				January 1,
	2016	2015	**2016**	2015	2015 (As Restated - Note 2)
ASSETS					
Cash and Other Cash Items	**₱26,553**	₱32,536	**₱23,470**	₱28,570	₱30,733
Due from Bangko Sentral ng Pilipinas (Note 16)	**238,806**	214,704	**203,781**	185,484	174,259
Due from Other Banks	**44,315**	36,864	**30,101**	26,213	25,583
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 26)	**91,646**	36,118	**73,094**	25,951	108,441
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**37,214**	48,856	**26,766**	34,568	29,850
Available-for-Sale Investments (Note 8)	**316,855**	235,158	**253,594**	202,312	179,375
Held-to-Maturity Investments (Note 8)	**–**	208,432	**–**	175,816	110,777
Loans and Receivables (Note 9)	**1,060,868**	887,202	**844,198**	692,404	589,993
Investments in Subsidiaries (Note 11)	**–**	–	**56,627**	57,211	55,084
Investments in Associates and a Joint Venture (Note 11)	**5,350**	5,272	**615**	639	538
Property and Equipment (Note 10)	**21,995**	21,670	**15,506**	15,390	10,456
Investment Properties (Note 12)	**8,474**	8,195	**3,749**	4,132	6,229
Deferred Tax Assets (Note 28)	**8,855**	8,427	**6,439**	6,284	5,273
Goodwill (Note 11)	**5,200**	5,202	**–**	–	–
Other Assets (Note 14)	**9,878**	12,056	**5,275**	7,730	9,511
	₱1,876,009	₱1,760,692	**₱1,543,215**	₱1,462,704	₱1,336,102
LIABILITIES AND EQUITY					
LIABILITIES					
Deposit Liabilities (Notes 16 and 31)					
Demand	**₱298,388**	₱233,912	**₱272,081**	₱219,772	₱169,851
Savings	**547,685**	467,587	**522,643**	446,734	390,509
Time	**520,329**	542,221	**388,063**	425,629	475,818
Long-Term Negotiable Certificates	**22,900**	14,250	**22,900**	14,250	14,250
	1,389,302	1,257,970	**1,205,687**	1,106,385	1,050,428
Bills Payable and Securities Sold Under Repurchase Agreements (Notes 17 and 31)	**161,376**	176,791	**68,865**	88,640	62,345
Derivative Liabilities (Note 8)	**4,612**	4,145	**4,547**	4,145	3,054
Manager's Checks and Demand Drafts Outstanding	**6,932**	5,613	**5,171**	4,264	3,399
Income Taxes Payable	**2,185**	880	**1,177**	300	591
Accrued Interest and Other Expenses (Note 18)	**7,067**	8,187	**4,646**	5,771	7,514
Bonds Payable (Note 19)	**11,498**	11,516	**–**	–	–
Subordinated Debts (Note 20)	**29,524**	29,487	**22,404**	22,374	22,344
Deferred Tax Liabilities (Note 28)	**312**	451	**–**	–	–
Non-equity Non-controlling Interest (Note 21)	**7,934**	9,909	**–**	–	–
Other Liabilities (Note 21)	**49,714**	52,433	**34,716**	37,066	36,298
	1,670,456	1,557,382	**1,347,213**	1,268,945	1,185,973

(Forward)

	Consolidated		Parent Company		
	December 31				January 1,
	2016	2015	**2016**	2015 (As Restated - Note 2)	2015 (As Restated - Note 2)
EQUITY					
Equity Attributable to Equity Holders of the Parent Company					
Common stock (Notes 23 and 31)	**₱63,603**	₱63,603	**₱63,603**	₱63,603	₱54,896
Hybrid capital securities (Note 23)	**–**	6,351	**–**	6,351	6,351
Capital paid in excess of par value (Note 23)	**42,139**	42,139	**42,139**	42,139	19,312
Surplus reserves (Note 24)	**1,653**	1,506	**1,653**	1,506	1,371
Surplus (Notes 23 and 24)	**101,900**	87,497	**101,900**	87,497	72,258
Treasury stock (Note 23)	**(485)**	(187)	**(485)**	(187)	(30)
Remeasurement losses on retirement plan (Note 27)	**(4,007)**	(3,530)	**(4,007)**	(3,530)	(2,440)
Net unrealized loss on available-for-sale investments (Note 8)	**(10,115)**	(4,783)	**(10,115)**	(4,783)	(2,394)
Equity in other comprehensive income of associates (Note 11)	**54**	180	**54**	180	260
Translation adjustment and others (Notes 8 and 11)	**1,260**	983	**1,260**	983	545
	196,002	193,759	**196,002**	193,759	150,129
Non-controlling Interest (Note 8)	**9,551**	9,551	**–**	–	–
	205,553	203,310	**196,002**	193,759	150,129
	₱1,876,009	₱1,760,692	**₱1,543,215**	₱1,462,704	₱1,336,102

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					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 31)	**₱51,266**	₱44,179	₱39,829	**₱27,386**	₱22,930	₱20,361
Trading and investment securities (Note 8)	**15,371**	17,838	14,995	**12,745**	15,282	12,951
Interbank loans receivable and securities purchased under resale agreements (Note 31)	**898**	2,986	4,145	**479**	2,657	3,029
Deposits with banks and others	**646**	553	325	**387**	297	108
	68,181	65,556	59,294	**40,997**	41,166	36,449
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	**9,888**	11,159	9,299	**6,811**	8,476	6,588
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others (Notes 17, 19, 20 and 31)	**5,347**	5,423	4,232	**1,979**	2,019	1,263
	15,235	16,582	13,531	**8,790**	10,495	7,851
NET INTEREST INCOME	**52,946**	48,974	45,763	**32,207**	30,671	28,598
Service charges, fees and commissions (Note 31)	**10,329**	9,794	8,898	**3,768**	3,592	3,483
Trading and securities gain - net (Notes 8 and 31)	**6,122**	1,282	3,305	**6,154**	1,604	699
Foreign exchange gain (loss) - net (Note 31)	**2,005**	517	(102)	**1,533**	18	(357)
Leasing (Notes 12, 13 and 31)	**2,001**	1,970	1,894	**220**	244	238
Income from trust operations (Notes 24 and 31)	**1,274**	1,164	1,186	**1,251**	1,142	1,139
Profit from assets sold (Notes 10 and 12)	**732**	1,293	10,200	**463**	1,187	9,815
Dividends (Notes 11 and 31)	**151**	478	262	**17**	8	6
Gain on sale of investment in associates (Notes 11 and 31)	**–**	–	1,225	**–**	–	353
Miscellaneous (Note 25)	**2,611**	1,930	2,263	**452**	520	973
TOTAL OPERATING INCOME	**78,171**	67,402	74,894	**46,065**	38,986	44,947
Compensation and fringe benefits (Notes 27 and 31)	**18,374**	16,014	17,245	**12,339**	10,469	12,268
Provision for (reversal of) credit and impairment losses (Note 15)	**7,342**	2,059	4,849	**1,174**	(2,926)	7
Taxes and licenses	**5,997**	6,158	7,052	**3,317**	3,712	4,413
Depreciation and amortization (Notes 10, 12 and 14)	**3,290**	2,879	2,566	**1,515**	1,254	1,057
Occupancy and equipment-related cost (Note 13)	**2,819**	2,592	2,442	**1,680**	1,510	1,405
Amortization of software costs (Note 14)	**474**	381	330	**141**	160	146
Income (loss) attributable to non-equity non-controlling interests (Note 21)	**(441)**	(336)	1,070	**–**	–	–
Miscellaneous (Note 25)	**13,639**	12,184	11,289	**8,881**	7,716	6,980
TOTAL OPERATING EXPENSES	**51,494**	41,931	46,843	**29,047**	21,895	26,276
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE	**26,677**	25,471	28,051	**17,018**	17,091	18,671
SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE (Note 11)	**261**	409	443	**4,958**	4,740	5,797
INCOME BEFORE INCOME TAX	**26,938**	25,880	28,494	**21,976**	21,831	24,468
PROVISION FOR INCOME TAX (Note 28)	**6,622**	5,237	6,459	**3,890**	3,206	4,355
NET INCOME	**₱20,316**	₱20,643	₱22,035	**₱18,086**	₱18,625	₱20,113
Attributable to:						
Equity holders of the Parent Company (Note 32)	**₱18,086**	₱18,625	₱20,113			
Non-controlling Interest (Notes 11 and 21)	**2,230**	2,018	1,922			
	₱20,316	₱20,643	₱22,035			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱5.61**	₱5.86	₱6.88			

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					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
Net Income	**₱20,316**	₱20,643	₱22,035	**₱18,086**	₱18,625	₱20,113
Other Comprehensive Income (Loss) for the Year, Net of Tax						
Items that may not be reclassified to profit or loss:						
Change in remeasurement loss on retirement plan	**(489)**	(1,178)	363	**(477)**	(1,090)	430
Items that may be reclassified to profit or loss:						
Change in net unrealized loss on available-for-sale investments (Note 8)	**(5,464)**	(2,397)	(2,015)	**(5,332)**	(2,389)	(1,913)
Change in equity in other comprehensive income of associates (Note 11)	**(127)**	(80)	(12)	**(126)**	(80)	(12)
Translation adjustment and others (Notes 8 and 11)	**(1,076)**	430	(112)	**277**	438	(102)
	(6,667)	(2,047)	(2,139)	**(5,181)**	(2,031)	(2,027)
Total Comprehensive Income for the Year	**₱13,160**	₱17,418	₱20,259	**₱12,428**	₱15,504	₱18,516
Attributable to:						
Equity holders of the Parent Company	**₱12,428**	₱15,504	₱18,516			
Non-controlling Interest	**732**	1,914	1,743			
	₱13,160	₱17,418	₱20,259			

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

	Consolidated												
	Equity Attributable to Equity Holders of the Parent Company												
	Common Stock (Note 23)	**Hybrid Capital Securities** (Note 23)	**Capital Paid In Excess of Par Value** (Note 23)	**Surplus Reserves** (Note 24)	**Surplus** (Notes 23 and 24)	**Treasury Stock** (Note 23)	**Remeasurement Losses on Retirement Plan** (Note 27)	**Net Unrealized Loss on Available-for-Sale Investments** (Note 8)	**Equity in Other Comprehensive Income of Associates** (Note 11)	**Translation Adjustment and Others** (Notes 8 and 11)	**Total**	**Non-controlling Interest**	**Total Equity**
Balance as at January 1, 2016	**₱63,603**	**₱6,351**	**₱42,139**	**₱1,506**	**₱87,497**	**(₱187)**	**(₱3,530)**	**(₱4,783)**	**₱180**	**₱983**	**₱193,759**	**₱9,551**	**₱203,310**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**18,086**	**–**	**(477)**	**(5,332)**	**(126)**	**277**	**12,428**	**732**	**13,160**
Transfer to surplus reserves	**–**	**–**	**–**	**147**	**(147)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash dividends	**–**	**–**	**–**	**–**	**(3,180)**	**–**	**–**	**–**	**–**	**–**	**(3,180)**	**(732)**	**(3,912)**
Coupon payment of hybrid capital securities (Note 32)	**–**	**–**	**–**	**–**	**(267)**	**–**	**–**	**–**	**–**	**–**	**(267)**	**–**	**(267)**
Redemption of hybrid capital securities	**–**	**(6,351)**	**–**	**–**	**(89)**	**–**	**–**	**–**	**–**	**–**	**(6,440)**	**–**	**(6,440)**
Parent Company shares held by mutual fund subsidiaries	**–**	**–**	**–**	**–**	**–**	**(298)**	**–**	**–**	**–**	**–**	**(298)**	**–**	**(298)**
Balance as at December 31, 2016	**₱63,603**	**₱–**	**₱42,139**	**₱1,653**	**₱101,900**	**(₱485)**	**(₱4,007)**	**(₱10,115)**	**₱54**	**₱1,260**	**₱196,002**	**₱9,551**	**₱205,553**
Balance as at January 1, 2015	₱54,896	₱6,351	₱19,312	₱1,371	₱72,258	(₱30)	(₱2,440)	(₱2,394)	₱260	₱545	₱150,129	₱8,656	₱158,785
Total comprehensive income for the year	–	–	–	–	18,625	–	(1,090)	(2,389)	(80)	438	15,504	1,914	17,418
Transfer to surplus reserves	–	–	–	135	(135)	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,745)	–	–	–	–	–	(2,745)	(1,019)	(3,764)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(506)	–	–	–	–	–	(506)	–	(506)
Issuance of shares of stock	8,707	–	22,827	–	–	–	–	–	–	–	31,534	–	31,534
Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	(157)	–	–	–	–	(157)	–	(157)
Balance as at December 31, 2015	₱63,603	₱6,351	₱42,139	₱1,506	₱87,497	(₱187)	(₱3,530)	(₱4,783)	₱180	₱983	₱193,759	₱9,551	₱203,310
Balance as at January 1, 2014	₱54,896	₱6,351	₱19,312	₱1,235	₱55,525	₱–	(₱2,870)	(₱481)	₱272	₱647	₱134,887	₱7,818	₱142,705
Total comprehensive income for the year	–	–	–	–	20,113	–	430	(1,913)	(12)	(102)	18,516	1,743	20,259
Transfer to surplus reserves	–	–	–	136	(136)	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,745)	–	–	–	–	–	(2,745)	(905)	(3,650)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(499)	–	–	–	–	–	(499)	–	(499)
Parent Company shares held by a mutual fund subsidiary	–	–	–	–	–	(30)	–	–	–	–	(30)	–	(30)
Balance as at December 31, 2014	₱54,896	₱6,351	₱19,312	₱1,371	₱72,258	(₱30)	(₱2,440)	(₱2,394)	₱260	₱545	₱150,129	₱8,656	₱158,785

	Parent Company										
	Common Stock (Note 23)	**Hybrid Capital Securities** (Note 23)	**Capital Paid In Excess of Par Value** (Note 23)	**Surplus Reserves** (Note 24)	**Surplus** (Notes 23 and 24)	**Treasury Stock** (Note 23)	**Remeasurement Losses on Retirement Plan** (Note 27)	**Net Unrealized Loss on Available-for-Sale Investments** (Note 8)	**Equity in Other Comprehensive Income of Associates** (Note 11)	**Translation Adjustment and Others** (Notes 8 and 11)	**Total Equity**
Balance as at January 1, 2016, as previously reported	**₱63,603**	**₱6,351**	**₱42,139**	**₱1,506**	**₱57,605**	**₱–**	**(₱2,915)**	**(₱4,502)**	**₱–**	**(₱563)**	**₱163,224**
Effect of change in accounting for equity investments in Separate Financial Statements (PAS 27) (Note 2)	**–**	**–**	**–**	**–**	**29,892**	**(187)**	**(615)**	**(281)**	**180**	**1,546**	**30,535**
Balance as at January 1, 2016, as restated	**63,603**	**6,351**	**42,139**	**1,506**	**87,497**	**(187)**	**(3,530)**	**(4,783)**	**180**	**983**	**193,759**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**18,086**	**–**	**(477)**	**(5,332)**	**(126)**	**277**	**12,428**
Transfer to surplus reserves	**–**	**–**	**–**	**147**	**(147)**	**–**	**–**	**–**	**–**	**–**	**–**
Cash dividends	**–**	**–**	**–**	**–**	**(3,180)**	**–**	**–**	**–**	**–**	**–**	**(3,180)**
Coupon payment of hybrid capital securities (Note 32)	**–**	**–**	**–**	**–**	**(267)**	**–**	**–**	**–**	**–**	**–**	**(267)**
Redemption of hybrid capital securities	**–**	**(6,351)**	**–**	**–**	**(89)**	**–**	**–**	**–**	**–**	**–**	**(6,440)**
Parent Company shares held by mutual fund subsidiaries	**–**	**–**	**–**	**–**	**–**	**(298)**	**–**	**–**	**–**	**–**	**(298)**
Balance as at December 31, 2016	**₱63,603**	**₱–**	**₱42,139**	**₱1,653**	**₱101,900**	**(₱485)**	**(₱4,007)**	**(₱10,115)**	**₱54**	**₱1,260**	**₱196,002**
Balance as at January 1, 2015, as previously reported	₱54,896	₱6,351	₱19,312	₱1,371	₱45,265	₱–	(₱2,028)	(₱2,609)	₱–	(₱842)	₱121,716
Effect of change in accounting for equity investments in Separate Financial Statements (PAS 27) (Note 2)	–	–	–	–	26,993	(30)	(412)	215	260	1,387	28,413
Balance as at January 1, 2015, as restated	54,896	6,351	19,312	1,371	72,258	(30)	(2,440)	(2,394)	260	545	150,129
Total comprehensive income for the year	–	–	–	–	18,625	–	(1,090)	(2,389)	(80)	438	15,504
Transfer to surplus reserves	–	–	–	135	(135)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,745)	–	–	–	–	–	(2,745)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(506)	–	–	–	–	–	(506)
Issuance of shares of stock	8,707	–	22,827	–	–	–	–	–	–	–	31,534
Parent Company shares held by mutual fund subsidiaries	–	–	–	–	–	(157)	–	–	–	–	(157)
Balance as at December 31, 2015	₱63,603	₱6,351	₱42,139	₱1,506	₱87,497	(₱187)	(₱3,530)	(₱4,783)	₱180	₱983	₱193,759
Balance as at January 1, 2014, as previously reported	₱54,896	₱6,351	₱19,312	₱1,235	₱30,903	₱–	(₱2,617)	(₱2,133)	₱–	(₱888)	₱107,059
Effect of change in accounting for equity investments in Separate Financial Statements (PAS 27) (Note 2)	–	–	–	–	24,622	–	(253)	1,652	272	1,535	27,828
Balance as at January 1, 2014, as restated	54,896	6,351	19,312	1,235	55,525	–	(2,870)	(481)	272	647	134,887
Total comprehensive income for the year	–	–	–	–	20,113	–	430	(1,913)	(12)	(102)	18,516
Transfer to surplus reserves	–	–	–	136	(136)	–	–	–	–	–	–
Cash dividends	–	–	–	–	(2,745)	–	–	–	–	–	(2,745)
Coupon payment of hybrid capital securities (Note 32)	–	–	–	–	(499)	–	–	–	–	–	(499)
Parent Company shares held by a mutual fund subsidiary	–	–	–	–	–	(30)	–	–	–	–	(30)
Balance as at December 31, 2014	₱54,896	₱6,351	₱19,312	₱1,371	₱72,258	(₱30)	(₱2,440)	(₱2,394)	₱260	₱545	₱150,129

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					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱26,938**	₱25,880	₱28,494	**₱21,976**	₱21,831	₱24,468
Adjustments for:						
Provision for (reversal of) credit and impairment losses (Note 15)	**7,342**	2,059	4,849	**1,174**	(2,926)	7
Trading and securities gain on available-for-sale investments (Note 8)	**(5,144)**	(1,430)	(1,862)	**(4,693)**	(1,301)	(965)
Depreciation and amortization (Notes 10, 12 and 14)	**3,290**	2,879	2,566	**1,515**	1,254	1,057
Share in net income of subsidiaries, associates and a joint venture (Note 11)	**(261)**	(409)	(443)	**(4,958)**	(4,740)	(5,797)
Profit from assets sold (Notes 10 and 12)	**(732)**	(1,293)	(10,200)	**(463)**	(1,187)	(9,815)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	**(834)**	(713)	(748)	**(24)**	(21)	(54)
Amortization of software costs (Note 14)	**474**	381	330	**141**	160	146
Amortization of discount on subordinated debts and bonds payable	**20**	45	16	**31**	29	4
Unrealized market valuation gain on financial assets and liabilities at FVPL	**(778)**	(1,828)	(334)	**(802)**	(1,847)	(391)
Dividends (Note 11)	**(151)**	(478)	(262)	**(17)**	(8)	(6)
Gain on sale of investment in associates (Note 11)	**–**	–	(1,225)	**–**	–	(353)
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Financial assets at fair value through profit or loss	**12,820**	(19)	8,480	**8,981**	(1,814)	5,305
Loans and receivables	**(182,710)**	(129,897)	(153,604)	**(149,598)**	(98,690)	(132,399)
Other assets	**2,004**	(4,371)	(5,730)	**1,603**	(3,824)	(5,216)
Increase (decrease) in:						
Deposit liabilities	**131,332**	73,516	168,186	**99,302**	55,957	159,674
Bills payable - deposit substitutes	**(263)**	13,718	(7,489)	**–**	–	–
Manager's checks and demand drafts outstanding	**1,319**	960	726	**907**	865	583
Accrued interest and other expenses	**(1,120)**	(1,687)	1,367	**(1,125)**	(1,743)	1,512
Non-equity non-controlling interest	**(1,975)**	(215)	(244)	**–**	–	–
Other liabilities	**(3,894)**	617	8,335	**(2,649)**	(12)	7,495
Net cash generated from (used in) operations	**(12,323)**	(22,285)	41,208	**(28,699)**	(38,017)	45,255
Dividends received	**151**	478	262	**17**	8	6
Income taxes paid	**(5,884)**	(7,150)	(5,608)	**(3,168)**	(4,508)	(2,971)
Net cash provided by (used in) operating activities	**(18,056)**	(28,957)	35,862	**(31,850)**	(42,517)	42,290
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Available-for-sale investments	**(388,626)**	(170,783)	(218,572)	**(374,158)**	(98,137)	(187,532)
Held-to-maturity investments	**–**	(79,513)	(106,377)	**–**	(65,196)	(88,319)
Property and equipment (Note 10)	**(3,512)**	(3,840)	(3,073)	**(1,640)**	(1,819)	(1,447)
Additional investments in subsidiaries and associates (Note 11)	**–**	–	–	**(1,611)**	(30)	(1,452)
Proceeds from sale of:						
Available-for-sale investments	**508,014**	140,573	285,284	**494,106**	74,888	235,636
Held-to-maturity investments (Note 8)	**4,745**	–	–	**4,745**	–	–
Property and equipment	**331**	472	739	**147**	287	645

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
Investments in subsidiaries and associates (Note 11)	**₱–**	₱–	₱2,812	**₱–**	₱–	₱788
Investment properties (Note 12)	**2,275**	4,090	13,412	**1,083**	3,167	12,495
Cash dividends from investees	**23**	7	299	**1,847**	1,824	2,986
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements (Note 26)	**(11,192)**	3,065	(2,815)	**(5,221)**	5,228	(2,815)
Proceeds from maturity of held-to-maturity investments	**1,221**	157	15,727	**1,221**	157	15,899
Net cash provided by (used in) investing activities	**113,279**	(105,772)	(12,564)	**120,519**	(79,631)	(13,116)
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlements of bills payable	**(983,550)**	(1,275,001)	(1,971,229)	**(983,551)**	(776,422)	(1,763,584)
Availments of bills payable and securities sold under repurchase agreement	**968,398**	1,297,675	1,991,913	**963,776**	802,717	1,779,936
Repayments of subordinated debts (Note 20)	**–**	–	(4,500)	**–**	–	(4,500)
Proceeds from issuance of:						
Subordinated debts (Note 20)	**–**	–	25,315	**–**	–	22,344
Shares of stock (Note 23)	**–**	31,534	–	**–**	31,534	–
Cash dividends paid (Note 23)	**(3,160)**	(3,764)	(3,650)	**(3,180)**	(2,745)	(2,745)
Coupon payment of hybrid capital securities (Note 23)	**(267)**	(506)	(499)	**(267)**	(506)	(499)
Redemption of hybrid capital securities (Note 23)	**(6,440)**	–	–	**(6,440)**	–	–
Acquisition of Parent Company shares by mutual fund subsidiaries (Note 23)	**(298)**	(157)	(30)	**–**	–	–
Net cash provided by (used in) financing activities	**(25,317)**	49,781	37,320	**(29,662)**	54,578	30,952
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**69,906**	(84,948)	60,618	**59,007**	(67,570)	60,126
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**32,536**	34,943	29,742	**28,570**	30,733	26,532
Due from Bangko Sentral ng Pilipinas	**214,704**	215,253	166,774	**185,484**	174,259	143,724
Due from other banks	**36,864**	38,200	26,275	**26,213**	25,583	8,947
Interbank loans receivable and securities purchased under resale agreements (Note 26)	**31,532**	112,188	117,175	**23,528**	100,790	92,036
	315,636	400,584	339,966	**263,795**	331,365	271,239
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**26,553**	32,536	34,943	**23,470**	28,570	30,733
Due from Bangko Sentral ng Pilipinas	**238,806**	214,704	215,253	**203,781**	185,484	174,259
Due from other banks	**44,315**	36,864	38,200	**30,101**	26,213	25,583
Interbank loans receivable and securities purchased under resale agreements (Note 26)	**75,868**	31,532	112,188	**65,450**	23,528	100,790
	₱385,542	₱315,636	₱400,584	**₱322,802**	₱263,795	₱331,365

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015	2014
Interest paid	**₱15,569**	₱16,616	₱13,436	**₱9,102**	₱10,440	₱7,701
Interest received	**69,370**	64,663	59,389	**42,232**	40,936	36,654

See accompanying Notes to Financial Statements.

1. Corporate Information

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

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

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

2. Summary of Significant Accounting Policies

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

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation. The financial statements are presented in PHP, and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

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

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

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

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

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company in 2016 and 2015 (Note 11):

Subsidiary	Country of Incorporation	Effective Percentage of Ownership	Functional Currency
Financial Markets:			
Domestic:			
FMIC and Subsidiaries	Philippines	99.24	PHP
PSBank (75.98% in 2015 – Note 11)	Philippines	82.68	PHP
Metrobank Card Corporation (A Finance Company) (MCC)	Philippines	60.00	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	Philippines	59.85	PHP
Foreign:			
Metropolitan Bank (China) Ltd. (MBCL)	China	100.00	Chinese Yuan
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)	The Bahamas	100.00	USD
First Metro International Investment Company Limited (FMIIC) and Subsidiary (99.85% in 2015 – Note 11)	Hong Kong	100.00	Hong Kong Dollar (HKD)
Remittances:			
Metro Remittance (Hong Kong) Limited (MRHL)	Hong Kong	100.00	HKD
Metro Remittance (Singapore) Pte. Ltd. (MRSPL)	Singapore	100.00	Singapore Dollar
Metro Remittance (UK) Limited (MR UK)	United Kingdom	100.00	Great Britain Pound
Metro Remittance (USA), Inc. (MR USA)	United States of America (USA)	100.00	USD
Metro Remittance Center, Inc. (MRCI)	USA	100.00	USD
Metro Remittance (Japan) Co. Ltd. (MR Japan)	Japan	100.00	Japanese Yen
Metro Remittance (Italia), S.p.A. (MR Italia)*	Italy	100.00	Euro
Real Estate:			
Circa 2000 Homes, Inc. (Circa)*	Philippines	100.00	PHP
Others:			
Philbancor Venture Capital Corporation (PVCC)*	Philippines	60.00	PHP
MBTC Technology, Inc. (MTI)**	Philippines	100.00	PHP

* 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 in the consolidation (Note 31). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income and consolidated statements of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

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

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

Entity with Significant Influence over the Group

GT Capital Holdings, Inc. (GT Capital) holds 26.47% and 25.22% of the total shares of the Parent Company as of December 31, 2016 and 2015, respectively (Note 31).

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets 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 profit or loss and net assets of the consolidated funds not attributed, directly or indirectly, to the Parent Company and are presented separately in the consolidated statement of income and in the liability section in the consolidated statement of financial position.

Changes in Accounting Policies and Disclosures

The Group applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2016, the accounting policies adopted are consistent with those of the previous financial year.

Amendments

PAS 1, *Presentation of Financial Statements - Initiative to improve presentation and disclosure in financial reports*

The amendments to PAS 1 further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. It clarifies that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*

The revised PAS 16 and PAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The amendments to PAS 16 explicitly prohibits revenue-based depreciation of property, plant and equipment while the amendments to PAS 38 introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reason that there are multiple factors that influence revenue and that not all these factors are related to the way the asset is used or consumed.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

The amendments provide guidance on how to account for acquisition of an interest in a joint operation that constitutes a business, and apply the relevant principles of PFRS 3 and other PFRS in accounting for business combination as well as the disclosures required by such PFRS.

