COVER SHEET

CS200711792

SEC Registration Number

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

43rd Floor, GT Tower International, Ayala Avenue corner H.V. 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	17-A	0 5	0 9
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

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

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings (in PHP billion)

72	**21.9 bonds**	
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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, 2017

(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, 2017**

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	**192,596,685**
Series A Perpetual Preferred Shares (GTPPA)	**4,839,240**
Series B Perpetual Preferred Shares (GTPPB)	**7,160,760**
Amount of Debt Outstanding	**21,877,330,142**

    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: **Php98.6 billion (**based on closing price of Php1,169 as of March 28, 2018 and outstanding common shares held by public as of December 31, 2017**); Php17.4 million** (based on offer price of Php0.10 per share as of April 13, 2015 and voting preferred shares as of December 31, 2017)

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) 2017 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) 2017 Audited Consolidated Financial Statements of Metropolitan Bank and Trust Company (incorporated as reference for item 1 of SEC Form 17-A)

TABLE OF CONTENTS

PART I.

BUSINESS AND GENERAL INFORMATION

Item 1. **Business**

GT Capital Holdings, Inc. (GT Capital or the Company or the Parent Company or the Group) was incorporated in the Republic of the Philippines on July 26, 2007. The Company's registered office address and principal place of business is at 43/F GT Tower International, 6813 Ayala Avenue corner H. V. Dela Costa St., Makati City, Metro Manila, Philippines. GT Capital is a listed company, of which 56.2% is owned by Grand Titan Capital Holdings, Inc. (Grand Titan) and the directors and senior officers of GT Capital, while the balance of 43.8% is publicly owned as of December 31, 2017.

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

GT Capital's portfolio of businesses is well-positioned to benefit from broad-based growth in the Philippine economy and domestic consumption in particular. The portfolio as of December 31, 2017 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 51.0% interest in Toyota Motor Philippines Corporation (TMP). TMP is engaged in the assembly, importation, and wholesale distribution of Toyota motor vehicles in the Philippines, and is also engaged in the sale of motor vehicle parts and accessories both within the Philippines and abroad through exports. TMP is also engaged in the distribution of Lexus brand motor vehicles in the Philippines. In addition, TMP owns Toyota Makati with one (1) branch – Toyota Bicutan; Toyota San Fernando in Pampanga with two (2) branches – in Plaridel, Bulacan and Hacienda Luisita, Tarlac City; Toyota Santa Rosa in Laguna; and Lexus Manila, situated in Bonifacio Global City, Taguig.

  GT Capital conducts its automotive dealership business through its 58.1% 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. (TSB), a joint venture between GTCAD and JBT Global Holdings Inc. (JBT Global), with GTCAD owning 55% and JBT Global owning 45% of TSB's issued and outstanding capital stock.

- **Banking** – GT Capital conducts banking services through its 36.1% 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, 2017, the MBT Group had a total of 952 branches in the Philippines, of which 703 were operated by MBT and 249 were operated by Philippine Savings Bank (PSBank); and over 2,300 automated teller machines (ATMs).

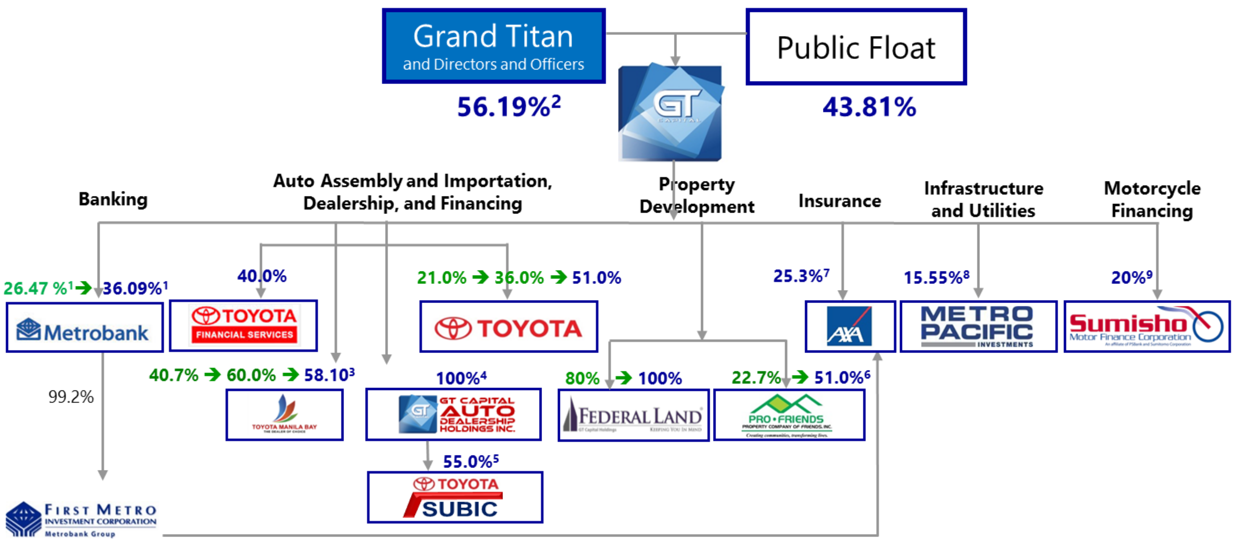
- **Property development** – GT Capital engages in the property development business through its wholly-owned subsidiary Federal Land, Inc. (Fed Land or Federal Land) and its 51.0% interest in affordable housing subsidiary, Property Company of Friends, Inc. (Pro-Friends). Fed Land primarily focuses on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

- **Life and Non-Life Insurance** – GT Capital conducts its life and non-life insurance business through its 25.33% 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.

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

GT Capital's organizational chart as of December 31, 2017 is as follows:



Note:

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

2 *On the same day, a Subscription Agreement was signed for the subscription of Grand Titan to 9.5% primary*

shares of GT Capital for approximately Php21.69 billion. Consequently, Grand Titan, increased its direct equity stake in GT Capital to 55.93%.

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

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

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

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

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

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

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

Competition

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

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

Industry Segment	Principal Competitors
Automotive Assembly and Importation	Mitsubishi, Honda, Ford, Isuzu, Hyundai, Nissan and Suzuki
Automotive Distribution and Dealership	Hyundai dealers, Ford dealers, Mitsubishi dealers, and other Toyota dealers
Automotive Financing	PSBank, East West Bank, BDO and UCPB
Banking	BDO and Bank of the Philippine Islands
Property Development	Ayala Land, Inc., Filinvest Land, Inc., Megaworld Corporation, Century Properties, SM Development Corp., DM Consunji, Inc., Robinsons Land

	Corporation, Rockwell Land Corporation, Vista Land and Lifescapes, Inc., and 8990 Housing Development
Life Insurance	Sun Life of Canada, Philippine American Life Insurance Co., 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
Motorcycle Financing	Bank of Makati and Robinsons Bank

Transaction with Related Parties
Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Related party transactions are conducted fairly and on an arms' length basis and are discussed in the accompanying financial statements of the Company.

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

Employees
As of December 31, 2017, the GT Capital group of companies had a combined 24,604 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	33
MBT (Parent Bank and Major Subsidiaries)	17,608
Federal Land	421
Pro-Friends	1,397
TMP	1,894
AXA Philippines and Charter Ping An	1,985
TMBC	860
TFSPH	354
MPIC Parent	52
Total	**24,604**

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, 2017, GT Capital had 33 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. In accordance with the Risk Charter, the risk management system is subjected to regular internal audits to identify any gaps in the performance of the process. The audit results are reported to the Audit Committee and Senior Management and are addressed accordingly.

For further details on the Company's financial condition and operations, please refer to the 2017 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 Philippine Savings Bank ("PSBank") and Metrobank Card Corporation ("MCC").

Contribution to Sales/Revenues

The net interest income derived from lending, investment and borrowing activities represents 72.9%, 67.1% and 71.9% of the MBT Group's revenue net of interest and finance charges in 2017, 2016 and 2015, 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 27.1%, 32.9% and 28.1**%** of the MBT Group's revenue net of interest and finance charges in 2017, 2016 and 2015, 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 2017, 2016 and 2015 are as follows:

Offices in	**Year**	**Percentage (%) Contribution to**	
		Revenue, Net	External Net Operating Income
Asia (Other than the Philippines)	2017	2.36	2.44
	2016	2.21	2.32
	2015	2.77	2.74
United States	2017	0.64	0.70
	2016	0.89	0.98
	2015	0.71	0.73

Europe	2017	0.07	0.07
	2016	0.10	0.11
	2015	0.08	0.09

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 2017 with 952 branches as compared to 959 in 2016. 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>2017 - New International Remittance Tie-Ups</u>
   a. Al Sultan Exchange, Kuwait
   b. Extrabanca Spa, Italy
   c. Smallworld Financial Services Group Ltd., UK
   d. Transferwise Ltd., London
   e. Transfast Remittance LLC., New York City

   <u>2017 - Local Remittance Tie-Ups</u>
   <u>*New Shipping Tie-ups*</u>
   a. Aqualink Maritime, Inc.
   b. Trioceanic Manning & Shipping, Inc.

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

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

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

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

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

8. E-Government Facilities

- Taxdirect is a web-based payment facility of Metrobank that allows both retail and corporate clients to pay their dues on tax returns filed through the Bureau of Internal Revenue's ("BIR") Electronic Filing and Payment System ("EFPS") website.

- Bancnet's eGov Payment facility is a highly convenient online service that allows clients to electronically remit their monthly Social Security System (SSS), Philippine Health Insurance Corporation (Philhealth) and Pag-ibig Fund (PAG-IBIG) contributions and loan payments.

Innovations and Promotions
In 2017, Metrobank continued to introduce campaigns and promotions to address the market's needs.

- Recognized as Asian Banker's Retail Payments Product of the Year for 2017, Metrobank partnered with various retail merchants to offer promos for the Metrobank Account One, Debit and Prepaid Mastercard cardholders.

- PSBank released its redesigned PSBank Mobile App that is packed with new functionalities, some being a first of its kind in the local banking industry such as PayMe; TouchID; and the In-App One Time Password. To encourage usage, app users with qualified transaction entries were given a chance to win loads of prizes. PSBank also added the TAP contactless feature for both Debit and Prepaid cards, and introduced its Cardless Withdrawal, allowing clients to conveniently and securely withdraw cash from any PSBank ATM without using a PSBank ATM Card.

- Among PSBank's promotions were *Swipe to Shop* and *Swipe to Travel* wherein PSBank Debit, Prepaid, and Credit Mastercard cardholders can win as much as half a million worth of shopping spree at Stores Specialist, Inc. (SSI) and a luxurious travel package to one of the fashion capitals of the world – Paris, London, and Singapore. For the Yuletide season, PSBank also offered the *365 Days of Style Raffle Promotion* wherein cardholders can win cash spending allowance in merchant partners.

- For its credit card holders, MCC continued to offer premium deals and various treats through its partner merchants with up to 50% discount from retailers, online booking sites, top restaurants and hotels.

- To modernize its data center, MCC strengthened its security measures and boosted its defenses against external attacks and breaches with an integrated suite of software defined data center (SDDC) solutions.

- MCC also launched the Victory Liner Premiere Prepaid VISA Card on December 2017. It is a reloadable prepaid VISA card that can be used to book tickets via the Victory Liner website, www.victoryliner.com and over the phone. When loaded at any of the 4,000 loading points nationwide, Victory Liner Premiere can be used to shop online and at any VISA-accredited establishment. Cardholders can also enjoy perks and discounts with partner merchants, and get access to a VIP lane when buying tickets in Victory Liner stations. Victory Liner Premiere has a Pera Padala feature which allows cardholders to send money to loved ones locally at a fixed transfer fee of P20, for any amount transferred up to P10,000.

- Maintaining its title as Interbrand's No. 1 Global Insurance Brand for the 9th consecutive year, AXA offered new promotions including *Chat with Coach Finn Raffle*, wherein prospective and existing clients can get a chance to win P50,000 personal accident insurance coverage valid for one year when they complete the automated financial game plan in the AXA website.

- FMIC through its subsidiary FAMI and globally renowned index provider MSCI, Inc. launched an 18-stock index that is designed to capture the Philippine consumption-led growth story with exposure to industries such as food and beverage manufacturing processing, fast food and restaurants, mall development, communications, financial services, tourism, transportation and more.

- In February, FMSBC rolled out Fundsmart, a new online platform which will serve as a one-stop-shop mutual fund investment facility. FMSBC also conducted a series of roadshows nationwide to promote this, as well as educate the investors on how to use it. Among the venues were major cities like Bacolod City, Cagayan De Oro City, and Cebu City.

- In line with its financial literacy advocacy, FMSBC continued to hold its Guided Investor, Fearless Trader (G.I.F.T.) Learning Series and B.E.S.T. (Basic Education on Stock Trading) seminars all over the country.

- Metrobank Trust launched the *Metro Short Term Fund*, a Peso-denominated money market Unit Investment Trust Fund that aims to achieve for its participants, liquidity and income slightly higher than regular time deposit products by investing in a diversified portfolio of Peso-denominated money market instruments and fixed income securities with a maximum weighted average duration of one year. Another investment fund introduced in 2017 was the *Metro$ Asian Investment Grade Bond Fund*, a dollar-denominated long-term bond Unit Investment Trust Fund invested in a diversified portfolio of investment grade fixed income securities issued within the Asian region with a maximum weighted average duration of eight years. The third investment fund launched was the *Metro Unit Paying Fund*, a Peso-denominated balanced unit-paying Unit Investment Trust Fund that aims to achieve for its participants, income from a portfolio of preferred shares listed at the Philippine Stock Exchange (PSE) and peso-denominated fixed income instruments and securities.

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

As of December 31, 2017, the Philippine universal and commercial banking sector consisted of 43 banks, including 21 foreign bank entities. In terms of classification, there were 21 universal banks and 22 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 22 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 15 were branches of foreign banks. The ten largest commercial banks in the country accounted for over 80% of both total assets and total deposits of the universal and commercial banking system based on published statements of condition as of September 30, 2017.

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

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

Transactions with and/or Dependence on Related Parties
Transactions with related parties and with certain directors, officers, stockholders and related interests (DOSRI) are discussed in Note 31 of the audited financial statements of the 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 Short Term Fund; Metro Max-3 Bond Fund; Metro Max-5 Bond Fund; Metro Wealth Builder Fund; Metro Corporate Bond Fund; Metro Balanced Fund; Metro Unit Paying Fund; Metro Equity Fund; Metro PSEi Tracker Fund; Metro High Dividend Yield Fund; Metro $ Money Market Fund; Metro $ Max-3 Bond Fund; Metro $ Max-5 Bond Fund; Metro World Equity Feeder Fund; Metro $ Asian Investment Grade Bond Fund; Metro Aspire Bond Feeder Fund; Metro Aspire Balanced Feeder Fund and Metro Aspire Equity Feeder Fund.

Corporate licenses include the following:

1. For Metrobank: expanded commercial banking license, FCDU license, license for trust operations, type 2 limited dealer authority, Government Securities Eligible Dealer (GSED) with broker-dealer of securities functions
2. For PSBank: thrift banking license, FCDU license, license for trust operations, GSED (non-market maker) as dealer-broker, type 3 limited user authority and quasi-banking license
3. For FMIC: investment house and quasi banking
4. For ORIX Metro: financing company and quasi-banking license
5. For MCC: quasi-banking license, finance company and electronic money issuer license
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 up 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 is renewable anually every November.

On January 19, 2017, the BSP had approved the surrender of the trust license of FMIC and had issued the Revocation of Authority to Conduct Trust and Fiduciary Business.

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. 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.

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, 2017 and 2016, 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. The deadline for submission of ICAAP documents is on March 31 each year.

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 (Parent Bank) had 12,133 employees as at December 31, 2017. By year-end 2018, the Bank projects to have 13,007 employees.

	Officers	Rank and File	Total
As of year-end 2017:			
AVPs and up:	438		438
Senior Managers and down:	5,437	6,258	11,695
	5,875	6,258	12,133
By year-end 2018 (projected):			
AVPs and up:	587		587
Senior Managers and down:	6,038	6,382	12,420
	6,625	6,382	13,007

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-term 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.

Federal Land was incorporated on May 28, 1997, primarily to acquire, develop and sell properties of every kind and description including but not limited to real estate and bonds, debentures, promissory notes, shares of capital stock, or other securities or obligations. The main principal activities of the Federal Land Group (i.e. Federal Land and its subsidiaries) are to acquire, develop, lease and sell properties of every kind and description and to act as a marketing agent for and in behalf of any real estate development company or companies. The Federal Land Group is also engaged in the business of trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintains a petroleum service station and engaged in the food and restaurant service.

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

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

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

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

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

Commercial Developments
Federal Land has a portfolio of commercial buildings and properties that include office properties and retail centers that Federal Land leases to various tenants. In most cases, Federal Land is also the property manager for these projects. The leases and management fees are sources of recurring income that enhance the company's revenues

and strengthens its cash flows. Federal Land will continue to contribute to its sources of recurring income by identifying and developing properties that are apt for such uses in areas where demand for leasing spaces are identified.

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

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

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

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

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

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

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

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

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

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

4) *Lease agreements*
In 2016, Federal Land also leased its mall and offices to some of its associates and affiliates. The lease term ranged from 1 to 5 years.

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

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

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

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

Kew ("Q" logo)
Rio
One Bloomberg Place
Omni Orient – A Federal Land Subsidiary)
My HOBS
Metropolitan Technological Complex
Shanghai Park Towers
Oriental Garden Heights
Federal Land – GT Capital Holdings (keeping you in mind)
Veritown Fort
Park West ("PW" logo)
Park West of Hyatt ("PW" logo)
Park East Residences
Central Park West
Madison Park West
Times Square West (with "TS" logo)

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

Government Approval of Principal Products or Services

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

Research and Development Costs

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

Employees

As of December 31, 2017, full-time employees of Federal Land totaled 421. The table below provides a breakdown of Federal Land's employees.

Type of Employee	Number of Employees
Senior and Junior Officers	197
Staff	224
Total	**421**

Risks

- Substantially all of Federal Land's business activities are conducted in the Philippines and all of its assets are located in the country, which exposes Federal Land to risks associated with the Philippines, including the performance of the domestic economy.
- Federal Land faces risks relating to its commercial and residential property development businesses, including risks relating to project cost and completion.
- Federal Land faces certain risks related to the cancellation of sales involving its residential projects and if it were to experience a material number of sales cancellations, its historical revenues would be overstated.
- Fluctuations in interest rates, changes in Government regulations could have a material adverse effect on Federal Land's and its customers' ability to obtain financing.
- Federal Land's reputation may be affected if projects are not completed on time or if projects do not meet customers' requirements.
- Independent contractors may not complete projects on time.

- Given the current geographic concentration of Federal Land's real estate sales, its results of operations would suffer if the residential development industry in its current markets were to decline.
- Natural or other catastrophes, including severe weather conditions, may materially disrupt Federal Land's projects and may not complete on time.
- Federal Land has a number of related-party transactions with affiliated companies.
- Federal Land is exposed to risks associated with the operation of its commercial and retail leasing businesses.
- Adoption of new accounting rules on revenue recognition on construction of real estate may result in a restatement of Federal Land's financial statements.

Property Company of Friends, Inc.

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

The Company's initial projects consisted of small pocket developments catering to the affordable and middle income markets, offering house and lot packages ranging from Php 700,000–Php 3.3 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, 2017, Pro-Friends is a 51% owned subsidiary of GT Capital.

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

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

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

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

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

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

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

Competition
The Philippine real estate development industry is highly competitive. With respect to township developments in Cavite, 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 2017)

	Name of Contractor	Nature of Works
1	Ahnex Builders and Readymix Corporation	Supplier – Readymix Concrete
2	Somico Steel Mill Corp.	Supplier – Deformed Bars
3	Shenzen Gui Hao Cheng Trade	Supplier – Powder Coated Doors & Windows, Metal Doors
4	DK Zenith Steel Company	Supplier – Paints
5	Advantage Paints Company	Supplier – Paints
6	Elmer P. Nofies	Supplier – Connector & Steel Casement Window Fabricator
7	Scuderia Enterprises	Supplier – Heavy Equipment
8	Silver Gold Star Trading and Supply	Supplier – Heavy Equipment
9	Sherbay Marketing	Supplier – Skimcoats
10	Far Eastern Hardware and Furniture	Supplier – Deformed Bars

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

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

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

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

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

Employees
As of December 31, 2017, full-time employees of Pro-Friends totaled to 1,397. The following table provides a breakdown of Pro-Friends' employees.

Type of Employee	Number of Employees
Executives (AVP's up)	64
Supervisors-Managers	356
Officers	382
Rank & File	595
Total	1,397

Risks

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

Toyota Motor Philippines Corporation

Incorporated on August 3, 1988, TMP is the leading and largest automotive company in the Philippines. Established through a joint venture among GT Capital, Toyota Motor Corporation (TMC), and Mitsui & Co. Ltd., TMP has been a part of the country's automotive industry for more than 25 years. Through its wide array of vehicle models and enormous span of sales distribution and service network, TMP achieved its 16th consecutive Triple Crown in 2017, topping the industry in overall sales, 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 CT 200H, IS 350, ES 350, GS 350, GS 450H, GS F, RC 350, RC F, LC 500, LS 500, and LS 500H.