Annual Improvements to PFRSs (2012 - 2014 cycle)

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*

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

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*
The amendments provide entities an option to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. Effective January 1, 2016, the Group retrospectively applied the equity method in accounting for its investments in subsidiaries, associates and a joint venture in its separate financial statements following the guidelines provided by the BSP. As a result of the adoption of the amendments, investments in subsidiaries and investments in associates and a joint venture presented in the statements of financial position increased by ₱30.8 billion and ₱123.8 million, respectively, as of December 31, 2015 and ₱28.8 billion and ₱109.5 million, respectively, as of December 31, 2014; while the related share in net income of subsidiaries, associates and a joint venture presented in the statements of income increased by ₱2.9 billion and ₱2.4 billion in 2015 and 2014, respectively. See statements of changes in equity for the impact of the adoption of this amended standard on the related equity items.

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

Significant Accounting Policies

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

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

FCDU, foreign branches and subsidiaries
As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the PHP) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDS weighted average rate (PDSWAR) for the year. Exchange differences arising on translation are taken to statement of comprehensive income as '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 at FVPL, and for non-recurring measurement, such as investment properties.

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

'Day 1' difference

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

Derivatives recorded at FVPL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps (IRS), call options, non-deliverable forwards (NDF) and other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge accounting

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

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

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

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

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

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

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

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

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

Financial assets or financial liabilities held for trading
Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in 'Trading and securities gain - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' respectively, while dividend income is recorded in 'Dividends' when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are included in the statement of comprehensive income as 'Net unrealized gain (loss) on AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain - net' in the statement of income. Gains and losses on disposal are determined using the average cost method. Interest earned on holding AFS investments are reported as 'Interest income' using the effective interest rate (EIR) method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Dividends' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for 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.

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

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

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

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

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

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number

of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Derecognition of Financial Assets and 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.

Financial liabilities

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

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

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

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

Financial assets carried at amortized cost
For financial assets carried at amortized cost such as loans and receivables, due from other banks, and HTM investments, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the ‘Provision for credit and impairment losses’ in the statement of income.

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

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

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

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

AFS investments
In case of quoted equity investments classified as 'AFS investments', this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the statement of comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

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

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

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements except for certain trading transactions. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

Building under construction (BUC) is stated at cost and includes cost of construction and other direct costs. BUC is not depreciated until such time that the relevant asset is completed and put into operational use.

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

The range of estimated useful lives of property and equipment follows:

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

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

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

<u>Investments in Subsidiaries, Associates and a Joint Venture (JV)</u>
Investment in subsidiaries
Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 40.00% interest of PSBank in Sumisho Motor Finance Corporation (SMFC).

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

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

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

Customized System Development Cost

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

Impairment of Non-financial Assets

Property and equipment, investments in subsidiaries, associates and a JV, investment properties, chattel mortgage properties, and intangible assets with finite useful lives

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

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets and customized system development cost not yet available for use

Intangible assets with indefinite useful lives such as exchange trading right, goodwill 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. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

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

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

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

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in ‘Property and equipment’ with the corresponding liability to the lessor included in ‘Other liabilities’. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to ‘Interest expense’.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee, are included in the statement of financial position under ‘Loans and receivables’. All income resulting from the receivable is included in ‘Interest income’ in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Retirement Cost

The Group has a non-contributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (DBO) at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss. Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the DBO, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Equity

When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

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

Surplus represents accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Group'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 for the Group and no dividends are allocated to them. 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 other comprehensive income and not in the statement of income.

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

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

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.

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

Debt Issue 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.

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, PSBank and FMIC act in a fiduciary capacity such as nominee, trustee or agent.

Standards Issued but not yet Effective

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

Amendments

Effective beginning on or after January 1, 2017

PAS 7, *Statement of Cash Flows*
The amendments to disclosures require entities to provide information about changes in their financing liabilities. This will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes such as foreign exchange gains or losses.

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

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

New Standards

Effective beginning on or after January 1, 2018

PFRS 9, *Financial Instruments* (2014 or final version)
PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at: (a) amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding; or (b) at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding . All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model. PFRS 9 also replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing

the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship. The window for early adoption of PFRS 9 was closed by the BSP in its Circular No. 912 issued on May 27, 2016. Retrospective application is required, but comparative information is not compulsory.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is in process of assessing the impact of adopting this standard which shall be based on the result of its PFRS 9 conversion project.

Effective beginning on or after January 1, 2019

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

The following amendments to standards issued by the International Accounting Standards Board (IASB) were already adopted by the Financial Reporting Standards Council (FRSC) but are still for approval by the Board of Accountancy.

Effective beginning on or after January 1, 2018

<u>New Standard</u>

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

<u>Amendments</u>

PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based

payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

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

Deferred effectivity

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

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation.

3. Significant Accounting Judgments and Estimates

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

Judgments

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

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

b. *Existence of significant influence over an associate with less than 20.00% ownership*
As discussed in Note 11, there are instances that an investor exercises significant influence even if its ownership is less than 20.00%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation in the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; (e) joint voting agreement with other investors; or (f) provision of essential technical information.

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

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

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

<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.

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

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

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

The carrying values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Note 9. In 2016, 2015 and 2014, provision for (reversal of) credit losses on loans and receivables amounted to ₱7.3 billion, ₱2.1 billion and ₱4.8 billion, respectively, for the Group and ₱1.2 billion, (₱2.9 billion) and ₱7.3 million, respectively, for the Parent Company (Note 15).

As of December 31, 2016 and 2015, allowance for impairment losses on AFS equity securities amounted to ₱294.3 million and ₱481.7 million, respectively, for the Group and ₱160.3 million for the Parent Company. As of December 31, 2016 and 2015, the carrying value of AFS equity securities (included under AFS investments) amounted to ₱782.5 million and ₱5.7 billion, respectively, for the Group and ₱388.2 million and ₱358.2 million, respectively, for the Parent Company (Notes 8 and 15).

b. *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.

c. *Present value of retirement liability*
The cost of defined retirement pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 27.

d. *Impairment of non-financial assets*
Property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs and chattel mortgage properties
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following: a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends.

The Group uses the higher of fair value less costs to sell and VIU in determining recoverable amount. As of December 31, 2016, there has been a significant and prolonged decline in the fair value of an associate. The recoverable amount of the investment in the associate has been determined based on a VIU calculation. Key assumptions in VIU calculation are most sensitive to the following assumptions: (a) production volume; (b) price; (c) exchange rates; (d) capital expenditures and (e) long-term growth rates. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

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

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group used weighted average cost of capital or cost of equity, as appropriate, of the CGUs, in determining the VIU. Future cash flows from the business are estimated based on the theoretical annual income of the CGUs. Average growth rate was derived based on the historical or industry data as applicable. The recoverable amount of the CGU has been determined based on the higher of the cash generating unit's fair value less cost to sell and VIU calculation using cash flow projections from financial budgets approved by senior management. In 2016 and 2015, the applicable pre-tax discount rates applied to cash flow projections are 14.67% and 13.41%, respectively. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

As of December 31, 2016 and 2015, the Group's goodwill amounted to ₱5.2 billion (Note 11).

4. Financial Risk and Capital Management

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

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

The AC is responsible for monitoring compliance with the Parent Company's risk management policies and procedures, and for reviewing the adequacy of risk management practices in relation to the risks faced by the Parent Company. The AC is assisted in these functions by the Internal Audit Group (IAG). IAG undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

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

Credit Risk
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related groups of

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

Management of credit risk

The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enter into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation; and
- Monitoring compliance with approved exposure limits.

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

The ICRRS contains the following:

a. Borrower Risk Rating (BRR) - an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations when it falls due. The assessment is described below:

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

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

c. Adjusted Borrower Risk Rating - combination of BRR and FRF.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum credit risk exposure relating to on balance sheet assets is shown below:

	Consolidated							
	2016				2015			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
SPURA	**₱46,831**	**₱56,672**	**₱46,795**	**₱36**	₱2,500	₱3,023	₱2,500	₱–
Loans and receivables - net								
Receivables from customers								
Commercial loans	**300,464**	**562,590**	**226,245**	**74,219**	178,445	300,586	160,564	17,881
Residential mortgage loans	**91,641**	**196,090**	**91,545**	**96**	84,670	178,061	84,525	145
Auto loans	**96,527**	**154,850**	**96,070**	**457**	80,788	123,101	80,661	127
Trade loans	**27,987**	**31,188**	**27,171**	**816**	31,159	30,452	30,293	866
Others	**1,239**	**1,040**	**993**	**246**	2,687	2,614	2,569	118
	517,858	**945,758**	**442,024**	**75,834**	377,749	634,814	358,612	19,137
Unquoted debt securities	**–**	**–**	**–**	**–**	350	1,015	350	–
Accrued interest receivable	**2,794**	**4,045**	**2,567**	**227**	2,313	1,923	1,958	355
Sales contract receivable	**156**	**462**	**156**	**–**	358	663	351	7
	520,808	**950,265**	**444,747**	**76,061**	380,770	638,415	361,271	19,499
Total	**₱567,639**	**₱1,006,937**	**₱491,542**	**₱76,097**	₱383,270	₱641,438	₱363,771	₱19,499

	Parent Company							
	2016				2015			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Maximum Exposure to Credit Risk
Interbank loans receivable and SPURA	**₱41,387**	**₱51,515**	**₱41,351**	**₱36**	₱471	₱649	₱471	₱–
Loans and receivables - net								
Receivables from customers								
Commercial loans	**194,437**	**464,089**	**172,050**	**22,387**	154,560	271,127	138,938	15,622
Residential mortgage loans	**48,247**	**109,954**	**48,151**	**96**	44,529	106,380	44,384	145
Auto loans	**28,452**	**63,964**	**27,995**	**457**	21,467	49,248	21,341	126
Trade loans	**27,987**	**31,188**	**27,171**	**816**	31,159	30,452	30,293	866
Others	**1,217**	**1,020**	**983**	**234**	1,697	1,611	1,579	118
	300,340	**670,215**	**276,350**	**23,990**	253,412	458,818	236,535	16,877
Accrued interest receivable	**1,179**	**955**	**952**	**227**	1,012	657	656	356
Sales contract receivable	**29**	**83**	**29**	**–**	167	377	160	7
	301,548	**671,253**	**277,331**	**24,217**	254,591	459,852	237,351	17,240
Total	**₱342,935**	**₱722,768**	**₱318,682**	**₱24,253**	₱255,062	₱460,501	₱237,822	₱17,240

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2016 and 2015.

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

Financial assets recognized by type	Gross Carrying Amounts (before offsetting)	Gross Amounts Offset in Accordance with the Offsetting Criteria	Net Amount Presented in Statement of Financial Position	Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) offsetting criteria		Net Exposure
				Financial Instruments	Fair Value of Financial Collateral	
Consolidated						
2016						
Derivative assets	**₱111,574**	**₱104,613**	**₱6,961**	**₱259**	**₱–**	**₱6,702**
SPURA	**46,831**	**–**	**46,831**	**–**	**46,795**	**36**
	₱158,405	**₱104,613**	**₱53,792**	**₱259**	**₱46,795**	**₱6,738**
2015						
Derivative assets	₱115,203	₱109,445	₱5,758	₱405	₱–	₱5,353
SPURA	2,500	–	2,500	–	2,500	–
	₱117,703	₱109,445	₱8,258	₱405	₱2,500	₱5,353
Parent Company						
2016						
Derivative assets	**₱111,054**	**₱104,093**	**₱6,961**	**₱259**	**₱–**	**₱6,702**
SPURA	**40,642**	**–**	**40,642**	**–**	**40,606**	**36**
	₱151,696	**₱104,093**	**₱47,603**	**₱259**	**₱40,606**	**₱6,738**
2015						
Derivative assets	₱115,203	₱109,445	₱5,758	₱405	₱–	₱5,353
SPURA	–	–	–	–	–	–
	₱115,203	₱109,445	₱5,758	₱405	₱–	₱5,353
Financial liabilities recognized by type						
Consolidated						
2016						
Derivative liabilities	**₱99,767**	**₱95,184**	**₱4,583**	**₱259**	**₱–**	**₱4,324**
SSURA	**51,031**	**–**	**51,031**	**–**	**50,882**	**149**
	₱150,798	**₱95,184**	**₱55,614**	**₱259**	**₱50,882**	**₱4,473**
2015						
Derivative liabilities	₱83,465	₱79,329	₱4,136	₱405	₱–	₱3,731
SSURA	63,187	–	63,187	–	63,187	–
	₱146,652	₱79,329	₱67,323	₱405	₱63,187	₱3,731
Parent Company						
2016						
Derivative liabilities	**₱97,103**	**₱92,586**	**₱4,517**	**₱259**	**₱–**	**₱4,258**
SSURA	**47,174**	**–**	**47,174**	**–**	**47,025**	**149**
	₱144,277	**₱92,586**	**₱51,691**	**₱259**	**₱47,025**	**₱4,407**
2015						
Derivative liabilities	₱83,465	₱79,329	₱4,136	₱405	₱–	₱3,731
SSURA	61,187	–	61,187	–	61,187	–
	₱144,652	₱79,329	₱65,323	₱405	₱61,187	₱3,731

Excessive risk concentration

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

Concentration of risks of financial assets with credit risk exposure

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

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
2016					
Concentration by Industry					
Financial and insurance activities	**₱66,128**	**₱374,774**	**₱47,304**	**₱144,562**	**₱632,768**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**205,048**	**–**	**4,013**	**149**	**209,210**
Manufacturing	**186,674**	**–**	**1,424**	**17,385**	**205,483**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**175,143**	**–**	**722**	**22,877**	**198,742**
Real estate activities	**158,834**	**–**	**6,930**	**518**	**166,282**
Transportation and storage, information and communication	**89,947**	**–**	**513**	**2,992**	**93,452**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**81,158**	**–**	**2,009**	**1,228**	**84,395**
Construction	**34,969**	**–**	**169**	**12,571**	**47,709**
Accommodation and food service activities	**21,143**	**–**	**101**	**8**	**21,252**
Agricultural, forestry and fishing	**19,744**	**–**	**6**	**503**	**20,253**
Others****	**31,759**	**–**	**291,172**	**10,060**	**332,991**
	1,070,547	**374,774**	**354,363**	**212,853**	**2,012,537**
Less allowance for credit losses	**14,426**	**7**	**294**	**10,036**	**24,763**
	₱1,056,121	**₱374,767**	**₱354,069**	**₱202,817**	**₱1,987,774**
Concentration by Location					
Philippines	**₱1,047,160**	**₱282,327**	**₱299,720**	**₱209,940**	**₱1,839,147**
Asia	**22,844**	**67,640**	**25,471**	**2,789**	**118,744**
USA	**478**	**10,610**	**20,111**	**124**	**31,323**
Europe	**43**	**13,597**	**5,969**	**–**	**19,609**
Others	**22**	**600**	**3,092**	**–**	**3,714**
	1,070,547	**374,774**	**354,363**	**212,853**	**2,012,537**
Less allowance for credit losses	**14,426**	**7**	**294**	**10,036**	**24,763**
	₱1,056,121	**₱374,767**	**₱354,069**	**₱202,817**	**₱1,987,774**
2015					
Concentration by Industry					
Financial and insurance activities	₱49,992	₱287,697	₱36,613	₱109,356	₱483,658
Manufacturing	185,768	–	1,867	10,431	198,066
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	176,923	–	2,873	134	179,930
Wholesale and retail trade, repair of motor vehicles, motorcycles	145,760	–	829	21,458	168,047
Real estate activities	125,300	–	7,522	796	133,618
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	64,567	–	5,142	1,378	71,087
Transportation and storage, information and communication	49,334	–	1,408	1,065	51,807
Construction	29,519	–	75	8,736	38,330
Accommodation and food service activities	18,693	–	148	53	18,894
Agricultural, forestry and fishing	16,898	–	26	512	17,436
Others****	33,365	–	436,431	16,284	486,080
	896,119	287,697	492,934	170,203	1,846,953
Less allowance for credit losses	12,902	11	488	9,996	23,397
	₱883,217	₱287,686	₱492,446	₱160,207	₱1,823,556

(Forward)

	Consolidated				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
Concentration by Location					
Philippines	₱874,982	₱220,420	₱448,531	₱166,856	₱1,710,789
Asia	20,520	41,370	25,886	3,234	91,010
USA	563	11,388	18,076	113	30,140
Europe	53	14,226	264	–	14,543
Others	1	293	177	–	471
	896,119	287,697	492,934	170,203	1,846,953
Less allowance for credit losses	12,902	11	488	9,996	23,397
	₱883,217	₱287,686	₱492,446	₱160,207	₱1,823,556

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
2016					
Concentration by Industry					
Financial and insurance activities	**₱65,975**	**₱306,976**	**₱34,141**	**₱11,483**	**₱418,575**
Manufacturing	**181,466**	**–**	**434**	**17,385**	**199,285**
Wholesale and retail trade, repair of motor vehicles, motorcycles	**158,300**	**–**	**58**	**22,877**	**181,235**
Real estate activities	**118,195**	**–**	**3,602**	**507**	**122,304**
Transportation and storage, information and communication	**81,919**	**–**	**306**	**2,992**	**85,217**
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**77,084**	**–**	**4,013**	**149**	**81,246**
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**78,141**	**–**	**513**	**1,228**	**79,882**
Construction	**27,123**	**–**	**4**	**12,515**	**39,642**
Accommodation and food service activities	**20,819**	**–**	**34**	**8**	**20,861**
Agricultural, forestry and fishing	**15,961**	**–**	**6**	**503**	**16,470**
Others****	**21,165**	**–**	**237,409**	**8,986**	**267,560**
	846,148	**306,976**	**280,520**	**78,633**	**1,512,277**
Less allowance for credit losses	**6,697**	**–**	**160**	**10,036**	**16,893**
	₱839,451	**₱306,976**	**₱280,360**	**₱68,597**	**₱1,495,384**
Concentration by Location					
Philippines	**₱839,453**	**₱240,691**	**₱229,322**	**₱75,749**	**₱1,385,215**
Asia	**5,928**	**41,765**	**22,301**	**2,762**	**72,756**
USA	**690**	**10,370**	**19,836**	**122**	**31,018**
Europe	**56**	**13,552**	**5,969**	**–**	**19,577**
Others	**21**	**598**	**3,092**	**–**	**3,711**
	846,148	**306,976**	**280,520**	**78,633**	**1,512,277**
Less allowance for credit losses	**6,697**	**–**	**160**	**10,036**	**16,893**
	₱839,451	**₱306,976**	**₱280,360**	**₱68,597**	**₱1,495,384**
2015					
Concentration by Industry					
Financial and insurance activities	₱49,013	₱237,648	₱24,302	₱11,192	₱322,155
Manufacturing	179,537	–	286	10,431	190,254
Wholesale and retail trade, repair of motor vehicles, motorcycles	132,096	–	28	21,458	153,582
Real estate activities	87,411	–	3,322	784	91,517
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	66,836	–	2,873	134	69,843

(Forward)

	Parent Company				
	Loans and Receivables	Loans and Advances to Banks*	Trading and Investment Securities**	Others***	Total
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	₱61,893	₱–	₱530	₱1,378	₱63,801
Transportation and storage, information and communication	44,836	–	180	1,065	46,081
Construction	21,880	–	6	8,682	30,568
Accommodation and food service activities	18,275	–	35	53	18,363
Agricultural, forestry and fishing	13,620	–	3	512	14,135
Others****	18,594	–	381,291	14,888	414,773
	693,991	237,648	412,856	70,577	1,415,072
Less allowance for credit losses	5,572	–	160	9,996	15,728
	₱688,419	₱237,648	₱412,696	₱60,581	₱1,399,344
Concentration by Location					
Philippines	₱690,895	₱186,217	₱373,547	₱67,257	₱1,317,916
Asia	2,285	25,740	20,863	3,209	52,097
USA	758	11,164	18,005	111	30,038
Europe	53	14,235	264	–	14,552
Others	–	292	177	–	469
	693,991	237,648	412,856	70,577	1,415,072
Less allowance for credit losses	5,572	–	160	9,996	15,728
	₱688,419	₱237,648	₱412,696	₱60,581	₱1,399,344

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<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.

Trading and investment securities

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

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

The following table shows the credit quality of financial assets:

	Consolidated				
	Loans and Receivables	**Loans and Advances to Banks***	**Trading and Investment Securities****	**Others*****	**Total**
2016					
Neither past due nor impaired	**₱1,041,641**	**₱374,774**	**₱353,994**	**₱202,817**	**₱1,973,226**
Past due but not individually impaired	**18,018**	**–**	**–**	**–**	**18,018**
Impaired	**10,888**	**–**	**369**	**10,036**	**21,293**
Gross	**1,070,547**	**374,774**	**354,363**	**212,853**	**2,012,537**
Less allowance for credit losses	**14,426**	**7**	**294**	**10,036**	**24,763**
Net	**₱1,056,121**	**₱374,767**	**₱354,069**	**₱202,817**	**₱1,987,774**
2015					
Neither past due nor impaired	₱865,278	₱287,697	₱490,792	₱160,207	₱1,803,974
Past due but not individually impaired	16,181	–	–	–	16,181
Impaired	14,660	–	2,142	9,996	26,798
Gross	896,119	287,697	492,934	170,203	1,846,953
Less allowance for credit losses	12,902	11	488	9,996	23,397
Net	₱883,217	₱287,686	₱492,446	₱160,207	₱1,823,556

	Parent Company				
	Loans and Receivables	**Loans and Advances to Banks***	**Trading and Investment Securities****	**Others*****	**Total**
2016					
Neither past due nor impaired	**₱838,712**	**₱306,976**	**₱280,285**	**₱68,597**	**₱1,494,570**
Past due but not individually impaired	**410**	**–**	**–**	**–**	**410**
Impaired	**7,026**	**–**	**235**	**10,036**	**17,297**
Gross	**846,148**	**306,976**	**280,520**	**78,633**	**1,512,277**
Less allowance for credit losses	**6,697**	**–**	**160**	**10,036**	**16,893**
Net	**₱839,451**	**₱306,976**	**₱280,360**	**₱68,597**	**₱1,495,384**
2015					
Neither past due nor impaired	₱683,426	₱237,648	₱412,629	₱60,581	₱1,394,284
Past due but not individually impaired	298	–	–	–	298
Impaired	10,267	–	227	9,996	20,490
Gross	693,991	237,648	412,856	70,577	1,415,072
Less allowance for credit losses	5,572	–	160	9,996	15,728
Net	₱688,419	₱237,648	₱412,696	₱60,581	₱1,399,344

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

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

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2016					
Loans and advances to banks					
Due from BSP	**₱238,806**	**₱–**	**₱–**	**₱–**	**₱238,806**
Due from other banks	**40,436**	**2,450**	**–**	**1,436**	**44,322**
Interbank loans receivable and SPURA	**82,232**	**3,254**	**–**	**6,160**	**91,646**
	361,474	**5,704**	**–**	**7,596**	**374,774**
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	**3,966**	**44**	**–**	**–**	**4,010**
Private	**2,895**	**400**	**–**	**2,034**	**5,329**
Treasury bills	**903**	**–**	**–**	**–**	**903**
Treasury notes and bonds	**13,346**	**–**	**–**	**–**	**13,346**
Equity securities - quoted	**4,197**	**2,227**	**58**	**20**	**6,502**
Derivative assets	**673**	**90**	**–**	**6,361**	**7,124**
	25,980	**2,761**	**58**	**8,415**	**37,214**
AFS investments					
Debt securities					
Government	**36,204**	**1,689**	**49**	**3,613**	**41,555**
Private	**29,886**	**9,917**	**–**	**3,429**	**43,232**
Treasury bills	**199**	**–**	**–**	**–**	**199**
Treasury notes and bonds	**230,981**	**106**	**–**	**–**	**231,087**
Subtotal	**297,270**	**11,712**	**49**	**7,042**	**316,073**
Equity securities					
Quoted	**141**	**64**	**–**	**309**	**514**
Unquoted	**–**	**117**	**–**	**76**	**193**
Subtotal	**141**	**181**	**–**	**385**	**707**
	297,411	**11,893**	**49**	**7,427**	**316,780**
Loans and receivables					
Receivables from customers					
Commercial loans	**231,787**	**446,905**	**62,094**	**–**	**740,786**
Residential mortgage loans	**6,486**	**78,604**	**1,470**	**–**	**86,560**
Auto loans	**56,584**	**26,258**	**5,299**	**–**	**88,141**
Trade loans	**34,264**	**–**	**12**	**–**	**34,276**
Others	**69,329**	**11,452**	**230**	**85**	**81,096**
	398,450	**563,219**	**69,105**	**85**	**1,030,859**
Unquoted debt securities	**–**	**810**	**–**	**119**	**929**
Accrued interest receivable	**4,288**	**2,435**	**167**	**179**	**7,069**
Accounts receivable	**677**	**19**	**–**	**1,837**	**2,533**
Sales contract receivable	**13**	**121**	**–**	**29**	**163**
Other receivables	**1**	**–**	**–**	**87**	**88**
	403,429	**566,604**	**69,272**	**2,336**	**1,041,641**
Others	**132,901**	**26**	**–**	**69,890**	**202,817**
	₱1,221,195	**₱586,988**	**₱69,379**	**₱95,664**	**₱1,973,226**
2015					
Loans and advances to banks					
Due from BSP	₱214,704	₱–	₱–	₱–	₱214,704
Due from other banks	33,995	2,526	–	351	36,872
Interbank loans receivable and SPURA	27,551	2,514	–	6,056	36,121
	276,250	5,040	–	6,407	287,697
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	10,348	3	–	–	10,351
Private	2,604	351	–	768	3,723
Treasury bills	104	–	–	–	104
Treasury notes and bonds	19,511	–	–	–	19,511
Equity securities - quoted	4,446	4,753	–	26	9,225
Derivative assets	755	68	–	5,119	5,942
	37,768	5,175	–	5,913	48,856

(Forward)

	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
AFS investments					
Debt securities					
Government	₱39,700	₱385	₱50	₱28	₱40,163
Private	13,783	5,312	–	9,003	28,098
Treasury notes and bonds	160,693	–	–	–	160,693
Subtotal	214,176	5,697	50	9,031	228,954
Equity securities					
Quoted	8	780	–	310	1,098
Unquoted	–	3,376	–	76	3,452
Subtotal	8	4,156	–	386	4,550
	214,184	9,853	50	9,417	233,504
HTM investments					
Government	15,463	3,644	–	–	19,107
Private bonds	1,428	3,102	–	–	4,530
Treasury notes and bonds	176,350	8,445	–	–	184,795
	193,241	15,191	–	–	208,432
Loans and receivables					
Receivables from customers					
Commercial loans	181,958	351,673	55,721	–	589,352
Residential mortgage loans	35,630	42,761	1,026	–	79,417
Auto loans	52,198	20,399	100	–	72,697
Trade loans	6,896	25,334	803	–	33,033
Others	68,084	8,283	77	79	76,523
	344,766	448,450	57,727	79	851,022
Unquoted debt securities	716	1,214	–	6	1,936
Accrued interest receivable	6,165	1,597	129	179	8,070
Accounts receivable	1,054	3	13	2,519	3,589
Sales contract receivable	170	1	–	173	344
Other receivables	–	146	–	171	317
	352,871	451,411	57,869	3,127	865,278
Others	97,964	–	–	62,243	160,207
	₱1,172,278	₱486,670	₱57,919	₱87,107	₱1,803,974

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
2016					
Loans and advances to banks					
Due from BSP	**₱203,781**	**₱–**	**₱–**	**₱–**	**₱203,781**
Due from other banks	**29,918**	**108**	**–**	**75**	**30,101**
Interbank loans receivable and SPURA	**66,934**	**–**	**–**	**6,160**	**73,094**
	300,633	**108**	**–**	**6,235**	**306,976**
Financial assets at FVPL					
HFT debt securities					
Government	**2,543**	**13**	**–**	**–**	**2,556**
Private	**2,315**	**330**	**–**	**1,934**	**4,579**
Treasury bills	**166**	**–**	**–**	**–**	**166**
Treasury notes and bonds	**12,342**	**–**	**–**	**–**	**12,342**
Derivative assets	**673**	**89**	**–**	**6,361**	**7,123**
	18,039	**432**	**–**	**8,295**	**26,766**
AFS investments					
Debt securities					
Government	**16,412**	**1,213**	**49**	**3,613**	**21,287**
Private	**24,499**	**4,605**	**–**	**3,429**	**32,533**
Treasury notes and bonds	**199,386**	**–**	**–**	**–**	**199,386**
Subtotal	**240,297**	**5,818**	**49**	**7,042**	**253,206**
Equity securities					
Quoted	**7**	**–**	**–**	**245**	**252**
Unquoted	**–**	**–**	**–**	**61**	**61**
Subtotal	**7**	**–**	**–**	**306**	**313**
	240,304	**5,818**	**49**	**7,348**	**253,519**

(Forward)

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and receivables					
Receivables from customers					
Commercial loans	**₱231,809**	**₱403,189**	**₱61,895**	**₱–**	**₱696,893**
Residential mortgage loans	**1,602**	**45,365**	**1,012**	**–**	**47,979**
Auto loans	**2,397**	**26,252**	**16**	**–**	**28,665**
Trade loans	**34,264**	**–**	**12**	**–**	**34,276**
Others	**20,366**	**339**	**137**	**–**	**20,842**
	290,438	**475,145**	**63,072**	**–**	**828,655**
Unquoted debt securities	**–**	**–**	**–**	**113**	**113**
Accrued interest receivable	**3,347**	**1,484**	**125**	**176**	**5,132**
Accounts receivable	**–**	**–**	**–**	**1,766**	**1,766**
Sales contract receivable	**–**	**–**	**–**	**29**	**29**
Other receivables	**–**	**–**	**–**	**3,017**	**3,017**
	293,785	**476,629**	**63,197**	**5,101**	**838,712**
Others	**–**	**–**	**–**	**68,597**	**68,597**
	₱852,761	**₱482,987**	**₱63,246**	**₱95,576**	**₱1,494,570**
2015					
Loans and advances to banks					
Due from BSP	₱185,484	₱–	₱–	₱–	₱185,484
Due from other banks	26,027	61	–	125	26,213
Interbank loans receivable and SPURA	19,894	–	–	6,057	25,951
	231,405	61	–	6,182	237,648
Financial assets at FVPL					
HFT debt securities					
Government	7,507	2	–	–	7,509
Private	2,128	254	–	686	3,068
Treasury notes and bonds	18,074	–	–	–	18,074
Derivative assets	755	43	–	5,119	5,917
	28,464	299	–	5,805	34,568
AFS investments					
Debt securities					
Government	32,608	385	50	28	33,071
Private	13,180	716	–	9,002	22,898
Treasury notes and bonds	145,984	–	–	–	145,984
Subtotal	191,772	1,101	50	9,030	201,953
Equity securities					
Quoted	8	–	–	223	231
Unquoted	–	–	–	61	61
Subtotal	8	–	–	284	292
	191,780	1,101	50	9,314	202,245
HTM investments					
Government	15,035	–	–	–	15,035
Treasury notes and bonds	160,781	–	–	–	160,781
	175,816	–	–	–	175,816
Loans and receivables					
Receivables from customers					
Commercial loans	155,257	340,418	55,356	–	551,031
Residential mortgage loans	1,384	42,034	836	–	44,254
Auto loans	1,760	19,856	20	–	21,636
Trade loans	6,896	25,334	803	–	33,033
Others	23,784	359	–	–	24,143
	189,081	428,001	57,015	–	674,097
Unquoted debt securities	194	–	–	–	194
Accrued interest receivable	4,980	1,067	127	177	6,351
Accounts receivable	–	–	–	2,596	2,596
Sales contract receivable	–	–	–	162	162
Other receivables	–	–	–	26	26
	194,255	429,068	57,142	2,961	683,426
Others	–	–	–	60,581	60,581
	₱821,720	₱430,529	₱57,192	₱84,843	₱1,394,284

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

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Commercial loans	**₱1,463**	₱2,100	**₱1,432**	₱1,694
Residential mortgage loans	**177**	204	**21**	21
Auto loans	**19**	45	**–**	–
Others	**76**	147	**–**	–
	₱1,735	₱2,496	**₱1,453**	₱1,715

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

	Consolidated					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2016						
Receivables from customers						
Commercial loans	**₱59**	**₱60**	**₱47**	**₱11**	**₱61**	**₱238**
Residential mortgage loans	**2,881**	**984**	**304**	**156**	**274**	**4,599**
Auto loans	**5,000**	**2,346**	**1,078**	**1,147**	**1,158**	**10,729**
Trade loans	**3**	**11**	**8**	**–**	**–**	**22**
Others	**125**	**686**	**538**	**53**	**405**	**1,807**
Receivables from customers - net of unearned discounts and capitalized interest	**8,068**	**4,087**	**1,975**	**1,367**	**1,898**	**17,395**
Accrued interest receivable	**97**	**54**	**31**	**38**	**53**	**273**
Accounts receivable	**9**	**5**	**7**	**290**	**8**	**319**
Sales contract receivable	**8**	**3**	**5**	**2**	**13**	**31**
	₱8,182	**₱4,149**	**₱2,018**	**₱1,697**	**₱1,972**	**₱18,018**
2015						
Receivables from customers						
Commercial loans	₱48	₱45	₱2	₱–	₱53	₱148
Residential mortgage loans	2,953	1,052	405	60	199	4,669
Auto loans	4,447	2,036	879	963	807	9,132
Others	165	626	500	59	332	1,682
Receivables from customers - net of unearned discounts and capitalized interest	7,613	3,759	1,786	1,082	1,391	15,631
Accrued interest receivable	74	44	24	29	34	205
Accounts receivable	7	4	5	276	18	310
Sales contract receivable	8	11	–	–	16	35
	₱7,702	₱3,818	₱1,815	₱1,387	₱1,459	₱16,181

	Parent Company					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2016						
Receivables from customers						
Commercial loans	**₱–**	**₱–**	**₱1**	**₱8**	**₱50**	**₱59**
Residential mortgage loans	**–**	**–**	**–**	**–**	**224**	**224**
Auto loans	**–**	**–**	**–**	**–**	**98**	**98**
Trade loans	**3**	**11**	**8**	**–**	**–**	**22**
Receivables from customers - net of unearned discounts and capitalized interest	**3**	**11**	**9**	**8**	**372**	**403**
Accrued interest receivable	**–**	**–**	**–**	**–**	**3**	**3**
Sales contract receivable	**–**	**–**	**–**	**–**	**4**	**4**
	₱3	**₱11**	**₱9**	**₱8**	**₱379**	**₱410**
2015						
Receivables from customers						
Commercial loans	₱–	₱–	₱2	₱–	₱31	₱33
Residential mortgage loans	–	–	–	9	159	168
Auto loans	–	–	–	–	85	85

(Forward)

	Parent Company					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
Receivables from customers - net of unearned discounts and capitalized interest	₱–	₱–	₱2	₱9	₱275	₱286
Accrued interest receivable	–	–	–	–	3	3
Sales contract receivable	–	–	–	–	9	9
	₱–	₱–	₱2	₱9	₱287	₱298

The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2016 and 2015.

Liquidity Risk

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

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

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

In the Parent Company, the Treasury Group estimates its cash flow needs based on its actual contractual obligations under normal and extraordinary circumstances. RSK generates Maximum Cumulative Outflow (MCO) reports on a daily basis to estimate short- and long-term net cash flows of the bank under business-as-usual and stress parameters. The Group's financial institution subsidiaries (excluding insurance companies) prepare their respective MCO reports. These are reported to the Parent Company's ROC monthly.

Financial assets

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

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When 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
2016							
Financial Assets							
Cash and other cash items	₱26,553	₱–	₱–	₱–	₱–	₱–	₱26,553
Due from BSP	230,106	8,702	–	–	–	–	238,808
Due from other banks	40,028	2,811	1,275	210	7	–	44,331
Interbank loans receivable and SPURA	461	65,247	20,339	4,241	988	422	91,698
Financial assets at FVPL							
HFT investments	99	1,102	30,237	–	–	–	31,438
Derivative assets*							
Trading:							
Receive	–	20,880	8,314	4,230	1,767	4,702	39,893
Pay	–	(20,624)	(8,222)	(4,018)	(1,609)	(3,923)	(38,396)
	–	256	92	212	158	779	1,497
AFS investments	–	3,715	10,430	6,792	10,426	436,569	467,932
Loans and receivables							
Receivables from customers	15,936	192,477	141,479	95,558	63,998	761,472	1,270,920
Unquoted debt securities	–	7	3	11	28	1,751	1,800
Accrued interest receivable	7,120	276	462	48	46	71	8,023
Accounts receivable	3,571	461	55	14	479	22	4,602
Sales contract receivable	13	11	5	7	13	201	250
Other receivables	9	80	–	–	–	–	89
Other assets							
Residual value of leased assets	25	31	41	70	158	678	1,003
Returned checks and other cash items	10	–	105	–	–	–	115
Miscellaneous	12	4	1	5	14	155	191
	₱323,943	₱275,180	₱204,524	₱107,168	₱76,315	₱1,202,120	₱2,189,250
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱298,388	₱–	₱–	₱–	₱–	₱–	₱298,388
Savings	547,685	–	–	–	–	–	547,685
Time	–	277,499	153,653	28,455	27,357	37,709	524,673
LTNCD	–	22	104	222	444	26,503	27,295
	846,073	277,521	153,757	28,677	27,801	64,212	1,398,041
Bills payable and SSURA	–	79,223	30,987	13,724	6,225	32,941	163,100
Manager's checks and demand drafts outstanding	6,932	–	–	–	–	–	6,932
Accrued interest payable	233	215	573	66	222	188	1,497
Accrued other expenses	4,139	90	86	–	5	–	4,320
Bonds payable	–	–	4,994	79	4,017	3,046	12,136
Subordinated debt	–	–	3,344	403	592	31,035	35,374
Other liabilities							
Bills purchased - contra	20,479	–	–	–	–	–	20,479
Accounts payable	3,227	9,279	–	73	159	–	12,738
Marginal deposits	–	–	3,697	–	–	–	3,697
Outstanding acceptances	–	451	386	214	381	8	1,440
Deposits on lease contracts	–	47	57	99	285	887	1,375
Notes payable	–	–	–	–	–	133	133
Dividends payable	–	84	–	–	–	–	84
Miscellaneous	6	1	–	–	–	–	7
	881,089	366,911	197,881	43,335	39,687	132,450	1,661,353
Derivative liabilities*							
Trading:							
Pay	–	35,587	16,965	8,024	4,150	8,468	73,194
Receive	–	(35,266)	(16,682)	(7,467)	(4,082)	(8,298)	(71,795)
	–	321	283	557	68	170	1,399
Loan commitments and financial guarantees	142,810	6,566	20,801	11,983	13,617	5,225	201,002
	₱1,023,899	₱373,798	₱218,965	₱55,875	₱53,372	₱137,845	₱1,863,754

	Consolidated						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2015							
Financial Assets							
Cash and other cash items	₱32,536	₱–	₱–	₱–	₱–	₱–	₱32,536
Due from BSP	214,704	–	–	–	–	–	214,704
Due from other banks	35,652	564	661	–	–	–	36,877
Interbank loans receivable and SPURA	1,514	30,381	3,044	1,579	–	–	36,518
Financial assets at FVPL							
HFT investments	2,821	–	37,758	–	826	–	41,405
Derivative assets*							
Trading:							
Receive	–	23,172	11,661	13,110	4,656	1,077	53,676
Pay	–	(22,958)	(11,557)	(12,889)	(4,508)	(867)	(52,779)
	–	214	104	221	148	210	897
AFS investments	–	358	1,426	872	10,718	274,846	288,220
HTM investments	–	291	277	328	762	333,294	334,952
Loans and receivables							
Receivables from customers	31,078	139,171	129,905	80,668	78,319	586,222	1,045,363
Unquoted debt securities	–	15	420	34	577	2,002	3,048
Accrued interest receivable	7,844	9	232	25	1,102	–	9,212
Accounts receivable	4,961	99	29	5	462	21	5,577
Sales contract receivable	34	3	28	32	77	245	419
Other receivables	245	73	–	–	–	–	318
Other assets							
Returned checks and other cash items	20	–	81	–	–	–	101
Residual value of leased assets	11	15	53	74	124	622	899
Miscellaneous	17	1	3	5	9	156	191
	₱331,437	₱171,194	₱174,021	₱83,843	₱93,124	₱1,197,618	₱2,051,237
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱233,912	₱–	₱–	₱–	₱–	₱–	₱233,912
Savings	467,587	–	–	–	–	–	467,587
Time	–	298,776	150,672	40,875	19,814	36,869	547,006
LTNCD	–	22	38	146	293	16,698	17,197
	701,499	298,798	150,710	41,021	20,107	53,567	1,265,702
Bills payable and SSURA	–	115,250	19,129	11,669	15,110	16,746	177,904
Manager's checks and demand drafts outstanding	5,613	–	–	–	–	–	5,613
Accrued interest payable	121	313	532	53	417	394	1,830
Accrued other expenses	4,434	496	127	–	–	–	5,057
Bonds payable	–	–	135	135	271	12,612	13,153
Subordinated debt	–	–	326	385	554	35,845	37,110
Other liabilities							
Bills purchased - contra	23,802	–	–	–	–	–	23,802
Accounts payable	2,617	8,077	–	106	166	–	10,966
Marginal deposits	3	–	189	5,284	–	–	5,476
Outstanding acceptances	–	503	549	120	452	103	1,727
Deposits on lease contracts	–	33	73	96	243	804	1,249
Notes payable	–	–	–	–	–	422	422
Dividends payable	64	–	–	–	–	–	64
Miscellaneous	53	–	–	–	–	–	53
	738,206	423,470	171,770	58,869	37,320	120,493	1,550,128
Derivative liabilities*							
Trading:							
Pay	–	27,960	9,076	9,262	3,601	6,192	56,091
Receive	–	(27,684)	(8,784)	(9,115)	(3,509)	(5,581)	(54,673)
	–	276	292	147	92	611	1,418
Loan commitments and financial guarantees	103,210	5,602	13,305	13,766	14,040	4,285	154,208
	₱841,416	₱429,348	₱185,367	₱72,782	₱51,452	₱125,389	₱1,705,754

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2016							
Financial Assets							
Cash and other cash items	**₱23,470**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱23,470**
Due from BSP	**195,081**	**8,702**	**–**	**–**	**–**	**–**	**203,783**
Due from other banks	**26,150**	**2,729**	**1,229**	**–**	**–**	**–**	**30,108**
Interbank loans receivable and SPURA	**461**	**55,030**	**14,083**	**2,602**	**988**	**–**	**73,164**
Financial assets at FVPL							
HFT investments	**–**	**–**	**19,892**	**–**	**–**	**–**	**19,892**
Derivative assets*							
Trading:							
Receive	**–**	**20,880**	**7,794**	**4,230**	**1,767**	**4,702**	**39,373**
Pay	**–**	**(20,624)**	**(7,703)**	**(4,018)**	**(1,609)**	**(3,923)**	**(37,877)**
	–	**256**	**91**	**212**	**158**	**779**	**1,496**
AFS investments	**–**	**3,157**	**6,658**	**5,339**	**7,623**	**354,299**	**377,076**
Loans and receivables							
Receivables from customers	**1,580**	**171,642**	**130,892**	**79,569**	**32,122**	**547,456**	**963,261**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**781**	**781**
Accrued interest receivable	**5,700**	**–**	**–**	**–**	**–**	**–**	**5,700**
Accounts receivable	**3,250**	**–**	**–**	**–**	**–**	**–**	**3,250**
Sales contract receivable	**8**	**2**	**3**	**4**	**8**	**13**	**38**
Other receivables	**9**	**3,010**	**–**	**–**	**–**	**–**	**3,019**
Other assets							
Returned checks and other cash items	**–**	**–**	**105**	**–**	**–**	**–**	**105**
	₱255,709	**₱244,528**	**₱172,953**	**₱87,726**	**₱40,899**	**₱903,328**	**₱1,705,143**
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	**₱272,081**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱272,081**
Savings	**522,643**	**–**	**–**	**–**	**–**	**–**	**522,643**
Time	**–**	**251,326**	**97,531**	**20,687**	**8,664**	**10,610**	**388,818**
LTNCD	**–**	**22**	**104**	**222**	**444**	**26,503**	**27,295**
	794,724	**251,348**	**97,635**	**20,909**	**9,108**	**37,113**	**1,210,837**
Bills payable and SSURA	**–**	**48,993**	**9,996**	**–**	**–**	**10,635**	**69,624**
Manager's checks and demand drafts outstanding	**5,171**	**–**	**–**	**–**	**–**	**–**	**5,171**
Accrued interest payable	**–**	**107**	**266**	**20**	**217**	**186**	**796**
Accrued other expenses	**2,607**	**–**	**–**	**–**	**–**	**–**	**2,607**
Subordinated debt	**–**	**–**	**241**	**300**	**386**	**24,943**	**25,870**
Other liabilities							
Bills purchased - contra	**20,415**	**–**	**–**	**–**	**–**	**–**	**20,415**
Accounts payable	**–**	**6,780**	**–**	**–**	**–**	**–**	**6,780**
Outstanding acceptances	**–**	**451**	**386**	**214**	**381**	**8**	**1,440**
Marginal deposits	**–**	**–**	**245**	**–**	**–**	**–**	**245**
	822,917	**307,679**	**108,769**	**21,443**	**10,092**	**72,885**	**1,343,785**
Derivative liabilities*							
Trading:							
Pay	**–**	**35,587**	**14,367**	**8,024**	**4,150**	**8,468**	**70,596**
Receive	**–**	**(35,266)**	**(14,018)**	**(7,467)**	**(4,082)**	**(8,298)**	**(69,131)**
	–	**321**	**349**	**557**	**68**	**170**	**1,465**
Loan commitments and financial guarantees	**9,910**	**6,566**	**20,794**	**11,964**	**13,560**	**5,225**	**68,019**
	₱832,827	**₱314,566**	**₱129,912**	**₱33,964**	**₱23,720**	**₱78,280**	**₱1,413,269**
2015							
Financial Assets							
Cash and other cash items	₱28,570	₱–	₱–	₱–	₱–	₱–	₱28,570
Due from BSP	185,484	–	–	–	–	–	185,484
Due from other banks	25,517	245	456	–	–	–	26,218
Interbank loans receivable and SPURA	–	23,837	1,178	–	959	–	25,974
Financial assets at FVPL							
HFT investments	–	–	27,141	–	–	–	27,141
Derivative assets*							
Trading:							
Receive	–	23,171	11,661	13,110	4,656	1,077	53,675
Pay	–	(22,958)	(11,557)	(12,889)	(4,508)	(867)	(52,779)
	–	213	104	221	148	210	896

(Forward)

	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
AFS investments	₱–	₱217	₱1,147	₱750	₱8,523	₱241,486	₱252,123
HTM investments	–	102	–	–	–	292,378	292,480
Loans and receivables							
Receivables from customers	1,958	135,706	121,182	68,825	46,775	400,981	775,427
Unquoted debt securities	–	–	–	–	–	852	852
Accrued interest receivable	6,935	–	–	–	–	–	6,935
Accounts receivable	3,989	–	–	–	–	–	3,989
Sales contract receivable	23	3	28	32	77	30	193
Other receivables	10	18	–	–	–	–	28
Other assets							
Returned checks and other cash items	–	–	81	–	–	–	81
	₱252,486	₱160,341	₱151,317	₱69,828	₱56,482	₱935,937	₱1,626,391
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱219,772	₱–	₱–	₱–	₱–	₱–	₱219,772
Savings	446,734	–	–	–	–	–	446,734
Time	–	268,487	108,132	26,897	12,311	10,846	426,673
LTNCD	–	22	38	146	293	16,698	17,197
	666,506	268,509	108,170	27,043	12,604	27,544	1,110,376
Bills payable and SSURA	–	74,549	2,358	2,364	9,553	–	88,824
Manager's checks and demand drafts outstanding	4,264	–	–	–	–	–	4,264
Accrued interest payable	–	108	245	13	387	355	1,108
Accrued other expenses	3,388	–	–	–	–	–	3,388
Subordinated debt	–	–	241	300	386	26,145	27,072
Other liabilities							
Bills purchased - contra	23,749	–	–	–	–	–	23,749
Accounts payable	–	6,190	–	–	–	–	6,190
Outstanding acceptances	–	503	549	120	452	103	1,727
Marginal deposits	–	–	189	–	–	–	189
	697,907	349,859	111,752	29,840	23,382	54,147	1,266,887
Derivative liabilities*							
Trading:							
Pay	–	27,960	9,076	9,262	3,601	6,192	56,091
Receive	–	(27,684)	(8,784)	(9,115)	(3,509)	(5,581)	(54,673)
	–	276	292	147	92	611	1,418
Loan commitments and financial guarantees	5,246	5,602	13,297	13,750	13,985	4,285	56,165
	₱703,153	₱355,737	₱125,341	₱43,737	₱37,459	₱59,043	₱1,324,470

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

Market Risk

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

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

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

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

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

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

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

	Rates and FX	Fixed Income	FX Options
As of December 31, 2016			
December 29	**₱117.06**	**₱121.97**	**₱0.85**
Average	**114.91**	**132.37**	**7.51**
Highest	**213.84**	**363.99**	**27.72**
Lowest	**51.49**	**41.13**	**0.09**
As of December 31, 2015			
December 29	53.63	248.37	11.86
Average	128.05	177.24	12.80
Highest	262.73	418.92	46.82
Lowest	42.01	68.05	0.07

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

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

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

	FMIC			PSBank		
		Bonds		Bonds		
	EQUITIES	**PHP**	**USD**	**PHP**	**USD**	**FX**
As of December 31, 2016						
December 29	**₱0.000**	**₱13.681**	**USD0.004**	**₱0.004**	**USD9.817**	**₱0.176**
Average	**7.685**	**45.604**	**0.068**	**15.643**	**8.912**	**0.753**
Highest	**15.359**	**166.834**	**0.194**	**45.741**	**24.889**	**1.249**
Lowest	**0.432**	**2.207**	**0.000**	**0.003**	**0.000**	**0.018**

	FMIC						PSBank		
			Bonds				Bonds		
	EQUITIES		PHP		USD		PHP	USD	FX
As of December 31, 2015									
December 29		₱10.46**		₱0.78**		USD0.045**	₱18.866	USD0.142	₱6.705
Average	₱18.09*	20.02**	₱95.86*	112.13**	USD0.536*	0.045**	12.754	0.077	0.532
Highest	32.42*	23.57**	199.04*	185.11**	1.313*	0.122**	56.332	0.268	1.908
Lowest	13.32*	10.42**	11.12*	2.89**	0.005*	0.001**	1.331	0.003	0.001

* January 1 to May 31 – VaR number is generated using Riskmark system
**June 1 to December 31 – VaR number is generated using MetRisk VaR calculator

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

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

Market risk - banking book
The Parent Company and subsidiaries have in place their risk management system and processes to independently quantify and manage their respective market risks in the banking book. The Group uses tools or metrics such as Earnings-at-Risk (EaR) and Sensitivity analysis to quantify interest rate risk for banking book or accrual portfolios.

EaR measures the decline on the Bank's potential net interest earnings as a result of a change in the level or volatility of interest rates. It is a tool used to evaluate the sensitivity of the accrual portfolio to a change in interest rates in the adverse direction over the next twelve (12) months. The Parent Company generates and monitors its EaR exposure on a daily basis. On the other hand, the subsidiaries generate their respective EaR reports at least on a monthly basis.

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

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

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

The table below shows the earnings-at-risk profile of the Parent Company and certain subsidiaries as of December 31, 2016 and 2015:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro	Total
2016	**(₱5,395.68)**	**(₱509.00)**	**(₱1,095.07)**	**(₱53.07)**	**(₱2.61)**	**(₱7,055.43)**
2015	(₱2,204.17)	(₱294.00)	(₱577.04)	(₱64.01)	(₱3.11)	(₱3,142.33)

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**					
	2016			2015			**2016**			2015		
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%**	**(₱19.79)**	**(₱2.33)**	+1.00%	(₱23.72)	(₱1.55)	**+1.00%**	**(₱23.19)**	**(₱4.16)**	+1.00%	(₱24.26)	(₱1.45)
EUR	**+1.00%**	**11.72**	–	+1.00%	(0.09)	–	**+1.00%**	**11.58**	–	+1.00%	(0.22)	–
JPY	**+1.00%**	**(14.22)**	–	+1.00%	28.25	–	**+1.00%**	**(14.22)**	–	+1.00%	28.25	–
GBP	**+1.00%**	**8.04**	–	+1.00%	(3.27)	–	**+1.00%**	**8.04**	–	+1.00%	(3.27)	–
Others	**+1.00%**	**31.54**	–	+1.00%	5.18	–	**+1.00%**	**31.54**	–	+1.00%	5.18	–
USD	**-1.00%**	**19.79**	**2.33**	-1.00%	23.72	1.55	**-1.00%**	**23.19**	**4.16**	-1.00%	24.26	1.45
EUR	**-1.00%**	**(11.72)**	–	-1.00%	0.09	–	**-1.00%**	**(11.58)**	–	-1.00%	0.22	–
JPY	**-1.00%**	**14.22**	–	-1.00%	(28.25)	–	**-1.00%**	**14.22**	–	-1.00%	(28.25)	–
GBP	**-1.00%**	**(8.04)**	–	-1.00%	3.27	–	**-1.00%**	**(8.04)**	–	-1.00%	3.27	–
Others	**-1.00%**	**(31.54)**	–	-1.00%	(5.18)	–	**-1.00%**	**(31.54)**	–	-1.00%	(5.18)	–

Information relating to Parent Company's currency derivatives is included in Note 8. As of December 31, 2016 and 2015, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱5.8 billion (sold), and ₱5.5 billion and ₱7.5 billion, respectively (bought).

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

<u>Capital Management</u>
The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital

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

The Group complied with BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular which became effective January 1, 2014, sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, Basel III requires that existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital and capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals) and before the effectivity of BSP Circular No. 781, are recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The details of CAR, as reported to the BSP, as of December 31, 2016 and 2015 based on Basel III follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Tier 1 capital	**₱195,947**	₱190,265	**₱187,400**	₱181,062
CET1 Capital	**195,947**	190,265	**187,400**	181,062
Less: Required deductions	**32,583**	32,317	**73,598**	69,455
Net Tier 1 Capital	**163,364**	157,948	**113,802**	111,607
Tier 2 capital	**37,895**	38,814	**30,707**	28,977
Total Qualifying Capital	**₱201,259**	₱196,762	**₱144,509**	₱140,584

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Credit Risk-Weighted Assets	**₱1,142,977**	₱956,524	**₱908,484**	₱758,218
Market Risk-Weighted Assets	**27,159**	29,487	**26,846**	27,361
Operational Risk-Weighted Assets	**132,702**	122,471	**80,756**	73,082
Total Risk-Weighted Assets	**1,302,838**	1,108,482	**1,016,086**	858,661
CET1 Ratio*	**12.54%**	14.25%	**11.20%**	13.00%
Tier 1 capital ratio	**12.54%**	14.25%	**11.20%**	13.00%
Total capital ratio	**15.45%**	17.75%	**14.22%**	16.37%

* *of which capital conservation buffer in 2016 and 2015 is 6.54% and 8.25%, respectively, for the Group and 5.20% and 7.00%, 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 earings reserves, other comprehensive income (net unrealized gains or losses on AFS securities, cumulative foreign currency translation and remeasurement of net defined benefit liability/asset) and non-controlling interest less required deductions such as unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and related interests (DOSRI), unsecured loans, other credit accomodations and guarantees granted to subsidiaries, deferred income tax, goodwill, other intangible assets, defined benefit pension fund assets and investments in equity. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision.

RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

As of December 31, 2016 and 2015, the Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products.

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

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

Operational RWA are computed using the Basic Indicator Approach.

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

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP’s risk-based capital adequacy framework under Circular No. 538. In compliance with this, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group’s business environment, plans, performance, risks and budget; as well as regulatory edicts. Pursuant to MB Resolution No. 84 dated January 14, 2015, the deadline for submission of ICAAP documents was amended from January 31 of each year to March 31 effective 2015 (BSP Circular No. 869 dated January 30, 2015).

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

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

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

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

5. Fair Value Measurement

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

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

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

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

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

Liabilities - Fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any. The carrying amount of demand and savings deposit liabilities and other short-term liabilities approximate fair value considering that these are either due and demandable or with short-term maturities.