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

Local Sales of Service Parts

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

Export Sales

Parts manufactured by local suppliers is exported to Toyota subsidiaries and affiliates abroad.

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

	2015		2016		2017	
	Sales (Php mn)	% of Total Revenues	Sales (Php mn)	% of Total Revenues	Sales (Php mn)	% of Total Revenues
Vehicle sales						
Locally-manufactured vehicles	32,605.8	29%	38,424.8	25%	45,466.6	25%
Imported CBU vehicles	66,628.1	59%	102,748.2	67%	122,871.3	67%
Local sales of service parts	4,093.0	4%	5,221.9	3%	6,020.4	3%
Export sales of OEM parts and service parts	9,427.4	8%	7,912.1	5%	7,956.0	5%
Total	**112,754.3**	**100%**	**154,307.0**	**100%**	**174,358.3**	**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.

	2015		2016		2017	
Sales in units	Sales	% of Total	Sales	% of Total	Sales	% of Total
Metro Manila	72,364	58%	85,046	54%	89,366	49%
Provincial	52,663	42%	73,682	46%	94,542	51%
Total	**125,027**	**100%**	**158,728**	**100%**	**183,908**	**100%**

As of December 31, 2017, the Toyota and Lexus dealer network in the Philippines consisted of 63 dealers, of which 18 dealers are in Metro Manila. TMP owns direct interests in four dealerships: 100% of Toyota Makati, Inc., 55% of Toyota San Fernando Pampanga, Inc., 100% of Toyota Santa Rosa, Inc., and 75% of Lexus Manila, Inc. Approximately 49% of TMP's sales in 2017 were in Metro Manila while 51% of total sales in 2017 were made outside of Metro Manila. GT Capital has a 58.1% 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 72.3% in 2017 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.

For after-sales services, the 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., Php450/hour for Periodic Maintenance and Php500/hour for General Job (GJ). These rates are at least 25% lower than the service centers of other brands. In terms of service parts, average prices of Toyota Genuine Parts are 7% lower than other brands, based on 2017 parts price review.

Principal Competitors (including relative size and financial and market strengths of competitors)
TMP's major competitors in the Philippines are Mitsubishi, Hyundai, Ford, Honda and Isuzu. Based on industry data compiled by CAMPI and AVID, the top six automotive companies in the Philippines accounted for 83.2% of total vehicles sold in 2017. Toyota has been the top selling brand measured by units sold in the Philippines for passenger and commercial vehicles since 2002, with a 38.9% market share in 2017, which is 23.3 percentage points higher than its closest competitor, Mitsubishi with 15.5%. Hyundai and Ford had market shares of 8.0% and 7.7% in 2017, 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 TDEM and from local suppliers. TMP purchases raw materials, parts, components, equipment and other supplies from TMC, foreign subsidiaries of TMC, affiliates and other foreign and local suppliers authorized by TMC. TMP has full responsibility to ensure compliance of all localized parts and components in accordance with TMC's standards.

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

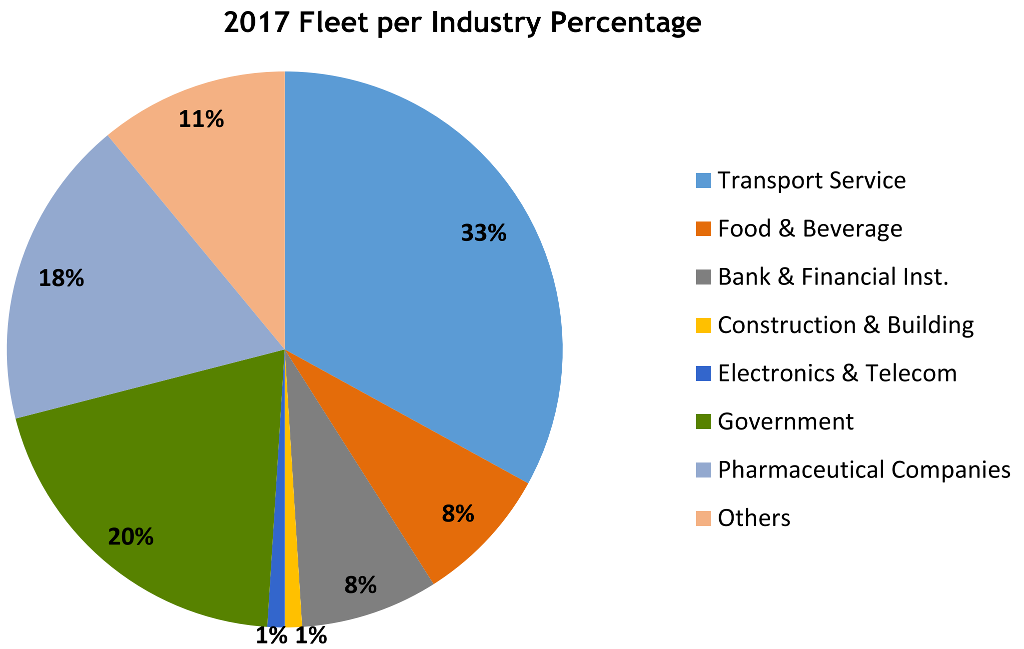
Source	2015	2016	2017
TMC/TDEM			
Japan-sourced	17%	13%	10%
Multi-sourced	53%	54%	58%
Local Suppliers	30%	33%	32%
TOTAL	**100%**	**100%**	**100%**

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

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

Customers
In addition to general consumer sales, TMP's products are also sold to fleet accounts such as pharmaceutical companies, taxi companies and government entities. In 2017, 10.2% of TMP's products were sold to fleet account customers.

The chart below provides a breakdown of TMP's fleet account customers by category for the year ended December 31, 2017:



Major existing sales contracts
Not applicable

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

Principal Terms and Expiration Dates of All Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions and Royalty Agreements Held
TMP acquired the rights to use the "Toyota" and "Lexus" brand names through the Toyota Distributor Agreement and Lexus Distributor Agreement, respectively, with TMC and Toyota Motor Asia Pacific (TMAP).

These distributor agreements, which are renewable every 3 years, will be renewed for another 3 years upon its expiration on November 30, 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 and such amount shall be fixed in accordance with the agreement.

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

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

Employees
The following table provides a breakdown of TMP's employees as of December 31, 2017.

	2017
Regular	**1,894**
Senior Officers	42
Junior Officers	554
Rank and file	1,298
Outside Contractors	**1,679**
Total	**3,573**

Note:
Senior Officers include all Assistant Vice Presidents and up.
Junior Officers include all Supervisors up to Section Managers.
Rank and File are all other Team Members

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

The new 5-year Collective Bargaining Agreement negotiations with TMPCLO were concluded on April 7, 2017 and with TMPCSU on May 11, 2017.

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

Supplemental benefits or incentive arrangements
TMP applies a progressive benefit structure with a set of base benefits applicable to all employees and a supplementary, variable scheme where individual employees choose from a menu of benefits appropriate to their individual needs/situational preferences, subject to level of entitlement. TMP has also funded a non-contributory defined benefit retirement plan covering all of its regular employees. The plan is administered by trustees. The

benefits are based on the years of service and percentage of final basic salary. TMP's normal retirement age is 55 years. Early retirement is allowed at 50 years of age.

Major Risks

The Philippine automotive industry is highly volatile.

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

The Philippine automotive market is highly competitive.

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

The Philippine automotive industry is subject to various governmental regulations.

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

TMP's success depends on its ability to continue offering innovative, new, price-competitive products and services that meet and satisfy customer demand on a timely basis.

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

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

TMP's ongoing success depends on the non-termination and repeated renewal of distributor agreements with TMC and TMAP.
TMP acquired the rights to use the "Toyota" and "Lexus" brand names through the Toyota Distributor Agreement and the Lexus Distributor Agreement, respectively, with TMC and TMAP. These distributor agreements were last renewed on December 1, 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 TDEM. In addition, if not handled properly by TMP, TDEM and TMC, product recalls can harm TMP’s reputation and cause it to lose customers, particularly if those recalls cause consumers to question the safety or reliability of TMP’s products. Any costs incurred or lost sales caused by future product recalls could materially and adversely affect TMP’s business, financial condition and results of operations. Conversely, not issuing a recall or not issuing a recall on a timely basis can harm TMP’s reputation and cause it to lose customers.

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

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

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

TMP may be unable to maintain its current distributor network or attract new distributors.
TMP is heavily dependent on its distribution network. The success of TMP’s business depends on maintaining good relations with existing distributors as well as attracting new ones. Although TMP believes it has good relations with its existing distributors, there can be no assurance that its distributors will continue to do business with TMP or that TMP will be able to attract new quality distributors. If TMP does not succeed in maintaining its current distribution

network or in attracting new distributors to support future growth, TMP's market share may decline and could materially and adversely affect TMP's business, financial condition and results of operations.

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

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

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

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

The manufacturing activities and operations of TMP could be adversely affected if it fails to obtain raw materials and CKD parts in a timely fashion or at a reasonable price.
Raw materials and CKD parts used by TMP are, and will continue to be, sourced from suppliers located in the Philippines, Japan and other ASEAN countries, including TMC and TDEM. If TMP's suppliers fail to meet their commitments or to enter into agreements with TMP on commercially reasonable terms, and TMP is unable to locate alternative suppliers in a timely fashion, the manufacturing activities and operations of TMP could be materially adversely affected. This may be the case where TMP is dependent on a sole supplier or a limited number of suppliers for a critical input, and it may find it difficult to replace such supplier in a timely manner and at a reasonable market price.
TMP relies heavily on the technology and processes of TMC which TMP uses under its Toyota Technical Assistance Agreement with TMC.
TMP has acquired the right to use TMP's Toyota Production System ("TPS"), which is based on just-in-time production and quality control processes and feedback mechanisms. Under the Technical Assistance Agreement,

which was last renewed on May 1, 2014 and is valid until April 30, 2019, TMP may request assistance for technical know-how on manufacturing, engineering and other know-how and information relating to licensed products. TMC is paid royalties based on the value added by TMP in the manufacture of each vehicle or part. If the Technical Assistance Agreement were to expire, or if TMP or TMC were to terminate the agreement, TMP would no longer be permitted to use TMC's processes or produce the licensed vehicles or parts, which would materially and adversely affect TMP's business, financial condition and results of operations.

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

Philippine AXA Life Insurance Corporation

GT Capital has interests in the life insurance business through its 25.3% ownership of shares in AXA Philippines, the Philippines' second largest insurance company in terms of total net insurance premium amounting to ₱26.2 billion in 2017. AXA Philippines is a joint venture between the AXA Group, one of the world's largest insurance groups, and the MBT Group, one of the Philippines' largest financial conglomerates. To complement its life insurance business, AXA Philippines announced in April 2016 the completion of the acquisition of 100% interest in Charter Ping An Insurance Corporation ("Charter Ping An"), the fifth largest non-life insurance company in terms of Gross Premiums Written in the Philippines as of 2017. With such acquisition, AXA Philippines and Charter Ping An are now a provider of a comprehensive suite of products, personal and group insurance in the Philippines, covering life insurance and investment-linked insurance products, savings and investment, health coverage, property and casualty insurance. Together, AXA Philippines and Charter Ping An distribute its products in the Philippines through a multi-channel distribution network comprised of agents, bancassurance, and corporate solutions.

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

Over the past years, AXA Philippines has developed into a multi-line, multi distribution channel company offering traditional and unit-linked products for individual and group clients with a nationwide coverage through 952 MBTC and PSBank branches, being serviced by 754 salaried financial executives and 36 AXA Philippines branch offices that are home to its growing network of 3,665 exclusive financial advisors as of December 31, 2017.

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.
Liability Insurance	Pays, on behalf of the insured, all sums which the insured shall be legally liable to pay for all reason of liability imposed on the insured by law for compensation due to bodily injury and/or property damage occurring during the period of insurance within the geographical limits as a result of the occurrence and happening in connection with the insured's business.

Contribution to Sales/Revenues

Life Insurance
AXA Philippines posted an Annualized Premium Equivalent of Php6.3 billion and Php5.0 billion for 2017 and 2016, respectively. Net insurance premium amounted to Php26.2 billion and Php21.5 billion for 2017 and 2016, respectively.

Non-life Insurance
Charter Ping An posted Php5.7 billion and Php4.9 billion Gross Premiums Written in 2017 and 2016, respectively. Net Premiums Earned amounted to Php3.5 billion and Php2.0 billion in 2017 and 2016, 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, as only exclusive agents are allowed for life insurance distribution under Philippine regulations. Exclusive agents are prohibited from distributing insurance products for any other life insurance companies. Exclusive agents accounted for approximately 31% and 33% of AXA Philippines' total new business in 2017 and 2016, respectively. AXA Philippines have agents throughout its 36 branches located in strategic locations in Metro Manila, Cebu and Davao, as well as elsewhere throughout the Philippines. 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 3,665 agents as of December 31, 2017 to 7,000 by 2020.

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

Bancassurance
Bancassurance refers to the sales of insurance through banking institutions. AXA Philippines utilizes financial executives, who are AXA Philippines employees placed within key MBT branches throughout the Philippines, to provide insurance advisory services to bank-sourced clients. AXA Philippines' bancassurance related products are aimed at complementing MBT's existing line of financial products, thereby providing MBT customers with a complete set of financial and insurance solutions. MBT and AXA Philippines also cross-market their products through joint advertising campaigns and promotional offers, such as tie-ups with MCC. MBT-based financial executives accounted for 69% and 67% of AXA Philippines' total new business premiums in 2017 and 2016, respectively. The cross-marketing of AXA Philippines products at MBT branches is the main component of AXA Philippines' marketing efforts.

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

Branches
Charter Ping An has 22 branches nationwide, located in Manila, Quezon City, Muntinlupa, Caloocan, Calamba (Laguna), Batangas, Naga, Tarlac, Dasmariñas (Cavite), Bulacan, Cabanatuan, San Fernando (Pampanga), Baguio City, Dagupan (Pangasinan), Isabela, Iloilo, Bacolod, Cebu, Cagayan de Oro, Davao and General Santos.

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

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

Competition

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

The tables below show the total premium income and percentage of total market share for AXA Philippines and its principal competitors as of December 31, 2016 and 2017:

Amounts in ₱ millions, except for percentage	2017 Amount	2017 % of total
1. Sunlife of Canada	32,114.02	15.86%
2. AXA Philippines	26,184.55	12.93%
3. BPI Philam Life	20,329.49	10.04%
4. Philippine American Life (AIA)	19,896.35	9.83%
5. Pru Life of the UK (Prudential plc)	19,221.21	9.49%
6. Manufacturers Life	17,638.45	8.71%
7. Insular Life	11,675.27	5.77%
8. BDO Life (Generali Pilipinas)	9,871.46	4.87%
9. Manulife Chinabank Life	8,211.13	4.05%
10. United Coconut Planters Life Assce. Corp	6,506.93	3.21%

Amounts in ₱ millions, except for percentage	2016 Amount	2016 % of total
1. Sunlife of Canada	31,890.43	17.44%
2. AXA Philippines	21,515.86	11.77%
3. BPI Philam Life	19,256.65	10.53%
4. Philippine American Life (AIA)	18,642.15	10.20%
5. Pru Life of the UK (Prudential plc)	18,116.37	9.91%
6. Manufacturers Life	16,631.25	9.10%
7. Insular Life	12,252.67	6.70%
8. BDO Life (Generali Pilipinas)	8,050.80	4.40%
9. Manulife Chinabank Life	7,274.39	3.98%
10. United Coconut Planters Life Assce. Corp	5,786.65	3.16%

Source: Philippine Insurance Commission (as of March 28, 2018)

The total market premium income in 2017 and 2016 amounted to Php202.5 billion and Php182.8 billion, respectively.

Non-life Insurance

Based on the Insurance Commission's recently released 2017 non-life industry GPW results, the average industry growth for the past five years (2013-2017) was 8.8% while Charter Ping An's average growth was 14.6%. This resulted to increase in market share to 6.8% from 6.5% of last year. Charter Ping An maintained its fifth ranking in the GPW, and increased a notch higher from fourth to third ranking in the NPW in terms of 2017 industry performance.

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

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

As of December 2017, the Philippine insurance industry is composed of 68 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 non-related parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Related party transactions as of December 31, 2017 consist mainly of the following:

Entities with joint control over the Company	**Terms**	**Conditions**
MBTC		
Time deposits accounts	1 to 90 days, 0.5 % to 4.5%	Unsecured, no impairment
Unit investment trust funds	At NAV, settlement in cash	Unsecured, no impairment
Accrued interest on time deposits	1 to 90 days, 0.5 % to 4.5%	Unsecured, no impairment
Interest income	0.5 % to 4.5%	Unsecured, no impairment
Management fees for UL Funds	Interest-free, settlement in cash	Unsecured, no impairment
Profit on disposal	Interest-free, settlement in cash	Unsecured, no impairment
Savings and current deposits	0.125% to 0.25%	Unsecured, no impairment
Rent income	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Referral fees	Interest-free, settlement in cash	Unsecured, no impairment
Accrued referral fees	Interest-free, settlement in cash	Unsecured, no impairment
FMIC		
Brokerage Fee	Interest-free, settlement in cash	Unsecured, no impairment
AXA Asia		
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
Accounts receivable	Interest-free, settlement in cash	Unsecured, no impairment
Subsidiary		
CPAIC		
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Unit-linked funds		
Asset management fees	1.30% to 2.10% of NAV	Unsecured, no impairment
Other related parties		
Philippine Savings Bank		
Time deposits accounts	30 to 60 days, 2%	Unsecured, no impairment
Accrued interest on time deposit	30 to 60 days, 2%	Unsecured, no impairment
Interest income on time deposits	2%	Unsecured, no impairment
Savings and current deposits	0.25% to 0.50%	Unsecured, no impairment
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Referral fees	Interest-free, settlement in cash	Unsecured, no impairment
Accrued referral fees	Interest-free, settlement in cash	Unsecured, no impairment
Federal Land		
Rental deposits	Interest-free, settlement in cash	Unsecured, no impairment
Rent expense	Interest-free, settlement in cash	Unsecured, no impairment
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
GT Capital Holdings		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Orix Auto Leasing Phils. Corporation		
Rent expense	Interest-free, settlement in cash	Unsecured, no impairment
Toyota Motor Philippines Corporation		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Toyota Manila Bay Corporation		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Metrobank Card Corporation		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
Cathay International Resources Corporation		
Premium income	Interest-free, settlement in cash	Unsecured, no impairment
FCM Travel Services Inc.		
Rent income	Interest-free, settlement in cash	Unsecured, no impairment
AXA Shared Services Centre Philippines Inc.		

Rent income	Interest-free, settlement in cash	Unsecured, no impairment
Shared service costs	Interest-free, settlement in cash	Unsecured, no impairment
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
Accounts receivable	Interest-free, settlement in cash	Unsecured, no impairment
AXA France Vie		
Premiums ceded to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Due to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
AXA Globe Re		
Premiums ceded to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Due to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Expense recharge	Interest-free, settlement in cash	Unsecured, no impairment
AXA PPP		
Premiums ceded to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Due to reinsurer	Interest-free, settlement in cash	Unsecured, no impairment
Reinsurance recoveries	Interest-free, settlement in cash	Unsecured, no impairment
Reinsurance recoverable on paid/unpaid losses	Interest-free, settlement in cash	Unsecured, no impairment
AXA Malaysia		
Various expenses	Interest-free, settlement in cash	Unsecured, no impairment
AXA HK		
Various expenses	Interest-free, settlement in cash	Unsecured, no impairment
AXA Paris		
Various expenses	Interest-free, settlement in cash	Unsecured, no impairment

Non-life insurance
Charter Ping An, in its usual conduct and course of business, has entered into transactions with its associate and other related parties principally consisting of cross selling activities, service requirements and leasing agreements as of December 31, 2017.

Related Counter Party	Terms	Conditions
Philippine AXA Life Insurance corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Shared Service cost	-	-
Group Life Insurance coverage	-	-
Metropolitan Bank and Trust Company		
Direct Premiums	-	-
Premiums Receivable	-	-
Investment in equity securities	Common Shares	Unsecured; no impairment
Time deposit placements	60 to 90 days 1.50 – 1.75%	-
Accrued Interest on time deposits	1.50 – 1.75%	-
Interest Income – time deposits	1.50 – 1.75%	-
Savings and current deposits	0.125 – 0.25%	-
Interest Income – savings deposits	0.125 – 0.25%	-
Rent Expense	-	-
Rental, security and meter deposits	-	-
Retirement fund	-	-
Metrobank Card Corporation		
Direct Premiums	-	-
Premiums Receivable	-	-
First Metro Investment Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Investment in debt securities	7 years, 5.75%	Unsecured; no impairment

Accrued interest on debt securities	5.75%	
Interest Income – debt securities	5.75%	-
Rent Expense	-	-
Philippine Savings Bank		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Time deposit placements	30 to 95 days, 1.38 – 2.25%	-
Accrued Interest on time deposits	30 to 95 days, 1.38 – 2.25%	-
Interest Income – time deposits	1.38 – 2.25%	-
Investment in debt securities	10.25 years, 5.50%	-
Accrued interest on debt securities	5.50%	Unsecured; no impairment
Interest income – debt securities	5.50%	-
Savings deposit	.25% - .50%	-
Interest income – savings deposit	.25% - .50%	-
Federal Land Inc		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Metro Pacific Investments Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Investment in Stocks	Common Shares	-
Dividend Income	-	-
ORIX Metro Leasing and Financing Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Rent Expense	-	-
ORIX Rental Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Financial Services Philippine Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Manila Bay Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Motors Philippines Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Cathay International Resources Corporation		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
Property Company of Friends Inc.		
Direct Premiums	-	-
Premiums Receivable	Due and demandable; non-interest bearing	Unsecured; no impairment
GT Capital Holdings		
Direct Premiums	-	-

Premiums Receivable	-	-
Investment in equity securities	Common shares	-
Investment in debt securities	10 years, 5.09%	Unsecured; no impairment
Accrued interest on debt securities	5.09%	-
Interest income – debt securities	5.09%	-
AXA Global RE		
Ceded – Premiums – Treaty	-	-
Commission Income	-	-
Premium reserve withheld for reinsurer – treaty	-	-
Reinsurance recoverable on unpaid losses – treaty	-	-
Premiums due to reinsurer – treaty	-	-
AXA Shared Services Centre Philippines Inc.		
Direct Premiums	-	-
Premiums Receivable	-	-
First Metro Securities Brokerage Corporation		
Brokerage Fees	-	-

Effect of Existing or Probable Government Regulations

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

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

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

As of December 31, 2017 and 2016, the Group has complied with the minimum net worth requirements.

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

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

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

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

Life Insurance

	2017	2016
Total available capital	**₱4,298,424,600**	₱3,882,262,597
RBC requirement	**1,259,871,495**	1,204,120,754
RBC Ratio	**341%**	322%

Non-life Insurance

	2017	2016
Total available capital	**₱1,845,722,207**	₱1,204,613,774
RBC requirement	**1,227,384,416**	1,377,343,170
RBC Ratio	**150%**	87%

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

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

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

(b) Circular Letter No. 2016-66, Valuation Standards for Life Insurance Policy Reserves, provides a change in the basis of valuation of the life insurance policy reserves from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) which now considers other assumptions such as morbidity, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation.

(c) Circular Letter 2016-67, Valuation Standards for Non-life Insurance Policy Reserves, prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by the Insurance Commission.

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

Implementation requirements and transition accounting

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

(f) Circular Letter No. 2017-15, Regulatory Requirements and Actions for the New Regulatory Framework. The cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting

Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016-67, shall be recognized in Retained Earnings – Transition Adjustments account except for items listed in Section 2.1 . All changes in valuation shall be measured net of any tax effect.

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

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

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

Non-life Insurance
With the acquisition by AXA Philippines of 100% interest in Charter Ping An in April 2016, the trade name was not changed, except for the deletion of the words "GT Capital Holdings, Inc." in the current company logo.

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, 2017, AXA Philippines had 602 full-time employees and 822 sales employees as shown below:

Type	**No. of Employees**
Senior Officers	7
Managers and Officers/Supervisors	207
Rank and File	358
Sales	849
Total	**1,421**

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, 2017, Charter Ping An had 561 full-time employees and 12 consultants. The breakdown of full-time employees is provided below:

Type	No. of Employees
Seconded and Senior Officer	18
Junior Officers and Supervisors	175
Rank and File	371
Total	**564**

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;
- Economic and financial market volatility may reduce the demand for investment-linked products;
- Fund manager performance may reduce the return on investment-linked products and the demand for such products;
- Future actual claims may not be consistent with the assumptions used in pricing AXA's products and establishing reserves for its obligations, which could materially and adversely affect its earnings;
- AXA'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

- CPA continues to launch new products to give its clients a comprehensive and cost effective insurance protection for themselves and their properties;
- CPA must compete to secure accounts, even captive markets, i.e. accounts or clients of companies that belong to the group;
- CPA must continuously improve its distribution channel to achieve its desired growth. CPA should have effective control measures to prevent potential fraudulent acts of its agents that would affect the policies and procedures of CPA;

- The prescribed tariff rates imposed by the Insurance Commission can be detrimental to the competitiveness of CPA with regard to the pricing of insurance premiums.
- Based on the new Insurance Code, the penalty for breaching the tariff increased from PhP 500.00 to PhP 25,000.00 per policy/risk;
- CPA must be consistent in submitting reportorial reports as required by the Insurance Commission. Any default would result in a penalty for each day of delay;
- CPA must uphold its assurance to policyholders that any claim will be treated in a professional manner and, when meritorious, settled immediately without undue delay. Since claims payment is one of the key factors in advertising the strength of CPA, any default or wrongdoing would impair the ability of CPA to solicit business;
- CPA 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 CPA. It should be noted that insurance companies are following strict rules of the Insurance Commission when investing available funds;
- CPA fund managers must be conservative regarding investments since their decisions could result in heavy losses;
- CPA and other insurance companies are required by the Insurance Commission to protect their policyholders against Catastrophic (CAT) Events. Costs for CAT protection trend upward every year due to climate change;
- CPA operation and reportorial requirements are dependent on the reliability of its Information Technology (IT) system, thus, effectiveness must be reviewed and updated regularly. This IT system must be adaptable to changes in reportorial requirements;
- CPA consistently complies with its tax obligations since any failure to do so would result in heavy penalties or even the revocation of CPA's license to operate;
- CPA 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 CPA's peers in the insurance industry; and,
- CPA must continuously review its Underwriting Guidelines to eliminate avoidable losses. For unavoidable losses like catastrophic events, CPA should ensure that all payments to policy holders are in accordance with its self-imposed guidelines.

<u>Toyota Manila Bay Corporation</u>

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 Metrobank Group, comprised of Titan Resources Corporation, FMIC and Toyota Cubao Inc. (TCI); and Mitsui & Co., Ltd. (Mitsui), one of Japan's largest general trading companies with the latter acquiring 40% share of the company.

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

On March 7, 2016, the SEC approved the merger of TMBC and TCI. Consequently, TMBC became the surviving entity and absorbed all of TCI's assets and liabilities. The consolidation of resources resulted in economies of scale, cost reduction, and better span of control. Prior to the merger, GT Capital owned 53.8% majority stake of TCI, with Mitsui owning 40%, the balance of the remaining TCI shares was held by individual stockholders. As of December 31, 2017, TMBC is 58.10% owned by GT Capital.

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

Principal Products and Services

Vehicle sales
As of December 31, 2017, 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	**2015**		**2016**		**2017**	
	Sales (Php Mn)	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*
Vehicle sales	17,302	93.0%	22,445	93.5%	24,211	93.0%
Parts sales	850	4.6%	942	3.9%	1,101	4.2%
After sales Services	442	2.4%	609	2.5%	711	2.7%
Total	**18,594**	**100.0%**	**23,996**	**100.0%**	**26,023**	**100.0%**

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

2017 Data	**TMB**	**TDM**	**TAS**	**TCI**	**TMK**
Started Operations	Aug. 6, 1999	Oct. 24, 2003	Jan. 27, 2011	Jan. 19, 1989	Aug. 19, 1998
Location	Pasay City, Metro Manila	Dasmariñas, Cavite	Manila City	Quezon City	Marikina City
Brand New Vehicles Sold	6,468	4,113	3,607	5,258	3,424
Units Received for Service	31,590	35,976	17,037	22,508	18,131

GT Capital owns these five dealers out of the 63 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	**2015**		**2016**		**2017**	
	Sales (Php Mn)	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*	*Sales (Php Mn)*	*% to Total Revenues*
TMB	5,723	30.8%	7,099	29.6%	7,442	28.6%
TDM	3,397	18.3%	4,120	17.2%	4,752	18.3%
TAS	3,098	16.6%	3,648	15.2%	3,914	15.0%
TCI	4,180	22.5%	5,493	22.9%	5,925	22.8%
TMK	2,196	11.8%	3,636	15.2%	3,990	15.3%
Total	**18,594**	**100.0%**	**23,996**	**100.0%**	**26,023**	**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, 2017, Toyota Motor Philippines have 18 dealerships in Metro Manila and 45 dealerships in the provinces. Out of the total vehicles sold by these dealerships, TMBC accounted for 12.4% share as of December 31, 2017.

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 2017, TMBC's retail customer base is comprised of:

First time car buyers	41.0%
First time Toyota buyers	22.5%
Repeat Toyota buyers	19.1%
Repeat TMBC clients	17.4%
Total	100.0%

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

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

Outlet	**As of December 31, 2016**			
	Sales Volume to Fleet	*% to Total Sales Volume*	*Sales Volume to Retail*	*% to Total Sales Volume*
TMB	1,300	5.9%	5,170	23.7%
TDM	391	1.8%	3,206	14.7%
TAS	901	4.1%	2,679	12.3%
TCI	921	4.2%	44,255	19.5%
TMK	585	2.7%	2,450	11.2%
TOTAL	**4,098**	**18.7%**	**17,760**	**81.3%**
Outlet	**As of December 31, 2017**			
	Sales Volume to Fleet	*% to Total Sales Volume*	*Sales Volume to Retail*	*% to Total Sales Volume*
TMB	1,435	6.3%	5,033	22.0%
TDM	362	1.6%	3,751	16.4%
TAS	872	3.8%	2,735	12.0%
TCI	539	2.4%	4,719	20.6%
TMK	582	2.5%	2,842	12.4%
TOTAL	**3,790**	**16.6%**	**19,080**	**83.4%**

Financing Terms
Customers are usually required to pay a 20% down payment, with the remaining balance payable in three to five years. They can either choose between bank financing or through GT Capital's financing arm, TFSPH. With a more aggressive "all-in" financing package and promotions from banks, financing the purchase of brand-new vehicles becomes accessible to a wide array of customers.

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

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

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

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

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

	2017
Regular	**755**
Officers	51
Team Members	704
Probationary	**105**
Outside Contractors	**612**
Agency-contracted	204
Fixed term employee	408
TOTAL	**1,472**

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:

	As of December 31					
	2015		2016		2017	
Category	*Amount (PhP M)*	*% to Total Revenues*	*Amount (PhP M)*	*% to Total Revenues*	*Amount (PhP M)*	*% to Total Revenues*
Interest Income (Retail Loans)	584.9	18.5%	653.6	17.8%	835.0	16.5%
Interest Income (Finance Lease)	2,436.0	76.9%	2,968.7	80.7%	4,064.6	80.4%
Other Income	148.8	4.7%	57.8	1.6%	153.0	3.0%
Total	**3,169.7**	**100.0%**	**3,680.1**	**100.0%**	**5,052.6**	**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	**2015**		**2016**		**2017**	
	Units	*%*	*Units*	*%*	*Units*	*%*
Metro Manila	11,657	56.8%	14,067	48.3%	16,884	46.4%
Outside Metro Manila	8,849	43.2%	15,034	517%	19,481	53.6%
TOTAL	20,506	100.0%	29,101	100.0%	36,365	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 85.0% of the total financed Toyota vehicles in 2017. TFSPH has the highest market share at 39.3% which is 23.7 percentage points higher than its closest competitor, PSBank at 15.5%. East West Bank and BDO have market shares of 10.6% and 10.1%, respectively.

Advantage over competitors

Products

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

Relationship with Distributor (TMP) and Dealers

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

Transactions with and/or dependence on related parties:

- Toyota Dealers (nationwide) – Auto sales financing
- Toyota Motor Philippines Corporation – Auto sales and financing product packages

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

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

Effect of Existing or Probable Government Regulations

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

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

In December 2010, the Basel Committee for Banking Supervision published the Basel III framework (revised in June 2011) to strengthen global capital standards, with the aim of promoting a more resilient banking sector. On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratios of 7.5%. It also introduced a capital conservation buffer of 2.5% comprised of CET1 capital. BSP existing requirement for Total CAR remained unchanged at 10% and these ratios shall be maintained at all times. TFSPH is required to comply with this Circular effective on January 1, 2014.

TFSPH has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis. As of December 31, 2017, CET1 and Tier 1 capital ratios are 10.82% and 11.76%, 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.

	2017
Senior Officers (AVPs and up)	14
Officers (SM and down)	97
Rank and File	243
Sub total	**354**
Outsourced Services	61
Total	**415**

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

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

Risk Management Framework

The BOD has overall responsibility for the oversight of TFSPH's risk management process. Supporting the BOD in this function are certain Board-level committees such as Risk Oversight Committee (ROC), Audit Committee (AC) and senior management committees through the Executive Committee, Asset and Liability Committee (ALCO) and Credit Committee (CRECOM).

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

Liquidity Risk

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

Market Risk

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

Metro Pacific Investments Corporation

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% of the total issued common shares (or 42.0% of the outstanding common shares) of MPIC as at December 31, 2017 and 2016. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2017 and 2016.

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:

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

- *Toll operations,* which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries NLEX Corporation (NLEX Corp; formerly Manila North Tollways Corporation), Cavitex Infrastructure Corporation (CIC) and Tollways Management Corporation (TMC), and foreign investees, CII Bridges and Roads Investment Joint Stock Company (CII B&R), Don Muang Tollway Public Ltd (DMT) and PT Nusantara Infrastructure Tbk (PT Nusantara). Certain toll projects are either under pre-construction or on-going construction as at December 31, 2017.

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

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

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

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

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

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

	Year Ended December 31, 2017 (in Php Millions)							
	Water	**Toll**	**Healthcare**	**Power**	**Rail**	**Total**	**HO and Others**	**Consolidated**
Total revenue from external sales	**21,327**	**13,107**	**10,737**	**13,042**	**3,155**	**61,368**	**1,144**	**62,512**
MPIC's share in the Core Income	**3,733**	**3,901**	**685**	**9,378**	**283**	**17,980**	**(3,876)**	**14,104**
Operating companies contribution (%)	*21%*	*22%*	*4%*	*52%*	*1%*	*100%*		
Non-recurring income (charges)	**(428)**	**1,118**	**4**	**260**	**(3)**	**951**	**(1,904)**	**(953)**
Segment Income (Loss)	**3,305**	**5,019**	**689**	**9,638**	**280**	**18,931**	**(5,780)**	**13,151**

	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**

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, 2017, MPIC's investments outside the Philippines included an effective ownership of 29.4% in DMT, a Thai toll road operator, 45.0% in CII B&R, a toll road company located in Ho Chi Minh City in Vietnam and 48.3% in PT Nusantara, a listed Indonesian infrastructure company with two main businesses toll roads and telecom towers and small businesses in water, ports and energy.

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:

(B.1a) Power - MERALCO

Business Development

Investment in MERALCO is held directly by MPIC at 10.5% and 15.0% as at December 31, 2017 and 2016, respectively, and held indirectly through Beacon Electric at an effective interest of 35.0% and 26.2% as at December 31, 2017 and 2016, respectively.

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

Through Clark Electric Distribution Corporation (Clark Electric), a 65%-owned subsidiary, MERALCO holds the power distribution franchise of Clark Special Economic Zone in Clark, Pampanga. Clark Electric's franchise area covers 320 square kilometers and 1,987 customers as at December 31, 2016.

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

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

Power generation
MERALCO PowerGen Corporation (MGen), a wholly owned subsidiary of MERALCO, was organized as MERALCO's vehicle for re-entry into power generation. MGen has a 14% equity interest in Global Business Power Corporation (GBPC) effective June 30, 2016. GBPC owns a total of 854 MW of coal and diesel-fired power plants.

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

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

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

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

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

MGen has 49% equity interest in Mariveles Power Generation Corporation (Mariveles Power) which is developing a 4 x 132 MW coal-fired power plant in Bataan. On April 29, 2016, the Joint Application for approval of said PSA was filed with the ERC. In its Order dated August 9, 2016, the ERC held the processing of the application in abeyance. On September 30, 2016, Mariveles Power filed a motion for reconsideration (MR) of the said ERC Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, MERALCO received a copy of a Motion filed by several consumers with the ERC on July 14, 2017 seeking the dismissal of the case, to which MERALCO filed an Opposition. As at February 26, 2018, further ERC action is pending.

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

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

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 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	
	2017	**2016**
Commercial	39.42%	39.53%
Residential	31.02%	31.00%
Industrial	29.24%	29.14%
Streetlights	0.32%	0.33%
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.

4th Regulatory Period Reset Application

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

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

Under ERC Resolution No. 25, Series of 2016 dated July 12, 2016, the ERC promulgated a Resolution modifying the RDWR for Privately-Owned 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. Hearings were scheduled on May 15 and June 21, 2017. The ERC Order for the date of the next public consultation is pending.

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

Interim Average Rate for RY 2016
On June 11, 2015, MERALCO filed its application for the approval of its proposed Interim Average Rate of ₱1.3939 per kilowatt-hour (kWh) and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved the Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

CAPEX for RY 2016
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 ₱15.5 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 March 1, 2018, the *ERC* has yet to rule on the Motion for Reconsideration.

CAPEX for RY 2017
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.

CAPEX for RY 2018
On April 3, 2017, MERALCO filed an application for approval of authority to implement its CAPEX program for RY 2018 (July 1, 2017 to June 30, 2018) pursuant to the Public Service Act. On May 26, 2017, MERALCO received the Order dated May 15, 2017, which set the case for initial hearing. Hearings were conducted on June 22 and August 1, 2017, August 25, 2017 and September 22, 2017. A conference was also conducted with the ERC technical staff and the intervenor on October 12, 2017. On November 9, 2017, MERALCO filed its FOE. As at March 1, 2018, the case has been submitted for decision.

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

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

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

At 42 months since the start of RCOA, a good number of CCs 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 CC 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 CCs, 237 or nearly 55% in terms of number of accounts have opted to be served by MPower, the MERALCO RES unit. MPower, with a group of highly competent engineers and commercial executives with broad experience in the power industry, including load profiling and forecasting, energy operations and management, and its customer-centric product and price offerings, among others, has created significant value for its customers through its service offerings and reliable supply portfolio.

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

Source and availability of raw materials
MERALCO and Clark Electric do not operate their own generation capacity. Both purchase all of the power they distribute from the power generators under Power Supply Agreements (PSA) and Power Purchase Agreements (PPA) or through the Wholesale Electricity Sport Market (WESM). WESM is a venue where suppliers and buyers trade electricity as a commodity. The principal sources of power of MERALCO and Clark Electric and their relative contribution in 2017 and 2016 are as follows:

	2017	**2016**
PPA	35%	40%
PSA	50%	47%
WESM	15%	13%
Total	100%	100%

(B.1b) Power - GBPC

Business Development/ Products and Services
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 new 150 MW coal-fired circulating fluidized bed (CFB) plant in Panay began commercial operations during the first quarter of 2017. However, final project acceptance is pending until all rectification works are completed, probably in early 2018.

The second largest power generation facility is the 246 MW clean coal-fired power plant in Toledo City, Cebu, which is operated by Cebu Energy Development Corporation (CEDC). CEDC is a joint venture between 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, an 82 MW coal facility and a 40 MW fuel oil facility operated by Toledo Power Co.(TPC); a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 7.5 MW fuel oil facility and a 5 MW fuel oil facility operated by Panay Power Corporation (PPC); and a 7.5 MW fuel oil facility operated by GBH Power Resources Inc. (GPRI).

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

GBPC has also embarked on a partnership with Alsons Consolidated Resources, Inc. (ACR) in June 2017 through the acquisition of a 50% stake in Alsons Thermal Energy Corporation (ATEC) – the holding company for ACR's baseload coal-fired power plant assets.

ATEC owns 75% stake in the 2x105 MW baseload coal-fired plant of Sarangani Energy Corporation (SEC) located in Maasim, Sarangani Province. ATEC also holds 100% equity in San Ramon Power, Inc. (SRPI) which is developing a 105 MW baseload coal-fired plant in Zamboanga City.

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

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

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

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

Coal Sources	Principal Suppliers
Semirara	Semirara Mining and Power Corporation
Indonesia	PT Adaro Indonesia Samtan Co., Ltd. / Kideco Lucent Aminto, Inc.
Russia	Samsung C&T/Sakhalin

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 Galaxy Resources. The said companies are now included in the pool of reliable and technically complying coal suppliers of GBPC.

Major Customers
Ninety two percent (92%) of GBPC's total electricity sales in 2017 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, 2017 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)
- Advent Energy Inc.
- Global Energy Supply Corp. (GESC) - Contestable Customers

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

Toledo Power Co. (TPC)
- Carmen Copper Corporation (Carmen Copper)
- CEBU III Electric Cooperative, Inc. (CEBECO 3)
- MERALCO [(1)]
- Philippine Mining Service Corp. (PMSC) – Bohol Facility
- Global Energy Supply Corp. (GESC) - Contestable Customers
- Therma Visayas, Inc. (TVI)

Panay Power Corporation (PPC)
- Panay Electric Company (PECO)[(2)]
- Iloilo I Electric Cooperative, Inc. (ILECO 1)[(3)]
- Aklan Electric Cooperative (AKELCO)[(3)]
- Negros Occidental Electric Cooperative, Inc. (NOCECO)[(2)]
- Manila Electric Company (MERALCO)[(1)]

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

Notes:
(1) *Interim Power Supply Agreement (IPSA) extension which commenced in February 2017 up to February 2018.*
(2) *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 (PEMC, 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 trading period. The WESM began market operations in 2006 for Luzon and 2010 for Visayas. GBPC's subsidiaries, PEDC, CEDC, PPC and TPC, have been registered participants of the WESM since 2011. On June 26, 2017, PEMC commenced trial operations of WESM in Mindanao and is targeted to be fully operational by the second quarter of 2018.