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

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

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

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

(Forward)

	2016				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables - net					
Receivables from customers					
Commercial loans	**₱740,486**	**₱–**	**₱–**	**₱741,445**	**₱741,445**
Residential mortgage loans	**91,497**	**–**	**–**	**92,169**	**92,169**
Auto loans	**96,844**	**–**	**–**	**113,022**	**113,022**
Trade loans	**34,474**	**–**	**–**	**34,474**	**34,474**
Others	**81,797**	**–**	**–**	**81,542**	**81,542**
	1,045,098	**–**	**–**	**1,062,652**	**1,062,652**
Unquoted debt securities	**929**	**–**	**–**	**1,001**	**1,001**
Sales contract receivable	**160**	**–**	**–**	**198**	**198**
	1,046,187	**–**	**–**	**1,063,851**	**1,063,851**
Other Assets					
Residual value of leased assets	**1,003**	**–**	**–**	**960**	**960**
Miscellaneous	**180**	**–**	**–**	**289**	**289**
	1,183	**–**	**–**	**1,249**	**1,249**
	1,047,370	**–**	**–**	**1,065,100**	**1,065,100**
Non-Financial Assets					
Investment properties	**8,474**	**–**	**–**	**13,429**	**13,429**
	₱1,055,844	**₱–**	**₱–**	**₱1,078,529**	**₱1,078,529**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	**₱1,291**	**₱–**	**₱1,291**	**₱–**	**₱1,291**
Bond forwards	**27**	**–**	**27**	**–**	**27**
Interest rate swaps	**539**	**–**	**539**	**–**	**539**
Cross currency swaps	**2,752**	**–**	**2,752**	**–**	**2,752**
Call option	**3**	**–**	**3**	**–**	**3**
	₱4,612	**₱–**	**₱4,612**	**₱–**	**₱4,612**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	**₱520,329**	**₱–**	**₱–**	**₱523,919**	**₱523,919**
LTNCD	**22,900**	**21,896**	**–**	**–**	**21,896**
Bills payable and SSURA	**161,376**	**–**	**–**	**164,593**	**164,593**
Bonds payable	**11,498**	**–**	**–**	**11,756**	**11,756**
Subordinated debt	**29,524**	**22,378**	**–**	**6,754**	**29,132**
Other liabilities					
Deposits on lease contracts	**1,375**	**–**	**–**	**1,233**	**1,233**
	₱747,002	**₱44,274**	**₱–**	**₱708,255**	**₱752,529**

	2016				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	**₱2,556**	**₱2,556**	**₱–**	**₱–**	**₱2,556**
Private	**4,579**	**4,579**	**–**	**–**	**4,579**
Treasury bills	**166**	**166**	**–**	**–**	**166**
Treasury notes and bonds	**12,342**	**12,342**	**–**	**–**	**12,342**
	19,643	**19,643**	**–**	**–**	**19,643**
Derivative assets					
Currency forwards	**785**	**–**	**785**	**–**	**785**
Interest rate swaps	**739**	**–**	**739**	**–**	**739**
Cross currency swaps	**5,436**	**–**	**5,436**	**–**	**5,436**
Put option	**158**	**–**	**158**	**–**	**158**
Call option	**3**	**–**	**3**	**–**	**3**
Embedded derivatives in non-financial contract	**2**	**–**	**2**	**–**	**2**
	7,123	**–**	**7,123**	**–**	**7,123**
	26,766	**19,643**	**7,123**	**–**	**26,766**

(Forward)

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

	2015				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱10,351	₱9,529	₱822	₱–	₱10,351
Private	3,723	3,675	48	–	3,723
Treasury bills	104	104	–	–	104
Treasury notes and bonds	19,511	19,511	–	–	19,511
	33,689	32,819	870	–	33,689
Equity securities					
Quoted	9,225	9,225	–	–	9,225

(Forward)

	2015				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Derivative assets					
Currency forwards	₱769	₱–	₱769	₱–	₱769
Interest rate swaps	421	–	421	–	421
Cross currency swaps	4,568	–	4,568	–	4,568
Put option	149	–	149	–	149
Call option	8	–	8	–	8
Embedded derivatives in:					
Financial contract	24	–	24	–	24
Non-financial contract	3	–	3	–	3
	5,942	–	5,942	–	5,942
	48,856	42,044	6,812	–	48,856
AFS investments					
Debt securities					
Government	40,708	36,155	4,553	–	40,708
Private	28,098	27,433	665	–	28,098
Treasury notes and bonds	160,693	160,604	89	–	160,693
	229,499	224,192	5,307	–	229,499
Equity securities					
Quoted	2,207	2,207	–	–	2,207
	231,706	226,399	5,307	–	231,706
	₱280,562	₱268,443	₱12,119	₱–	₱280,562
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	₱19,107	₱22,376	₱–	₱–	₱22,376
Private	4,530	4,530	–	–	4,530
Treasury notes and bonds	184,795	179,288	–	–	179,288
	208,432	206,194	–	–	206,194
Loans and receivables - net					
Receivables from customers					
Commercial loans	593,034	–	–	593,938	593,938
Residential mortgage loans	84,520	–	–	85,850	85,850
Auto loans	81,042	–	–	94,394	94,394
Trade loans	32,988	–	–	32,994	32,994
Others	77,102	–	–	79,391	79,391
	868,686	–	–	886,567	886,567
Unquoted debt securities	1,936	–	–	2,035	2,035
Sales contract receivable	365	–	–	386	386
	870,987	–	–	888,988	888,988
Other Assets					
Residual value of leased assets	899	–	–	831	831
Miscellaneous	178	–	–	176	176
	1,077	–	–	1,007	1,007
	1,080,496	206,194	–	889,995	1,096,189
Non-Financial Assets					
Investment properties	8,195	–	–	12,981	12,981
	₱1,088,691	₱206,194	₱–	₱902,976	₱1,109,170
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱730	₱–	₱730	₱–	₱730
Interest rate swaps	952	–	952	–	952
Cross currency swaps	2,454	–	2,454	–	2,454
Call option	9	–	9	–	9
	₱4,145	₱–	₱4,145	₱–	₱4,145
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱542,221	₱–	₱–	₱545,963	₱545,963
LTNCD	14,250	13,862	–	–	13,862
Bills payable and SSURA	176,791	–	–	173,911	173,911
Bonds payable	11,516	–	–	11,858	11,858
Subordinated debt	29,487	18,757	–	6,909	25,666
Other liabilities			–		
Deposits on lease contracts	1,249	–	–	1,069	1,069
	₱775,514	₱32,619	₱–	₱739,710	₱772,329

	2015				
	Parent Company				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱7,509	₱7,509	₱–	₱–	₱7,509
Private	3,068	3,068	–	–	3,068
Treasury notes and bonds	18,074	18,074	–	–	18,074
	28,651	28,651	–	–	28,651
Derivative assets					
Currency forwards	769	–	769	–	769
Interest rate swaps	420	–	420	–	420
Cross currency swaps	4,568	–	4,568	–	4,568
Put option	149	–	149	–	149
Call option	8	–	8	–	8
Embedded derivatives in non-financial contract	3	–	3	–	3
	5,917	–	5,917	–	5,917
	34,568	28,651	5,917	–	34,568
AFS investments					
Debt securities					
Government	33,071	33,041	30	–	33,071
Private	22,898	22,377	521	–	22,898
Treasury notes and bonds	145,985	145,895	90	–	145,985
	201,954	201,313	641	–	201,954
Equity securities					
Quoted	297	297	–	–	297
	202,251	201,610	641	–	202,251
	₱236,819	₱230,261	₱6,558	₱–	₱236,819
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	₱15,035	₱18,432	₱–	₱–	₱18,432
Treasury notes and bonds	160,781	155,678	–	–	155,678
	175,816	174,110	–	–	174,110
Loans and receivables - net					
Receivables from customers					
Commercial loans	555,790	–	–	554,813	554,813
Residential mortgage loans	44,410	–	–	44,693	44,693
Auto loans	21,713	–	–	21,824	21,824
Trade loans	32,988	–	–	32,994	32,994
Others	24,144	–	–	24,144	24,144
	679,045	–	–	678,468	678,468
Unquoted debt securities	194	–	–	194	194
Sales contract receivable	174	–	–	174	174
	679,413	–	–	678,836	678,836
	855,229	174,110	–	678,836	852,946
Non-Financial Assets					
Investment properties	4,132	–	–	7,487	7,487
	₱859,361	₱174,110	₱–	₱686,323	₱860,433
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱730	₱–	₱730	₱–	₱730
Interest rate swaps	952	–	952	–	952
Cross currency swaps	2,454	–	2,454	–	2,454
Call option	9	–	9	–	9
	₱4,145	₱–	₱4,145	₱–	₱4,145
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱425,629	₱–	₱–	₱425,629	₱425,629
LTNCD	14,250	13,862	–	–	13,862
	439,879	13,862	–	425,629	439,491
Bills payable and SSURA	88,640	–	–	88,640	88,640
Subordinated debt	22,374	18,757	–	–	18,757
	₱550,893	₱32,619	₱–	₱514,269	₱546,888

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. Input used in estimating fair value of financial instruments carried at amortized cost categorized at Level 3 include applicable risk-free rates and applicable risk premium.

There were no transfers between levels of the fair value hierarchy in 2016 while AFS investments in debt securities amounting to ₱47.1 million was transferred from Level 2 to Level 1 in 2015.

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
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	7,954	25,225
Revenue - net of interest expense	19,426	14,342	643	15,039	20,381	8,340	78,171
Non-interest expense	13,576	2,980	44	1,748	18,581	14,565	51,494
Income (loss) before share in net income of subsidiaries, associates and a JV	5,850	11,362	599	13,291	1,800	(6,225)	26,677
Share in net income of subsidiaries, associates and a JV	–	30	–	–	–	231	261
Provision for income tax	(1,358)	(303)	–	(2,903)	(40)	(2,018)	(6,622)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(2,230)	(2,230)
Net income (loss)	₱4,492	₱11,089	₱599	₱10,388	₱1,760	(₱10,242)	₱18,086
Statement of Financial Position							
Total assets	₱166,374	₱788,813	₱–	₱466,711	₱144,026	₱310,085	₱1,876,009
Total liabilities	₱63,000	₱760,320	₱–	₱480,348	₱227,514	₱139,274	₱1,670,456
Other Segment Information							
Capital expenditures	₱1,000	₱58	₱–	₱130	₱95	₱3,045	₱4,328
Depreciation and amortization	₱499	₱170	₱–	₱12	₱1,249	₱1,834	₱3,764
Provision for credit and impairment losses	₱7,009	(₱233)	₱–	₱–	(₱603)	₱1,169	₱7,342
2015							
Results of Operations							
Net interest income (expense)							
Third party	₱10,287	₱19,170	₱5	₱16,617	₱1,027	₱1,868	₱48,974
Intersegment	(242)	(7,607)	–	(6,054)	15,633	(1,730)	–
Net interest income after intersegment transactions	10,045	11,563	5	10,563	16,660	138	48,974
Non-interest income	4,976	570	682	1,181	3,818	7,201	18,428
Revenue - net of interest expense	15,021	12,133	687	11,744	20,478	7,339	67,402
Non-interest expense	9,184	2,656	(42)	1,612	19,073	9,448	41,931
Income (loss) before share in net income of subsidiaries, associates and a JV	5,837	9,477	729	10,132	1,405	(2,109)	25,471
Share in net income of subsidiaries, associates and a JV	–	20	–	–	–	389	409
Provision for income tax	(1,153)	(233)	–	(3,817)	217	(251)	(5,237)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(2,018)	(2,018)
Net income (loss)	₱4,684	₱9,264	₱729	₱6,315	₱1,622	(₱3,989)	₱18,625
Statement of Financial Position							
Total assets	₱143,962	₱636,495	₱–	₱538,974	₱138,110	₱303,151	₱1,760,692
Total liabilities	₱52,912	₱602,773	₱–	₱551,573	₱213,643	₱136,481	₱1,557,382
Other Segment Information							
Capital expenditures	₱681	₱78	₱–	₱136	₱163	₱3,597	₱4,655
Depreciation and amortization	₱284	₱164	₱–	₱10	₱1,159	₱1,643	₱3,260
Provision for credit and impairment losses	₱3,913	₱94	(₱91)	₱3	₱1,017	(₱2,877)	₱2,059
2014							
Results of Operations							
Net interest income (expense)							
Third party	₱9,183	₱17,004	₱164	₱16,265	₱1,248	₱1,899	₱45,763
Intersegment	(331)	(9,731)	–	(7,834)	20,612	(2,716)	–
Net interest income (expense) after intersegment transactions	8,852	7,273	164	8,431	21,860	(817)	45,763
Non-interest income	5,009	940	408	912	3,886	17,976	29,131
Revenue - net of interest expense	13,861	8,213	572	9,343	25,746	17,159	74,894
Non-interest expense	9,024	2,089	28	1,288	17,898	16,516	46,843
Income before share in net income of subsidiaries, associates and a JV	4,837	6,124	544	8,055	7,848	643	28,051
Share in net income of subsidiaries, associates and a JV	–	77	–	–	–	366	443
Provision for income tax	(946)	(280)	–	(3,475)	201	(1,959)	(6,459)
Non-controlling interest in net income of consolidated subsidiaries	–	–	–	–	–	(1,922)	(1,922)
Net income (loss)	₱3,891	₱5,921	₱544	₱4,580	₱8,049	(₱2,872)	₱20,113
Statement of Financial Position							
Total assets	₱119,790	₱521,546	₱–	₱566,013	₱134,958	₱262,233	₱1,604,540
Total liabilities	₱51,474	₱512,814	₱–	₱545,049	₱204,002	₱132,416	₱1,445,755
Other Segment Information							
Capital expenditures	₱450	₱119	₱–	₱121	₱226	₱2,883	₱3,799
Depreciation and amortization	₱296	₱116	₱–	₱29	₱1,016	₱1,439	₱2,896
Provision for credit and impairment losses	₱4,195	₱43	₱–	₱8	₱858	(₱255)	₱4,849

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

Geographical Information

The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2). The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
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	**23,467**	**1,012**	**669**	**77**	**25,225**
Provision for credit and impairment losses	**7,257**	**85**	**–**	**–**	**7,342**
Total external net operating income	**₱68,400**	**₱1,651**	**₱701**	**₱77**	**₱70,829**
Non-current assets	**₱32,543**	**₱603**	**₱13**	**₱5**	**₱33,164**
2015					
Interest income	₱64,225	₱1,297	₱34	₱–	₱65,556
Interest expense	16,035	541	6	–	16,582
Net interest income	48,190	756	28	–	48,974
Non-interest income	16,801	1,117	454	56	18,428
Provision for credit and impairment losses	1,985	72	2	–	2,059
Total external net operating income	₱63,006	₱1,801	₱480	₱56	₱65,343
Non-current assets	₱31,847	₱644	₱19	₱6	₱32,516
2014					
Interest income	₱57,557	₱1,709	₱28	₱–	₱59,294
Interest expense	12,893	632	6	–	13,531
Net interest income	44,664	1,077	22	–	45,763
Non-interest income	27,834	912	335	50	29,131
Provision for credit and impairment losses	4,689	157	3	–	4,849
Total external net operating income	₱67,809	₱1,832	₱354	₱50	₱70,045
Non-current assets	₱27,851	₱691	₱19	₱5	₱28,566

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	
	2016	2015	**2016**	2015
Interbank loans receivable (Note 31)	**₱44,815**	₱33,621	**₱32,452**	₱25,951
SPURA	**46,831**	2,500	**40,642**	–
	91,646	36,121	**73,094**	25,951
Less allowance for credit losses (Note 15)	–	3	–	–
	₱91,646	₱36,118	**₱73,094**	₱25,951

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.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial assets at FVPL (Note 29)	**₱37,214**	₱48,856	**₱26,766**	₱34,568
AFS investments (Notes 29 and 31)	**316,855**	235,158	**253,594**	202,312
HTM investments	**–**	208,432	**–**	175,816
	₱354,069	₱492,446	**₱280,360**	₱412,696

Financial assets at FVPL consist of the following:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
HFT investments (Note 31)				
Debt securities				
Government (Note 17)	**₱4,010**	₱10,351	**₱2,556**	₱7,509
Private	**5,329**	3,723	**4,579**	3,068
Treasury bills (Note 17)	**903**	104	**166**	–
Treasury notes and bonds (Note 17)	**13,346**	19,511	**12,342**	18,074
	23,588	33,689	**19,643**	28,651
Equity securities - quoted	**6,502**	9,225	**–**	–
	30,090	42,914	**19,643**	28,651
Derivative assets	**7,124**	5,942	**7,123**	5,917
	₱37,214	₱48,856	**₱26,766**	₱34,568

Derivative Financial Instruments

The following are fair values of derivative financial instruments of the Parent Company recorded as derivative assets/liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2016 and 2015 and are not indicative of either market risk or credit risk.

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2016				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	**₱573**	**₱127**	**USD 977**	**₱49.3105**
CNY	**–**	**2**	**CNY 563**	**CNY 0.1422**
EUR	**–**	**8**	**EUR 2**	**EUR 1.1234**
TWD	**39**	**–**	**TWD 1,551**	**TWD 0.0316**
HKD	**0**	**–**	**HKD 40**	**HKD 0.1288**
SOLD:				
USD	**96**	**1,076**	**USD 1,199**	**₱49.1999**
CNY	**58**	**0**	**CNY 303**	**CNY 0.1455**

(Forward)

	Assets	Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
GBP	**₱0**	**₱–**	**GBP 0**	**GBP 1.2518**
JPY	**10**	**13**	**JPY 3,670**	**JPY 0.0086**
EUR	**8**	**–**	**EUR 4**	**EUR 1.0614**
MXN	**–**	**0**	**MXN 1**	**MXN 0.0481**
THB	**0**	**–**	**THB 9**	**THB 0.0279**
SGD	**0**	**0**	**SGD 4**	**SGD 0.6902**
CHF	**0**	**0**	**CHF 6**	**CHF 0.9742**
TRY	**0**	**–**	**TRY 0**	**TRY 0.2841**
AUD	**1**	**–**	**AUD 14**	**AUD 0.7223**
HKD	**–**	**0**	**HKD 55**	**HKD 0.1289**
ZAR	**0**	**–**	**ZAR 2**	**ZAR 0.0728**
Put option purchased warrants	**157**	**–**	**USD 645**	
Interest rate swaps - PHP	**141**	**126**	**₱35,700**	
Interest rate swaps - FX	**598**	**413**	**USD 2,123**	
Cross currency swaps - PHP	**40**	**2,752**	**₱16,903**	
Cross currency swaps - FX	**5,383**	**0**	**USD 1,099**	
Cross currency swaps - EUR	**13**	**–**	**EUR 4**	
Over-the-counter FX options	**4**	**3**	**USD 461**	
Bond forwards	**–**	**27**	**USD 90**	
Embedded derivatives in non-financial contract*	**2**	**–**	**USD 0**	
	₱7,123	**₱4,547**		
December 31, 2015				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱410	₱115	USD 967	₱46.9406
CNY	–	158	CNY 652	CNY 0.1552
EUR	0	1	EUR 2	EUR 1.1148
TWD	70	–	TWD 1,636	TWD 0.0312
CAD	–	3	CAD 2	CAD 0.7213
SOLD:				
USD	106	441	USD 1,094	₱47.0101
CNY	180	–	CNY 681	CNY 0.1558
GBP	0	0	GBP 6	GBP 1.4924
JPY	0	5	JPY 2,584	JPY 0.0083
EUR	1	2	EUR 9	EUR 1.0918
THB	0	0	THB 150	THB 0.0277
SGD	2	–	SGD 21	SGD 0.7107
TRY	–	0	TRY 0	TRY 0.3356
AUD	–	5	AUD 15	AUD 0.7207
HKD	–	0	HKD 101	HKD 0.1290
Put option purchased warrants	149	–	USD 645	
Interest rate swaps - PHP	154	265	₱40,706	
Interest rate swaps - FX	266	687	USD 1,955	
Cross currency swaps	4,563	1	USD 1,083	
Cross currency swaps - PHP	5	2,453	₱19,444	
Over-the-counter FX options	8	9	USD 158	
Embedded derivatives in non-financial contract*	3	–	USD 0	
	₱5,917	₱4,145		

*Non-financial host contracts include foreign currency derivatives with average notional amounts of USD1,532 and USD1,497 per month as of December 31, 2016 and 2015, respectively (with maturities until 2021).

The Group's derivative assets include embedded call option in a financial contract amounting to ₱15.9 thousand and ₱24.6 million as of December 31, 2016 and 2015, respectively, and swaps amounting to ₱0.5 million as of December 31, 2016.

Derivatives Designated as Accounting Hedges
MCC had a cross currency swap agreement with a certain bank to hedge the foreign exchange and interest rate risks arising from its dollar-denominated loan with the same bank which was paid off on December 21, 2015. Under the agreement, MCC, on a quarterly basis, pays fixed annual interest rate of 5.45% in 2015 and from 5.25% to 5.50% in 2014, on the peso principal and receives floating interest at 3 months London interbank offered rate (LIBOR) on the USD principal. As of December 31, 2014, the swaps which are designated as hedging instruments under cash flow hedges have an aggregate positive fair value of ₱10.6 million. MCC assessed the hedge relationship of the swaps and the hedged loans as highly effective. The effective fair value changes on the swaps that were deferred in equity under 'Translation adjustment and others' as of December 31, 2014 amounted to ₱2.7 million. This is to recognize the offsetting effect of the change in fair value of the swaps and that of the hedged loans in the statement of income due to movements in the foreign exchange rates. No hedge ineffectiveness was recognized in profit or loss 2014.

AFS investments consist of the following:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Debt securities:				
Government (Notes 17 and 19)	**₱41,555**	₱40,714	**₱21,287**	₱33,071
Private	**43,232**	28,098	**32,533**	22,898
Treasury bills	**199**	–	–	–
Treasury notes and bonds (Note 17)	**231,087**	160,693	**199,386**	145,985
	316,073	229,505	**253,206**	201,954
Equity securities:				
Quoted (Note 11)	**671**	2,476	**406**	376
Unquoted	**405**	3,665	**142**	142
	1,076	6,141	**548**	518
	317,149	235,646	**253,754**	202,472
Less allowance for impairment losses (Note 15)	**294**	488	**160**	160
	₱316,855	₱235,158	**₱253,594**	₱202,312

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015 (As Restated - Note 2)
Balance at the beginning of year	**₱4,783**	₱2,386	**₱4,783**	₱2,394
Unrealized loss (gain) recognized in other comprehensive income	**315**	899	**634**	1,020
Amounts realized in profit or loss	**5,144**	1,430	**4,693**	1,301
	10,242	4,715	**10,110**	4,715
Tax (Note 28)	**5**	68	**5**	68
Balance at end of year	**₱10,247***	₱4,783*	**₱10,115**	₱4,783

*Includes share of non-controlling interest amounting to ₱132.5 million and ₱0.4 million as of December 31, 2016 and 2015, respectively

As of December 31, 2016 and 2015, AFS investments include floating and fixed rate private notes with total carrying value of USD11.1 million (with peso equivalent of ₱553.3 million and ₱521.6 million, respectively) which are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation (FDIC) and the Office of the Controller of the Currency (OCC) in New York.

AFS investments also include US Treasury notes with carrying value of USD1.0 million (with peso equivalent of ₱59.4 million as of December 31, 2016) 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. These were previously classified under HTM investments with carrying value of ₱47.7 million as of December 31, 2015.

In August 2014, the Parent Company and FMIC participated in a bond exchange transaction affecting HFT and AFS investments and received 10-year Benchmark bonds with coupon of 4.125% and face value of ₱13.3 billion and ₱10.2 billion, respectively, at a price equivalent to the ratio of the Eligible Bond Repurchase Price to the New Benchmark Bond Issue Price for every ₱1.00 principal amount of each series of Eligible Bonds offered. The Parent Company and FMIC realized net trading loss of ₱9.0 thousand and ₱80.4 million, respectively.

In September 2015, the Parent Company and its subsidiaries, FMIC and PSBank, participated in a bond exchange transaction affecting HFT and AFS investments and received 10-year and 25-year Benchmark bonds with coupon of 3.625% and 4.625%, respectively, and face value of ₱16.0 billion and ₱15.0 billion, respectively, at a price equivalent to the ratio of Eligible Bond Repurchase Price to the New Benchmark Bond Issue Price for every ₱1.00 principal amount of each series of Eligible Bonds offered. The Parent Company, FMIC and PSBank realized net trading gain of ₱32.9 million, ₱0.9 million and ₱4.4 million, respectively. Further, the Parent Company and FMIC also subscribed to new 10-year Benchmark bonds for cash amounting to ₱878.0 million and ₱307.0 million, respectively.

HTM investments consist of the following:

As of December 31, 2015	**Consolidated**	**Parent Company**
Government bonds (Notes 17 and 19)	₱19,107	₱15,035
Treasury notes and bonds (Note 17)	184,795	160,781
Private bonds	4,530	–
	₱208,432	₱175,816

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

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

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

Reporting under PFRS
As of December 31, 2015, had the Group accounted for the transaction under PFRS, the entire HTM investments portfolio of the Group covered by the tainting period under the bond exchange, with amortized cost of ₱35.9 billion would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱3.8 billion being recognized in other comprehensive income.

Interest income on trading and investment securities consists of:

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015	2014
Financial assets at FVPL	**₱1,110**	₱1,740	₱1,799	**₱853**	₱1,299	₱1,409
AFS investments	**6,875**	7,473	8,883	**5,634**	6,481	7,660
HTM investments	**7,386**	8,625	4,313	**6,258**	7,502	3,882
	₱15,371	₱17,838	₱14,995	**₱12,745**	₱15,282	₱12,951

In 2016, 2015 and 2014, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.29% to 11.63%, 0.31% to 11.63% and 0.39% to 10.63%, respectively, for the Group and the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 1.63% to 14.38%, 1.63% to 14.38% and 1.63% to 18.25%, respectively, for the Group and from 1.63% to 13.75%, 2.13% to 13.75% and 1.63% to 18.25%, respectively, for the Parent Company.

Trading and securities gain - net consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
HFT investments	**(₱718)**	(₱1,261)	₱1,790	**(₱260)**	(₱824)	₱33
AFS investments	**5,144**	1,430	1,862	**4,693**	1,301	965
HTM investments	**1,014**	–	–	**1,014**	–	–
Derivative assets/liabilities - net	**682**	1,113	(347)	**707**	1,127	(299)
	₱6,122	₱1,282	₱3,305	**₱6,154**	₱1,604	₱699

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

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Receivables from customers (Note 31):				
Commercial loans	**₱747,885**	₱599,540	**₱700,916**	₱558,435
Auto loans	**98,883**	82,025	**28,765**	21,745
Residential mortgage loans	**92,431**	85,520	**48,531**	44,839
Trade loans	**34,745**	33,262	**34,745**	33,262
Others	**85,454**	80,350	**20,883**	24,184
	1,059,398	880,697	**833,840**	682,465
Less unearned discounts and capitalized interest	**3,076**	2,414	**195**	187
	1,056,322	878,283	**833,645**	682,278
Unquoted debt securities:				
Government	**85**	570	**85**	148
Private	**1,230**	1,752	**413**	432
	1,315	2,322	**498**	580
Accrued interest receivable (Note 31)	**8,023**	9,212	**5,700**	6,935
Accounts receivable (Note 31)	**9,349**	9,562	**7,997**	7,974
Sales contract receivable	**196**	407	**36**	181
Other receivables (Note 31)	**89**	318	**3,019**	28
	1,075,294	900,104	**850,895**	697,976
Less allowance for credit losses (Note 15)	**14,426**	12,902	**6,697**	5,572
	₱1,060,868	₱887,202	**₱844,198**	₱692,404

Receivables from customers consist of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Loans and discounts	**₱1,008,148**	₱824,788	**₱782,229**	₱626,268
Less unearned discounts and capitalized interest	**3,076**	2,414	**195**	187
	1,005,072	822,374	**782,034**	626,081
Customers' liabilities under letters of credit (LC)/trust receipts	**31,068**	32,352	**31,068**	32,352
Bills purchased (Note 21)	**20,182**	23,557	**20,543**	23,845
	₱1,056,322	₱878,283	**₱833,645**	₱682,278

Receivables from customers - others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱50.6 billion, ₱5.4 billion and ₱5.3 billion, respectively, as of December 31, 2016 and ₱42.3 billion, ₱4.8 billion and ₱4.7 billion, respectively, as of December 31, 2015.

As of December 31, 2016 and 2015, other receivables include dividends receivable of ₱32.5 million and ₱167.7 million, respectively, for the Group and ₱30.0 million and ₱18.0 million, respectively, for the Parent Company (Note 31).