To further enhance the design and operation of WESM, DOE Circular No. 2015-10-001series of 2015 called for a number of changes which included a shorter trading and dispatch interval from one (1) hour to five (5) minutes. However, this is yet to be operationalized through the issuance of a Market Manual by the PEMC.

In July 2017, DOE issued Department Order No. DO2017-07-2010 for the creation of a transition committee for the interim management of PEMC and WESM while the independent market operator (IMO) is being created. When PEMC was incorporated in 2003, under the Electric Power Industry Reform Act (EPIRA) of 2001, it was constituted as the autonomous group market operator (AGMO) to oversee market governance and perform the functions of market operator in the WESM. Among the EPIRA provisions is also the creation of an IMO no later than one year after WESM operations. The transition committee of the PEMC already submitted to DOE an IMO Transition Plan last November. Based on timeline, DOE plans to roll-out IMO plans by early 2018. Once the IMO is in place, PEMC will cease as the AGMO but will remain as the governing body of the WESM.

Retail Competition and Open Access
The 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 May 12, 2016 which contained the Revised Rules on Contestability. Under said rules, the Threshold Reduction Date was set to June 26, 2016, where end-users with demand of at least 750kW shall be allowed to contract with any retail electricity supplier. On the other hand, for end-users with demand of at least 1MW, mandatory contestability was set to December 26, 2016. Lastly, the lowering of the threshold to cover end-users with demand of at least 500kW was set to June 26, 2018. However, the date for mandatory contestability for end-users with demand of at least 1MW was later moved to February 26, 2017 through ERC Resolution No. 28, series of 2016, issued on November 15, 2016, due to various issues on implementation of mandatory contestability.

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

In response, the ERC has filed a motion seeking to lift the TRO and clarify the scope of the SC's ruling. Particularly, the ERC asked if it can lower the threshold to 750 kW for CCs, and if it can still issue new RES licenses to qualified energy industry players.

Notwithstanding above pending case before the SC, the DOE issued Department Circular DC2017-12-0013 on November 29, 2017 which provides policy on RCOA that allows voluntary participation of CCs with lower threshold. CCs with monthly average peak demand of 750 kW and above allows participation in the retail market on a voluntary basis upon the effectivity of the circular, with 500 kW to 749 kW monthly average peak demand effective June 26, 2018 and with no less than 500 kW monthly average peak demand effective December 26, 2018 or an earlier date set by the ERC.

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

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

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

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 (RPS), which sets a minimum percentage of generation from eligible renewable energy resources; the Feed-in Tariff System, which authorizes a fixed tariff for electricity produced from emerging renewable energy resources; the Renewable Energy Market (REM), which will operate in the WESM to facilitate compliance with the Renewable Portfolio Standard; and the Green Energy Option, which allows end-users to contract their energy requirements directly from renewable energy facilities. DOE is in the process of conducting industry consultation to help in the formulation of circulars to govern the said market mechanisms. Based on the indicative timetable of DOE, circulars on RPS, REM and Green Energy Option will be issued by early 2018.

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

Licenses

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

The power generation companies of GBPC possess the required COCs.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

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

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

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

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

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

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

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

(B.2) Toll Operations

Business Development
The Company holds its toll road assets through MPTC.

As at December 31, 2017, MPTC's subsidiaries hold the following concession rights:

- Through its 75.60% effective interest in NLEX Corp:
    - Construction, operation and maintenance of the North Luzon Expressway (NLEX)
    - Management, operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEX).
    - Construction, operation and maintenance of the NLEX-SLEX Connector Road.
- Through Cavitex Infrastructure Corporation (CIC), which holds the concession rights for the operation and maintenance of the 14-km Manila-Cavite Toll Expressway (CAVITEX).
- Through its wholly owned subsidiary, MPCALA Holdings, Inc. (MPCALA), which was granted the concession to design, finance, construct, operate and maintain the 47-km Cavite Laguna Expressway (CALAX).

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

MPTC also has the following offshore investments:

- *29.45% stake in DMT.* DMT is a major toll road operator in Bangkok, Thailand. The concession for DMT runs until 2034 for the operation of a 21.9-kilometer six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument, north of Bangkok, Thailand.
- *44.9% effective interest in CII B&R.* CII B&R has various road and bridge projects in and around Ho Chi Minh City and its current portfolio includes 106.7 kilometers of roads operating at approximately 49,000 vehicles per day and roads under pre- or on-going construction covering a total of 38.1 kilometers. MPTC acquired CII B&R in 2015 through an equity investment and financing transaction with Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII) of Vietnam that effectively provided MPTC a 44.9% minority equity interest in CII B&R.
- *48.27% effective interest in PT Nusantara.* PT Nusantara is a leading infrastructure company in Indonesia. Nusantara's areas of operations comprise of toll roads, ports, water, energy and telecommunication towers which serve over 103 million customers, 550,000 households, 266 factories, 210 vessels and 1,269 telecommunication tenancies.

Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract
The toll segment's concession is comprised of the rights, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income.

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

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

NLEX Corp also holds the concession right for the Connector Project. The Connector Road is a four (4) lane toll expressway structure with a length of eight (8) kilometers all passing through and above the right of way of the Philippine National Railways (PNR) starting NLEX Segment 10 in C3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project. The concession period shall commence on the commencement date and shall end on its thirty-seventh (37^{th}) anniversary, unless otherwise extended or terminated in accordance with the Concession Agreement. The Connector Project is expected to commence construction in 2018 and to complete by 2021.

CIC holds the concession for the operation and maintenance of the CAVITEX. The first phase of the CAVITEX is a 14-km long toll road built in two segments running from Airport Road to Cavite. The concession period extends to 2033 for the originally built road and to 2046 for a subsequent extension. The second phase of the CAVITEX, which will connect the C5 road in Taguig to one of the segments in the CAVITEX, had commenced construction in June 2017 and is expected to be completed by 2020.

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. The groundbreaking of the CALAX was held on June 19, 2017. Construction is ongoing with expected completion by 2021.

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 early 2018 and is estimated to be completed by 2021.

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

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

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

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

As of March 1, 2018, MPTC continues to await approval by the government of toll rate adjustments for the NLEX, SCTEX and CAVITEX.

Customers
The toll road business of the Company 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, DMT and PT Nusantara contributed approximately 2.0% of MPIC's consolidated income before tax.

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

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

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

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

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

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

Source and availability of raw materials
NLEX Corp's main supply contract consists of the Operations and Maintenance (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 Metro Pacific Tollways Management Services Inc. (MPTMSI, a wholly owned subsidiary of MPTC) entered into a Toll Collection Services Agreement to facilitate the toll collection function of CIC. TMC, PEATC and MPTMSI provide 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

- *Transactions with TMC.* TMC is responsible for the O&M of the NLEX, Segment 7 and SCTEX. Beginning April 2017, TMC became a subsidiary of MPIC and all intercompany relationships between NLEX Corp and TMC were effectively settled in the process of consolidation. Disclosures provided below in relation to PAS 24, *Related Party Disclosures* apply to periods prior to TMC's consolidation:
    - In exchange for performing its duties for the O&M of the NLEX, TMC receives a fixed O&M fee subject to CPI escalation as provided for under the agreement and a variable fee (for certain portions of the NLEX). The O&M also provides for certain bonuses and penalties as described in the agreement.
    - For the SCTEX, O&M fee is based on a cost plus margin, which compensation shall not exceed ₱26.3 million per month (inclusive of VAT). TMC commenced operations of the SCTEX on October 27, 2015.
- *Transactions with ESC.* ESC is the exclusive tag issuer at the NLEX. Beginning October 2017, ESC became a subsidiary of MPIC and all intercompany relationships between NLEX Corp and ESC were effectively settled in the process of consolidation. Disclosures provided below in relation to PAS 24 apply to periods prior to ESC's consolidation:
    - NLEX Corp engaged the services of ESC to assist NLEX Corp in increasing the usage of the electronic toll collection (ETC) facility along the NLEX. The service agreement is effective up to May 2018 with a five-year extension. In accordance with the agreement, NLEX Corp shall pay ESC an annual fixed fee, which are to be maintained and escalated every year for labor index and CPI. NLEX Corp shall also pay a certain fee (depending on the class of vehicle) per transaction, with such fee maintained and escalated every year for labor index and CPI. Pursuant to the Service Agreement, amounts due to NLEX Corp arising from the use of Easytrip tags in the NLEX shall be remitted by ESC to the designated NLEX Corp bank accounts within seven (7) days immediately following the date when any vehicle using the Easytrip tags pass through the electronic payment lane of the NLEX. Any amount due to ESC arising from the reloading of the Easytrip tags in the NLEX shall be remitted by NLEX Corp to the designated ESC bank accounts within seven (7) days immediately following the date of reloading.
    - Under the Services Agreement between CIC and ESC, CIC engaged the services of ESC to exclusively promote and distribute radio frequency identification (RFID) sticker tags to CAVITEX users as well as the account management services for all ETC customers. The said agreement is for five years effective on September 1, 2014 and with five year extension. In accordance with the Service Agreement, CIC shall pay ESC an annual fixed fee which is to be escalated every year for labor index and CPI. CIC shall also pay for

variable fees (depending on the class of vehicle) per transaction per transaction, which are also to be escalated every year for labor index and CPI.

- *Utilities Facilities Contract* between NLEX Corp and PLDT for the Fiber Optic Overlay along Phase I of the NLEX. PLDT pays an annual fee presented as "Others" in the statements of comprehensive income. Pursuant to the agreement, PLDT shall pay NLEX Corp fixed annual fee which shall then be escalated annually by a percentage indicated in the agreement. The contract shall be effective for a period of 20 years from April 15, 2010 and may be renewed or extended upon mutual agreement by NLEX Corp and PLDT.
- *Utilities Facilities Contract*, between NLEX Corp and SMART whereby NLEX Corp provides SMART an access for the construction, operation and maintenance of a cellsite inside the NLEX right of way for a fixed annual fee which shall then be escalated annually starting on the fourth year of the contract and every year thereafter. The contract is effective for a period of five years from April 26, 2010. In September 2016, the contract was renewed with effective date of April 27, 2015 for a period of five (5) years which may be renewed or extended upon mutual agreement by NLEX Corp and SMART.
- *Agreement for the naming rights of the SMART Connect Interchange*, whereby NLEX Corp grants SMART the exclusive rights to name the NLEX–Mindanao Avenue Cloverleaf as a SMART Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱ 228.2 million and may increase depending on the final features and characteristics of the cloverleaf. The agreement is effective up to April 30, 2017.
- *Advertising arrangements* between NLEX Corp and Digitel related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX. This advertising arrangement with Digitel ended in 2015.

Costs and effects of compliance with environmental laws

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

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

Status of any publicly announced product or services

As discussed in the 2017 Audited Consolidated Financial Statements, certain toll projects are either under pre-construction or on-going construction as at March 1, 2018. Status of the other projects as follows:

- Segment 10 with a project cost of ₱10.5 billion will run from Valenzuela City all the way to C3 in Caloocan City and is expected to complete by the second quarter of 2018.
- Construction of the C5 Link Expressway is in full construction and is expected to be completed by 2020. The C5 Link Expressway, part of the existing CAVITEX network, is a ₱12.6 billion project spanning 7.7 kilometers to link C-5 Road in Taguig to R-1 (Coastal) Expressway.

(B.3a) Water - Maynilad

Business Development

MWHCI's main activity is the holding of controlling shares in Maynilad which holds the exclusive concession granted by the Metropolitan Waterworks and Sewerage System (MWSS), on behalf of the Philippine Government, to provide water and sewerage services in the West Service Area of Metro Manila. MPIC's effective ownership in Maynilad was at 52.8% as at December 31, 2017, 2016 and 2015.

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. PHI has 25-year Bulk Water Supply Agreements with various provincial municipalities outside the West Service Area and a Memorandum of Agreement with certain provincial municipality for the construction and operation of water treatment facilities for water distribution services. Amayi, incorporated on July 18, 2012, was established for the purpose of operating, managing, maintaining and rehabilitating waterworks, sewerage and sanitation system and services outside Maynilad's Concession Area.

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

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

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

Dependence on Licenses and Government Approval

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

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

Effect of Existing or Probable Governmental Regulations on the Business

The matter of the Maynilad tariff implementation remains unresolved as does the related claim on the Republic of the Philippines:

- 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 notified the Republic of the Philippines (Republic) that it was 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.
- On July 24, 2017, the Arbitral Tribunal unanimously upheld Maynilad's claim for compensation for the delayed implementation of its tariff increases for the rebasing period 2013 to 2017. The Tribunal ordered the Republic to reimburse Maynilad for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016 onwards. In the event of disagreement on the amount of such losses, Maynilad may revert to the Tribunal for further determination. Subsequently, Maynilad agreed with the corrected computation by the Republic of Maynilad's revenue losses from March 11, 2015 to August 31, 2016 in the amount of ₱3.18 Billion (with cost of money as of 31 August 2016).
- In a decision dated August 30, 2017, the Regional Trial Court of Quezon City (RTC) granted the Petition for Confirmation and Enforcement of Arbitral Award that Maynilad filed in July 2015. The Arbitral Award upheld the 13.41% Rebasing Adjustment that Maynilad proposed for the Fourth Rate Rebasing Period, January 1, 2013 to December 31, 2017.
- The MWSS filed a Motion for Reconsideration of the Decision (MR). The RTC denied the MR in an Order dated November 23, 2017. Subsequently, MWSS filed a Petition for Review with the Court of Appeals on December 27, 2017 asking for a reversal of the RTC's Decision. We are awaiting the Notice from the CA requiring us to file our Comment on the Petition.
- As a consequence of the issuance of the Decision, Maynilad filed, on October 18, 2017, a Motion for Execution

of the Final Award (MotEx). However, the RTC, on February 6, 2018, denied the MotEx.

- On February 13, 2018, Maynilad received an email from the Republic's Singapore counsel advising that the Republic has filed an application with the High Court of Singapore to set aside the Arbitral Award dated July 24, 2017 (the Setting Aside Application).
- An electronic copy of the Setting-Aside Application was served on Maynilad's Singapore counsel on 15 February 2018.
- Maynilad is tasked to file its Reply Affidavit(s) to SUM 749 (Republic's interlocutory application for sealing) on 1 March, and for the Republic to submit its Responsive Affidavit(s) by 14 March.
- As to OS 188 or the Setting-Aside Application itself, Maynilad is expected to likewise submit its Reply Affidavit(s) by 1 March 2018.

Customers
The water business of the Company, 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, 2017, Maynilad's network consisted of around 7,675 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.

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

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

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

Transactions with related parties
Transactions with Consunji. Maynilad, entered into certain construction contracts with Consunji, a subsidiary of DMCI Holdings, Inc. (a non–controlling shareholder in MWHC), in relation to the provision of engineering, procurement and construction services to Maynilad. Consunji also entered into a Construction Contract with MPCALA pursuant to which Consunji has agreed to construct and complete the civil works for the Laguna Segment of the CALAEX. The contract price for the project is ₱7.2 billion inclusive of taxes, subject to adjustments as provided for in the contract. The contract price was determined after arm's length negotiations between MPCALA and Consunji and was based on normal commercial terms.

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 from the DENR prior to construction or expansion. Subsequent to construction, effluents from facilities,

such as sewage and septage treatment plants, are routinely sampled and tested against DENR standards using international quality sampling and testing procedures.

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

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

(B.3b) Water - MPW

Business Development

MPIC's wholly-owned subsidiary, MPW is pursuing water infrastructure projects and other water-related investments across the Philippines. As at December 31, 2017, MPW had interests in the following companies:

- *Effective interest of 95% in Cagayan De Oro Bulk Water Inc. (COBI) through its wholly-owned subsidiary, MetroPac Cagayan De Oro Holdings, Inc. (MCOH).* COBI holds a 30-year 100 million liters per day (MLD) Bulk Water Supply Project (CDO Project). The CDO Project involves (i) the delivery of at least 40 MLD of bulk treated water within the eastern sector of Cagayan De Oro, and (ii) the supply at least 60 MLD of bulk treated water to service the requirements of the western sector. At COBI's option, the CDO Project may be implemented through (i) the design and construction of water production and transmission facilities with a capacity of approximately 100 MLD, (ii) the acquisition of ownership or leasehold rights to such production and transmission facilities and water rights, or (iii) the purchase of bulk treated water for supply to the western sector. Operations commenced effective December 31, 2017.
- *Effective interest of 80% in Metro Iloilo Bulk Water Supply Corporation (MIBWSC) through its wholly-owned subsidiary, MetroPac Iloilo Holdings Corp. (MILO).* MIBWSC holds a 25-year 170 million liters per day (MLD) Bulk Water Supply Project (Metro Iloilo Project). The Metro Iloilo Project covers (i) the rehabilitation and upgrading of Metro Iloilo Water District's (MIWD) existing 46 MLD water production facilities to 55 MLD, (ii) the expansion and construction of new water production facilities to increase production to up to 115 MLD; and (iii) delivery of contracted water demand to MIWD in accordance with the bulk water supply agreement. On July 5, 2016, MIBWSC officially took over water production operations from the MIWD.
- *Effective interest of 27% in Laguna Water District Aquatech Resources Corp. (LARC) through its direct ownership of 30% in EquiPacific HoldCo Inc. (EquiPacific).* In September 2015, the Consortium of Equi-Parco Construction Co. (EPCC), TwinPeak Hydro Resources Corporation (THRC), and MPW was awarded the Joint Venture Project (JV Project) for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Water Supply System of the Joint Venture Area covering the municipalities of Los Banos, Bay, Calauan and Victoria of the Province of Laguna. The Consortium organized EquiPacific as a special purpose company to implement the JV Project. LARC commenced the operation and management of the distribution network of the Laguna Water District (LWD) on January 1, 2016.
- *Effective economic interest of 27% in Cebu Manila Water Development, Inc. (CMWD) through its direct ownership of 39% in Manila Water Consortium Inc. (MWCI).* CMWD holds a 20-year Water Purchase Agreement (WPA) for the supply of 18 MLD for the first year and 35 MLD of water for the 2nd to 20th year to Metropolitan Cebu Water District (MCWD).
- *Effective interest of 49% in Cavite Business Resources Inc. (CBRI) through its direct ownership of 49% in Watergy Business Solutions, Inc. (WBSI).* On December 16, 2015, MPW completed the acquisition of 49% of the capital stock of WBSI. WBSI is a party to the Contractual Joint Venture Agreement which purpose was to develop a bulk water supply project to be sourced from the Maragondon River. The agreement shall be for a period of 25 years from the commencement date. Commencement date has not taken place as at December 31, 2017.
- *Direct ownership stake of 65% Eco-System Technologies International, Inc. (ESTII).* On June 16, 2016, MPW completed the acquisition of 65% of the outstanding capital stock of ESTII. ESTII is engaged in the business of designing, supplying, constructing, installing, and operating and maintaining wastewater and sewage treatment plant facilities. The transaction allows MPIC, through MPW, to diversify its water sector investment holdings and invest in the high growth wastewater EPC and O&M markets.

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

MIBWSC holds the 170 MLD Metro Iloilo Bulk Water Supply Project, which has a term of 25 years from the latter of the Target Initial Delivery Date and the Initial Delivery Date and shall be extended for another 25 years from the completion of the agreed upon expansion obligation, but in no event have an aggregate term of more than 50 years. As at March 1, 2018, the target initial delivery date is expected to take place in August 2018.

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

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

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

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

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

For the year ended December 31, 2017, revenues from these customers do not represent a significant percentage of MPIC's consolidated water revenues.

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

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

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

LARC sources around eighty nine percent (89%) of its water requirement from groundwater, and the balance from a bulk water supplier.

Transactions with related parties
ESTII, a subsidiary of MPW, entered into contracts with Maynilad for the construction of wastewater treatment plants. MIBWSC also has a technical services agreement with Maynilad for the provision of technical and specialized services relating to maintenance, operation, expansion, rehabilitation of facilities, and other related works.

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

Status of any publicly announced products and services
On December 20, 2017, MPW officially received from Metro Iloilo Water District the Notice of Award for the rehabilitation, operation, maintenance, and expansion of MIWD's existing water distribution system and the construction of wastewater facilities. MPW and MIWD shall enter into a joint venture agreement (JVA) upon completion of the post award activities. A joint venture corporation shall be organized pursuant to the provisions set in the JVA. The joint venture corporation shall implement this project including the right to bill and collect tariff for the water supply and wastewater services provided to the customers in the service area of MIWD.

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

(B.4) Healthcare

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

MPHHI completed the following acquisitions in 2017 and 2016:

- On October 5, 2017, MPHHI completed the acquisition of a 54% stake in St. Elizabeth Hospital, Inc. (SEHI), a 248-bed tertiary level hospital located in General Santos City. On December 8, 2017, MPHHI made an additional cash infusion in SEHI through subscription of primary shares that will increase its interest in SEHI to 80%. SEHI is still in the process of increasing their authorized capital stock with the SEC. The cash infusion from MPHHI will allow SEHI to expand and improve its facilities and purchase additional medical equipment.
- On January 31, 2017, MPHHI infused approximately ₱133.5 million of cash into Delgado Clinic Inc. (DCI), owner and operator of the Dr. Jesus C. Delgado Memorial Hospital (JDMH) via a subscription to preferred shares representing approximately 65% of the total expanded capital stock of DCI. The cash infusion from MPHHI will enable the 68-year-old JDMH to upgrade its equipment and facilities to improve its ability to serve its community.
- On July 29, 2016, MPHHI completed its acquisition of 469,077 shares, representing approximately a 93% stake in Marikina Valley Medical Center Inc. (MVMC) for ₱2,117.8 per share. MVMC is a prominent tertiary hospital along Sumulong Highway in Marikina. With the completion of the new 7-storey Medical Arts Building, MVMC increased its bed capacity to 140 beds.

Customers
As at December 31, 2017, MPHHI had interest in fourteen (14) hospitals with approximately 3,000 beds throughout the country:

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

In addition, MPHHI has also invested in mall-based primary care clinics in MegaClinic in SM Megamall and TopHealth in SM San Lazaro; a newly built cancer center in a joint venture with Lipa Medix in Batangas; 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 other tertiary hospitals. However, increasing health awareness creates unsatisfied demand in the industry.

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

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

(B.4) Rail

Business Development
MPIC operates its rail business through its wholly owned subsidiary, MPLRC. MPLRC's main activity is the holding of shares both at Light Rail Manila Holdings Inc. (LRMH) as well as LRMC. LRMC holds the exclusive concession granted by the 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 2017 was 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-kilometer 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 ₱9.35 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-kilometer 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 LRMC'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 memorandum of agreement for the Common Station Project was signed on January 18, 2017 by the DOTr, the Department of Public Works and Highways and relevant rail and mall operators. The completion of the common station is now expected to be in 2020.

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

As at December 31, 2017, LRMC continues to await approval by the Government of the full initial fares as stipulated in the concession agreement.

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.

In 2017, LRTA and MERALCO entered into a memorandum of agreement for the relocation of electrical sub-transmission and distribution facilities which will be affected by the construction works of the Cavite Extension. LRTA shall pay MERALCO all costs and expenses to be incurred for the relocation of its facilities (relocation charge). The agreement requires LRTA to enter into an Escrow Agreement to facilitate its payment of relocation charges. MERALCO may suspend the implementation of the relocation activities should LRTA fail to settle such charges. Since LRTA will only pay upon completion of the activities and MERALCO wants to receive advance payment for the costs to be incurred, LRMC has entered into a memorandum of agreement with MERALCO to pay in advance such charges to enable execution of the relocation activities. MERALCO shall reimburse LRMC of the relocation charges upon receipt from the Escrow Agent or LRTA. As at December 31, 2017, advance payments made to MERALCO amounted to ₱10.3 million and no reimbursements have been received.

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

For the commencement of the construction of the Cavite extension, LRTA has already obtained an ECC from the DENR under reference no. ECC-CO-1305-0018 issued in 2013. The ECC requires the proponent to abide by the following conditions: (1) Implementation of a Solid Waste Management Program, (2) Implementation of a dust control system at the construction site, (3) Construction and Installation of drainage structures, (3) Implementation of a social development program including priority employment for local residents within the direct impact areas, (5) Conduct and submit a Traffic Impact Assessment and a Traffic Management Program, (6) Submit evidence of compliance to all pertinent environmental regulations, (7) Set up an Environmental Guarantee Fund (EGF), a

Multipartite Monitoring Team (MMT), and an Environmental Monitoring Fund (EMF), (8) Establish an Environmental unit, (9) Submit a joint undertaking between Grantor and Concessionaire. Regulations require the grantee to submit a quarterly report of its environmental monitoring activities and a semi-annual report of its compliance to the above stated ECC.

LRMC has a dedicated environmental team that regularly monitors compliance with its ECCs and ensures measurement of significant environmental metrics for purposes of compliance with the reporting requirements.

(B.5) 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 ₱2.2 billion, inclusive of applicable value-added taxes. The transaction was carried out through an asset purchase agreement involving, among others: (a) the sale by Basic Group of identified logistics assets, (b) the novation of certain key contracts of the Basic Group with their respective clients, (c) the execution of new contracts required to ensure continued operations of the business under MMI, and (d) the transfer of certain key officers and employees of Basic Group to MMI.

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 ₱280.0 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.

(B.6) Others

Neo Oracle Holdings, Inc. (NOHI) and its subsidiaries are engaged in the business of real estate investments and property development, investment holding and management services.

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

(A) MPIC Parent's employees

As at December 31, 2017, the Parent Company has a total headcount of 52 employees (Administrative: 40, Rank and File: 12), who are neither unionized nor covered by special incentive arrangements. The Parent Company expects to increase its headcount in the next twelve months to 59.

(B) MPIC Parent's major risks

As an investment and management company, MPIC undertakes risk management at a number of distinct levels:

(D.1) On entering new investments

Prior to making a new investment, any business to be acquired is subject to an extensive due diligence including financial, operational, regulatory 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.

MPIC's geographic focus is still predominantly the Philippines within which its management team has extensive experience. Recently, MPIC has increased its presence in Southeast Asia with its recent investment in Indonesia's PT Nusantara, adding to its position in Thailand's Don Muang Tollway Public Ltd. and Vietnam's CII Bridges and Roads Investment Joint Stock Company. MPIC is mitigating its foreign investment risk through partnerships with reputable local firms in these foreign countries and engaging strong transactional legal advisers.

(D.2) On ongoing Management of the Financial Stability of the Holding Company

MPIC does not guarantee the borrowings of its investee companies and there are no cross default provisions from one investee 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's balance sheet 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, 2017, 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, 2017:

Location	No. of Branches
Metro Manila......	439
Luzon (excluding Metro Manila)......	282
Visayas	134
Mindanao......	97
Total	**952**

Federal Land

Land Bank
As of December 31, 2017, Federal Land owned a total land bank with an area of 82.70 hectares. The table below provides a breakdown of Federal Land's land bank.

Location	Area (in hectares)
Macapagal, Pasay City	12.85
Fort Bonifacio, Taguig	1.36
Marikina	8.63
Mandaluyong	4.34
Iloilo	0.29
Kalaw, Manila	0.56
Parañaque	0.28
Binan, Laguna	43.49
Gen. Trias, Cavite	2.98
Sta. Rosa, Laguna	7.92
	82.70

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

The office property at Phil AXA Centre measures 7,335 square meters of floor area, comprising 25 units. The units are owned by Horizon Land, a wholly-owned subsidiary of Federal Land. As of December 31, 2017, the Phil AXA Centre occupancy rate is at 89%.

Bluebay Walk has a total area of 13,687 square meters which is being leased out to various tenants. Rent is paid on a fixed per square meter basis and/or variable rent based on a certain percentage of sales of the retail tenant. Lease contracts provide for a pre-agreed annual increase over the term of the lease. As of December 31, 2017, the occupancy rate is at 98.0%.
iMet is a 10-storey office/BPO building located at the Bay Area in Pasay City. It has a floor plate of 2,029 square meters per office floor, making up a total of approximately 21,000 square meters. There are 5 retail spaces at the ground level.

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, 2017 is as follows:

Project/Location	Area (in hectares)		
	Undeveloped	Developed	Total
Lancaster	1,148.2	472.7	1,620.9
Iloilo	144.3	82.9	227.2
Micara	54.0	8.5	62.5
Bellefort	90.3	25.3	115.6
Carmona	20.1	11.5	31.6
	1,456.9	**600.9**	**2,057.8**
Others	152.8	1.3	154.1
	1,609.7	**602.2**	**2,211.9**

<u>Toyota Motor Philippines</u>

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

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

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

AXA Philippines
AXA Philippines' head office is currently under lease at the 2nd, 29th, 33rd, 34th and 35th floor of GT Tower International. AXA continues to own the premises occupied by its customer relation and training offices at the ground floor of the Phil AXA Centre in Makati.

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

Charter Ping An
Charter Ping An's head office is located at 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 22 branches nationwide: 4 in Metro Manila; 12 in Luzon; 3 in Visayas; and 3 in Mindanao. It owns the premises where its Binondo office is located and the rest of the branches are leased either from Metrobank or from other lessors. The term of the lease ranges from three to five years renewable under mutually-acceptable terms and conditions.

<u>Metro Pacific Investments Corporation</u>

Toll Roads Segment
NLEX Corp and CIC, own their head office buildings in Balintawak, Caloocan City and Paranaque City, respectively. Other equipment, which is relatively insignificant, consists of transportation equipment and office equipment primarily located in their respective head offices. NLEX Corp and CIC do not own the parcels of land over which the toll roads have been built as these are owned by the Republic of the Philippines. 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, equipment and service vehicles, renewable under certain terms and conditions to be agreed upon by the parties.

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

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

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

- MMC is a multi-specialty tertiary medical centre situated in the central business district of Makati, Metro Manila.
- AHI is a hospital located in Alabang, Muntinlupa in Southern Metro Manila.
- DLSMC is a mid-market teaching and training hospital in Quezon City, the largest city in Metro Manila.
- MDH, a tertiary hospital located in the City of Manila.
- MVMC is a prominent tertiary hospital along Sumulong Highway in Marikina City.
- JDMH is tertiary general hospital is located in Kamuning Road, Quezon City
- SHHM is a Level Two hospital in Malolos Bulacan.
- DDH is considered to be the largest and one of the best medical facilities offering modern diagnostic, therapeutic and intensive care services in Southern Philippines.
- RMCI, also known as Dr. Pablo O. Torre Memorial Hospital, is the largest and a leading medical facility in Bacolod in the island of Negros, Western Visayas.
- CLDH is the largest tertiary hospital in Tarlac.
- SEHI is the largest hospital in SOCCSKSARGEN region.
- MegaClinic and Tophealth are mall-based diagnostic and ambulatory care centers located in Metro Manila.
- Lipa Medix Cancer Center Corporation is a radiotherapy facility located in Lipa, Batangas.

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 is for a period of 20 years, renewable for successive periods of 10 years upon the mutual consent of both parties. The lease of MPZHC is for a period of 20 years and may be renewed under terms and conditions mutually acceptable. As consideration for the lease agreement, fixed and variable monthly rates are paid where the variable rate is based on the prior year's net revenues.

Toyota Manila Bay

The following table provides a breakdown of TMBC outlets' properties as of December 31, 2017.

Outlet	Leases or Owned	Lot Area	Remarks
TMB	Leased Owned	4,000.0 sqm 5, 000.0 sqm	Service Parking and Stockyard Showroom and Service
TDM	Owned	8,891.1 sqm 1,000.0 sqm 1,000.0 sqm 7,954.0 sqm	Stockyard and Service Showroom and Service Showroom and Service Brand New Stockyard
TAS	Leased	4,631.28 sqm 1,802.2 sqm 4,000.0 sqm	Showroom and Service Service and Stockyard Brand New Stockyard
TCI	Owned	3,542.0 sqm 9,721.5 sqm	Showroom and Service Service and Stockyard
TMK	Leased Owned	2,062.5 sqm 408.0 sqm 1,812.00 sqm 5,000.0 sqm	Showroom and Service Service Parking Brand New Unit Stockyard Showroom and Service (New Building)

TFSPH

As of December 31, 2017, TFSPH leases its offices at the following locations:

Head Office:

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

Business Hubs:

- Cebu Business Center - Esperanza Building, AC Coetes Ave., Ibabao, Mandaue City
- Davao Business Center - Manuel Morales Building 109 J/P Laurel Avenue, Bajada brgy. 12-B Davao City
- Lipa Business Center - Unit 6 GF Seasons Mall Building, JP Laurel Highway, Tambo, Lipa City Batangas
- San Fernando Business Center - Arian Place, GF Building, Unit 112 Jose Abad Santos Ave., Dolores San Fernando City, Pampanga

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

Stockyard	Address	LOT AREA
1	Champaca St., United Paranaque Subd. 4 (UPS4), Paranaque City	3,000 sqm
2	JP Rizal St., Brgy. Sala, Cabuyao, Laguna	2,637 sqm & 4,431 sqm
3	Seahawk Business Complex Pitogo, Consolacion, Cebu City	250 sqm
4	Emerald St. City Heights Subdivision, Brgy. Taculing, Bacolod City	500 sqm
5	#6 Dona Procesa Street, Bacolod City	1,521 sqm
6	Purok 10, Nacilla Village, Brgy. Ma-a, Davao City	1,100 sqm
7	12th Street, Nazareth, Cagayan de Oro City	520 sqm

Item 3. **Legal Proceedings**

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

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

Metrobank

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

Toyota Motor Philippines

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

Philippine AXA Life Insurance Corporation and Subsidiary

AXA Philippines

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

Charter Ping An

Currently, there are seven (7) major cases which can materially affect Charter Ping An. However, Charter Ping An has strong legal positions in these cases and the outstanding amount of claims involved is not material to GT Capital Group.

TMBC

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

TFSPH

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

Fed Land

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

PCFI

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

MPIC

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

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 2017 Audited Consolidated Financial Statements. The ultimate outcome of these matters cannot be presently determined.

Water segment

Rate Rebasing: 2013-2017

- *2013-2017 Rate Rebasing - Domestic Arbitration.* Metropolitan Waterworks and Sewerage (MWSS) released Board of Trustees Resolution No. 2013-100-RO dated September 12, 2013 and Regulatory Office (RO) Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 (Fourth Rate Rebasing Period) reducing Maynilad's 2012 average all-in basic water charge by 4.82% or ₱1.46 per cubic meter (cu.m.) or ₱0.29 per cu.m. over the next five years.

  On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel. This Dispute Notice is a referral to the Appeals Panel for Major Disputes of the dispute between Maynilad, on the one hand, and MWSS and the RO, on the other. The Dispute relates to the determination by the RO, in accordance with Section 9.4.2 of the Concession Agreement, of the Rebasing Adjustment as embodied in Resolution No. 13-010-CA.

  On December 17, 2013, the RO released Resolution No. 13-011-CA regarding the implementation of a status quo for Maynilad's Standard Rates and Foreign Currency Differential Adjustments (FCDA) for any and all its scheduled adjustments until such time that the Appeals Panel has issued its arbitral award.

  On January 5, 2015, Maynilad officially received the Appeals Panel's award dated December 29, 2014 upholding Maynilad's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41% or its equivalent of ₱4.06 per cu.m. (the First Award). This increase has effectively been reduced to ₱3.06 per cu.m., following the integration of the ₱1.00 Currency Exchange Rate Adjustment (CERA) into the basic water charge. To mitigate the impact of the tariff increase on its customers, Maynilad offered to stagger its implementation over a three-year period.

  The First Award, being final and binding on the parties, Maynilad asked the MWSS to cause its Board of Trustees to approve the 2015 Tariffs Table so that the same can be published and implemented 15 days after its publication.

  However, the MWSS and the RO have chosen, over Maynilad's repeated objections, to defer the implementation of the First Award despite it being final and binding on the parties. In its letter dated February 9, 2015, the MWSS and RO, who received their copy of the First Award on January 7, 2015, informed Maynilad that they have decided to await the final outcome of their arbitration with the other concessionaire, Manila Water, before making any official pronouncements on the applicable resulting water rates for the two concessionaires.

- *2013-2017 Rate Rebasing - International Arbitratio*n.

  On February 20, 2015, Maynilad wrote the Philippine Government, through the Department of Finance (DOF), to call on the Undertaking which the Republic of the Philippines (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 ₱3.4 billion in revenue losses that it had sustained as a direct result of the MWSS's and the RO's refusal to implement its correct Rebasing Adjustment from January 1, 2013 (the commencement of the Fourth Rate Rebasing Period) to February 28, 2015.

  On March 27, 2015, Maynilad served a Notice of Arbitration and Statement of Claim upon the ROP, through the DOF. Maynilad gave notice and demanded that the ROP's failure or refusal to pay the amounts required under the Demand Letters be, pursuant to the terms of the Undertaking, 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 First Award of a tariff adjustment of

₱0.64 per cu.m. which, net of the ₱1.00 CERA, actually translates to a tariff adjustment of negative ₱0.36 per cu.m. as opposed to the First Award of ₱3.06 per cu.m. tariff adjustment, net of CERA. For being contrary to the First Award as well as the provisions of the Concession Agreement, Maynilad did not implement this tariff adjustment.

On May 14, 2015, the MWSS Board of Trustees in its Resolution No. 2015-060-RO approved a 7.52% increase in the prevailing average basic charge of ₱31.25 per cu.m. or an upward adjustment of ₱2.35 per cu.m. as Consumer Price Index adjustment. With the discontinuance of CERA, the net adjustment in average water charge is 4.32% or ₱1.35 per cu.m.

In the fourth quarter of 2015, the Arbitral Tribunal was constituted. On February 17, 2016, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking and to update its claim. Evidentiary hearings were completed in December 2016.

On July 24, 2017, the Arbitral Tribunal unanimously upheld the validity of Maynilad's claim against the Undertaking Letter issued by the ROP, through the DOF, to compensate Maynilad for the delayed implementation of its relevant tariffs for the Fourth Rate Rebasing Period (Second Award). The Tribunal ordered the ROP to reimburse Maynilad the amount of ₱3.4 billion for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016 onwards. In case a disagreement on the amount of such losses arises, Maynilad may revert to the Tribunal for further determination.

Subsequently, Maynilad agreed with the corrected computation by the ROP of Maynilad's revenue losses from March 11, 2015 to August 31, 2016 in the amount of ₱3.18 billion (with cost of money as of August 31, 2016). As at December 31, 2017 and 2016, Maynilad's accumulated revenue losses due to the delayed implementation of the First Award are estimated at ₱11.4 billion and ₱8.2 billion, respectively.

Starting April 22, 2017, adjusted water rates which included increase in the FCDA, as well as an adjustment to cover the 1.9% Consumer Price Index were implemented.

On February 13, 2018, Maynilad received an email from the ROP's Singapore counsel advising that the Republic has filed an application with the High Court of Singapore to set aside the Second Award dated July 24, 2017 (the Setting Aside Application).

An electronic copy of the Setting-Aside Application was served on Maynilad's Singapore counsel on 15 February 2018.

Maynilad filed its Reply Affidavits in respect of SUM 749 (Republic's interlocutory application for sealing) on 1 March 2018. The Republic submitted its Joint Reply/Responsive Affidavit to Maynilad's Reply Affidavits on 14 March 2018.

For OS 188 (Setting-aside Application), Maynilad filed its Reply Affidavit on 26 March 2018, while the Republic will file its Responsive Affidavit on 23 April.

- *2013-2017 Rate Rebasing - Domestic Court Actions*.

In a decision dated August 30, 2017, the Regional Trial Court, Branch 93 of Quezon City (RTC) granted the Petition for Confirmation and Enforcement of the First Award which petitioner, Maynilad, filed in July 2015 (the Decision) following the refusal of MWSS and the MWSS Regulatory Office to implement the First Award. As mentioned above, the First Award upheld the 13.41% Rebasing Adjustment that Maynilad proposed for the Fourth Rate Rebasing Period.

The MWSS filed a Motion for Reconsideration of the Decision (MR). The RTC denied the MR in an Order dated November 23, 2017. Subsequently, MWSS filed a Petition for Review with the Court of Appeals (CA) on December 27, 2017 asking for a reversal of the RTC's Decision. Maynilad filed our Comment to the Petition for Review and in that Comment, Maynilad prayed for the dismissal of the Petition for Review and for the immediate enforcement of the Decision and the First Award.

As a consequence of the issuance of the Decision, Maynilad filed, on October 18, 2017, a Motion for Execution of the First Award (MotEx). However, the RTC, on February 6, 2018, denied the MotEx.

As at March 1, 2018, the management cannot determine with reasonable certainty the probable outcome of the discussions with the Government with respect to the implementation of the Second Award. As such, the consolidated financial statements do not include any adjustments that might result from arbitration proceeding.

Rate Rebasing: 2018-2022. On March 31, 2017, Maynilad submitted a five-year business plan to the RO for the new rate rebasing covering the years 2018 to 2022. As at March 1, 2018, Maynilad is in constructive and collaborative dialogue with the RO.

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 ₱5.1 billion as at December 31, 2017 and 2016, 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 ₱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 ₱607.2 million as at December 31, 2017 and 2016, which pertains to the disputed interest penalty under the Concession Agreement prior to DCRA, has remained in the books pending resolution of the remaining disputed claims of MWSS.

Real Property Taxes Assessment. On October 13, 2005, Maynilad and Manila Water Company, Inc. (the Concessionaires) were jointly assessed by the Municipality of Norzagaray, Bulacan for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 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, 2017 and 2016 amounted to ₱1.0 billion.