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Receivables from customers	**₱38,053**	₱32,366	₱28,810	**₱26,165**	₱21,588	₱18,871
Receivables from cardholders	**9,339**	8,272	7,415	**–**	–	–
Lease contract receivables	**2,493**	1,947	1,556	**–**	–	–
Customer liabilities under LC/trust receipts	**769**	833	752	**769**	833	752
Restructured loans	**115**	194	202	**81**	139	150
Unquoted debt securities and others	**497**	567	1,094	**371**	370	588
	₱51,266	₱44,179	₱39,829	**₱27,386**	₱22,930	₱20,361

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

BSP Reporting

As of December 31, 2016 and 2015, 83.00% and 81.83% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. In 2016 and 2015, the remaining peso receivables from customers earn annual fixed interest rates ranging from 2.91% to 42.00%, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.42% to 36.00% and from 1.34% to 36.00%, respectively.

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

	Consolidated				Parent Company			
	2016		2015		**2016**		2015	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Other securities	**₱187,823**	**17.73**	₱148,163	16.82	**₱187,823**	**22.53**	₱148,163	21.71
Chattel	**121,797**	**11.50**	99,465	11.29	**27,670**	**3.32**	21,496	3.15
Real estate	**96,763**	**9.13**	99,479	11.30	**65,018**	**7.80**	63,720	9.34
Deposit hold-out	**20,993**	**1.98**	16,288	1.85	**18,489**	**2.22**	15,974	2.34
Equity securities	**12,170**	**1.15**	14,381	1.63	**2,224**	**0.27**	3,264	0.48
Others	**7,994**	**0.75**	8,258	0.94	**351**	**0.04**	2,296	0.33
	447,540	**42.24**	386,034	43.83	**301,575**	**36.18**	254,913	37.35
Unsecured	**611,858**	**57.76**	494,663	56.17	**532,265**	**63.82**	427,552	62.65
	₱1,059,398	**100.00**	₱880,697	100.00	**₱833,840**	**100.00**	₱682,465	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			
	2016		2015		**2016**		2015	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	**₱201,832**	**19.05**	₱173,457	19.70	**₱75,283**	**9.03**	₱64,986	9.52
Manufacturing	**186,228**	**17.58**	185,257	21.04	**180,861**	**21.69**	178,936	26.22
Wholesale and retail trade, repair of motor vehicles, motorcycles	**175,713**	**16.59**	146,546	16.64	**158,076**	**18.96**	131,903	19.33
Real estate activities	**157,803**	**14.90**	123,874	14.07	**117,557**	**14.10**	86,959	12.74
Transportation and storage, information and communication	**90,308**	**8.52**	50,632	5.75	**81,468**	**9.77**	44,462	6.52

(Forward)

	Consolidated				Parent Company			
	2016		2015		**2016**		2015	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	**₱79,639**	**7.52**	₱63,668	7.23	**₱77,155**	**9.25**	₱61,273	8.98
Financial and insurance activities	**62,949**	**5.94**	45,833	5.20	**61,003**	**7.32**	46,138	6.76
Construction	**35,395**	**3.34**	29,804	3.38	**27,095**	**3.25**	21,847	3.20
Accommodation and food service activities	**21,106**	**1.99**	18,521	2.10	**20,786**	**2.49**	18,247	2.67
Agricultural, forestry and fishing	**19,974**	**1.88**	17,258	1.96	**15,931**	**1.91**	13,589	1.99
Others	**28,451**	**2.69**	25,847	2.93	**18,625**	**2.23**	14,125	2.07
	₱1,059,398	**100.00**	₱880,697	100.00	**₱833,840**	**100.00**	₱682,465	100.00

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

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Gross NPLs	**₱9,953**	₱8,666	**₱3,683**	₱2,533
Less allowance for credit losses	**8,764**	7,562	**4,668**	3,732
	₱1,189	₱1,104	**(₱985)**	(₱1,199)

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.00% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated					
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Building Under Construction**	**Total**
2016						
Cost						
Balance at beginning of year	**₱5,896**	**₱8,436**	**₱18,490**	**₱3,809**	**₱4,692**	**₱41,323**
Additions	**7**	**145**	**2,475**	**100**	**785**	**3,512**
Disposals	**(15)**	**–**	**(1,421)**	**(10)**	**–**	**(1,446)**
Reclassification/others	**–**	**450**	**(17)**	**131**	**(668)**	**(104)**
Balance at end of year	**5,888**	**9,031**	**19,527**	**4,030**	**4,809**	**43,285**

(Forward)

	Consolidated					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
Accumulated depreciation and amortization						
Balance at beginning of year	**₱–**	**₱4,332**	**₱12,957**	**₱2,338**	**₱–**	**₱19,627**
Depreciation and amortization	**–**	**442**	**2,150**	**396**	**–**	**2,988**
Disposals	**–**	**–**	**(1,276)**	**(3)**	**–**	**(1,279)**
Reclassification/others	**–**	**(3)**	**16**	**(85)**	**–**	**(72)**
Balance at end of year	**–**	**4,771**	**13,847**	**2,646**	**–**	**21,264**
Allowance for impairment losses (Note 15)	**–**	**24**	**2**	**–**	**–**	**26**
Net book value at end of year	**₱5,888**	**₱4,236**	**₱5,678**	**₱1,384**	**₱4,809**	**₱21,995**
2015						
Cost						
Balance at beginning of year	₱5,768	₱7,930	₱17,361	₱3,204	₱294	₱34,557
Additions	128	70	2,737	187	718	3,840
Disposals	–	(10)	(1,501)	(19)	–	(1,530)
Reclassification/others	–	446	(107)	437	3,680	4,456
Balance at end of year	5,896	8,436	18,490	3,809	4,692	41,323
Accumulated depreciation and amortization						
Balance at beginning of year	–	3,950	12,338	2,012	–	18,300
Depreciation and amortization	–	382	1,887	336	–	2,605
Disposals	–	(4)	(1,343)	(14)	–	(1,361)
Reclassification/others	–	4	75	4	–	83
Balance at end of year	–	4,332	12,957	2,338	–	19,627
Allowance for impairment losses (Note 15)	–	24	2	–	–	26
Net book value at end of year	₱5,896	₱4,080	₱5,531	₱1,471	₱4,692	₱21,670

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Building Under Construction	Total
2016						
Cost						
Balance at beginning of year	**₱4,453**	**₱6,888**	**₱10,437**	**₱2,260**	**₱4,692**	**₱28,730**
Additions	**7**	**60**	**783**	**5**	**785**	**1,640**
Disposals	**(15)**	**–**	**(898)**	**–**	**–**	**(913)**
Reclassification/others	**–**	**447**	**1**	**185**	**(668)**	**(35)**
Balance at end of year	**4,445**	**7,395**	**10,323**	**2,450**	**4,809**	**29,422**
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**3,784**	**8,253**	**1,279**	**–**	**13,316**
Depreciation and amortization	**–**	**389**	**798**	**252**	**–**	**1,439**
Disposals	**–**	**–**	**(836)**	**–**	**–**	**(836)**
Reclassification/others	**–**	**(2)**	**13**	**(38)**	**–**	**(27)**
Balance at end of year	**–**	**4,171**	**8,228**	**1,493**	**–**	**13,892**
Allowance for impairment losses (Note 15)	**–**	**24**	**–**	**–**	**–**	**24**
Net book value at end of year	**₱4,445**	**₱3,200**	**₱2,095**	**₱957**	**₱4,809**	**₱15,506**
2015						
Cost						
Balance at beginning of year	₱4,452	₱6,444	₱10,208	₱1,834	₱294	₱23,232
Additions	1	6	1,080	14	718	1,819
Disposals	–	(4)	(744)	(17)	–	(765)
Reclassification/others	–	442	(107)	429	3,680	4,444
Balance at end of year	4,453	6,888	10,437	2,260	4,692	28,730
Accumulated depreciation and amortization						
Balance at beginning of year	–	3,455	8,177	1,120	–	12,752
Depreciation and amortization	–	331	668	173	–	1,172
Disposals	–	(4)	(649)	(14)	–	(667)
Reclassification/others	–	2	57	–	–	59
Balance at end of year	–	3,784	8,253	1,279	–	13,316
Allowance for impairment losses (Note 15)	–	24	–	–	–	24
Net book value at end of year	₱4,453	₱3,080	₱2,184	₱981	₱4,692	₱15,390

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

As of December 31, 2016 and 2015, the cost of fully depreciated property and equipment still in use amounted to ₱7.7 billion and ₱7.9 billion, respectively, for the Group and ₱5.7 billion and ₱5.9 billion, respectively, for the Parent Company.

In January 2014, the BOD of the Parent Company, upon the endorsement of the Related Party Transactions Committee (RPTC), has approved the sale of a bank owned property to FLI, a related party. This property, consisting of a vacant commercial lot located at the Metropolitan Park, Pasay City, was sold at ₱856.4 million and recognized a gain on sale of ₱274.3 million included in 'Profit from assets sold'. This transaction has been presented and vetted through the RPTC and the valuation of the properties was based on the sales comparison approach which was used by the independent external appraisal firms to provide a reasonable basis for comparison. Other factors that were considered in the valuation 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 (Note 31).

11. **Investments in Subsidiaries, Associates and a Joint Venture**

Investments in subsidiaries consist of:

	2016	2015 (As Restated - Note 2)	January 1, 2015 (As Restated - Note 2)
Acquisition cost			
FMIC	**₱11,751**	₱11,751	₱11,751
MBCL	**10,079**	10,079	10,079
PSBank	**5,237**	3,626	3,626
Circa	**837**	837	837
ORIX Metro	**265**	265	265
MCC	**214**	214	214
MTI	**200**	200	200
MR USA	**158**	158	158
MRCI	**131**	131	131
MR Japan	**102**	102	72
MR Italia	**66**	66	66
MR UK	**31**	31	31
MRHL	**26**	26	26
MRSPL	**17**	17	17
FMIIC	**12**	12	12
Metrobank Bahamas	**8**	8	8
PVCC	**5**	5	5
	29,139	27,528	27,498
Accumulated equity in net income:			
Balance at beginning of year	**28,611**	25,663	23,060
Share in net income	**4,922**	4,704	5,721
Dividends	**(4,802)**	(1,817)	(3,118)
Others	**–**	61	–
Balance at end of year	**28,731**	28,611	25,663

(Forward)

	2016	2015 (As Restated - Note 2)	January 1, 2015 (As Restated - Note 2)
Equity in net unrealized gain (loss) on AFS investments	**(₱1,689)**	(₱107)	₱472
Equity in net unrealized gain on remeasurement of retirement plan and translation adjustment and others	**222**	743	942
Excess of share in net losses of subsidiaries over cost (Note 21)	**224**	436	509
Carrying value			
FMIC	**20,040**	23,136	23,065
MBCL	**11,425**	11,631	11,417
PSBank	**16,264**	14,701	13,603
Circa	**–**	–	–
ORIX Metro	**2,328**	1,892	1,571
MCC	**5,272**	4,179	3,949
MTI	**14**	14	13
MR USA	**61**	62	61
MRCI	**–**	–	–
MR Japan	**56**	49	33
MR Italia	**–**	–	–
MR UK	**47**	49	42
MRHL	**163**	153	139
MRSPL	**277**	249	212
FMIIC	**237**	483	460
Metrobank Bahamas	**438**	608	514
PVCC	**5**	5	5
	₱56,627	₱57,211	₱55,084

As of December 31, 2016 and 2015, the following subsidiaries have material non-controlling interests:

	Country of Incorporation	Principal Activities	Effective Ownership of Non-Controlling Interest 2016	2015
ORIX Metro	Philippines	Leasing, Finance	**40.15%**	40.15%
MCC	Philippines	Credit Card Services	**40.00%**	40.00%
PSBank	Philippines	Banking	**17.32%**	24.02%

The following table presents financial information of subsidiaries with material non-controlling interests as of December 31, 2016 and 2015.

	2016			2015		
	PSBank	**MCC**	**ORIX Metro**	PSBank	MCC	ORIX Metro
Statement of Financial Position						
Total assets	**₱196,886**	**₱61,446**	**₱36,798**	₱169,331	₱52,372	₱28,770
Total liabilities	**176,779**	**52,659**	**30,977**	150,156	45,298	24,040
Non-controlling interest	**3,496**	**3,515**	**2,347**	4,606	2,830	1,903
Statement of Income						
Gross income	**15,304**	**14,017**	**4,697**	13,321	12,616	4,051
Operating income	**12,494**	**12,647**	**4,018**	10,800	11,398	3,515
Net income	**2,451**	**3,143**	**1,092**	2,351	2,686	892
Net income attributable to NCI	**519**	**1,257**	**438**	565	1,074	358
Total comprehensive income	**1,652**	**3,089**	**1,090**	2,166	2,605	850

	2016			2015		
	PSBank	**MCC**	**ORIX Metro**	PSBank	MCC	ORIX Metro
Statement of Cash Flows						
Net cash provided by (used in) operating activities	**(₱23,449)**	**₱6,432**	**₱915**	(₱2,830)	(₱507)	(₱2,448)
Net cash provided by (used in) investing activities	**25,229**	**(693)**	**(1,476)**	(13,668)	(437)	(1,025)
Net cash provided by (used in) financing activities	**885**	**(4,843)**	**1,519**	3,597	(236)	4,646
Net increase (decrease) in cash and cash equivalents	**2,665**	**896**	**958**	(12,901)	(1,180)	1,173
Cash and cash equivalents at beginning of year	**19,453**	**8,677**	**4,427**	32,355	9,857	3,255
Cash and cash equivalents at end of year	**22,118**	**9,573**	**5,385**	19,454	8,677	4,428

On January 31, 2013, the BSP approved the Parent Company's request to establish a remittance company in Yokohama, Japan with an initial capital infusion of USD2.5 million. The first tranche amounting to JPY100.0 million or USD1.0 million and the second and third tranches amounting to JPY75.0 million or USD0.7 million each were contributed in May 2013, September 2014 and September 2015, respectively.

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

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

Investments in associates and a JV consist of:

	Consolidated		**Parent Company**		
	2016	2015	**2016**	2015 (As Restated - Note 2)	January 1, 2015 (As Restated - Note 2)
Acquisition cost:					
Lepanto Consolidated Mining Company (LCMC) (14.22% owned)	**₱2,292**	₱2,292			
SMFC* (33.07%** owned in 2016 and 30.39% owned in 2015)	**800**	800			
Northpine Land, Inc. (NLI) (20.00% owned)	**232**	232	**₱232**	₱232	₱232
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	**180**	180	**180**	180	180
Taal Land Inc. (TLI) (35.00% owned)	**178**	178	**178**	178	178
Cathay International Resources Corporation (CIRC) (34.74% owned)	**175**	175			
Philippine AXA Life Insurance Corporation (PALIC) (27.96% owned)	**172**	172			
Others	**33**	33			
	4,062	4,062	**590**	590	590
Accumulated equity in net income:					
Balance at beginning of year	**1,103**	719	**117**	106	53
Share in net income	**261**	409	**36**	36	76
Dividends	**(55)**	(25)	**(55)**	(25)	(23)
Balance at end of year	**1,309**	1,103	**98**	117	106
Equity in other comprehensive income	**54**	182	**2**	7	4
Allowance for impairment losses (Note 15)	**(75)**	(75)	**(75)**	(75)	(162)
Carrying value					
LCMC	**2,134**	2,255			
SMFC	**720**	689			
NLI	**376**	363	**376**	363	348
SMBC Metro	**223**	260	**223**	260	261
TLI	**16**	16	**16**	16	(71)
CIRC	**202**	209			
PALIC	**1,653**	1,458			
Others	**26**	22			
	₱5,350	₱5,272	**₱615**	₱639	₱538

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

As of December 31, 2016 and 2015, carrying amount of goodwill of the Group amounted to ₱5.2 billion.

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

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

Investment in Toyota Financial Services Philippines Corporation (TFSPC)
In August 2014, the respective BODs of the Parent Company and PSBank on separate meetings, upon the endorsement of their respective RPTCs, have approved the sale of the Parent Company's 15.00% and PSBank's 25.00% ownerships in TFSPC to GT Capital, a stockholder with significant influence, for an aggregate price of ₱2.1 billion. This transaction has been presented and vetted through joint meetings held by the RPTCs of the Parent Company and PSBank. The amount was based on an independent valuation report which was subjected to a third party fairness opinion. The divestment of TFSPC shares was in line with their capital planning initiatives under the new Basel III regime. This transaction resulted in a gain of ₱0.9 billion for the Group and ₱0.4 billion for the Parent Company in 2014 included under 'Gain on sale of investment in associates' in the statement of income.

Investment of FMIC in Charter Ping An Insurance Corporation (CPAIC)
In January 2014, FMIC sold its 33.33% ownership in CPAIC to GT Capital at a consideration of ₱712.0 million which resulted in a gain of ₱313.9 million, included under 'Gain on sale of investment in associates'.

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

	Statement of Financial Position		Statement of Income and Other Comprehensive Income				
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	Other Comprehensive Income	Total Comprehensive Income
December 31, 2016							
PALIC	**₱97,300**	**₱91,440**	**₱10,088**	**₱1,783**	**₱1,130**	**(₱123)**	**₱1,007**
LCMC	**8,960**	**3,036**	**1,432**	**(651)**	**(624)**	**–**	**(624)**
NLI	**2,895**	**1,152**	**306**	**90**	**94**	**3**	**97**
SMFC	**2,607**	**789**	**597**	**111**	**86**	**3**	**89**
CIRC	**2,467**	**1,597**	**291**	**4**	**3**	**–**	**3**
SMBC Metro	**772**	**104**	**102**	**61**	**51**	**(16)**	**35**
TLI	**48**	**0**	**1**	**1**	**1**	**–**	**1**

	Statement of Financial Position		Statement of Income and Other Comprehensive Income				
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	Other Comprehensive Income	Total Comprehensive Income
December 31, 2015							
PALIC	₱80,047	₱74,935	₱7,172	₱1,907	₱1,384	(₱358)	₱1,026
LCMC	16,994	9,567	1,216	(841)	(859)	281	(578)
NLI	2,262	575	242	153	108	1	109
SMFC	1,888	159	444	50	50	4	54
CIRC	2,815	1,947	676	2	2	2	4
SMBC Metro	868	74	105	68	50	10	60
TLI	48	0	1	1	1	–	1

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

	2016	2015
PALIC		
Cash and cash equivalents	**₱4,104**	₱2,040
Loans and receivables - net	**2,501**	784
Financial assets at FVPL	**819**	3,329
AFS investments	**11,414**	8,062
Investment in unit-linked funds	**49**	50
Property and equipment	**397**	199
LCMC		
Inventories	**290**	520
Investments and advances	**961**	567
Mine exploration cost	**755**	6,521
Property, plant and equipment - net	**5,758**	6,974
CIRC		
Cash and cash equivalents	**56**	612
Receivables - net	**257**	224
Investment properties - net	**615**	373
NLI		
Cash and cash equivalents	**240**	353
Real estate properties	**1,901**	1,379
Receivables - net	**737**	513
SMFC		
Cash and cash equivalents	**57**	65
Receivables - net	**2,416**	1,700
SMBC Metro		
Cash and cash equivalents	**495**	245
AFS investments	**66**	211
Receivables - net	**145**	376
TLI		
Cash and cash equivalents	**48**	47

Dividends declared by investee companies of the Parent Company follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2016						
Subsidiaries						
Cash Dividend						
FMIC	December 19, 2016	₱8.06	₱3,003	a/	December 29, 2016	Note 35a
MCC	August 8, 2016	1.40	1,400	a/	August 7, 2016	August 10, 2016
PSBank	January 19, 2016	0.75	180	a/	February 1, 2016	February 19, 2016
PSBank	April 26, 2016	0.75	180	a/	May 11, 2016	May 26, 2016
PSBank	July 22, 2016	0.75	180	a/	August 8, 2016	August 22, 2016
PSBank	October 21, 2016	0.75	180	a/	November 9, 2016	November 21, 2016
Metrobank Bahamas	August 26, 2016	USD 1.64	USD 8	Not required	April 27, 2016	December 15, 2016

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
Stock Dividend						
ORIX Metro	March 30, 2016	₱100.00	₱625	a/	September 30, 2015	June 9, 2016
ORIX Metro	October 26, 2016	100.00	599	a/	October 26, 2016	November 29, 2016
Associates						
Cash Dividend						
NLI	April 1, 2016	3.07	21	Not required	December 31, 2015	April 1, 2016
NLI	April 1, 2016	3.50	16	Not required	December 31, 2015	April 1, 2016
SMBC Metro	August 12, 2016	10.00	60	Not required	August 12, 2016	September 19, 2016
SMBC Metro	December 14, 2016	16.67	100	Not required	December 14, 2016	Note 35b
2015						
Subsidiaries						
Cash Dividend						
MCC	June 3, 2015	2.16	2,164	July 10, 2015	July 16, 2015	August 6, 2015
PSBank	January 22, 2015	0.75	180	March 3, 2015	March 30, 2015	April 17, 2015
PSBank	April 28, 2015	0.75	180	June 5, 2015	July 14, 2015	July 28, 2015
PSBank	July 28, 2015	0.75	180	September 23, 2015	October 26, 2015	November 11, 2015
PSBank	October 29, 2015	0.75	180	a/	November 16, 2015	November 27, 2015
Stock Dividend						
ORIX Metro	October 29, 2015	100.00	474	a/	October 29, 2015	January 15, 2016
Associates						
Cash Dividend						
NLI	February 25, 2015	2.84	35	Not required	December 31, 2014	March 3, 2015
NLI	December 10, 2015	2.97	36	Not required		
SMBC Metro	December 11, 2015	10.00	60	Not required	December 11, 2015	January 25, 2016

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

Dividends declared by significant investee companies of FMIC follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
2016						
Subsidiaries						
Cash Dividend						
FAMI	December 6, 2016	₱13.80	₱15	Not required	December 15, 2016	December 29, 2016
Associates						
Stock Dividend						
ORIX Metro	March 30, 2016	100.00	625	a/	September 30, 2015	May 31, 2016
ORIX Metro	November 23, 2016	100.00	599	a/	October 26, 2016	January 31, 2017
2015						
Subsidiaries						
Cash Dividend						
FAMI	September 18, 2015	₱62.50	₱25	Not required	August 30, 2015	September 15, 2015
FMSBC*	September 30, 2015	66.70	113	Not required	September 30, 2015	October 30, 2015
FMSBC*	November 27, 2015	59.18	100	Not required	November 18, 2015	February 16, 2016
PBCCIC**	December 15, 2015	18.33	55	Not required	December 15, 2015	January 15, 2016
Associates						
Stock Dividend						
ORIX Metro	October 29, 2015	100.00	474	a/	October 29, 2015	January 15, 2016

* First Metro Securities Brokerage Corporation
** PBC Capital Investment Corporation
a/ No longer required in accordance with BSP Circular No. 888 dated October 9, 2015.

12. Investment Properties

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

	Consolidated					
	2016			2015		
	Land	**Buildings and Improvements**	**Total**	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱6,859**	**₱4,798**	**₱11,657**	₱9,016	₱4,667	₱13,683
Additions	**941**	**869**	**1,810**	385	713	1,098
Disposals	**(1,053)**	**(613)**	**(1,666)**	(2,518)	(586)	(3,104)
Reclassification/others	**(35)**	**5**	**(30)**	(24)	4	(20)
Balance at end of year	**6,712**	**5,059**	**11,771**	6,859	4,798	11,657

(Forward)

	Consolidated					
	2016			2015		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Accumulated depreciation and amortization						
Balance at beginning of year	**₱–**	**₱1,508**	**₱1,508**	₱–	₱1,524	₱1,524
Depreciation and amortization	**–**	**157**	**157**	–	151	151
Disposals	**–**	**(168)**	**(168)**	–	(168)	(168)
Reclassification/others	**–**	**(5)**	**(5)**	–	1	1
Balance at end of year	**–**	**1,492**	**1,492**	–	1,508	1,508
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,800**	**154**	**1,954**	1,896	226	2,122
Provision for (reversal of) impairment loss	**(1)**	**84**	**83**	(38)	1	(37)
Disposals	**(144)**	**(74)**	**(218)**	(80)	(75)	(155)
Reclassification/others	**(13)**	**(1)**	**(14)**	22	2	24
Balance at end of year	**1,642**	**163**	**1,805**	1,800	154	1,954
Net book value at end of year	**₱5,070**	**₱3,404**	**₱8,474**	₱5,059	₱3,136	₱8,195

	Parent Company					
	2016			2015		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	**₱4,457**	**₱2,214**	**₱6,671**	₱6,532	₱2,380	₱8,912
Additions	**246**	**156**	**402**	52	121	173
Disposals	**(669)**	**(318)**	**(987)**	(2,129)	(291)	(2,420)
Reclassification/others	**9**	**(37)**	**(28)**	2	4	6
Balance at end of year	**4,043**	**2,015**	**6,058**	4,457	2,214	6,671
Accumulated depreciation and amortization						
Balance at beginning of year	**–**	**1,111**	**1,111**	–	1,170	1,170
Depreciation and amortization	**–**	**67**	**67**	–	74	74
Disposals	**–**	**(129)**	**(129)**	–	(134)	(134)
Reclassification/others	**–**	**(5)**	**(5)**	–	1	1
Balance at end of year	**–**	**1,044**	**1,044**	–	1,111	1,111
Allowance for impairment losses (Note 15)						
Balance at beginning of year	**1,366**	**62**	**1,428**	1,448	65	1,513
Disposals	**(144)**	**(5)**	**(149)**	(80)	(5)	(85)
Reclassification/others	**(13)**	**(1)**	**(14)**	(2)	2	–
Balance at end of year	**1,209**	**56**	**1,265**	1,366	62	1,428
Net book value at end of year	**₱2,834**	**₱915**	**₱3,749**	₱3,091	₱1,041	₱4,132

As of December 31, 2016 and 2015, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱537.8 million and ₱1.1 billion, respectively, for the Group and ₱338.0 million and ₱221.7 million, respectively, for the Parent Company.

As of December 31, 2016 and 2015, aggregate market value of investment properties amounted to ₱13.4 billion and ₱13.0 billion, respectively, for the Group and ₱6.9 billion and ₱7.5 billion, respectively, for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱9.2 billion and ₱9.5 billion, respectively, for the Group and ₱6.9 billion and ₱7.4 billion, respectively, for the Parent Company. Information about the fair value measurement of investment properties are also presented in Note 5.

Rental income on investment properties (included in 'Leasing income' in the statement of income) in 2016, 2015 and 2014 amounted to ₱69.8 million, ₱88.2 million and ₱87.9 million, respectively, for the Group and ₱4.4 million, ₱22.5 million and ₱34.5 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2016, 2015 and 2014 amounted to ₱4.7 million, ₱6.1 million and ₱4.3 million, respectively, for the Group and ₱1.1 million, ₱1.0 million and ₱2.3 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2016, 2015 and 2014 amounted to ₱128.4 million, ₱205.3 million and ₱274.0 million, respectively, for the Group and ₱91.3 million, ₱113.8 million and ₱195.0 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statement of income) in 2016, 2015 and 2014 amounted to ₱613.4 million, ₱1.0 billion and ₱9.0 billion, respectively, for the Group and ₱345.6 million, ₱1.0 billion and ₱8.9 billion, respectively, for the Parent Company (Note 31).

In 2014, the BOD of the Parent Company, upon the endorsement of the RPTC, has approved the sale of real and other properties acquired (ROPA) to FLI, a related party, consisting of lots located at Bonifacio Global City and Ortigas Center, Pasig City at total price of ₱9.3 billion and ₱1.8 billion, respectively. In 2015 and 2014, the Parent Company recognized a gain on sale totaling to ₱0.6 billion on the sale of lots located at Ortigas Center, Pasig City and ₱8.1 billion on the sale of lots located at Bonifacio Global City, respectively. These transactions have been presented and vetted through the RPTC. The valuations of the properties were based on sales comparison approach which was used by the independent external appraisal firms to provide a reasonable basis for comparison. Other factors that were considered in the valuations 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 (Note 31).

13. **Long-term Leases**

The Parent Company leases the premises occupied by some of its branches (about 40.34% and 40.75% of the branch sites as of December 31, 2016 and 2015, respectively, are Parent Company-owned). Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%. As of December 31, 2016 and 2015, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2016, 2015 and 2014 amounted to ₱2.2 billion, ₱1.9 billion and ₱1.8 billion, respectively, for the Group and ₱1.2 billion, ₱1.0 billion and ₱922.9 million, respectively, for the Parent Company.