After the Local Board of Assessment Appeals (LBAA) ruled in favor of the Municipality of Norzagaray, Bulacan, the Concessionaires elevated the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA) by filing separate appeals. As at March 1, 2018, the case is still pending.

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

Toll Segment

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

- In June 2012, for the NLEX PTRA effective January 1, 2013 (2012 Petition);
- In September 2014, for NLEX PTRA effective January 1, 2015 (2014 Petition); and
- In September 2016, for the PTRA for the NLEX and SCTEX effective January 1, 2017 (2016 Petition).

In 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.

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

On June 27, 2017, the initial case management conference was held in Singapore. As of December 31, 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments for NLEX and SCTEX, are approximately at ₱6.4 billion (VAT exclusive; net of Government share at ₱6.0 billion) and ₱1.9 billion (VAT exclusive; net of Government share at ₱1.0 billion), respectively.

NLEX is in constructive discussions with Government to resolve these tariff matters.

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

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

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

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

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

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

As at March 1, 2018, CIC has yet to receive regulatory approval for all the petitions filed on the PTRA. CIC, however, is in constructive discussions with Government to resolve this.

As of December 31, 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2012 for both R1 and R1-Extension is approximately at ₱1.3 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 ₱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 ₱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 ₱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 ₱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 ₱1,010.5 million and ₱584.6 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 (TRB), and Philippine National Construction Corporation (PNCC), provides NLEX Corp with legal recourse in order to protect its lawful interests in case there is a change in existing laws, which makes the performance by NLEX Corp of its obligations materially more expensive.

Real Property Tax. NLEX Corp has filed several Petitions for Review under Section 226 of the Local Government Code with the 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 NLEX and categorizing the NLEX 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 ₱304.9 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. In January 2017, the provincial treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes.

The outcome of the claims on real property tax cannot be presently determined. The management of NLEX Corp believes that these claims will not have a significant impact on NLEX Corp'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 MPIC'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.

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).

An initial hearing was originally set by the ERC for January 9, 2017 and all interested parties were to file their comments on the Petition by December 26, 2016.

Subsequently, however, the ERC reset the hearing to January 23, 2017 and deadline for filing comments was January 23, 2017. MERALCO filed its Comment to the Petition on January 9, 2017. Hearings were scheduled on May 15 and June 21, 2017. The ERC will issue an Order on the date of the next public consultation.

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. As at March 1, 2018, the ERC has yet to resolve MERALCO's Omnibus Motion.

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 ₱1.3939 per kWh and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved an Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. MERALCO has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (FOE) after the ERC rules on pending motions. As at March 1, 2018, the ERC has yet to resolve the pending motions.

Capital Expenditures (*CAPEX*) *for RY 2016*. 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 ₱15.5 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration (MR) of the Decision which is pending before the ERC. On July 25, 2016, MERALCO has filed its opposition to the Motion for Reconsideration. As at March 1, 2018, the ERC has yet to rule on the MR.

CAPEX for RY 2017. 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. On August 16, 2016, MERALCO filed a Motion for Partial Reconsideration on the requirement to submit an accounting of the depreciation fund. Hearings on the application have been completed. On September 14, 2016, MERALCO filed a Motion for Resolution. Subsequently, on April 25, 2017, MERALCO filed a Manifestation and Urgent Motion for Resolution. As at March 1, 2018, MERALCO is awaiting the final decision of the ERC.

CAPEX for RY 2018. On April 3, 2017, *MERALCO* filed an application for approval of authority to implement its *CAPEX* program for *RY* 2018 (July 1, 2017 to June 30, 2018) pursuant to the Public Service Act. On May 26, 2017, *MERALCO* received the Order dated May 15, 2017, granting *MERALCO* provisional authority to implement the 18 major projects and 36 residual projects constituting a substantial part of the *CAPEX* program, subject to certain conditions. Hearings were conducted on various dates. Also, a conference was conducted with the ERC technical staff and the invervenors on October 12, 2017. On November 9, 2017, MERALCO filed its Compliance with FOE. As at March 1, 2018, the case is submitted for decision.

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

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

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

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

In the meantime, on January 30, 2014, MERALCO filed an Omnibus Motion with Manifestation with the ERC for the latter to direct PEMC to conduct a re-run or re-calculation of the WESM prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, MERALCO filed with the ERC an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the ERC issued an Order voiding the Luzon WESM prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. PEMC was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned DUs in Luzon. PEMC's recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the WESM by ₱9.3 billion. Due to the pendency of the TRO, no adjustment was made to the WESM bill of MERALCO for the November 2013 supply month. The timing of amounts to be credited to MERALCO is dependent on the reimbursement of PEMC from associated generator companies. However, several generating companies have filed motions for reconsideration questioning the Order dated March 3, 2014. MERALCO has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the ERC denied the motions for reconsideration. The generating companies have appealed the Orders with the CA where the petitions are pending. MERALCO has filed a motion to intervene and a comment in intervention in the petition filed by a generating company 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, 2018, 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 CCs 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. Pursuant to the foregoing, PEMC has taken the position that the TRO enjoined the voluntary contestability of 750 kW to 999 kW customers and has not allowed them to switch to the contestable market. The DOE, in a press release, has advised that it is in the process, together with PEMC and ERC, of drafting a general advisory for the guidance of RCOA stakeholders. The PCCI

petition was consolidated with two other separate petitions filed by Siliman University and several distribution utilities. The DOE and ERC have also filed a consolidated comment on these petitions.
On November 29, 2017, the DOE issued two (2) DOE Circulars, namely, DC 2017-12-0013, entitled, *Providing Policies on the Implementation of RCOA for Contestable Customers in the Philippine Electric Power Industry and DC 2017-12-0014*, entitled *Providing Policies on the Implementation of RCOA for RES in the Philippine Electric Power Industry*. The DOE Circulars became effective on December 24, 2017.

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

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

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

Rail Segment

Claims with Grantors. In accordance with Schedule 5 of the LRT-1 Concession Agreement, LRMC is entitled to claim ESR costs and LRV shortfall, fare deficit, SDR costs and Grantor's compensation payment. As at March 1, 2018, LRMC has submitted 10 letters (first to tenth Balancing Payments) to the DOTr representing its claims.

All claims are still undergoing discussion as at March 1, 2018.

Others

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

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

On May 4, 2016, the CTA En Banc promulgated its decision, which was received on May 13, 2016, denying NOHI's Petition for Review dated October 21, 2014 and affirming the adverse decision of the Second Division of the Court dated June 11, 2014 and Resolution of the Second Division dated September 16, 2014 which denied NOHI's Motion for Reconsideration. On October 28, 2016, NOHI received a copy of the Resolution of the CTA En Banc dated October 18, 2016 denying NOHI's Motion for Reconsideration.

On December 12, 2016, NOHI filed with the SC the required Petition for Review as appeal from the decision and resolution of the CTA En Banc. On March 14, 2017, NOHI received a copy of the Resolution dated January 23, 2017 of the Supreme Court denying NOHI's Petition for Review on the decision of the Court of Tax Appeals en banc which affirmed the decision of the CTA Second Division ordering NOHI to pay donor's tax. On March 28, 2017, NOHI filed a Motion for Reconsideration on the aforesaid Resolution of the Supreme Court. On October 3, 2017, NOHI received the Resolution dated July 26, 2017 of the SC denying the Motion for Reconsideration.

Indemnity. Under the agreement relating to the repayment of a certain loan signed between NOHI, Ayala Land Inc. (ALI) and Greenfield Development Corp. (GDC) on April 17, 2003, certain obligations/warranties by NOHI will remain outstanding for certain periods ranging from one to three years and covered by security arrangements. Under the agreement, NOHI shall indemnify ALI and GDC to the extent of NOHI's derivative share in BLC/ Fort Bonifacio Development Corporation (FBDC) for certain secured indemnity obligations and other obligations resulting from any breach of warranties and representations.

ALI and GDC have formally advised NOHI in their letter dated September 19, 2003 that they are allocating the pledge of 5.0% interest of NOHI in BLC and a condominium unit in Pacific Plaza Tower for possible payment of secured indemnity obligations enumerated in their letter. Total estimated indemnity amounts to ₱434.1 million, determined based on certain possible taxes that were actually claimed by ALI and GDC within the warranty period, which expired on April 17, 2007.

In September 2009, NOHI sold 2,603,708 shares out of the 5% interest in BLC pledged to Columbus Holdings, Inc. (Columbus), a company jointly owned by ALI and GDC, at an agreed purchase price of ₱158.0 per share for a total consideration of ₱411.4 million. No gain was recognized on the sale pending Supreme Court judgment on the ongoing documentary stamp tax claim against FBDC in which case and in the event of an unfavorable judgment against FBDC, the total proceeds from the sale will be returned to Columbus. Consequently, NOHI recognized an additional provision amounting to ₱54.8 million in 2009 for liability equivalent to the unrealized gain. Thus, total provision for warranties and guarantees amounted to ₱488.9 million.

On June 26, 2013, NOHI was informed that the Supreme Court rendered judgment in favor of FBDC. On August 9, 2016, NOHI received release from the guarantee undertaking from Columbus prompting the reversal of the provision amounting to ₱488.9 million.

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 10, 2017, and the results thereof were submitted to the Securities and Exchange Commission in the corresponding SEC Form 17-C and disclosed through the Philippine Stock Exchange and the Philippine Dealing and Exchange Corporation.

PART II.

OPERATIONAL AND FINANCIAL INFORMATION

Item 5. **Market for Issuer's Common Equity and Related Stockholder Matters**

Market Information
The Company's common shares have been listed and traded at the PSE since April 20, 2012. The high and low sales prices for each period within the last two calendar years are as follows:

In Php	High	Low
	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
	2017	
1st Quarter (Jan 1 to Mar 31)	1,381	1,145
2nd Quarter (Apr 1 to June 30)	1,300	1,120
3rd Quarter (July 1 to Sept 30)	1,257	1,105
4th Quarter (Oct 1 to Dec 31)	1,293	1,127
	2018	
1st Quarter (Jan 1 to Mar 31)	1,450	1,147

Source: Bloomberg

As of December 29, 2017, the closing price of the Company's shares of stock is Php1292.00 per share.

Holders
As of April 4, 2018, the Company had 72 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 April 04, 2018 are as follows:

NAME OF STOCKHOLDER	NO. OF SHARES *	RATIO (%) TO TOTAL AMOUNT SUBSCRIBED
1. GRAND TITAN CAPITAL HOLDINGS, INC.	107,723,795	55.932%
2. PCD NOMINEE CORP. (NON-FILIPINO)	61,695,350	32.033%
3. PCD NOMINEE CORP. (FILIPINO)	22,573,228	11.721%
4. TY, GEORGE SIAO KIAN	200,000	0.104%
5. TY, ALFRED VY	100,000	0.052%
TY, ARTHUR VY	100,000	0.052%
6. TY, MARY VY	99,000	0.051%
7. BLOOMINGDALE ENTERPRISES, INC.	30,650	0.016%
8. DE CASTRO, SALUD D.	20,000	0.010%
9. CHAN, ASUNCION C.	6,000	0.003%
10. CHOI, ANITA C.	4,000	0.002%
11. MAR, PETER OR ANNABELLE C. MAR	3,000	0.002%
12. BAGUYO, DENNIS G.	2,250	0.001%
13. CHOI, DAVIS C.	2,000	0.001%
CHOI, DENNIS C.	2,000	0.001%
CHOI, DIANA C.	2,000	0.001%
CROSLO HOLDINGS, CORP.	2,000	0.001%
14. SYCIP, WASHINGTON Z.	1,800	0.001%
15. CHUA, JOSEPHINE TY	1,500	0.001%
16. CHUA, ROBERT S.	1,200	0.001%
17. ANG, GERRY	1,000	0.001%
BAUTISTA, CARMELO MARIA LUZA	1,000	0.001%

BELMONTE, MIGUEL	1,000	0.001%
BESHOURI, CHRISTOPHER P.	1,000	0.001%
CUA, SOLOMON	1,000	0.001%
PARAS, WILFREDO A.	1,000	0.001%
PUNO, RODERICO	1,000	0.001%
VALENCIA, RENATO C.	1,000	0.001%
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	0.0003%
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 2015, 2016 and 2017, the Company paid cash dividends to its stockholders as follows:

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

On March 16, 2018, the Board of Directors of the Company approved the declaration of cash dividends for common and voting preferred stockholders as follows. There are no restrictions limiting payment of dividends on common shares. Cash dividends for common and voting preferred stockholders are as follows:

Year	Common stock	Total	Voting Preferred Stock	Total	Record Date	Payment Date
2018	Php3.00 per share (regular)	Php577.8 million	3.77% PDST-R2 3Y rate as of April 13, 2015 (regular)	Php657,111.0 (regular)	April 4, 2018	April 13, 2018

On the same day, the Board of Directors approved the declaration of a 3.5% stock dividend in favor of GT Capital's stockholders of common stock as of record date equivalent to approximately 6,740,884 shares. The record date, date of distribution and the procedures for fractional shares will be finalized and disclosed at the appropriate time once stockholders' approval has been obtained during the Annual Stockholders' Meeting.

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.

On June 7, 2017 GT Capital issued 18,296,685 common shares out of its unissued common shares in favor of Grand Titan Capital Holdings, Inc. increasing its issued and outstanding common shares from 174,300,000 to 192,596,685 for approximately Php21.69 billion. No underwriter was engaged for this transaction. This transaction is exempt under SRC Rule 10.1(e), sale to existing shareholders.

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 Php1,030 per share and Php1,028 per share, respectively, as of December 31, 2017

Dividends

On December 7, 2017, 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
2018	Php11.57475 per share	Php56.01 million	January 3, 2018	January 29, 2018
2018	Php11.57475 per share	Php56.01 million	April 3, 2018	April 27, 2018
2018	Php11.57475 per share	Php56.01 million	July 3, 2018	July 27, 2018
2018	Php11.57475 per share	Php56.01 million	October 3, 2018	October 29, 2018

Series B

Year	Perpetual Preferred Stock (GTPPB)	Total	Record Date	Payment Date
2018	Php12.73725 per share	Php91.21 million	January 3, 2018	January 29, 2018
2018	Php12.73725 per share	Php91.21 million	April 3, 2018	April 27, 2018
2018	Php12.73725 per share	Php91.21 million	July 3, 2018	July 27, 2018
2018	Php12.73725 per share	Php91.21 million	October 3, 2018	October 29, 2018

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

CALENDAR YEAR ENDED DECEMBER 31, 2017 VERSUS YEAR ENDED DECEMBER 31, 2016

GT Capital Consolidated Statements of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2017**	2016	**Amount**	**Percentage**
REVENUE				
Automotive operations	**211,692**	177,709	33,983	19%
Real estate sales and Interest income on real estate sales	**15,406**	13,731	1,675	12%
Equity in net income of associates and joint venture	**8,699**	6,366	2,333	37%
Sale of goods and services	**640**	620	20	3%
Rent income	**940**	826	114	14%
Interest income on deposits and investments	**771**	969	(198)	(20%)
Commission income	**56**	192	(136)	(71%)
Gain on revaluation of previously held interest	**-**	125	(125)	(100%)
Other income	**1,607**	1,586	21	1%
	239,811	202,124	37,687	19%
COSTS AND EXPENSES				
Cost of goods and services sold	**147,713**	122,060	25,653	21%
Cost of goods manufactured and sold	**39,635**	33,792	5,843	17%
General and administrative expenses	**12,899**	12,837	62	0%
Cost of real estate sales	**10,035**	7,586	2,449	32%
Interest expense	**3,394**	3,326	68	2%
Cost of rental	**360**	326	34	10%
	214,036	179,927	34,109	19%
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**25,775**	22,197	3,578	16%
PROVISION FOR INCOME TAX	**4,524**	4,586	(62)	(1%)
INCOME FROM CONTINUING OPERATIONS, NET OF TAX	**21,251**	17,611	3,640	21%
NET INCOME FROM DISCONTINUED OPERATIONS	**-**	4,916	(4,916)	(100%)
NET INCOME	**21,251**	22,527	(1,276)	(6%)
ATTRIBUTABLE TO:				
Equity holders of the parent company				
Profit for the year from continuing operations	**14,182**	10,631	3,551	33%
Profit for the year from discontinued operations	**-**	4,003	(4,003)	(100%)
	14,182	14,634	(452)	(3%)
Non-controlling interest				
Profit for the year from continuing operations	**7,069**	6,980	89	1%
Profit for the year from discontinued operations	**-**	913	(913)	(100%)
	7,069	7,893	(824)	(10%)
	21,251	22,527	(1,276)	(6%)

GT Capital Holdings, Inc. ("GT Capital" or the "Company" or the "Parent Company") consolidated net income attributable to equity holders of the Parent Company declined by 3% from Php14.63 billion in 2016 to Php14.18 billion in 2017. The decline was principally due to the recognition of non-recurring gains from the sale of investments in 2016. Despite this, revenues still grew by 19% from Php202.12 billion in 2016 to Php239.81 billion in 2017.

The revenue growth came from the following component companies:

(1) auto sales from Toyota Motor Philippines Corporation ("TMP") and Toyota Manila Bay Corporation ("TMBC") as combined sales increased from Php177.71 billion to Php211.69 billion accounting for 88% of total revenue;
(2) higher real estate sales and interest income on real estate sales from Federal Land Inc. (Fed Land) and Property Company of Friends, Inc. ("PCFI") which grew by 12% from Php13.73 billion to Php15.41 billion; and
(3) higher equity in net income of associates and joint venture which grew by 37% from Php6.37 billion to Php8.70 billion.

Core net income attributable to equity holders of the Parent Company improved by 29% from Php11.67 billion to Php15.03 billion. Core net income for 2017 amounted to Php15.03 billion, after adding back the (1) Php0.70 billion amortization of fair value adjustments arising from various business combinations; and (2) Php0.15 billion non-recurring gains. Core net income for 2016 amounted to Php11.67 billion, after excluding the Php3.20 billion one-time gains from the sale of investments in shares of stock of Global Business Power Corporation (GBPC) and Charter Ping An Insurance Corporation ("CPAIC"), among others, net of related taxes and expenses; and adding back the (1) Php0.20 billion non-recurring reinsurance cost of CPAIC; and (2) Php0.04 billion amortization of fair value adjustments arising from various business combinations.

The financial statements of Fed Land, PCFI, TMP, TMBC and GT Capital Auto Dealership Holdings, Inc. ("GTCAD") are consolidated in the financial statements of the Company. The other component companies Metro Pacific Investments Corporation ("MPIC"), Metropolitan Bank & Trust Company ("Metrobank" or "MBT'), Philippine AXA Life Insurance Corporation ("AXA Philippines), Toyota Financial Services Philippines Corporation ("TFSPH") and Sumisho Motor Finance Corporation ("SMFC") are accounted for through equity accounting.

Of the ten (10) component companies, TMP, TMBC, Metrobank, MPIC, TFSPH, AXA Philippines, and SMFC posted growths in their respective net income. Fed Land, and PCFI, reported declines in their respective net income for the year. GTCAD has not commenced commercial operations.

Automotive operations comprising the sale of assembled and imported auto vehicles and spare parts grew by 19% from Php177.71 billion to Php211.69 billion principally driven by the 13% increase in wholesales volume from 162,085 units to 183,209 units and continued expansion in the dealer outlets from 52 to 63.

Real estate sales and interest income on real estate sales rose by 12% from Php13.73 billion to Php15.41 billion. Fed Land contributed approximately 59% of total sales, mostly from middle-market development projects. PCFI's low cost and economic housing projects contributed the remaining balance.

Equity in net income of associates and joint venture, increased by 37% from Php6.37 billion to Php8.70 billion due to increases in: (1) net income of MPIC increasing by 15% from Php11.46 billion to Php13.15 billion which contributed full year in 2017 as compared to seven (7) months in 2016; (2) net income of Metrobank increasing by 1% from Php18.09 billion to Php18.22 billion with increased ownership from 26.47% to 36.09% effective May 1, 2017; and (3) net income of AXA Philippines more than doubled from Php1.13 billion to Php2.47 billion.

Rent income, mainly from Fed Land's GT Tower International office building and Blue Bay Walk, increased by 14% from Php0.83 billion to Php0.94 billion.

Interest income on deposits and investments declined by 20% from Php0.97 billion to Php0.77 billion due to a decline in cash available for short-term placements by GT Capital and subsidiaries.

Commission income declined by Php0.14 billion from Php0.19 billion to Php0.05 billion due to a decline in booked sales of Grand Hyatt Residences.

Gain on revaluation of previously-held interest in 2016 amounted to Php0.12 billion, representing one-time gains arising from the re-measurement of GT Capital's investment in TMBC, (Php0.07 billion); and Fed Land's investment in Federal Land Orix Corporation (FLOC), (Php0.05 billion), which were previously accounted for as investment in jointly-controlled entities.

Consolidated costs and expenses increased by 19% from Php179.93 billion to Php214.04 billion with the following breakdown:

(1) Php169.34 billion from TMP comprising cost of goods manufactured, cost of goods and services sold, general and administrative expenses and interest expenses;
(2) Php25.91 billion from TMBC consisting of cost of goods and services sold, general and administrative expenses and interest expenses;
(3) Php9.29 billion from Fed Land consisting of cost of real estate sales, cost of goods sold, cost of rental, general and administrative expenses and interest expenses;
(4) Php6.62 billion from PCFI comprising cost of real estate sales, general and administrative expenses and interest expenses; and
(5) Php2.88 billion from GT Capital representing interest expenses and general and administrative expenses.

Cost of goods and services sold increased by 21% from Php122.06 billion to Php147.71 billion with TMP's and TMBC's completely built-up units and spare parts accounting for Php147.15 billion and the balance of Php0.56 billion from Fed Land's petroleum service station business.

Cost of goods manufactured and sold comprising cost of materials, labor and overhead incurred in the assembly of vehicles from TMP grew by 17% from Php33.79 billion in 2016 to Php39.63 billion in 2017.

Cost of real estate sales increased by 32% from Php7.59 billion to Php10.04 billion arising from the increase in real estate sales. Fed Land contributed 61% of the cost while PCFI accounted for the remaining 39%.

Interest expenses increased from Php3.33 billion to Php3.39 billion with GT Capital, PCFI, TMP, Fed Land, and TMBC accounting for Php2.61 billion, Php0.47 billion, Php0.12 billion, Php0.12 billion and Php0.07 billion, respectively.

General and administrative expenses grew from Php12.84 billion in 2016 to Php12.90 billion in 2017. TMP accounted for Php6.66 billion consisting of salaries and wages, advertisements and promotional expenses, taxes and licenses and delivery and handling expenses. PCFI contributed Php2.24 billion consisting of salaries and wages, commission expenses, advertising and promotional expenses, outside services and taxes and licenses. Fed Land accounted for Php2.13 billion composed of salaries and wages, commission expenses, taxes and licenses and repairs and maintenance expenses. TMBC contributed Php1.60 billion representing salaries and wages, commission expenses and advertising and promotional expenses and taxes and licenses and GT Capital contributed Php0.27 billion consisting of salaries and wages, professional fees and taxes and licenses.

Cost of rental grew by 10% from Php0.33 billion to Php0.36 billion due to an increase in depreciation of the building leased out.

Income from discontinued operations in 2016 amounted to Php4.92 billion consisting of non-recurring gains from sale of the Parent Company's investment in GBPC and CPAIC amounting to Php3.44 billion and Php0.25 billion, respectively, and net income contribution of GBPC amounted to Php1.39 billion offset by Php0.16 billion losses incurred by CPAIC.

Net income attributable to non-controlling interest decreased by 10% from Php7.89 billion to Php7.07 billion due to the sale of GBPC in 2016, which is a majority-owned subsidiary.

Consolidated net income attributable to equity holders of the Parent Company declined by 3% from Php14.63 billion in 2016 to Php14.18 billion in 2017.

Consolidated Statements of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2017**	2016	**Amount**	**Percentage**
ASSETS				
Current Assets				
Cash and cash equivalents	**20,155**	20,954	(799)	(4%)
Short-term investments	**1,666**	1,598	68	4%
Available-for-sale investments	**611**	1,284	(673)	(52%)
Receivables	**24,374**	22,798	1,576	7%
Inventories	**56,594**	52,060	4,534	9%
(Forward)				

Consolidated Statements of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2017**	2016	**Amount**	**Percentage**
Due from related parties	**166**	80	86	108%
Prepayments and other current assets	**10,417**	6,992	3,425	49%
Total Current Assets	**113,983**	105,766	8,217	8%
Noncurrent Assets				
Available-for-sale investments	**2,103**	1,443	660	46%
Receivables – net of current portion	**4,720**	7,141	(2,421)	(34%)
Land held for future development	**18,278**	18,464	(186)	(1%)
Investment properties	**17,392**	14,314	3,078	22%
Investments and advances	**124,892**	94,828	30,064	32%
Property and equipment	**11,671**	9,367	2,304	25%
Goodwill and intangible assets	**13,012**	12,802	210	2%
Deferred tax asset	**731**	540	191	35%
Other noncurrent assets	**909**	781	128	16%
Total Noncurrent Assets	**193,708**	159,680	34,028	21%
TOTAL ASSETS	**307,691**	265,446	42,245	16%
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	**25,983**	21,177	4,806	23%
Short term debt	**6,033**	6,697	(664)	(10%)
Current portion of long term debt	**2,467**	1,581	886	56%
Current portion of liabilities on purchased properties	**582**	166	416	251%
Customers' deposits	**4,941**	3,839	1,102	29%
Dividends payable	**589**	589	-	0%
Due to related parties	**189**	195	(6)	(3%)
Income tax payable	**777**	202	575	285%
Other current liabilities	**1,229**	638	591	93%
Total Current Liabilities	**42,790**	35,084	7,706	22%
Noncurrent Liabilities				
Long term debt – net of current portion	**57,021**	56,475	546	1%
Bonds payable	**21,877**	21,848	29	0%
Liabilities on purchased properties - net of current	**3,152**	1,993	1,159	58%
Pension liabilities	**1,399**	1,671	(272)	(16%)
Deferred tax liabilities	**5,594**	5,052	542	11%
Other noncurrent liabilities	**2,167**	2,085	82	4%
Total Noncurrent Liabilities	**91,210**	89,124	2,086	2%
TOTAL LIABILITIES	**134,000**	124,208	9,792	8%
EQUITY				
Equity attributable to equity holders of Parent Company				
Capital stock	**3,143**	2,960	183	6%
Additional paid-in capital	**78,940**	57,437	21,503	37%
Retained earnings				
Unappropriated	**48,582**	39,961	8,621	22%
Appropriated	**19,000**	14,900	4,100	28%
Other comprehensive loss	**(5,975)**	(2,775)	(3,200)	(115%)
Other equity adjustments	**2,322**	2,322	-	0%
	146,012	114,805	31,207	27%
Non-controlling interests	**27,679**	26,433	1,246	5%
TOTAL EQUITY	**173,691**	141,238	32,453	23%
TOTAL LIABILITIES AND EQUITY	**307,691**	265,446	42,245	16%

The major changes in GT Capital's consolidated statement of financial position from December 31, 2016 to December 31, 2017 are as follows:

Consolidated assets of the Group grew by 16% or Php42.24 billion from Php265.45 billion as of December 31, 2016 to Php307.69 billion as of December 31, 2017. Total liabilities increased by 8% or Php9.79 billion from Php124.21 billion to Php134.00 billion while total equity improved by 23% or Php32.45 billion from Php141.24 billion to Php173.69 billion.

Cash and cash equivalents declined by 4% from Php20.95 billion to Php20.15 billion with TMP, PCFI, Fed Land, TMBC, GTCAD and GT Capital-Parent Company accounting for Php17.17 billion, Php1.44 billion, Php1.02 billion, Php0.25 billion, Php0.21 billion and Php0.06 billion, respectively.

Short-term investments grew by 4% from Php1.60 billion to Php1.67 billion mainly TMP's short-term money market placements.

Available-for-sale (AFS) investments classified as current declined by Php0.67 billion from Php1.28 billion to Php0.61 billion due to the withdrawal of the Unit Investment Trust Fund (UITF) by GT Capital Parent to fund its acquisitions.

Receivables-current grew by 7% from Php22.80 billion to Php24.37 billion with: 1) TMP contributing Php7.75 billion consisting of trade receivables with credit terms ranging from one (1) to thirty (30) days; 2) Fed Land contributing Php7.63 billion, majority of which were installment contract receivables, rent receivables and other receivables; 3) PCFI contributing Php6.50 billion consisting of installment contract receivables and other receivables; and 4) TMBC contributing Php2.49 billion comprising trade receivables from the sale of vehicles, spare parts and after-sales service.

Inventories increased by 9% from Php52.06 billion to Php56.59 billion with Fed Land contributing Php38.09 billion comprising land and improvements, condominium units for sale and inventory with construction-in-progress; PCFI contributing Php11.55 billion comprising land and improvements, materials inventory, ongoing construction of house inventory and condominium units for sale; TMP contributing Php6.64 billion mostly finished goods; and the balance of Php0.31 billion came from TMBC representing automobiles and spare parts for sale.

Due from related-parties increased by Php0.09 billion from Php0.08 billion to Php0.17 billion mainly Fed Land's related-parties.

Prepayments and other current assets rose by 49% from Php6.99 billion to Php10.42 billion comprising advances to contractors and suppliers, prepaid expenses, input VAT, deposit to land owners and creditable withholding tax from Fed Land (Php4.96 billion); PCFI (Php4.20 billion); TMP (Php1.14 billion); TMBC (Php0.08 billion); and GT Capital (Php0.04 billion).

Available-for-sale (AFS) investments classified as non-current grew by 46% from Php1.44 billion to Php2.10 billion due to mark-to-market gains as of December 31, 2017.

Non-current receivables declined by 34% from Php7.14 billion to Php4.72 billion mainly bank take-out of installment contract receivables.

Investment properties grew by 22% from Php14.31 billion to Php17.39 billion, comprising of properties held for lease and capital appreciation from Fed Land (Php11.84 billion), PCFI (Php3.03 billion), TMP (Php2.22 billion) and TMBC (Php0.30 billion).

Investments and advances increased by 32% from Php94.83 billion to Php124.89 billion primarily due to: (1) Php24.74 billion additional 9.62% ownership over Metrobank; (2) Php8.70 billion equity in net income for 2017; (3) Php0.78 billion additional investment in ST 6747 Resources Corporation; (4) Php0.48 billion additional investment in TFS; (5) Php0.38 billion initial 20% investment in SMFC; (6) Php0.29 billion initial investment in Sunshine Fort; and (7) Php0.10 billion advances to North Bonifacio Landmark Realty Development Corporation; offset by (1) Php3.82 billion equity in other comprehensive loss and (2) cash dividends received from Metrobank (Php0.84 billion), MPIC (Php0.50 billion) and Phil AXA (Php0.25 billion).

Property and equipment grew by 25% from Php9.37 billion to Php11.67 billion mostly from the newly completed building of TMP and TMBC.

Deferred tax assets increased by 35% from Php0.54 billion to Php0.73 billion with TMP, PCFI, TMBC and Fed Land accounting for Php0.48 billion, Php0.14 billion, Php0.08 billion and Php0.03 billion, respectively.

Other noncurrent assets grew by 16% from Php0.78 billion to Php0.91 billion comprising long-term deposits, non-current input tax, non-current prepaid rent, other assets and retirement assets from PCFI (Php0.41 billion), Fed Land (Php0.33 billion), TMP (Php0.12 billion), GTCAD (Php0.04 billion) and TMBC (Php0.01 billion).

Accounts and other payables increased by 23% from Php21.18 billion to Php25.98 billion with TMP, Fed Land, PCFI, TMBC and GT Capital accounting for Php16.54 billion, Php5.04 billion, Php2.83 billion, Php1.41 billion and Php0.16 billion, respectively.

Short-term debt declined by 10% from Php6.70 billion to Php6.03 billion due to loan payments by GT Capital-Parent Company (Php3.00 billion), TMBC (Php4.87 billion), TMP dealership subsidiaries (Php1.75 billion), and Fed Land (Php1.23 billion); offset by availments of short-term loans by TMBC (Php5.11 billion), TMP dealer subsidiaries (Php2.57 billion); PCFI (Php1.25 billion) and Fed Land (Php1.25 billion).

Current-portion of long-term debt grew by Php0.89 billion from Php1.58 billion to Php2.47 billion due to a reclassification from non-current to current for the loan portion due within one year.

Current-portion of liabilities on purchased properties grew by Php0.42 billion from Php0.17 billion to Php0.58 billion due to a reclassification from non-current to current for the loan portion due within one year.

Customers' deposits grew by 29% from Php3.84 billion to Php4.94 billion mainly due to an improvement in reservation sales for the year.

Income tax payable grew by Php0.58 billion from Php0.20 billion to Php0.78 billion due to an increase in taxable income for the fourth quarter of 2017 vis-a-vis the fourth quarter of 2016.

Other current liabilities increased by Php0.59 billion from Php0.64 billion to Php1.23 billion due to an increase in VAT payable and withholding taxes payable as of year-end for remittance to the BIR in January 2018.

Pension liabilities declined by 16% from Php1.67 billion to Php1.40 billion with TMP, PCFI, TMBC and FLI accounting for Php1.09 billion, Php0.14 billion, Php0.09 billion and Php0.08 billion, respectively .

Non-current portion of liabilities on purchased properties grew by Php1.16 billion from Php1.99 billion to Php3.15 billion due to acquisition of lots.

Deferred tax liabilities grew by 11% from Php5.05 billion to Php5.59 billion due to an increase in taxable temporary differences.

Capital stock increased by 6% from Php2.96 billion to Php3.14 billion due to the issuance of 18.3 million new common shares to Grand Titan Capital Holdings, Inc. ("Grand Titan") in April 2017.

The Php21.50 billion increase in additional paid-in capital pertain to the excess of issue price over par value for the 18.3 million new common shares issued by GT Capital-Parent Company to Grand Titan.

Unappropriated retained earnings increased by Php8.62 billion from Php39.96 billion to Php48.58 billion due to the (1) Php14.18 billion net income attributable to equity holders of the Parent Company; and (2) Php14.90 billion retained earnings reverted back to unappropriated retained earnings from appropriated retained earnings; partially offset by the (1) Php1.46 billion cash dividends declared to shareholders of common and preferred stock and (2) Php19.00 appropriation of retained earnings for strategic investment in financial services.

The Php19.00 billion appropriated retained earnings as of December 31, 2017 pertains to the appropriation of retained earnings earmarked for strategic investments in financial services in 2018.

Other comprehensive loss increased by Php3.20 billion from a negative Php2.77 billion to a negative Php5.97 billion primarily due to the (1) Php1.49 billion net mark-to-market loss recorded on available-for-sale investments of subsidiaries and associates; 2) Php1.38 billion negative translation adjustment in associates; (3) Php0.19 billion mark-to-market loss on remeasurement of life insurance reserve; (4) Php0.13 billion mark-to-market loss on remeasurement of retirement liabilities; and (5) Php0.01 billion mark-to-market loss on cash flow hedge reserve.

Non-controlling interest (NCI) improved by 5% from Php26.43 billion to Php27.68 billion due to the Php7.07 billon NCI share in net income earned in 2017 offset by (1) Php5.79 billion NCI share in dividends declared by subsidiaries and (2) Php 0.03 billion NCI share in other comprehensive loss.

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, 2015, 2016 and 2017.

	In Million Pesos, except for percentages		
Income Statement	**2015**	**2016**	**2017**
Total Revenues	139,949	202,124	239,811
Net Income attributable to Equity Holders of GT Capital Holdings	12,115	14,634	14,182
Balance Sheet			
Total Assets	304,366	265,446	307,691
Total Liabilities	167,834	124,208	134,000
Equity attributable to GT Capital Holdings, Inc.	90,131	114,805	173,691
Return on Equity *	13.51%	11.99%	12.22%

**Core net income attributable to GT Capital's common stockholders divided by the average equity where average equity is the sum of equity attributable to GT Capital's common stockholders at the beginning and end of the year divided by 2.*

Banking

Metrobank

In Billion Pesos, except for percentages and ratios			
	2015	**2016**	**2017**
Net income attributable to equity holders	18.6	18.1	18.2
Net interest margin on average earning assets	3.5%	3.5%	3.8%
Operating efficiency ratio	59.4%	56.7%	56.8%
Return on average assets	1.1%	1.0%	0.9%
Return on average equity	10.8%	9.3%	9.2%

	2015	**2016**	**2017**
Total assets	1,760.7	1,876.0	2,080.3
Total liabilities	1,557.4	1,670.5	1,876.2
Equity attributable to equity holders of the parent company	193.8	196.0	202.0
Tier 1 capital adequacy ratio	14.3%	12.5%	11.8%
Total capital adequacy ratio	17.8%	15.5%	14.4%
Non-performing loans ratio	1.0%	0.9%	1.0%
Non-performing loans coverage ratio	110.7%	113.0%	89.0%

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, 2016 and 2017 were computed based on Basel III standards.

(5) Non-performing loans ratio is the ratio of net non-performing loans divided by total loans – excluding interbank loans.

(6) Non-performing loans coverage ratio is the ratio of the total allowance for probable losses on loans divided by gross non-performing loans

Metrobank consolidated net income grew from Php18.1 billion in 2016 to Php18.2 billion in 2017. This was primarily due to the 19.3% growth in loans and receivables, and manageable increase in operating expenses offset by higher provision for credit and impairment losses.

Net interest income grew by 16.0% from Php53.0 billion in 2016 to Php61.4 billion in 2017, comprising 73.5% of total operating income. This was driven by strong loan demand from the commercial and consumer segments and higher CASA ratio at 62.2% of total deposits. As a result, net interest margin improved from 3.5% to 3.8%.

Non-interest income dropped by 13.7% from Php25.7 billion in 2016 to Php22.1 billion in 2017 due to lower trading and securities, and foreign exchange gains offset by an increase in service charges, fees and commissions, and miscellaneous income.

Total assets grew by 10.9% from Php1.9 trillion as of December 31, 2016 to Php2.1 trillion as of December 31, 2017 primarily due to increases in loans and receivables, investment securities, and due from Bangko Sentral ng Pilipinas offset by decreases in Interbank Loans Receivable and Securities Purchased Under Resale Agreements, and Due from Other Banks.

Total liabilities, likewise, grew by 12.3% from Php1.7 trillion as of December 31, 2016 to Php1.9 trillion as of December 31,2017 due to increases in deposit liabilities, bills payable and Securities Sold Under Repurchase

Agreement offset by a decrease in bonds payable and subordinated debts. CASA and time deposits increased by 12.3% and 6.3% from Php846.1 billion to Php950.2 billion and from Php520.3 billion to Php547.7 billion, respectively. For the year, Metrobank issued Php7.1 billion of Long-term Negotiable Certificate of Deposits (LTNCD). The first tranche amounting to Php3.4 billion was issued on January 30, 2017 and another tranche of Php3.7 billion was issued on July 20, 2017. As of December 30, 2017, outstanding LTNCDs amounted to Php30.0 billion.

Equity attributable to equity holders of the parent company improved by 3.0% from Php196.0 billion as of December 31, 2016 to Php202.0 billion as of December 30, 2017 due to the net income earned offset by Php5.7 billion increase in net unrealized losses on available-for-sale investment securities, Php3.2 billion cash dividends, and Php4.7 billion translation adjustment and from acquisition of non-controlling interest.

Property Development

Federal Land and Property Company of Friends

	In Million Pesos, except for percentages and ratios		
	2015**	**2016*****	**2017**
Real Estate Sales *	10,287.4	14,218.4	15,406.4
Revenues	13,258.9	17,285.1	18,226.5
Net income attributable to equity holders of the parent	2,824.3	2,995.0	2,104.9
	2015***	**2016*****	**2017**
Total assets	100,425.4	107,936.9	115,683.2
Total liabilities	48,483.0	48,214.0	55,791.4
Total equity attributable to equity holders of the parent	51,838.1	59,618.3	59,781.5
Current ratio	3.6x	5.0x	4.0x
Debt to equity ratio	0.7x	0.5x	0.6x

* Includes interest income on real estate sales
** GT Capital invested 22.68% in direct equity in PCFI in August 2015
*** GT Capital invested an additional 28.32% increasing its direct equity stake to 51% in PCFI as of June 30, 2016

Notes:
(1) Current ratio is the ratio of total current assets divided by total current liabilities.
Debt to equity ratio is the ratio of total loans divided by total equity attributable to equity holders of the parent company

GT Capital's property companies recorded a 5.4% growth in consolidated revenues from Php17.3 billion in 2016 to Php18.2 billion in 2017. Of total revenues, Federal Land accounted for 62%, while the balance came from PCFI. Consolidated real estate sales grew by 8.4% from Php14.2 billion to Php15.4 billion, as booked sales of Federal Land grew by 21% on a year-on-year basis. Together, the two property developers reported a consolidated net income of Php2.1 billion in 2017.

Consolidated assets of the property companies grew by 7.2% from Php107.9 billion as of December 31, 2016 to Php115.7 billion as of December 31, 2017. For Federal Land, the growth came from increase in receivables from real estate sales, inventories from on-going project developments and increase in investment properties. For PCFI, total assets declined due to receivables takeout by the banks, change in accounting policy for the measurement of investment property, and prepayment of loans offset by increase in inventories from on-going projects and house construction.

In 2017, Federal Land launched four (4) projects namely: (i) Park Avenue, a vertical residential condominium project located in Grand Central, Bonifacio Global City, Taguig City ; (ii) Siena Towers, a two (2) tower residential condominium project located in Marikina City ; (iii) Palm Beach West - Siargao, a vertical residential condominium project located in Macapagal Boulevard, Pasay City; and (iv) Palm Beach West - Coron, a vertical residential condominium project located in Macapagal Boulevard, Pasay City.

On July 10, 2017, Federal Land launched Sunshine Fort, a joint venture project with Nomura Real Estate Development Co. Ltd. The project is a $400 million Japanese-inspired residential and retail complex located in Grand Central Park Bonifacio Global City, Taguig City.