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱1,077**	₱1,111	**₱602**	₱462
After one year but not more than five years	**2,997**	2,834	**1,693**	1,256
More than five years	**951**	1,060	**343**	285
	₱5,025	₱5,005	**₱2,638**	₱2,003

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and ROPA and finance lease agreements over various items of machinery and equipment which are non-cancelable and have remaining non-cancelable lease terms between 1 and 20 years. In 2016, 2015 and 2014, leasing income amounted to ₱2.0 billion, ₱2.0 billion and ₱1.9 billion respectively, for the Group and ₱220.5 million, ₱244.4 million and ₱238.0 million, respectively, for the Parent Company.

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱1,721**	₱1,164	**₱81**	₱105
After one year but not more than five years	**2,228**	853	**61**	73
More than five years	**6**	6	**6**	2
	₱3,955	₱2,023	**₱148**	₱180

14. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Investment in SPV	**₱8,857**	₱8,857	**₱8,857**	₱8,857
Interoffice float items	**2,330**	5,482	**2,346**	5,047
Software costs - net	**1,640**	1,732	**560**	1,092
Creditable withholding tax	**1,316**	1,622	**814**	1,105
Residual value of leased assets	**1,003**	899	**–**	–
Chattel properties acquired in foreclosure - net	**687**	518	**28**	22
Prepaid expenses	**600**	382	**118**	74
Documentary and postage stamps on hand	**373**	266	**330**	202
Assets held under joint operations	**368**	401	**368**	401
Returned checks and other cash items	**115**	101	**105**	81
Retirement asset*	**63**	17	**17**	17
Miscellaneous	**3,240**	2,552	**2,432**	1,563
	20,592	22,829	**15,975**	18,461
Less allowance for impairment losses (Note 15)	**10,714**	10,773	**10,700**	10,731
	₱9,878	₱12,056	**₱5,275**	₱7,730

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

Investment in SPVs represents subordinated notes issued by Cameron Granville 3 Asset Management, Inc. and LNC 3 Asset Management, Inc. with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the non-performing assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. As of December 31, 2016 and 2015, the estimated fair value of the subordinated notes, which is the present value of the estimated cash flows from such notes (derived from the sale of the underlying collaterals of the NPAs, net of the payment to senior notes by the SPV) amounted to nil, after deducting allowance for impairment losses of ₱8.8 billion.

Movements in software costs account follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cost				
Balance at beginning of year	**₱3,710**	₱2,892	**₱2,133**	₱1,602
Additions	**816**	815	**40**	528
Others	**(401)**	3	**(400)**	3
Balance at end of year	**4,125**	3,710	**1,773**	2,133
Accumulated amortization				
Balance at beginning of year	**1,978**	1,590	**1,041**	866
Amortization	**474**	381	**141**	160
Others	**33**	7	**31**	15
Balance at end of year	**2,485**	1,978	**1,213**	1,041
Net book value at end of year	**₱1,640**	₱1,732	**₱560**	₱1,092

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cost				
Balance at beginning of year	**₱639**	₱569	**₱40**	₱57
Additions	**2,044**	1,694	**20**	14
Disposals/others	**(1,862)**	(1,624)	**(8)**	(31)
Balance at end of year	**821**	639	**52**	40
Accumulated depreciation and amortization				
Balance at beginning of year	**110**	105	**15**	17
Depreciation and amortization	**145**	123	**9**	8
Disposals/others	**(130)**	(118)	**(3)**	(10)
Balance at end of year	**125**	110	**21**	15
Allowance for impairment losses (Note 15)				
Balance at beginning of year	**11**	12	**3**	3
Provision for impairment loss	**1**	2	**–**	–
Disposals	**(3)**	(3)	**–**	–
Balance at end of year	**9**	11	**3**	3
Net book value at end of year	**₱687**	₱518	**₱28**	₱22

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

Miscellaneous account includes a receivable from a third party of ₱425.7 million pertaining to the final tax withheld on Poverty Eradication and Alleviation Certificates (PEACe) bonds which matured on October 18, 2011 (Note 30). This also includes payments for customization of various banking systems amounting to ₱1.0 billion and ₱0.2 billion as of December 31, 2016 and 2015, respectively.

15. **Allowance for Credit and Impairment Losses**

Changes in the allowance for credit and impairment losses follow:

	Consolidated		Parent Company	
	December 31			
	2016	2015	**2016**	2015
Balance at beginning of year:				
Due from other banks	**₱8**	₱–	₱–	₱–
Interbank loans receivable (Note 7)	**3**	4	–	–
AFS investments (Note 8)				
Debt securities				
Government	**6**	3	–	–
Equity securities				
Quoted	**269**	313	**79**	81
Unquoted	**213**	213	**81**	81
Loans and receivables (Note 9)	**12,902**	16,450	**5,572**	8,955
Investments in associates (Note 11)	**75**	162	**75**	162
Property and equipment (Note 10)	**26**	26	**24**	24
Investment properties (Note 12)	**1,954**	2,122	**1,428**	1,513
Other assets* (Note 14)	**10,784**	10,791	**10,734**	10,735
	26,240	30,084	**17,993**	21,551
Provisions for (reversal of) credit and impairment losses	**7,342**	2,059	**1,174**	(2,926)
Accounts written off/others	**(6,226)**	(5,903)	**(243)**	(632)
Balance at end of year:				
Due from other banks	**7**	8	–	–
Interbank loans receivable (Note 7)	–	3	–	–
AFS investments (Note 8)				
Debt securities				
Government	–	6	–	–
Equity securities				
Quoted	**82**	269	**79**	79
Unquoted	**212**	213	**81**	81
Loans and receivables (Note 9)	**14,426**	12,902	**6,697**	5,572
Investments in associates (Note 11)	**75**	75	**75**	75
Property and equipment (Note 10)	**26**	26	**24**	24
Investment properties (Note 12)	**1,805**	1,954	**1,265**	1,428
Other assets* (Note 14)	**10,723**	10,784	**10,703**	10,734
	₱27,356	₱26,240	**₱18,924**	₱17,993

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

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

	Consolidated			Parent Company		
	December 31					
	2016	2015	2014	**2016**	2015	2014
Due from other banks	**(₱1)**	₱2	₱–	**₱–**	₱–	₱–
Interbank loans receivable	**(3)**	(1)	2	–	–	–
AFS investments	**(5)**	2	(4)	–	–	–
Loans and receivables	**7,295**	2,091	4,820	**1,174**	(2,926)	7
Investments in associates and joint venture	**(28)**	–	–	–	–	–
Investment properties	**83**	(37)	29	–	–	–
Chattel properties acquired in foreclosure	**1**	2	2	–	–	–
	₱7,342	₱2,059	₱4,849	**₱1,174**	(₱2,926)	₱7

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

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

	Consolidated							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade Loans	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2016	**₱5,014**	**₱999**	**₱788**	**₱274**	**₱2,522**	**₱9,597**	**₱3,305**	**₱12,902**
Provisions (reversals) during the year	**427**	**(66)**	**3,046**	**–**	**4,044**	**7,451**	**(156)**	**7,295**
Accounts written off/others	**(160)**	**1**	**(1,808)**	**(4)**	**(3,853)**	**(5,824)**	**53**	**(5,771)**
Balance at December 31, 2016	**₱5,281**	**₱934**	**₱2,026**	**₱270**	**₱2,713**	**₱11,224**	**₱3,202**	**₱14,426**
Individual impairment	**₱3,682**	**₱728**	**₱–**	**₱253**	**₱131**	**₱4,794**	**₱2,692**	**₱7,486**
Collective impairment	**1,599**	**206**	**2,026**	**17**	**2,582**	**6,430**	**510**	**6,940**
	₱5,281	**₱934**	**₱2,026**	**₱270**	**₱2,713**	**₱11,224**	**₱3,202**	**₱14,426**
Gross amount of loans individually determined to be impaired	**₱4,748**	**₱1,265**	**₱–**	**₱446**	**₱1,608**	**₱8,067**	**₱2,821**	**₱10,888**
Balance at January 1, 2015	₱8,173	₱1,043	₱851	₱238	₱2,535	₱12,840	₱3,610	₱16,450
Provisions (reversals) during the year	(2,727)	69	1,081	–	3,633	2,056	35	2,091
Accounts written off/others	(432)	(113)	(1,144)	36	(3,646)	(5,299)	(340)	(5,639)
Balance at December 31, 2015	₱5,014	₱999	₱788	₱274	₱2,522	₱9,597	₱3,305	₱12,902
Individual impairment	₱2,827	₱738	₱–	₱179	₱133	₱3,877	₱2,584	₱6,461
Collective impairment	2,187	261	788	95	2,389	5,720	721	6,441
	₱5,014	₱999	₱788	₱274	₱2,522	₱9,597	₱3,305	₱12,902
Gross amount of loans individually determined to be impaired	₱8,533	₱1,446	₱–	₱229	₱1,421	₱11,629	₱3,031	₱14,660

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade Loans	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2016	**₱2,483**	**₱428**	**₱9**	**₱274**	**₱39**	**₱3,233**	**₱2,339**	**₱5,572**
Provisions (reversals) during the year	**1,165**	**–**	**–**	**–**	**–**	**1,165**	**9**	**1,174**
Accounts written off/others	**(146)**	**–**	**(8)**	**(3)**	**–**	**(157)**	**108**	**(49)**
Balance at December 31, 2016	**₱3,502**	**₱428**	**₱1**	**₱271**	**₱39**	**₱4,241**	**₱2,456**	**₱6,697**
Individual impairment	**₱3,093**	**₱269**	**₱–**	**₱254**	**₱39**	**₱3,655**	**₱2,350**	**₱6,005**
Collective impairment	**409**	**159**	**1**	**17**	**–**	**586**	**106**	**692**
	₱3,502	**₱428**	**₱1**	**₱271**	**₱39**	**₱4,241**	**₱2,456**	**₱6,697**
Gross amount of loans individually determined to be impaired	**₱3,772**	**₱328**	**₱–**	**₱447**	**₱41**	**₱4,588**	**₱2,438**	**₱7,026**
Balance at January 1, 2015	₱5,693	₱428	₱11	₱238	₱39	₱6,409	₱2,546	₱8,955
Provisions (reversals) during the year	(2,926)	–	–	–	–	(2,926)	–	(2,926)
Accounts written off/others	(284)	–	(2)	36	–	(250)	(207)	(457)
Balance at December 31, 2015	₱2,483	₱428	₱9	₱274	₱39	₱3,233	₱2,339	₱5,572
Individual impairment	₱2,071	₱289	₱–	₱179	₱35	₱2,574	₱2,192	₱4,766
Collective impairment	412	139	9	95	4	659	147	806
	₱2,483	₱428	₱9	₱274	₱39	₱3,233	₱2,339	₱5,572
Gross amount of loans individually determined to be impaired	₱7,209	₱417	₱–	₱229	₱41	₱7,896	₱2,371	₱10,267

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

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

	Consolidated				Parent Company			
	AFS Investments				AFS Investments			
	Debt Securities	Equity Securities	Other Assets**	Total	Debt Securities	Equity Securities	Other Assets**	Total
Balance at January 1, 2016	**₱6**	**₱482**	**₱10,784**	**₱11,272**	**₱–**	**₱160**	**₱10,734**	**₱10,894**
Provisions for (reversals of) impairment losses	**(5)**	**–**	**1**	**(4)**	**–**	**–**	**–**	**–**
Reclassifications/reversals/others	**(1)**	**(188)**	**(62)**	**(251)**	**–**	**–**	**(31)**	**(31)**
Balance at December 31, 2016	**₱–**	**₱294**	**₱10,723**	**₱11,017**	**₱–**	**₱160**	**₱10,703**	**₱10,863**
Balance at January 1, 2015	₱3	₱526	₱10,791	₱11,320	₱–	₱162	₱10,735	₱10,897
Provisions for impairment losses	2	–	2	4	–	–	–	–
Disposals	–	(2)	(1)	(3)	–	(2)	(1)	(3)
Reclassifications/reversals/others	1	(42)	(8)	(49)	–	–	–	–
Balance at December 31, 2015	₱6	₱482	₱10,784	₱11,272	₱–	₱160	₱10,734	₱10,894

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

16. **Deposit Liabilities**

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

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

On December 8, 2016, the BSP authorized PSBank to issue LTNCDs up to ₱10.0 billion through one or more tranches over a period of one year (Note 35d).

Of the total interest-bearing deposit liabilities of the Group as of December 31, 2016 and 2015, 35.59% and 40.81%, respectively, are subject to periodic interest repricing. In 2016, 2015 and 2014, 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 2.75%, from 0.00% to 2.75%, and from 0.00% to 4.25%, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Demand	**₱661**	₱529	₱443	**₱495**	₱378	₱285
Savings	**1,167**	999	881	**1,050**	906	805
Time	**7,389**	9,050	7,883	**4,595**	6,611	5,406
LTNCD	**671**	581	92	**671**	581	92
	₱9,888	₱11,159	₱9,299	**₱6,811**	₱8,476	₱6,588

Reserve Requirement

Effective reserve week starting May 30, 2014, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to required reserves equivalent to 20.00% from the previous 18.00%. On the other hand, non-FCDU deposit liabilities of PSBank are subject to required reserves equivalent to 8.00% from the previous 6.00%. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP and any government securities which are previously used as compliance until they mature. The Parent Company, PSBank, FMIC, MCC and ORIX Metro were in compliance with such regulations as of December 31, 2016 and 2015.

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

	2016	2015
Parent Company	**₱195,081**	₱185,484
PSBank	**12,034**	10,341
MCC	**8,891**	7,636
Orix Metro	**4,916**	3,840
FMIC	**4,191**	6,600
	₱225,113	₱213,901

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deposit substitutes	**₱65,489**	₱65,752	**₱–**	₱–
Local banks	**32,891**	28,852	**9,770**	8,215
Foreign banks	**11,965**	19,000	**11,921**	19,238
SSURA	**51,031**	63,187	**47,174**	61,187
	₱161,376	₱176,791	**₱68,865**	₱88,640

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Deposit substitutes pertain to borrowings from the public of FMIC, ORIX Metro and MCC (Note 16).

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			
	2016		2015		**2016**		2015	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA	**Transferred Securities**	**SSURA**	Transferred Securities	SSURA
HFT investments	**₱8,576**	**₱8,376**	₱867	₱798	**₱8,576**	**₱8,376**	₱867	₱798
AFS investments	**51,863**	**42,655**	23,707	21,617	**47,378**	**38,798**	23,040	21,034
HTM investments	**–**	**–**	46,629	40,772	**–**	**–**	44,867	39,355
	₱60,439	**₱51,031**	₱71,203	₱63,187	**₱55,954**	**₱47,174**	₱68,774	₱61,187

The Group's peso borrowings are subject to annual fixed interest rates ranging from 0.06% to 6.34%, from 0.06% to 6.21% and from 0.20% to 5.88% in 2016, 2015 and 2014, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.32% to 3.25%, from 0.19% to 4.65% and from 0.15% to 4.30% in 2016, 2015 and 2014, 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 2016, 2015 and 2014 amounted to ₱2.8 billion, ₱2.9 billion and ₱2.1 billion, respectively, for the Group and ₱593.4 million, ₱662.2 million and ₱208.2 million, respectively, for the Parent Company.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Accrued interest (Note 31)	**₱1,497**	₱1,830	**₱796**	₱1,108
Accrued other expenses	**5,570**	6,357	**3,850**	4,663
	₱7,067	₱8,187	**₱4,646**	₱5,771

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

19. Bonds Payable

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

Issue Date	Maturity Date	Interest Rate	Redemption Period	Face Value	Carrying Value 2016	Carrying Value 2015
November 25, 2011	February 25, 2017	5.675%	after 4th year	₱5,000	**₱4,857**	₱4,863
August 10, 2012	November 10, 2017	5.500%	after 4th year	4,000	**3,850**	3,867
August 10, 2012	August 10, 2019	5.750%	after 5th year	3,000	**2,791**	2,786
				₱12,000	**₱11,498**	₱11,516

These bonds were issued in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any quarterly interest payment after the fourth or fifth anniversary of the issue date at 102.00% of its face value plus accrued interest. These are exempt securities pursuant to certain provisions of the Securities Regulation Code and are covered by deed of assignments on government securities held in trust by a collateral agent which shall have aggregate market value of 100.00% of the issued amount, otherwise, additional government securities shall be offered to increase and maintain the cover at 100.00%.

The carrying amount of government securities assigned as collateral classified under AFS investments amounted to ₱12.5 billion and ₱0.8 billion, as of December 31, 2016 and 2015, respectively, and under HTM investments with carrying value of ₱11.9 billion and with market value of ₱11.8 billion as of December 31, 2015.

As of December 31, 2016 and 2015, FMIC has complied with the terms of the issuance.

Interest expense on bonds payable (included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' of the Group) in 2016, 2015 and 2014 amounted to ₱661.3 million, ₱659.5 million and ₱666.1 million, respectively.

20. Subordinated Debts

This account consists of the following Peso Notes:

			Carrying Value		Market Value	
	Maturity Date	**Face Value**	**2016**	2015	**2016**	2015
Parent Company						
2024	June 27, 2024	₱16,000	**₱15,937**	₱15,915	**₱15,930**	₱12,574
2025	August 8, 2025	6,500	**6,467**	6,459	**6,448**	6,183
		22,500	**22,404**	22,374	**22,378**	18,757
PSBank – 2022	February 20, 2022	3,000	**2,981**	2,978	**3,204**	3,328
PSBank – 2024	August 23, 2024	3,000	**2,977**	2,974	**2,310**	2,318
MCC – 2023	December 20, 2023	1,170	**1,162**	1,161	**1,240**	1,263
		₱29,670	**₱29,524**	₱29,487	**₱29,132**	₱25,666

On April 15, 2013, the BOD of the Parent Company approved the issuance of Basel III - compliant Tier 2 capital notes up to USD500 million in one or more tranches, issued as part of the Parent Company's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP and to proactively manage its capital base for growth and refinancing of maturing capital securities. The issuance was approved by the BSP on July 26, 2013 and the amendment to the terms and conditions on January 30, 2014. Specifically, the BSP approved the issuance of up to USD500 million equivalent in either USD or PHP or combination in one or more tranches over the course of one (1) year.

Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank pari passu and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company. The Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP. These Peso Notes have a term of 10.25 and 11 years and are redeemable at the option of the Parent Company (but not the holders) on the call option date in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the call option date, upon prior approval of the BSP and at least 30-banking day prior written notice to the Noteholders of record, subject to the following conditions: (1) the capital adequacy of the Issuer is at least equal to the required minimum ratio; (2) the note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, upon prior approval of the BSP and at least a 30-banking day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption (the “Redemption Option Date”).

The Notes have a loss absorption feature which are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions as set out in “Terms and Conditions of the Notes - Loss Absorption Measure”, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 Ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a:
(i) a Write-Down (as defined in “Terms and Conditions of the Notes”) of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer would become non-viable, or
(iii) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer has become non-viable.

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

Specific terms of these Basel III - compliant Notes follow:

2024 Peso Notes - issued on March 27, 2014 at 100.00% of the principal amount of ₱16.0 billion

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

2025 Peso Notes - issued on August 8, 2014 at 100.00% of the principal amount of ₱6.5 billion

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

MCC
2023 Peso Notes - issued on December 20, 2013 at 100.00% of the principal amount of ₱1.2 billion

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

PSBank
2022 Peso Notes - issued on February 20, 2012 at 100.00% of the principal amount of ₱3.0 billion

- Bear interest at 5.75% per annum from and including February 20, 2012 but excluding February 20, 2017 which is payable quarterly in arrears every May 20, August 20, November 20 and February 20, commencing on February 20, 2012.
- Constitute direct, unconditional, and unsecured obligations of PSBank and claim in respect of the 2022 Notes shall be at all times pari passu and without any preference among themselves.
- Subject to satisfaction of certain regulatory approval requirements, PSBank may redeem all and not less than the entire outstanding 2022 Notes, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

On September 8, 2016, the BSP approved the exercise by PSBank of the call option on the unsecured subordinated debt – Tier 2 Notes issued in 2012 amounting to ₱3.0 billion on February 21, 2017.

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, 2016 and 2015, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2016, 2015 and 2014, interest expense on subordinated debt included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱1.7 billion, ₱1.6 billion and ₱1.3 billion (including amortization of debt issue cost and premium of ₱38.0 million, ₱35.5 million and ₱27.0 million), respectively, for the Group, and ₱1.2 billion, ₱1.2 billion and ₱0.9 billion (including amortization of debt issue cost and premium of ₱30.9 million, ₱29.2 million and ₱22.0 million), respectively, for the Parent Company.

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

Non-equity non-controlling interest arises when mutual funds are consolidated and where the Group holds less than 100.00% of the investment in these funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests in that the Group does not hold an equity stake in such funds. Further, income or loss attributable to non-equity non-controlling interests is presented as part of 'Operating expenses' in the statements of income.

Other liabilities consist of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Bills purchased - contra (Note 9)	**₱20,479**	₱23,802	**₱20,415**	₱23,749
Accounts payable	**12,738**	10,966	**6,780**	6,190
Retirement liability (Note 27)	**4,703**	4,401	**3,556**	3,004
Marginal deposits	**3,697**	5,476	**245**	189
Outstanding acceptances	**1,440**	1,727	**1,440**	1,727
Deposits on lease contracts	**1,375**	1,249	**–**	–
Deferred revenues	**1,319**	1,099	**57**	28
Other credits	**1,146**	954	**554**	484
Withholding taxes payable	**538**	606	**302**	383
Miscellaneous (Note 11)	**2,279**	2,153	**1,367**	1,312
	₱49,714	₱52,433	**₱34,716**	₱37,066

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

As of December 31, 2016 and 2015, miscellaneous liabilities of the Group include dividends payable amounting to ₱84.1 million and ₱63.8 million, respectively, and notes payable amounting to ₱125.0 million and ₱398.1 million, respectively.

22. Maturity Profile of Assets and Liabilities

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

	Consolidated					
	2016			2015		
	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	**₱26,553**	**₱–**	**₱26,553**	₱32,536	₱–	₱32,536
Due from BSP	**238,806**	**–**	**238,806**	214,704	–	214,704
Due from other banks	**44,322**	**–**	**44,322**	36,872	–	36,872
Interbank loans receivable and SPURA (Note 7)	**91,224**	**422**	**91,646**	36,121	–	36,121
Financial assets at FVPL (Note 8)	**37,214**	**–**	**37,214**	48,856	–	48,856
AFS investments (Note 8)	**31,613**	**285,536**	**317,149**	13,092	222,554	235,646
HTM investments (Note 8)	**–**	**–**	**–**	125	208,307	208,432
Loans and receivables (Note 9)						
Receivables from customers	**482,888**	**576,510**	**1,059,398**	442,966	437,731	880,697
Unquoted debt securities	**392**	**923**	**1,315**	1,317	1,005	2,322
Accrued interest receivable	**7,952**	**71**	**8,023**	9,212	–	9,212
Accounts receivable	**4,580**	**22**	**4,602**	5,577	–	5,577
Sales contract receivable	**36**	**160**	**196**	160	247	407
Other receivables	**89**	**–**	**89**	318	–	318
Other assets (Note 14)						
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Interoffice float items	**2,330**	**–**	**2,330**	5,482	–	5,482
Residual value of leased asset	**325**	**678**	**1,003**	602	297	899
Other investments	**–**	**26**	**26**	–	26	26
Miscellaneous	**36**	**581**	**617**	35	582	617
	977,217	**864,929**	**1,842,146**	856,832	870,749	1,727,581
Non-Financial Assets - at gross						
Investments in associates (Note 11)	**–**	**5,425**	**5,425**	–	5,347	5,347
Property and equipment (Note 10)	**–**	**43,285**	**43,285**	–	41,323	41,323
Investment properties (Note 12)	**–**	**11,771**	**11,771**	–	11,657	11,657
Deferred tax assets (Note 28)	**–**	**8,855**	**8,855**	–	8,427	8,427
Goodwill (Note 11)	**–**	**5,200**	**5,200**	–	5,202	5,202
Assets held under joint operations (Note 14)	**–**	**368**	**368**	–	401	401
Retirement asset (Note 14)	**–**	**63**	**63**	–	17	17
Accounts receivable (Note 9)	**–**	**4,747**	**4,747**	–	3,985	3,985
Other assets (Note 14)	**2,404**	**7,543**	**9,947**	2,371	6,258	8,629
	2,404	**87,257**	**89,661**	2,371	82,617	84,988
	₱979,621	**₱952,186**	**1,931,807**	₱859,203	₱953,366	1,812,569
Less:						
Unearned discounts and capitalized interest (Note 9)			**3,076**			2,414
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**25,366**			23,223
Allowance for credit and impairment losses (Note 15)			**27,356**			26,240
			₱1,876,009			₱1,760,692
Financial Liabilities						
Deposit liabilities						
Demand	**₱298,388**	**₱–**	**₱298,388**	₱233,912	₱–	₱233,912
Savings	**547,685**	**–**	**547,685**	467,587	–	467,587
Time	**488,199**	**32,130**	**520,329**	509,443	32,778	542,221
LTNCD	**–**	**22,900**	**22,900**	–	14,250	14,250
	1,334,272	**55,030**	**1,389,302**	1,210,942	47,028	1,257,970
Bills payable and SSURA (Note 17)	**129,720**	**31,656**	**161,376**	163,137	13,654	176,791
Derivative liabilities	**4,612**	**–**	**4,612**	4,145	–	4,145
Manager's checks and demand drafts outstanding	**6,932**	**–**	**6,932**	5,613	–	5,613
Accrued interest and other expenses	**5,629**	**188**	**5,817**	6,824	–	6,824
Bonds payable (Note 19)	**8,708**	**2,790**	**11,498**	–	11,516	11,516
Subordinated debts (Note 20)	**2,976**	**26,548**	**29,524**	–	29,487	29,487
Other liabilities (Note 21)						
Bills purchased - contra	**20,479**	**–**	**20,479**	23,802	–	23,802
Accounts payable	**12,738**	**–**	**12,738**	10,966	–	10,966
Marginal deposits	**3,697**	**–**	**3,697**	5,476	–	5,476
Outstanding acceptances	**1,432**	**8**	**1,440**	1,624	103	1,727
Deposits on lease contracts	**488**	**887**	**1,375**	829	420	1,249
Dividends payable	**84**	**–**	**84**	64	–	64
Miscellaneous	**–**	**125**	**125**	–	398	398
	1,531,767	**117,232**	**1,648,999**	1,433,422	102,606	1,536,028

(Forward)

	Consolidated					
	2016			2015		
	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)	**₱–**	**₱4,703**	**₱4,703**	₱–	₱4,401	₱4,401
Income taxes payable	**2,185**	**–**	**2,185**	880	–	880
Accrued interest and other expenses	**1,250**	**–**	**1,250**	1,363	–	1,363
Withholding taxes payable (Note 21)	**538**	**–**	**538**	606	–	606
Deferred tax and other liabilities (Notes 21 and 28)	**3,389**	**1,458**	**4,847**	2,790	1,405	4,195
Non-equity non-controlling interest	**–**	**7,934**	**7,934**	–	9,909	9,909
	7,362	**14,095**	**21,457**	5,639	15,715	21,354
	₱1,539,129	**₱131,327**	**₱1,670,456**	₱1,439,061	₱118,321	₱1,557,382

	Parent Company					
	2016			2015 (As Restated - Note 2)		
	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	**₱23,470**	**₱–**	**₱23,470**	₱28,570	₱–	₱28,570
Due from BSP	**203,781**	**–**	**203,781**	185,484	–	185,484
Due from other banks	**30,101**	**–**	**30,101**	26,213	–	26,213
Interbank loans receivable and SPURA (Note 7)	**73,094**	**–**	**73,094**	25,951	–	25,951
Financial assets at FVPL (Note 8)	**26,766**	**–**	**26,766**	34,568	–	34,568
AFS investments (Note 8)	**23,153**	**230,601**	**253,754**	10,982	191,490	202,472
HTM investments (Note 8)	**–**	**–**	**–**	102	175,714	175,816
Loans and receivables (Note 9)						
Receivables from customers	**414,826**	**419,014**	**833,840**	372,196	310,269	682,465
Unquoted debt securities	**386**	**113**	**499**	386	194	580
Accrued interest receivable	**5,700**	**–**	**5,700**	6,935	–	6,935
Accounts receivable	**3,250**	**–**	**3,250**	3,989	–	3,989
Sales contract receivable	**24**	**12**	**36**	136	45	181
Other receivables	**3,018**	**–**	**3,018**	28	–	28
Other assets (Note 14)						
Investments in SPVs	**8,857**	**–**	**8,857**	8,857	–	8,857
Interoffice float items	**2,346**	**–**	**2,346**	5,047	–	5,047
Miscellaneous	**–**	**426**	**426**	–	426	426
	818,772	**650,166**	**1,468,938**	709,444	678,138	1,387,582
Non-Financial Assets - at gross						
Investment in subsidiaries (Note 11)	**–**	**56,627**	**56,627**	–	57,211	57,211
Investments in associates (Note 11)	**–**	**690**	**690**	–	714	714
Property and equipment (Note 10)	**–**	**29,422**	**29,422**	–	28,730	28,730
Investment properties (Note 12)	**–**	**6,058**	**6,058**	–	6,671	6,671
Deferred tax assets (Note 28)	**–**	**6,439**	**6,439**	–	6,284	6,284
Assets held under joint operations (Note 14)	**–**	**368**	**368**	–	401	401
Retirement asset (Note 14)	**–**	**17**	**17**	–	17	17
Accounts receivable (Note 9)	**–**	**4,747**	**4,747**	–	3,985	3,985
Other assets (Note 14)	**1,367**	**3,831**	**5,198**	1,462	3,310	4,772
	1,367	**108,199**	**109,566**	1,462	107,323	108,785
	₱820,139	**₱758,365**	**1,578,504**	₱710,906	₱785,461	1,496,367
Less:						
Unearned discounts and capitalized interest (Note 9)			**195**			187
Accumulated depreciation and amortization (Notes 10, 12 and 14)			**16,170**			15,483
Allowance for credit and impairment losses (Note 15)			**18,924**			17,993
			₱1,543,215			₱1,462,704
Financial Liabilities						
Deposit liabilities						
Demand	**₱272,081**	**₱–**	**₱272,081**	₱219,772	₱–	₱219,772
Savings	**522,643**	**–**	**522,643**	446,734	–	446,734
Time	**377,771**	**10,292**	**388,063**	415,392	10,237	425,629
LTNCD	**–**	**22,900**	**22,900**	–	14,250	14,250
	1,172,495	**33,192**	**1,205,687**	1,081,898	24,487	1,106,385
Bills payable and SSURA (Note 17)	**58,927**	**9,938**	**68,865**	88,640	–	88,640
Derivative liabilities	**4,547**	**–**	**4,547**	4,145	–	4,145

(Forward)

	Parent Company					
	2016			2015 (As Restated - Note 2)		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Manager's checks and demand drafts outstanding	**₱5,171**	**₱–**	**₱5,171**	₱4,264	₱–	₱4,264
Accrued interest and other expenses	**3,217**	**186**	**3,403**	4,497	–	4,497
Subordinated debts (Note 20)	**–**	**22,404**	**22,404**	–	22,374	22,374
Other liabilities (Note 21)						
Bills purchased - contra	**20,415**	**–**	**20,415**	23,749	–	23,749
Accounts payable	**6,780**	**–**	**6,780**	6,190	–	6,190
Marginal deposits	**245**	**–**	**245**	189	–	189
Outstanding acceptances	**1,432**	**8**	**1,440**	1,624	103	1,727
	1,273,229	**65,728**	**1,338,957**	1,215,196	46,964	1,262,160
Non-Financial Liabilities						
Retirement liability (Note 27)	**–**	**3,556**	**3,556**	–	3,004	3,004
Income taxes payable	**1,177**	**–**	**1,177**	300	–	300
Accrued interest and other expenses	**1,243**	**–**	**1,243**	1,274	–	1,274
Withholding taxes payable (Note 21)	**302**	**–**	**302**	383	–	383
Other liabilities (Note 21)	**1,424**	**554**	**1,978**	1,340	484	1,824
	4,146	**4,110**	**8,256**	3,297	3,488	6,785
	₱1,277,375	**₱69,838**	**₱1,347,213**	₱1,218,493	₱50,452	₱1,268,945

23. Capital Stock

This account consists of (amounts in millions, except par value and number of shares):

	Shares		Amount	
	2016	2015	**2016**	2015
Authorized				
Preferred stock – ₱20.00 par value	**1,000,000,000**	1,000,000,000		
Common stock – ₱20.00 par value	**4,000,000,000**	4,000,000,000		
Common stock issued and outstanding				
Balance at beginning of year	**3,180,172,786**	2,744,801,066	**₱63,603**	₱54,896
Issuance of stock rights	**–**	435,371,720	**–**	8,707
Balance at end of year	**3,180,172,786**	3,180,172,786	**63,603**	63,603
HT1 Capital	**–**	–	**–**	6,351
	3,180,172,786	3,180,172,786	**₱63,603**	₱69,954

As of December 31, 2016 and 2015, treasury shares totaling 5,980,412 and 2,058,912, respectively, represent shares of the Parent Company held by FMIC's mutual fund subsidiaries (Notes 2 and 31).

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

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

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

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2016 and 2015, there are 3,129 and 3,159 holders, respectively, of the listed shares of the Parent Company, with share price closed at ₱72.60 and ₱80.50 a share, respectively. The history of share issuances during the last ten years follows:

Year	Issuance	Listing Date	Number of Shares Issued
2015	Stock rights	April 7, 2015	435,371,720
2013	Stock dividend	September 16, 2013	633,415,049
2011	Stock rights	January 24, 2011	200,000,000
2006	Public offering	October 26, 2006	173,618,400

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

- Coupons - bear interest at 9.00% per annum payable semi-annually in arrear from (and including) February 15, 2006 to (but excluding) February 15, 2016, and thereafter at a rate, reset and payable quarterly in arrear, of 6.10% per annum above the then prevailing LIBOR for three-month USD deposits. Under certain conditions, the Parent Company is not obliged to make any coupon payment if the BOD of the Parent Company, in its absolute discretion, elects not to make any coupon payment in whole or in part.

- Coupon Payment Dates - payable on February 15 and August 15 in each year, commencing on August 15, 2006 (in respect of the period from (and including) February 15, 2006 to (but excluding) August 15, 2006 and ending on February 15, 2016 (first optional redemption date); thereafter coupon amounts will be payable (subject to adjustment for days which are not business days) on February 15, May 15, August 15 and November 15 in each year commencing on May 15, 2016.

- Dividend and Capital Stopper - in the event that any coupon payment is not made, the Parent Company: (a) will not declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on any junior share capital or any parity securities; or (b) will not redeem, purchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities. Such dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity unless and until payment is made to the holders in an amount equal to the unpaid amount, if any, of coupon payments in respect of coupon periods in the 12 months including and immediately preceding the date such coupon payment was due, and the BSP does not otherwise object.

- Redemption
  - may be redeemed at the option of the Parent Company (but not the holders) under optional redemption, tax event call, and regulatory event call, subject to limitation of the terms of the issuance.
  - may not be redeemed (i) for so long as the dividend and capital stopper is in force; and (ii) without the prior written approval of the BSP which, as of February 8, 2006, is subject to the following conditions: (a) the Parent Company's capital adequacy must be at least equal to the BSP's minimum capital ratio; and (b) the HT1 Capital are simultaneously replaced with the issue of new capital which is neither smaller in size nor lower in quality than the original issue.

The HT1 Capital is unsecured and subordinated to the claims of senior creditors. In the event of the dissolution or winding-up of the Parent Company, holders will be entitled, subject to satisfaction of certain conditions and applicable law, to receive a liquidation distribution equivalent to the liquidation preference. Also, the HT1 Capital is not treated as deposit and is not guaranteed or insured by the Parent Company or any of its related parties or the PDIC and these may not be used as collateral for any loan availments. The Parent Company or any of its subsidiaries may not at any time purchase HT1 Capital except as permitted under optional redemption, tax event call, and regulatory event call as described in the terms of issuance. The HT1 Capital is sold to non-U.S. persons outside the United States pursuant to Regulation under the U.S. Securities Act of 1933, as amended, and represented by a global certificate registered in the name of a nominee of, and deposited with, a common depository for Euroclear and Clearstream.

The Parent Company paid the semi-annual coupon amounting to USD5.6 million from 2006 to 2016 after obtaining their respective BSP approvals. Details of approvals and payments from 2014 to 2016 are as follows:

Date of BSP Approval	Date Paid
January 28, 2016	February 16, 2016
July 24, 2015	August 17, 2015
February 9, 2015	February 17, 2015
August 1, 2014	August 15, 2014
February 10, 2014	February 15, 2014

Details of the Parent Company's cash dividend distributions from 2014 to 2016 follow:

Date of Declaration	Per Share	Total Amount	Date of BSP Approval	Record Date	Payment Date
March 16, 2016	₱1.00	₱3,180	a/	April 1, 2016	April 8, 2016
January 27, 2015	1.00	2,745	March 3, 2015	March 26, 2015	March 31, 2015
March 26, 2014	1.00	2,745	April 15, 2014	May 7, 2014	May 16, 2014
January 23, 2013	1.00	2,111	February 8, 2013	March 8, 2013	April 3, 2013

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

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

24. Surplus Reserves

This account consists of:

	2016	2015
Reserve for trust business (Note 29)	**₱1,215**	₱1,090
Reserve for self-insurance	**438**	416
	₱1,653	₱1,506

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

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

25. Miscellaneous Income and Expenses

In 2016, 2015 and 2014, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱834.4 million, ₱713.4 million and ₱748.5 million, respectively, for the Group and ₱24.2 million, ₱21.4 million and ₱53.6 million, respectively, for the Parent Company; recovery on charged-off assets amounting to ₱774.0 million, ₱722.2 million and ₱562.6 million, respectively, for the Group and ₱28.3 million, ₱10.2 million and ₱10.5 million, respectively, for the Parent Company; and information technology and other fees amounting to ₱354.0 million, ₱432.8 million and ₱326.1 million, respectively, for the Parent Company (Note 31).

Miscellaneous expenses consist of:

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015	2014
Insurance	**₱2,832**	₱2,712	₱2,317	**₱2,203**	₱2,140	₱1,823
Security, messengerial and janitorial	**2,265**	2,117	2,016	**1,830**	1,651	1,628
Advertising	**1,499**	920	738	**803**	216	66
Information technology (Note 31)	**809**	827	644	**581**	621	451
Litigation (Note 12)	**644**	640	678	**249**	291	395
Supervision fees	**616**	573	507	**516**	469	424
Management and professional fees	**600**	775	548	**351**	567	298
Communications	**600**	603	567	**84**	62	43
Repairs and maintenance	**557**	591	580	**286**	301	265
Entertainment, amusement and representation (EAR) (Note 28)	**505**	290	320	**461**	246	284
Transportation and travel	**501**	463	442	**344**	315	307
Stationery and supplies used	**426**	490	536	**264**	319	338
Others (Note 31)	**1,785**	1,183	1,396	**909**	518	658
	₱13,639	₱12,184	₱11,289	**₱8,881**	₱7,716	₱6,980

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

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

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Interbank loans receivable and SPURA	**₱91,646**	₱36,118	₱119,839	**₱73,094**	₱25,951	₱108,441
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(15,778)**	(4,586)	(7,651)	**(7,644)**	(2,423)	(7,651)
	₱75,868	₱31,532	₱112,188	**₱65,450**	₱23,528	₱100,790

Significant non-cash transactions of the Group and the Parent Company include reclassification of remaining HTM investments to AFS investments in 2016 as discussed in Note 8; foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; accrual of cash dividends from subsidiaries and SMBC Metro as disclosed in Notes 11 and 31; reclassification of investment in LCMC in 2015 and 2014 (Note 11); reclassifications of building under construction (Note 10); and reclassification of assets held under joint operations amounting to ₱0.5 million to investment properties in 2014.

27. **Retirement Plan and Other Employee Benefits**

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

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

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

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

	Parent Company	**FMIC**	**PSBank**	**MCC**	**ORIX Metro**
As of January 1, 2016					
Average remaining working life	**10 years**	**7 to 10 years**	**12 years**	**12 years**	**13 to 27 years**
Discount rate	**4.79%**	**4.93% to 5.08%**	**5.01%**	**5.23%**	**4.59% to 5.56%**
Future salary increases	**8.00%**	**5.00%**	**5.00%**	**8.70%**	**8.00%**
As of January 1, 2015					
Average remaining working life	8 years	7 to 10 years	9 years	10 years	22 to 42 years
Discount rate	4.32%	4.42% to 4.65%	4.55%	4.80%	4.92% to 5.50%
Future salary increases	8.00%	10.00%	8.00%	9.00%	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, 2016 and 2015 follow:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2016	**5.11%**	**5.11% to 5.49%**	**5.31%**	**4.84%**	**3.89% to 5.36%**
2015	4.79%	4.93% to 5.08%	5.01%	5.23%	4.59% to 5.56%

Net retirement liability included in 'Other liabilities' as of December 31, 2016 and 2015 amounted to ₱4.7 billion and ₱4.4 billion, respectively, for the Group and ₱3.6 billion and ₱3.0 billion, respectively, for the Parent Company (Note 21).

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cash	**₱33**	₱–	**₱–**	₱–
Due from BSP	**602**	548	**–**	186
Deposit in banks	**251**	130	**98**	51
	886	678	**98**	237
Financial assets at FVPL				
Equity securities	**17**	185	**–**	169
Debt securities	**62**	–	**–**	–
Unit investment trust fund and others	**468**	–	**464**	–
Total financial assets at FVPL	**547**	185	**464**	169
AFS investments - net				
Quoted debt instruments				
Private	**1,441**	964	**817**	826
Government	**8,433**	7,916	**7,691**	7,314
	9,874	8,880	**8,508**	8,140
Equity securities				
Quoted	**2,439**	2,677	**2,355**	2,144
Unquoted	**213**	213	**13**	13
	2,652	2,890	**2,368**	2,157
Investment funds	**382**	166	**234**	28
Total AFS investments	**12,908**	11,936	**11,110**	10,325
Loans and discounts - net	**71**	72	**71**	72
Other receivables - net	**142**	143	**128**	128
Liabilities	**(23)**	(11)	**–**	(7)
Total assets	**₱14,531**	₱13,003	**₱11,871**	₱10,924

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

Consolidated	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
January 1, 2016	**₱17,404**	**(₱13,003)**	**₱4,401**
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	**1,448**	**–**	**1,448**
Past service cost	**3**	**–**	**3**
Net interest	**831**	**(627)**	**204**
Sub-total	**2,282**	**(627)**	**1,655**
Benefits paid	**(845)**	**845**	**–**
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	**–**	**360**	**360**

(Forward)

Consolidated	**Present Value of DBO**	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
Actuarial changes arising from experience adjustments	**₱1,896**	**₱–**	**₱1,896**
Actuarial changes arising from changes in financial/demographic assumptions	**(1,549)**	**(1)**	**(1,550)**
Sub-total	**347**	**359**	**706**
Contributions paid	–	**(2,105)**	**(2,105)**
December 31, 2016	**₱19,188**	**(₱14,531)**	**₱4,657**

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

Changes in net defined benefit liability of funded funds in 2015 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2015	₱15,206	(₱11,653)	₱3,553
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	1,269	–	1,269
Past service cost	55	–	55
Net interest	657	(506)	151
Sub-total	1,981	(506)	1,475
Benefits paid	(939)	939	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	519	519
Actuarial changes arising from experience adjustments	1,507	–	1,507
Actuarial changes arising from changes in financial/demographic assumptions	(351)	4	(347)
Sub-total	1,156	523	1,679
Contributions paid	–	(2,306)	(2,306)
December 31, 2015	₱17,404	(₱13,003)	₱4,401

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2015	₱12,400	(₱9,834)	₱2,566
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	934	–	934
Net interest	527	(421)	106
Sub-total	1,461	(421)	1,040
Benefits paid	(762)	762	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	435	435
Actuarial changes arising from experience adjustments	1,078	–	1,078
Actuarial changes arising from changes in financial/demographic assumptions	(249)	–	(249)
Sub-total	829	435	1,264
Contributions paid	–	(1,866)	(1,866)
December 31, 2015	₱13,928	(₱10,924)	₱3,004

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of December 31, 2016 and 2015, assuming all other assumptions were held constant:

	Parent Company	**FMIC**	**PSBank**	**MCC**	**Orix Metro**
As of December 31, 2016					
Discount rate					
+100 basis points (bps)	**₱14,460**	**₱258**	**₱2,032**	**₱859**	**₱282**
- 100 bps	**16,513**	**296**	**2,444**	**1,094**	**371**
Salary increase rate					
+100 bps	**16,414**	**298**	**2,461**	**1,065**	**366**
- 100 bps	**14,528**	**256**	**2,014**	**878**	**286**
Turnover rate					
+50 bps	–	–	–	**896**	–
+300 bps	**15,093**	–	–	–	–
- 25 bps	–	–	–	**1,008**	–
- 300 bps	**15,720**	–	–	–	–
As of December 31, 2015					
Discount rate					
+100 bps	13,279	351	1,911	727	239
- 100 bps	14,698	417	2,098	926	316
Salary increase rate					
+100 bps	14,758	414	2,151	897	311
- 100 bps	13,171	354	1,914	750	242
Turnover rate					
+300 bps	13,595	–	–	–	–
- 300 bps	14,312	–	–	–	–

The Group and Parent Company expect to contribute to the defined benefit retirement plans the required funding for normal cost in 2017 amounting to ₱1.6 billion and ₱1.2 billion, respectively.

The average duration of the DBO of the Group as of December 31, 2016 and 2015 are as follows:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2016	**11.98 years**	**12.56 to 18.70 years**	**16.49 years**	**16.79 years**	**12.90 to 17.30 years**
2015	12.70 years	14.47 to 21.84 years	16.75 years	17.44 years	12.70 to 17.60 years

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

	Parent Company	FMIC	PSBank	MCC	Orix Metro
As of December 31, 2016					
Less than 1 year	**₱1,730**	**₱27**	**₱147**	**₱24**	**₱4**
More than 1 year to 5 years	**6,590**	**135**	**661**	**152**	**15**
More than 5 years to 10 years	**11,596**	**219**	**1,365**	**447**	**158**
More than 10 years to 15 years	**8,195**	**221**	**2,014**	**1,227**	**–**
More than 15 years to 20 years	**6,661**	**184**	**1,954**	**1,733**	**–**
More than 20 years	**9,180**	**278**	**4,096**	**1,922**	**–**
As of December 31, 2015					
Less than 1 year	1,147	33	212	36	5
More than 1 year to 5 years	7,094	150	669	178	2
More than 5 years to 10 years	11,167	236	1,267	434	96
More than 10 years to 15 years	8,190	417	1,754	1,172	–
More than 15 years to 20 years	6,680	379	1,584	1,708	–
More than 20 years	8,130	695	3,347	1,711	–

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 2016 and 2015 amounted to ₱249.0 million and ₱224.4 million, respectively.

As of December 31, 2016 and 2015, the retirement fund of the Parent Company’s employees amounting to ₱11.9 billion and ₱10.9 billion, respectively, is being managed by the Parent Company’s Trust Banking Group (as defined in the trust agreement), which has a Trust Committee that is mandated to approve, the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee. Directors’ fees and bonuses of the Parent Company in 2016, 2015 and 2014 amounted to ₱59.4 million, ₱61.2 million and ₱49.3 million, respectively, while, officers’ compensation and benefits of the Parent Company aggregated to ₱6.8 billion, ₱6.2 billion and ₱5.7 billion, respectively.

28. Income and Other Taxes

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

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

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

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

Foreign Branches	Tax Rates
USA - New York (NY) Branch	20.00% income tax; business taxes - 0.01% (NY City)
Japan - Tokyo and Osaka Branches	23.90% income tax; various rates for business taxes - income tax, local business, sheet value and sheet capital allocations
Korea - Seoul and Pusan Branches	20.00% income tax; 0.50% education tax
Taiwan - Taipei Branch	17.00% income tax; 5.00% gross business receipts tax; 5.00% VAT

The provision for income tax consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Current:						
Final tax	**₱3,235**	₱3,895	₱3,607	**₱2,509**	₱3,323	₱2,919
RCIT*	**3,779**	2,036	2,392	**1,382**	129	692
MCIT	**–**	324	4	**–**	324	4
	7,014	6,255	6,003	**3,891**	3,776	3,615
Deferred*	**(392)**	(1,018)	456	**(1)**	(570)	740
	₱6,622	₱5,237	₱6,459	**₱3,890**	₱3,206	₱4,355

* Includes income taxes of foreign subsidiaries.

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱6,215**	₱6,328	**₱4,310**	₱4,588
Retirement liability	**1,408**	1,284	**1,094**	921
Unamortized past service cost	**969**	911	**860**	867
Accumulated depreciation of investment properties	**380**	386	**284**	303
Unrealized losses	**308**	305	**294**	305
Deferred membership/awards	**189**	124	**–**	–
Others	**411**	376	**117**	106
	9,880	9,714	**6,959**	7,090
Deferred tax liability on:				
Unrealized gains	**367**	571	**293**	548
Unrealized gain on initial measurement of investment properties	**580**	563	**227**	258
Others	**78**	153	**–**	–
	1,025	1,287	**520**	806
Net deferred tax assets	**₱8,855**	₱8,427	**₱6,439**	₱6,284

Components of net deferred tax liabilities of the Group follow:

	2016	2015
Deferred tax asset on:		
Retirement liability	**₱20**	₱56
Allowance for credit and impairment losses	**–**	31
Unamortized past service cost	**–**	13
Others	**154**	127
	174	227
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**467**	437
Unrealized gain	**19**	34
Others	**–**	207
	486	678
Net deferred tax liabilities	**₱312**	₱451

As of December 31, 2016 and 2015, no deferred tax asset was recognized on the following temporary differences: (a) allowance for credit and impairment losses amounting to ₱4.1 billion and ₱2.5 billion, respectively, for the Group and ₱3.5 billion and ₱1.7 billion, respectively, for the Parent Company; (b) NOLCO of ₱1.2 billion and ₱1.3 billion, respectively, for the Group and ₱220.2 million and ₱234.4 million, respectively, for the Parent Company; (c) MCIT of ₱16.4 million and ₱38.3 million, respectively, for the Group and ₱9.9 million and ₱9.7 million, respectively, for the Parent Company; and (d) others amounting to ₱10.7 thousand and ₱2.3 million, respectively, for the Group. The Group believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

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

Details of the excess MCIT credits follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2013	₱25	₱25	₱–	2016	₱3	₱3	₱–	2016
2014	4	–	4	2017	4	–	4	2017
2015	10	–	10	2018	3	–	3	2018
2016	3	–	3	2019	3	–	3	2019
	₱42	₱25	₱17		₱13	₱3	₱10	

Details of the NOLCO follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2013	₱374	₱374	₱–	2016				
2014	335	–	335	2017				
2015	566	29	537	2018	₱234	₱14	₱220	2018
2016	301	–	301	2019				
	₱1,576	₱403	₱1,173		₱234	₱14	₱220	

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

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effect of:						
Tax-paid and tax-exempt income	**(13.15)**	(10.56)	(16.49)	**(11.84)**	(9.38)	(10.77)
Non-deductible interest expense	**4.90**	6.62	6.98	**3.39**	4.52	3.45
Non-recognition of deferred tax asset	**(2.44)**	(2.29)	(1.03)	**(2.52)**	(2.61)	(1.45)
FCDU income	**(3.30)**	(0.84)	(0.94)	**(3.10)**	(0.89)	(1.32)
Others - net	**8.57**	(2.69)	4.15	**1.77**	(6.95)	(2.11)
Effective income tax rate	**24.58%**	20.24%	22.67%	**17.70%**	14.69%	17.80%

29. Trust Operations

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

In compliance with current banking regulations relative to the Parent Company and certain subsidiaries' trust functions, government securities with the following total face values are deposited with the BSP.

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
HFT investments	**₱–**	₱33	**₱–**	₱–
AFS investments	**5,072**	5,040	**5,000**	5,000
	₱5,072	₱5,073	**₱5,000**	₱5,000

30. Commitments and Contingent Liabilities

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

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Trust Banking Group accounts (Note 29)	**₱427,741**	₱357,001	**₱422,812**	₱351,878
Commitments				
Credit card lines	**132,901**	97,964	**–**	–
Undrawn - facilities to lend	**20,521**	18,404	**20,521**	18,404
Unused commercial letters of credit (Note 31)	**46,678**	38,073	**45,725**	37,262
Bank guaranty with indemnity agreement (Note 31)	**12,045**	11,320	**12,045**	11,320
Credit line certificate with bank commission	**5,322**	4,722	**5,322**	4,722
Outstanding shipside bonds/airway bills (Note 31)	**4,712**	2,685	**4,712**	2,685
Late deposits/payments received	**2,292**	1,237	**2,229**	1,180
Inward bills for collection	**930**	715	**929**	713
Outward bills for collection	**622**	486	**622**	485
Outstanding guarantees (Note 31)	**117**	109	**117**	109
Confirmed export letters of credits	**109**	109	**97**	68
Others	**12,137**	10,801	**5,550**	405
	₱666,127	₱543,626	**₱520,681**	₱429,231

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 final withholding tax on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe Bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20-percent final withholding tax be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. The respondents have not complied with the said TRO, i.e., they have not credited the banks' escrow accounts with the amount corresponding to the questioned 20-percent final tax. On January 13, 2015, the Court promulgated a Decision granting the petition. BIR Ruling No. 370-2011 was nullified, and the respondent BTr was ordered to immediately release and pay to the bondholders the amount corresponding to the 20.00% final withholding tax withheld on October 18, 2011. On March 13, 2015, respondents filed a Motion for Reconsideration and Clarification of the Court's Decision. On August 16, 2016, the Court issued a Resolution denying the respondents' Motion for Reconsideration and Clarification, and ordered the respondent BTr to immediately release and pay the bondholders for the 20.00% final withholding tax on the PEACe Bonds, with legal interest of 6.00% per annum from October 19, 2011 until full payment. On October 19, 2016, the respondents' filed a Motion for Leave (i) to File Motion for Partial Reconsideration and (ii) to Admit Motion for Partial Reconsideration of the said Resolution. On November 22, 2016, the Court issued a Resolution denying the said Motion, considering that a second motion for reconsideration is a prohibited pleading under the Rules of Civil Procedure. The Resolution also stated that no further pleadings or motions will be entertained. To date, entry of judgment is yet to be received.

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

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities and are classified as entities with significant influence, subsidiaries, associates, other related parties and key personnel (Notes 2 and 11).

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

The Parent Company has a Related Party Transactions Committee (RPTC) and a Related Party Transactions Management Committee (RPTMC), both of which are created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTC and RPTMC disclose all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD, composed of at least three (3) Board non-executive members, two (2) of whom should be independent directors, including the Chairperson. Currently, RPTC is composed of three (3) independent directors (including the Committee's Chairman); the head of Internal Audit Group (as Resource Person); and the Compliance Officer (as the Committee Secretary) and meets monthly or as the need arises. On the other hand, RPTMC members are appointed annually by the President, composed of four (4) members.

RPTC's and RPTMC's review of the proposed related party transactions considers the following: (a) identity of the parties involved in the transaction or relationship; (b) terms of the transaction or relationship and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances; (c) business purpose, timing, rationale and benefits of the transaction or relationship; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; (j) extent that such transaction or relationship would present an improper conflict of interest; and (k) the availability of other sources of comparable products or services. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, except in order to provide material information on the related party transaction to RPTC.

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

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

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

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Total outstanding DOSRI accounts	**₱4,205**	₱6,713	**₱2,270**	₱4,944
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	**0.40%**	0.76%	**0.27%**	0.72%
Percent of DOSRI accounts to total loans	**0.40%**	0.76%	**0.27%**	0.72%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**13.97%**	14.04%	**8.65%**	13.17%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	5.68%	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	5.68%	**0.00%**	0.00%

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2016 and 2015, 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 7.14% and 2.57%, respectively, of the Parent Company's net worth.

Further, BSP issued Circular No. 654 that 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, 2016 and 2015, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.50% of such net worth.

Total interest income on the DOSRI loans in 2016, 2015 and 2014 amounted to ₱124.3 million, ₱107.2 million and ₱117.0 million, respectively, for the Group and ₱88.6 million, ₱55.6 million and ₱56.5 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, 2016	
Category	**Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	**₱2,135**	With annual fixed interest rate of 1.75% including time deposits with maturity term of 30 days (Note 16)
Bills payable*	**303**	Peso borrowing subject to annual fixed interest rate of 2.00% with maturity term of 17 days (Note 17)
Amount/Volume:		
Deposit liabilities	**(4,249)**	Generally similar to terms and conditions above
Miscellaneous income	**327**	Other income from sale of securities of FMIC
Service charges, fees and commisions	**444**	FMIC's advisory and underwriting fees charged to GT Capital
Interest expense	**46**	Interest expense on deposit liabilities and bills payable (Note 16)
Outright sale of securities	**3,259**	Outright sale of AFS investments of FMIC
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱6,094**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.97% to 2.90% with maturity terms from 14 days to 372 days, no impairment (Note 7)
Receivables from customers*	**2,364**	Unsecured with no impairment With annual fixed interest rates ranging from 2.45% to 2.80% and maturity terms from 6 days to 275 days (Note 9)
Accounts receivable	**337**	Outstanding remittance receivables, service fees, rental fees and common use service area fees, non-interest bearing
Other receivables	**2,980**	Dividends receivable from FMIC (Notes 9 and 11)
Derivative assets	**66**	Fair value of forward leg swap bought and forward exchange sold with various terms
Deposit liabilities*	**4,778**	With annual fixed interest rates ranging from 0.00% to 1.75% including time deposits with maturity terms from 5 days to 364 days (Note 16)
Bills payable	**7**	Peso borrowings subject to annual fixed interest rates ranging from 1.13% to 1.25% with maturity terms from 15 days to 17 days (Note 17)
Bonds payable*	**520**	Issued by FMIC with interest rates ranging from 1.38% to 5.75% with maturity terms from 42 days to 7 years (Note 19)
Treasury stock	**485**	Parent Company's shares held by FMIC's mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	**4,681**	Generally similar to terms and conditions above
Receivables from customers	**(929)**	Generally similar to terms and conditions above
Accounts receivable	**58**	Generally similar to terms and conditions above
Deposit liabilities	**(492)**	Generally similar to terms and conditions above
Bills payable	**(4,412)**	Generally similar to terms and conditions above
Bonds payable	**70**	Generally similar to terms and conditions above
Interest income	**111**	Income on receivables from customers (Note 9) and interbank loans receivables (Note 7)
Service charges, fees and commissions	**88**	Income from transactional fees
Trading and securities gain - net	**48**	Net gain from securities transactions; includes gain on sale of PSBank shares by FMIC (Note 11)
Foreign exchange gain - net	**69**	Net gain from foreign exchange transactions
Leasing income	**84**	Income from leasing agreements with various lease terms
Miscellaneous income	**600**	Information technology and other fees; gain on buy back of shares
Interest expense	**92**	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16 and 17)
Miscellaneous expense	**126**	Management and other professional fees and merchant discount (Note 25)
Dividends declared	**4,802**	Dividends declared by PSBank, MCC, Metrobank Bahamas and FMIC (Note 11)
Contingent		
Derivatives	**2,668**	Outright forward exchange sold and swap bought with various terms

(Forward)

Category	Consolidated December 31, 2016 Amount	Terms and Conditions/Nature
Securities transactions		
Purchases	**₱53,716**	Outright purchases of HFT securities and AFS investments
Sales	**56,565**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**46,284**	Outright purchases of foreign currency
Sell	**40,745**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Accounts receivable	**₱1**	Rental fees, non-interest bearing
Other receivables	**30**	Dividends receivable from SMBC Metro (Notes 9 and 11)
Deposit liabilities*	**751**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 days to 63 days (Note 16)
Amount/Volume:		
Accounts receivable	**1**	Generally similar to terms and conditions above
Deposit liabilities	**(1,037)**	Generally similar to terms and conditions above (Note 16)
Trading and securities gain - net	**3**	Net gain from securities transactions
Foreign exchange loss - net	**(3)**	Net loss from foreign exchange transactions
Leasing income	**20**	Income from leasing agreements with various lease terms
Interest expense	**4**	Interest expense on deposit liabilities (Note 16)
Dividends declared	**55**	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	**680**	Outright purchases of HFT securities and AFS investments
Outright sales	**1,500**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**680**	Outright purchases of foreign currency
Sell	**1,802**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱8,178**	Secured - ₱3.3 billion and unsecured - ₱4.9 billion, no impairment With annual fixed interest rates ranging from 1.50% to 8.50% and maturity terms from 30 days to 5 years (Note 9)
Accounts receivable	**3**	Credit card receivables, non-interest bearing
Assets held under joint operations	**368**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**20,406**	With annual fixed interest rates ranging from 0.00% to 2.38% including time deposits with maturity terms from 5 days to 365 days (Note 16)
Bills payable*	**714**	Peso-denominated borrowings subject to annual fixed interest rates ranging from 1.25% to 2.25% with maturity terms from 17 days to 183 days (Note 17)
Amount/Volume:		
Receivables from customers	**(1,738)**	Generally similar to terms and conditions above
Accounts receivable	**1**	Generally similar to terms and conditions above
Deposit liabilities	**4,276**	Generally similar to terms and conditions above
Bills payable	**(2,525)**	Generally similar to terms and conditions above
Interest income	**223**	Interest income on receivables from customers (Note 9)
Foreign exchange loss - net	**(17)**	Net loss from foreign exchange transactions
Leasing income	**19**	Income from leasing agreements with various lease terms
Interest expense	**292**	Interest expense on deposit liabilities (Note 16) and bills payable (Note 17)
Contingent		
Unused commercial LCs	**68**	LC transactions with various terms
Others	**3**	Bank guaranty with indemnity agreement
Securities transactions		
Outright purchases	**404**	Outright purchases of HFT securities and AFS investments
Outright sales	**4,671**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**83**	Outright purchases of foreign currency
Sell	**73,761**	Outright sale of foreign currency

(Forward)

Category	Consolidated December 31, 2016 Amount	Terms and Conditions/Nature
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱80**	Secured - ₱55.9 million and unsecured - ₱24.5 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 2 years to 15 years (Note 9)
Deposit liabilities	**173**	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	**(2)**	Generally similar to terms and conditions above
Deposit liabilities	**38**	Generally similar to terms and conditions above
Interest income	**4**	Interest income on receivables from customers (Note 9)

Category	Consolidated December 31, 2015 Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	₱6,384	With annual fixed interest rates ranging from 0.00% to 2.50% including time deposits with maturity terms from 21 days to 38 days (Note 16)
Amount/Volume:		
Receivables from customers	(402)	Secured - ₱280.0 million and unsecured - ₱122.4 million, no impairment Settlement of short-term loan with interest rate of 3.25% subject to regular repricing with maturity terms from 31 days to 91 days (Note 9)
Deposit liabilities	6,035	Generally similar to terms and conditions above
Interest expense	7	Interest expense on deposit liabilities (Note 16)
Foreign currency		
Sell	6	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱1,413	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.71% to 2.01% with maturity terms from 99 days to 373 days, no impairment (Note 7)
Receivables from customers*	3,043	Unsecured with no impairment With annual fixed interest rates ranging from 2.25% to 5.59% and maturity terms from 2 days to 5 years (Note 9)
Accounts receivable	279	Outstanding remittance receivables, credit card receivables and rental fees, non-interest bearing
Deposit liabilities*	5,270	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 6 days to 270 days (Note 16)
Bills payable*	4,419	Peso and foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 1 day to 45 days (Note 17)
Bonds payable*	450	Issued by FMIC with interest rates ranging from 5.50% to 5.75% with maturity terms from 2 years to 5 years, covered by deed of assignments on government securities (Note 19)
Treasury stock	187	Parent Company’s shares held by FMIC’s mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	(350)	Generally similar to terms and conditions above
Receivables from customers	196	Generally similar to terms and conditions above
Deposit liabilities	(62)	Generally similar to terms and conditions above
Bills payable	1,627	Generally similar to terms and conditions above
Bonds payable	(60)	Generally similar to terms and conditions above
Interest income	97	Income on receivables from customers (Note 9) and interbank loans receivables (Note 7)
Service charges, fees and commissions	40	Income from transactional fees
Trading and securities loss - net	(14)	Net loss from securities transactions
Foreign exchange gain - net	210	Net gain from foreign exchange transactions

(Forward)

	Consolidated	
	December 31, 2015	
Category	Amount	Terms and Conditions/Nature
Leasing income	₱87	Income from leasing agreements with various lease terms
Miscellaneous income	433	Information technology and other fees
Interest expense	47	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16 and 17)
Miscellaneous expense	49	Call center services and other fees (Note 25)
Dividends declared	1,817	Dividends declared by PSBank and MCC (Note 11)
Securities transactions		
Purchases	51,123	Outright purchases of HFT securities and AFS investments
Sales	50,340	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	43,072	Outright purchases of foreign currency
Sell	38,624	Outright sale of foreign currency
Other transaction		
Underwriting/Arranging agreement	102	Arranging and underwriting fee of FMIC relative to the Parent Company's SRO in 2015
Associates		
Outstanding Balance:		
Other receivables	₱18	Dividend receivable from SMBC Metro
Deposit liabilities*	1,788	With annual fixed interest rates ranging from 0.00% to 1.75% including time deposits with maturity terms from 7 days to 90 days (Note 16)
Amount/Volume:		
Deposit liabilities	74	Generally similar to terms and conditions above (Note 16)
Bills payable	(1)	Settlement of peso-denominated borrowings subject to annual fixed interest rate of 0.63% with maturity term of 91 days (Note 17)
Foreign exchange gain - net	2	Income from foreign exchange transactions
Leasing income	19	Income from leasing agreements with various lease terms
Interest expense	2	Interest expense on deposit liabilities (Note 16)
Dividends declared	25	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	406	Outright purchases of HFT securities and AFS investments
Outright sales	1,183	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	48	Outright purchases of foreign currency
Sell	271	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱9,916	Secured - ₱9.6 billion and unsecured - ₱270.5 million, no impairment With annual fixed interest rates ranging from 3.00% to 10.37% and maturity terms from 30 days to 12 years (Note 9)
Accounts receivable	2	Credit card receivables, non-interest bearing
Building under construction	4,547	Commercial and office spaces located at Bonifacio Global City, Taguig City purchased from BLRDC (Note 10)
Assets held under joint operations	401	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	16,130	With annual fixed interest rates ranging from 0.00% to 2.55% including time deposits with maturity terms from 6 days to 367 days (Note 16)
Bills payable*	3,239	Peso-denominated borrowings subject to annual fixed interest rates ranging from 1.63% to 5.54% with maturity terms from 28 days to 5 years (Note 17)
Amount/Volume:		
Receivables from customers	(2,102)	Generally similar to terms and conditions above
Deposit liabilities	(7,090)	Generally similar to terms and conditions above
Bills payable	(254)	Generally similar to terms and conditions above
Interest income	833	Interest income on receivables from customers (Note 9)
Foreign exchange loss - net	(25)	Net loss from foreign exchange transactions
Leasing income	22	Income from leasing agreements with various lease terms
Profit from assets sold	603	Gain on sale of investment properties to FLI (Notes 10 and 12)
Interest expense	165	Interest expense on deposit liabilities (Note 16) and bills payable (Note 17)

(Forward)

Category	Consolidated December 31, 2015 Amount	Terms and Conditions/Nature
Contingent		
Unused commercial LCs	₱113	LC transactions with various terms
Others	2	Bank guaranty with indemnity agreement
Securities transactions		
Outright purchases	43	Outright purchases of HFT securities and AFS investments
Outright sales	144	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	465	Outright purchases of foreign currency
Sell	39,794	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱82	Secured - ₱58.2 million and unsecured - ₱23.6 million, no impairment, with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 2 years to 15 years (Note 9)
Deposit liabilities	135	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	(8)	Generally similar to terms and conditions above
Deposit liabilities	27	Generally similar to terms and conditions above
Interest income	5	Interest income on receivables from customers (Note 9)

Category	**Parent Company December 31, 2016 Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	**₱2,135**	With annual fixed interest rate of 1.75% including time deposits with maturity term of 30 days (Note 16)
Amount/Volume:		
Deposit liabilities	**(4,249)**	Generally similar to terms and conditions above
Interest expense	**38**	Interest expense on deposit liabilities (Note 16)
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱6,094**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.97% to 2.90% with maturity terms from 14 days to 372 days, no impairment (Note 7)
Receivables from customers*	**2,364**	Unsecured with no impairment With annual fixed interest rates ranging from 2.45% to 2.80% and maturity terms from 6 days to 275 days (Note 9)
Accounts receivable	**294**	Outstanding information technology fees and remittance receivable, non-interest bearing
Other receivables	**2,880**	Dividends receivable from FMIC (Note 9)
Derivative assets	**66**	Fair value of forward leg swap bought and forward exchange sold with various terms
Deposit liabilities*	**3,672**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 days to 364 days (Note 16)
Treasury stock	**485**	Parent Company's shares held by FMIC's mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	**4,681**	Generally similar to terms and conditions above
Receivables from customers	**(929)**	Generally similar to terms and conditions above
Accounts receivable	**17**	Generally similar to terms and conditions above
Deposit liabilities	**(1,530)**	Generally similar to terms and conditions above
Bills payable	**(3,876)**	Foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 1 day to 33 days (Note 17)
Interest income	**108**	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**35**	Income from transactional fees
Trading and securities gain - net	**141**	Net gain from securities transactions
Foreign exchange gain - net	**69**	Net gain from foreign exchange transactions

(Forward)

Category	Parent Company December 31, 2016 Amount	Terms and Conditions/Nature
Leasing income	**₱34**	Income from leasing agreements with various lease terms
Miscellaneous income	**354**	Information technology and other fees (Note 25)
Interest expense	**37**	Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17)
Miscellaneous expense	**126**	Management and other professional fees and merchant discount
Dividends declared	**4,802**	Dividends declared by PSBank, MCC, Metrobank Bahamas and FMIC (Note 11)
Contingent		
Derivatives	**2,668**	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	**44,108**	Outright purchases of HFT securities and AFS investments
Sales	**46,036**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**46,284**	Outright purchases of foreign currency
Sell	**40,745**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Other receivables	**₱30**	Dividends receivable from SMBC Metro (Note 9)
Deposit liabilities*	**739**	With annual fixed interest rates ranging from 0.00% to 1.13% including time deposits with maturity terms from 5 days to 63 days (Note 16)
Amount/Volume:		
Deposit liabilities	**(1,044)**	Generally similar to terms and conditions above
Trading and securities gain - net	**3**	Net gain from securities transactions
Foreign exchange loss - net	**(3)**	Net loss from foreign exchange transactions
Leasing income	**8**	Income from leasing agreements with various lease terms
Interest expense	**4**	Interest expense on deposit liabilities
Dividends declared	**55**	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	**680**	Outright purchases of HFT securities and AFS investments
Outright sales	**1,500**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**680**	Outright purchases of foreign currency
Sell	**1,802**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱8,175**	Secured - ₱3.3 billion and unsecured - ₱4.9 billion, no impairment With annual fixed interest rates ranging from 1.50% to 5.29% and maturity terms from 30 days to 5 years (Note 9)
Assets held under joint operations	**368**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**13,777**	With annual fixed interest rates ranging from 0.00% to 2.38% including time deposits with maturity terms from 5 days to 365 days (Note 16)
Amount/Volume:		
Receivables from customers	**(1,036)**	Generally similar to terms and conditions above
Deposit liabilities	**1,769**	Generally similar to terms and conditions above
Interest income	**223**	Interest income on receivables from customers
Foreign exchange loss - net	**(17)**	Net loss from foreign exchange transactions
Leasing income	**19**	Income from leasing agreements with various lease terms
Interest expense	**50**	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	**68**	LC transactions with various terms
Others	**3**	Bank guaranty with indemnity agreement
Securities transactions		
Outright purchases	**143**	Outright purchases of HFT securities and AFS investments
Sales	**3,825**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**83**	Outright purchases of foreign currency
Sell	**73,761**	Outright sale of foreign currency

(Forward)

	Parent Company	
	December 31, 2016	
Category	**Amount**	**Terms and Conditions/Nature**
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱62**	Secured - ₱50.9 million and unsecured - ₱10.7 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities	**173**	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	**3**	Generally similar to terms and conditions above
Deposit liabilities	**38**	Generally similar to terms and conditions above
Interest income	**2**	Interest income on receivables from customers (Note 9)

	Parent Company	
	December 31, 2015	
Category	Amount	Terms and Conditions/Nature
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	₱6,384	With annual fixed interest rates ranging from 0.00% to 2.50% including time deposits with maturity terms from 21 days to 38 days (Note 16)
Amount/Volume:		
Receivables from customers	(402)	Secured - ₱280.0 million and unsecured - ₱122.4 million, no impairment Settlement of short-term loan with interest rate of 3.25% subject to regular repricing with maturity terms from 31 days to 91 days (Note 9)
Deposit liabilities	6,035	Generally similar to terms and conditions above
Interest expense	7	Interest expense on deposit liabilities (Note 16)
Foreign currency		
Sell	6	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱1,413	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.71% to 2.01% with maturity terms from 99 days to 373 days, no impairment (Note 7)
Receivables from customers*	3,043	Unsecured with no impairment With annual fixed interest rates ranging from 2.25% to 5.59% and maturity terms from 2 days to 5 years (Note 9)
Accounts receivable	277	Outstanding information technology fees and remittance receivable, non-interest bearing
Deposit liabilities*	5,202	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 6 days to 270 days (Note 16)
Bills payable*	3,876	Foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 1 day to 33 days (Note 17)
Treasury stock	187	Parent Company’s shares held by FMIC’s mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	(350)	Generally similar to terms and conditions above
Receivables from customers	196	Generally similar to terms and conditions above
Deposit liabilities	(41)	Generally similar to terms and conditions above
Bills payable	1,435	Generally similar to terms and conditions above
Interest income	86	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	35	Income from transactional fees
Trading and securities loss - net	(23)	Net loss from securities transactions
Foreign exchange gain - net	210	Net gain from foreign exchange transactions
Leasing income	32	Income from leasing agreements with various lease terms
Miscellaneous income	433	Information technology and other fees (Note 25)

(Forward)

	Parent Company	
	December 31, 2015	
Category	Amount	Terms and Conditions/Nature
Interest expense	₱34	Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17)
Miscellaneous expense	49	Call center services and other fees (Note 25)
Dividends declared	1,817	Dividends declared by PSBank and MCC (Note 11)
Securities transactions		
Purchases	34,205	Outright purchases of HFT securities and AFS investments
Sales	32,315	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	43,072	Outright purchases of foreign currency
Sell	38,624	Outright sale of foreign currency
Other transaction		
Underwriting/Arranging agreement	102	Arranging and underwriting fee of FMIC relative to the Parent Company's SRO in 2015
Associates		
Outstanding Balance:		
Other receivables	₱18	Dividend receivable from SMBC Metro
Deposit liabilities*	1,783	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 7 days to 90 days (Note 16)
Amount/Volume:		
Deposit liabilities	149	Generally similar to terms and conditions above
Leasing income	8	Income from leasing agreements with various lease terms
Interest expense	1	Interest expense on deposit liabilities
Dividends declared	25	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	337	Outright purchases of HFT securities and AFS investments
Outright sales	572	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	48	Outright purchases of foreign currency
Sell	271	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱9,211	Secured - ₱9.0 billion and unsecured - ₱251.8 million, no impairment With annual fixed interest rates ranging from 3.00% to 10.37% and maturity terms from 30 days to 12 years (Note 9)
Building under construction	4,547	Commercial and office spaces located at Bonifacio Global City, Taguig City purchased from BLRDC (Note 10)
Assets held under joint operations	401	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	12,008	With annual fixed interest rates ranging from 0.00% to 2.55% including time deposits with maturity terms from 6 days to 367 days (Note 16)
Amount/Volume:		
Receivables from customers	(1,976)	Generally similar to terms and conditions above
Deposit liabilities	(5,439)	Generally similar to terms and conditions above
Interest income	757	Interest income on receivables from customers
Foreign exchange loss - net	(25)	Net loss from foreign exchange transactions
Leasing income	21	Income from leasing agreements with various lease terms
Profit from assets sold	603	Gain on sale of investment properties to FLI (Notes 10 and 12)
Interest expense	7	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	113	LC transactions with various terms
Others	2	Bank guaranty with indemnity agreement
Foreign currency		
Buy	465	Outright purchases of foreign currency
Sell	39,794	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱59	Secured - ₱47.0 million and unsecured - ₱11.8 million, no impairment, with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities	135	With various terms and with minimum annual interest rate of 0.00% (Note 16)

(Forward)

Category	Parent Company December 31, 2015 Amount	Terms and Conditions/Nature
Amount/Volume:		
Receivables from customers	(₱3)	Generally similar to terms and conditions above
Deposit liabilities	27	Generally similar to terms and conditions above
Interest income	2	Interest income on receivables from customers (Note 9)

*including accrued interest

On December 23, 2016, the Parent Company acquired from MBCL, through bidding which was held on October 24, 2016 in Nanjing, China, selected loans amounting to RMB161.9 million (equivalent to ₱1.2 billion). This transaction has been reviewed and endorsed by the Overseas Banking Committee and RPTC in separate meetings held in September 2016 and approved by the Parent Company's BOD and noted by the BSP on September 26, 2016 and October 27, 2016, respectively. In addition, this transaction has been approved by the required regulators in China. As of December 31, 2016, the Parent Company recognized allowance for credit losses of ₱1.2 billion on these loans.

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

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group and the Parent Company. Together with the sale of investment properties, borrowings, contingent accounts including derivative transactions, outright purchases and sales of HFT securities and AFS investments, foreign currency buy and sell, leasing of office premises, securing of insurance coverage on loans and property risk, and other management services rendered, these are conducted in the normal course of business, at arm's-length transactions and are generally settled in cash. The amounts and related volumes and changes are presented in the summary above. Terms of receivables from customers, deposit liabilities and borrowings are 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**		
	2016	2015	2014	**2016**	2015	2014
Short-term employee benefits	**₱2,572**	₱2,197	₱2,091	**₱1,865**	₱1,546	₱1,418
Post-employment benefits	**129**	193	125	**42**	93	69
	₱2,701	₱2,390	₱2,216	**₱1,907**	₱1,639	₱1,487

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 ₱58.5 million, ₱54.1 million and ₱41.6 million in 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, the Parent Company sold securities totaling ₱1.7 billion and ₱2.6 billion, respectively, to its related party retirement plans and recognized net trading loss of ₱0.1 million and gain of ₱0.3 million, respectively. The

Parent Company also purchased securities totaling ₱288.9 million and ₱612.4 million as of December 31, 2016 and 2015, respectively. Further, as of December 31, 2016 and 2015, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱403.6 million and ₱279.5 million, respectively. Interest expense on deposit liabilities amounted to ₱1.3 million, ₱0.7 million and ₱0.8 million in 2016, 2015 and 2014, respectively.

As of December 31, 2016 and 2015, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱380.6 million and ₱850.4 million, respectively, with unrealized trading gains of ₱28.6 million and ₱313.4 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱412.2 million and ₱183.4 million, respectively, with unrealized trading gains of ₱1.4 million and ₱1.7 million, respectively. As of December 31, 2016, 2015 and 2014, dividend income recognized from these securities amounted to ₱6.9 million, ₱17.3 million and ₱10.5 million, respectively, and realized trading gains amounting to ₱262.8 million - Note 11, ₱14.7 million and ₱16.2 million, respectively.

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):

	2016	2015	2014
a. Net income attributable to equity holders of the Parent Company	**₱18,086**	₱18,625	₱20,113
b. Share of hybrid capital securities holders	**(267)**	(506)	(499)
c. Net income attributable to common shareholders	**17,819**	18,119	19,614
d. Weighted average number of outstanding common shares of the Parent Company, including effect of stock rights issued in 2015 (Note 23)	**3,176**	3,092	2,849
e. Basic/diluted earnings per share (c/d)	**₱5.61**	₱5.86	₱6.88

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

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
Return on average equity	**9.28%**	10.83%	14.11%	**9.28%**	10.83%	14.11%
Return on average assets	**0.99%**	1.11%	1.35%	**1.20%**	1.33%	1.64%
Net interest margin on average earning assets	**3.54%**	3.54%	3.73%	**2.72%**	2.79%	2.99%

33. **Foreign Exchange**

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

	2016	2015	2014
PDS Closing	**₱49.72**	₱47.06	₱44.72
PDSWAR	**47.48**	45.50	44.39

34. **Other Matters**

The Group has no significant matters to report in 2016 on the following:

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

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

c. Issuances, repurchases and repayments of debt and equity securities except for the issuance of LTNCD amounting to ₱8.7 billion as discussed in Note 16 and the redemption of the USD125.0 million HT1 Capital Securities as discussed in Note 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 and semi-annual coupons on the hybrid capital securities by the Parent Company as discussed in Note 23; and

e. Effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except for the additional investment in PSBank, the buy-back of shares by FMIIC and the status of operations of SMBC Metro as discussed in Note 11.

35. **Subsequent Events**

a. On January 12, 2017, FMIC paid cash dividends of ₱8.06 per share or equivalent to ₱3.0 billion to all stockholders of record as of December 29, 2016 (Note 11).

b. On January 17, 2017, SMBC Metro paid 16.67% cash dividends amounting to ₱100.0 million to its stockholders of record as of December 14, 2016 (Note 11).

c. On January 24, 2017, the BOD of PSBank declared a 7.50% regular cash dividend for the fourth quarter of 2016 amounting to ₱180.2 million or ₱0.75 per share, payable not later than February 24, 2017 to all common stockholders as of record date of February 10, 2017.

d. On January 30, 2017, PSBank issued the first tranche of LTNCDs amounting to ₱3.0 billion with terms of 5 years and 3 months and interest rate of 3.50% per annum payable quarterly (Note 16).

e. As discussed in Note 11, on January 5, 2017, SMBC Metro submitted its application for withdrawal of its secondary license as an Investment House which was approved by the SEC on January 31, 2017.

f. LCMC, an associate of FMIC, disclosed to the PSE that on February 14, 2017, LCMC received a suspension order from the Department of Energy and Natural Resources (DENR) Secretary on its mining operation under Mineral Production Sharing Agreement No.001-90-CAR and is given not more than three months from receipt to implement the appropriate mitigating measures. LCMC will immediately file a Notice of Appeal with the Office of the President wherein pursuant to the Administrative Order No.22, Series of 2011, such filing will stay the execution of the Order, allowing the Company to continue its operations. Further in its disclosure, LCMC maintains that it passed the DENR Mine Audit, as attested by the signed audit report dated August 22, 2016 that state that "The Company substantially complied with the pertinent provisions of the Environmental and Mining laws, rules and regulations, thus, no penalty is recommended by the Team".

g. On February 21, 2017, PSBank redeemed its 2022 Peso Notes amounting to ₱3.0 billion as discussed in Note 20.

h. On February 22, 2017, the BOD of the Parent Company declared 5.00% cash dividend amounting to ₱3.2 billion or ₱1.00 per share, payable on March 23, 2017 to all stockholders of record as of March 9, 2017, and has authorized the President to change the dates as may be required by exigencies.

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 22, 2017.

37. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010**

Supplementary Information Under RR No. 19-2011
In addition to the required supplementary information under RR No. 15-2010, the BIR issued RR No. 19-2011 which requires companies to disclose certain information in their respective notes to financial statements. For the taxable year ended December 31, 2016, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues

Services/operations	₱25,555
Non-operating and taxable other income:	
Service charges, fees and commissions	₱3,518
Trading and securities gain	1,992
Income from trust operations	1,251
Profit from assets sold	463
Others	1,060
	₱8,284

Expenses

Cost of services:	
Compensation and fringe benefits	₱6,683
Others	6,236
	₱12,919

Itemized deductions:	
Compensation and fringe benefits	₱5,048
Taxes and licenses	2,984
Security, messengerial and janitorial	1,746
Rent	1,139
Depreciation	1,113
Advertising and publicity	795
Communication, light and water	508
Information technology	478
EAR	415
Transportation and travel	322
Management and professional fees	299
Repairs and maintenance	272
Bad debts	21
Others	1,788
	₱16,928

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, 2016 included under 'Taxes and licenses' account in the statement of income:

GRT	₱1,639
DST	1,436
Local taxes	113
Real estate tax	65
Others	64
	₱3,317

Details of total withholding taxes remitted for the taxable year December 31, 2016 follow:

Taxes withheld on compensation	₱2,309
Final withholding taxes	1,619
Expanded withholding taxes	226
	₱4,154