For the year, Federal Land completed the i-Met Building, the first PEZA accredited BPO Building in the Metro Park development located in Macapagal Boulevard, Pasay City.

Federal Land's average overall percentage-of-completion of ongoing development projects improved from 49.0% in 2016 to 53.0% in 2017.

For PCFI, new retail outlets such as SM Appliance, Watsons, Handyman and McDonalds were opened in Lancaster New City (LNC), Another flagship project. Shopwise, will open a branch in LNC with the third quarter of 2018. As of December 31, 2017, commercial and retail establishments reached an aggregate of 53 outlets. On the other hand, an IT-based locator has fully leased out the first commercial building of Suntech iPark, which, with three shifts, can potentially employ up to 3,000 employees. Suntech iPark is the only PEZA-accredited I.T. park in Cavite.

Life and Non-Life Insurance

Philippine AXA Life Insurance Corporation and Subsidiary (AXA Philippines)
The following are the major performance measures used by AXA Philippines for the period ended 2015, 2016 and 2017.

In Million Pesos, except ratios				
	AXA Philippines			Consolidated
	2015	2016	2017	2017
Gross Premiums	22,923.3	21,624.9	26,359.1	31,630.1
Net income after tax	1,383.5	1,666.0	2,360.6	2,472.8
Premium Margin (%)[1]	17.3%	20.5%	23.9%	
Net Profit Margin (%)[2]	5.7%	7.2%	8.4%	
Total Assets	79,978.1	90,316.7	114,378.6	123,424.7
Total Liabilities	74,810.4	83,853.2	106,814.5	116,397.2
Total Equity	5,167.7	6,463.5	7,564.2	7,027.5
Solvency ratio[3]	477%	220%	341%	

Notes:
1. *Premium margin (%) is the ratio of Premium margin over Premium Revenues.*
2. *Net profit margin (%) is the ratio of Net profit over Total Revenues.*
3. *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. 2015 and 2016 ratios are based on RBC 1 framework, while 2017 already reflects the new RBC 2 framework.*

New business from the life insurance sector of AXA Philippines grew by 27.1% expressed in Annualized Premium Equivalent (APE) from Php5.0 billion in 2016 to Php6.3 billion in 2017. The increase in APE was driven by the growth in Regular Premium and Single Premium of 29.4% and 19.8%, respectively. The reported sales mix of life insurance, thus, was changed to 54%/46% in 2017 from the previous 55%/45% in 2016 (Single Premium vs. Regular Premium). By distribution platform, bancassurance and sales agency accounted for 74% and 26% of premium revenues, respectively.
CPAIC gross earned premiums rose by 13.2% from Php4.7 billion in 2016 to Php5.3 billion in 2017 mainly due to the growth in motor car and property insurance lines. As a result, consolidated gross earned premiums of AXA Philippines increased by 20.3% from Php26.3 billion in 2016 to Php31.6 billion in 2017.

2017 consolidated net income reached Php2.5 billion. This included a Php112.2 million net income contribution from CPAIC and the Php343.1 million post-tax impact of the gain on restatement of AXA Philippines's reserves arising from a change in accounting policy beginning July 2017 under the RBC 2 framework. Excluding CPAIC, AXA

Philippines grew its net income by 41.7% from Php1.7 billion in 2016 to Php2.4 billion in 2017. The net income growth is primarily driven by the: (1) improvement in the life insurance sector's premium margins by 42.1% equivalent to Php6.3 billion and (2) increase in asset management fees by 21.6% reaching Php1.5 billion.

**For comparison purposes, prior year figures of CPAIC are based on pro-forma FS for the full year of 2016. AXA Philippines completed the acquisition of CPAIC from GT Capital on April 4, 2016.*

Infrastructure and Utilities

Metro Pacific Investments Corporation (MPIC)

	In Million Pesos, except for Percentage			
	2016	**2017**	**Inc (Dec)**	**%**
Core net income	12,106	14,104	1,998	*17%*
Net income attributable to equity holders	11,456	13,151	1,695	*15%*
	2016	**2017**	**Inc (Dec)**	**%**
Total assets	351,602	503,751	152,149	*43%*
Total liabilities	163,521	288,072	124,551	*76%*
Total equity attributable to owners of Parent Company	152,032	161,244	9,212	*6%*

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, representing 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.

MPIC's share in the consolidated operating core income increased by 18% from Php15.1 billion in 2016 to Php17.8 billion in 2017, primarily reflecting the following:

- Expanded power portfolio through the increase in effective shareholding in Meralco from 32.48% to 41.22% (beginning May 30, 2016) and investment in GBPC representing 47.78% effective interest (acquired last May 27, 2016); Effective July 1, 2017, MPIC acquired the remaining 25% stake in Beacon Electric Asset Holdings, Inc. (Beacon Electric) from PLDT Communications and Energy Ventures (PCEV) bringing its effective stake in Meralco from 41.22% to 45.5% and in GBPC from 47.78% to 62.5%; Core net income contribution from Meralco and GBPC in 2017 increased by 30% from Php7.2 billion in 2016 to Php9.4 billion

- Increased share in the Tollway business arising from strong traffic growth on each of the roads held by Metro Pacific Tollways Corporation (MPTC); Core net income contribution of MPTC increased by 11% from Php3.5 billion in 2016 to Php3.9 billion in 2017

- Continuing growth in the Hospital group mainly due to the increase in number of patients served across all hospitals and contributions from new hospital acquisitions namely, Marikina Valley Medical Center (acquired in July 29, 2016) and Dr. Jesus C. Delgado Memorial Hospital (acquired in January 31, 2017); Core net income contribution of the Hospital group increased by 16% from Php0.6 billion in 2016 to Php0.7 billion in 2017.

Reported net income attributable to equity holders grew by 15% from Php11.5 billion in 2016 to Php13.2 billion in 2017. Excluding head office, interest, forex and non-recurring income or expenses, core income grew by 17% from Php12.1 billion to Php14.1 billion.

Automobile Assembly and Importation, Dealership and Financing

Toyota Motor Philippines (TMP)

	In Million Pesos, except for ratios		
	2015	**2016**	**2017**
Sales	114,289.4	155,832.5	185,337.1
Gross Profit	18,298.5	21,072.3	23,058.8
Operating Profit	13,909.0	15,669.0	16,798.2
Net income attributable to Parent	10,194.6	11,929.0	13,186.1
	2015	**2016**	**2017**
Total Assets	32,278.3	36,003.4	42,158.3
Total Liabilities	17,049.9	18,511.1	23,010.7
Total Equity	15,228.4	17,492.3	19,147.6
Total Liabilities to Equity ratio*	1.1x	1.1x	1.2x

**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 an 18.9% growth from Php155.8 billion in 2016 to Php185.3 billion in 2017 as wholesales volume grew by 13% from 162,085 units to 183,209 units. TMP retail sales volume, likewise, grew by 16% from 158,728 units to 183,908 units, slightly lower than industry retail sales volume which grew by 18% from 402,461 units to 473,376 units.

Overall market share slightly declined from 39.4% in 2016 to 38.9% in 2017 despite the sustained sales volume growth arising from the launching of the Full Model Change (FMC) Fortuner (↑39%) and Innova (↑35%), in April 2016 and May 2016, respectively. As of December 31, 2017, TMP increased its auto dealership complement from 52 to 63 outlets.

Higher cost of sales due to unfavorable foreign exchange, increased advertising/promotion expenses, operating and overhead expenses resulted in a decline in gross profit, operating profit, net income margins, from 13.5%, 10.0% and 7.8% to 12.4%, 9.1% and 7.2%, respectively. However, consolidated net income attributable to equity holders increased by 10.7% from Php11.9 billion to Php13.2 billion mainly due to higher sales volume and price increases implemented in March and September 2017.

As of December 31, 2017, TMP directly owns a total of seven dealer outlets namely Toyota Makati with one (1) branch Toyota Bicutan, Toyota San Fernando in Pampanga with one (1) branch in Plaridel Bulacan, Toyota Tarlac in

Tarlac City and Lexus Manila, situated in Bonifacio Global City, Taguig City. Toyota Santa Rosa, the seventh dealer TMP-owned facility, commenced operations in August 2017.

Toyota Financial Services Philippines Corporation (TFSPC)

	In Million Pesos, except for ratios		
	2015	**2016**	**2017**
Gross Interest Income	3,026.7	3,641.7	4,920.6
Net Interest Income	1,767.7	2,148.8	2,860.8
Net Income	515.5	555.1	687.6
Finance Receivable	33,304.4	43,789.9	59,036.5
	2015	**2016**	**2017**
Total Assets	44,278.4	55,581.4	71,724.27
Total Equity	4,369.4	4,941.5	6,850.14

TFSPC recorded a 35.1% growth in gross interest income from Php3.6 billion in 2016 to Php4.9 billion in 2017, as gross loans and receivables increased by 30.8% from Php45.4 billion to Php59.4 billion on a year-on-year basis.

Booking volume grew by 25.0% from 29,101 units to 36,365 units in 2017 attributed to the strong sales bookings of Toyota vehicles. This was equivalent to an improved penetration rate from 18% to 20%.

Net income, likewise, increased by 23.9% from Php555.1 million to Php687.6 million due to 28.3% growth in operating income from Php776.5 million to Php995.9 million and the abovementioned profit increasing factors.

Toyota Manila Bay Corporation (TMBC)

	In Million Pesos, except for ratios		
	2015*	**2016**	**2017**
Net Sales	18,593.8	23,995.6	26,312.0
Gross Profit	1,288.5	1,421.8	1,788.7
Net Income	168.0	297.4	383.5
	2015*	**2016**	**2017**
Total Assets	3,863.8	4,896.7	6,059.9
Total Liabilities	2,797.2	3,551.6	3,764.7
Total Equity	1,066.6	1,345.1	2,220.1

pro-forma consolidated figures of TMBC and TCI

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.

Consolidated sales, comprising of vehicle sales, spare parts and maintenance services, grew by 9.7% from Php24.0 billion in 2016 to Php26.3 billion in 2017. Vehicle sales, accounting for 93.0% of TMBC's revenues, increased by 7.9% from Php22.7 billion to Php24.5 billion.

Retail sales volume grew by 4.9% from 21,797 units to 22,870 units due to strong demand of FMC Fortuner and Innova. Sales from spare parts and maintenance services, accounting for a combined 7.0% of revenues, increased by 17.0% and 20.1%, respectively.

Consolidated net income in 2017 increased by 29.0%, from Php297.4 million to Php383.5 million due to higher vehicle sales, improved vehicle margins due to price increases effective March 1 and September 1, and increased ancillary income from financing and insurance commissions.

TMBC currently owns five (5) dealer outlets namely Toyota Manila Bay, Toyota Abad Santos, Toyota Cubao and Toyota Marikina, all situated within Metro Manila; and Toyota Dasmariñas in Cavite. TMBC recently inaugurated its new and bigger Manila Bay dealership facility last October 2017.

Sumisho Motor Finance Corporation (SMFC)

	In Million Pesos, except for ratios		
	2015	**2016**	**2017**
Gross Interest Income	438.5	597.4	829.3
Net Interest Income	443.4	588.3	797.3
Net Income	50.5	86.0	205.5
Finance Receivable	1,689.70	2,405.40	3,292.90
	2015	**2016**	**2017**
Total Assets	1,887.60	2,606.75	3,533.49
Total Equity	1,728.50	1,509.52	2,023.97

On August 9, 2017, GT Capital completed its acquisition of a 20% direct equity stake in SMFC from Philippine Savings Bank ("PS Bank") and the PS Bank Retirement Fund for a total consideration of Php379.92 million. The acquisition was GT Capital's entry into micro-financing, specifically motorcycle financing, a high growth sector in the Philippines. The investment will also strengthen the Group's strategic relationship with Sumitomo Corporation, one of Japan's leading conglomerates.

SMFC recorded a 38.8% growth in gross interest income from Php597.4 million in 2016 to Php829.3 million in 2017, as finance receivable increased by 36.9% from Php2.4 billion to Php3.3 billion on a year-on-year basis. Bookings volume also grew by 22.9% from 30,446 units to 37,423 units in 2017 driven by increased demand for Japanese brand motorcycles.

Net income more than doubled from Php86.0 million to Php205.5 million due to a 34.7% decrease in provisions for credit losses driven by a declining provisions ratio from 4.7% to 3.7% in 2016 and 2017, respectively and well controlled operating expenses.

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 2018 capital expenditures ("capex") budget is presented as follows:

Component Company	**In Php Billion**	**Nature**	**Funding source**
Metrobank[1]	63.0 - 65.0	Php60 billion SRO to improve capital ratios and support loan expansion; Systems upgrades, expansion of electronic banking channels, ATM installation, renovation/relocation of branch premises and investments for new branches	Internal

Federal Land[2]	9.0	Capital calls in JVs and office buildings	Internal and Debt
PCFI[2]	7.9	Land bank, land development, PPE and Investment Property	Internal and Debt
TMP	6.3	New models and logistics expansion	Internal
TMBC	1.0	Dealership expansion and renovation	Internal and Debt
TFS[1]	1.9	Php1.8 billion capital call to improve capital ratios and support loan expanision; Provincial expansion and leasehold improvements	Internal
SMFC	0.1	Leasehold improvements and IT upgrade	Debt
AXA Philippines[3]	0.7	Branch expansion, refurbishments and IT upgrade	Internal
GTCap-Parent	20.0	Potential investments	Internal and Debt
Total	**109.9 - 111.9**		

(1) GT Capital will participate in the capital calls based on its pro-rata share in MBT (Php25B) and TFS (Php720M)
(2) Excludes construction of vertical residential buildings and house construction
(3) 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, 2016 VERSUS YEAR ENDED DECEMBER 31, 2015

GT Capital Consolidated Statements of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2016**	2015	**Amount**	**Percentage**
REVENUE				
Automotive operations	**177,709**	120,802	56,907	47%
Real estate sales and Interest income on real estate sales	**13,731**	10,636	3,095	29%
Equity in net income of associates and joint venture	**6,366**	5,616	750	13%
Sale of goods and services	**620**	547	73	13%
Rent income	**826**	840	(14)	(2%)
Interest income on deposits and investments	**969**	154	815	529%
Commission income	**192**	194	(2)	(1%)
Gain on revaluation of previously held interest	**125**	-	125	100%
Other income	**1,586**	1,160	426	37%
	202,124	139,949	62,175	44%
COSTS AND EXPENSES				
Cost of goods and services sold	**122,060**	74,941	47,119	63%
Cost of goods manufactured and sold	**33,792**	27,838	5,954	21%
General and administrative expenses	**12,837**	7,482	5,355	72%
Cost of real estate sales	**7,586**	6,512	1,074	16%
Interest expense	**3,326**	2,164	1,162	54%

GT Capital Consolidated Statements of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2016**	2015	**Amount**	**Percentage**
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 29% from Php10.64 billion to Php13.73 billion; and
(3) higher equity in net income of associates and joint venture which grew by 13% from Php5.62 billion to Php6.37 billion.

Core net income attributable to equity holders of the Parent Company recorded 2% growth from Php11.44 billion to Php11.67 billion after excluding the Php3.20 billion one-time gains from the sale of investments in shares of stock of GBPC and Charter Ping An Insurance Corporation ("CPAIC"), among others, net of related taxes and expenses; and adding back the following:
(1) Php0.20 billion non-recurring reinsurance cost of CPAIC; and
(2) Php0.04 billion amortization of fair value adjustments arising from various business combinations.

On April 4, 2016, the Parent Company completed the sale of CPAIC for a final consideration of Php2.10 billion. This transaction resulted in a Php0.17 billion gain representing the excess of the cash consideration received over the carrying value of the non-current asset held for sale. Following the sale, the assets, liabilities and reserve of disposal group were derecognized.

In May 2016, GT Capital increased its direct equity stake in GBPC from 51.27% to 56% and subsequently sold the entire 56% equity stake to Beacon Powergen Holdings, Inc., a wholly-owned subsidiary of Beacon Electric Asset Holdings, Inc., a joint venture between Metro Pacific Investment Corporation ("MPIC") and PLDT Communications and Energy Ventures, Inc. As a result, GT Capital relinquished control over GBPC and it ceased to be a subsidiary of GT Capital effective May 31, 2016. Accordingly, GT Capital reflected the results of operations of GBPC up to May

31, 2016 and did not consolidate its financial statements starting June 1, 2016. Philippine Financial Reporting Standards (PFRS) 5 prescribe the presentation of GBPC's results of operations separate from the "Income from Continuing Operations", wherein all income, expenses and income taxes of GBPC in 2016 are presented under "Income from Discontinued Operations". For comparability, 2015 and 2014 Consolidated Statements of Income were also restated to show GBPC's 2015 and 2014 results of operations separate from the "Income from Continuing Operations". The details of the deconsolidation are discussed in the Notes to the Financial Statements.

Also, in May 2016, GT Capital acquired a 15.55% direct equity stake in MPIC.

GT Capital Auto Dealership Holdings, Inc. ("GTCAD") was incorporated on June 13, 2016 and has not commenced commercial business operations. GTCAD has 55% ownership in Toyota Subic, Inc. ("TSB"). TSB was incorporated on July 14, 2016 and has not started business operations.

On June 30, 2016, GT Capital accelerated its subscription in PCFI by subscribing to an additional 28.32% direct equity stake in PCFI for a total consideration of Php8.76 billion. This subscription increased the Parent Company's direct ownership stake in PCFI from 22.68% to 51.00%.

Fed Land, PCFI, TMP, TMBC and GTCAD are consolidated in the financial statements of the Company. The other component companies MPIC, Metropolitan Bank & Trust Company ("Metrobank" or "MBT'), AXA Philippines, and Toyota Financial Services Philippines Corporation ("TFSPH") are accounted for through equity accounting.

Of the nine (9) component companies, TMP, MPIC, TFSPH, Fed Land, and TMBC posted growths in their respective net income. Metrobank, AXA Philippines, and PCFI, reported declines in their respective net income for the year. GTCAD has not commenced commercial operations.

Automotive operations comprising the sale of assembled and imported auto vehicles and spare parts grew by 47% from Php120.80 billion to Php177.71 billion principally driven by the 32% increase in wholesales volume from 122,817 units to 162,085 units and continued expansion in the dealer outlets from 49 to 52.

Real estate sales and interest income on real estate sales rose by 29% from Php10.64 billion to Php13.73 billion. Fed Land contributed approximately 50% of the sales, mostly from its middle-market development projects. PCFI's low cost and economic housing projects contributed the remaining balance.

Equity in net income of associates and joint venture, increased by 13% from Php5.62 billion to Php6.37 billion as MPIC contributed for the first time effective June and the improved net income contribution of TFSPC offset the respective declines in the net income contributions of MBT and AXA Philippines.

Sale of goods and services, consisting of the sale of petroleum products on a wholesale and retail basis, at the Blue Wave malls situated in Pasay City and Marikina City, increased by 13% from Php0.55 billion to Php0.62 billion due to increase in fuel sales.

Interest income on deposits and investments increased by Php0.82 billion from Php0.15 billion to Php0.97 billion due to an increase in cash available for short-term placements by GT Capital and subsidiaries.

Gain on revaluation of previously-held interest amounted to Php0.12 billion, representing one-time gains on the re-measurement of GT Capital's investment in TMBC (Php0.07 billion) and Fed Land's investment in Federal Land Orix Corporation (FLOC) (Php0.05 billion), which were previously accounted for as investment in jointly-controlled entities. TMBC, thus, became a subsidiary of GT Capital upon SEC's approval of the merger of TMBC and Toyota Cubao, Inc. ("TCI") with TMBC as the surviving entity in March 2016. FLOC became a subsidiary of Fed Land when the latter acquired the remaining 40% of the former in December 2016.

Other income increased by 37% from Php1.16 billion to Php1.59 billion mainly due to increase in ancillary income realized from the TMPC-owned dealerships.

Consolidated costs and expenses increased by 51% from Php119.21 billion to Php179.93 billion with the following breakdown:

(1) Php140.62 billion from TMP comprising cost of goods manufactured, cost of goods and services sold, general and administrative expenses and interest expenses;

(2) Php22.03 billion from TMBC/TCI consisting of cost of goods and services sold, general and administrative expenses and interest expenses;
(3) Php7.30 billion from Fed Land consisting of cost of real estate sales, cost of goods sold, cost of rental, general and administrative expenses and interest expenses;
(4) Php6.05 billion from PCFI comprising cost of real estate sales, general and administrative expenses and interest expenses; and
(5) Php3.93 billion from GT Capital representing interest expenses and general and administrative expenses.

Cost of goods and services sold increased by 63% from Php74.94 billion to Ph122.06 billion with TMP's and TMBC's completely built-up units and spare parts accounting for Php121.56 billion and the balance of Php0.50 billion from Fed Land's petroleum service station business.

Cost of goods manufactured and sold comprising cost of materials, labor and overhead incurred in the assembly of vehicles from TMP grew by 21% from Php27.84 billion in 2015 to Php33.79 billion in 2016.
General and administrative expenses rose by 72% from Php7.48 billion to Php12.84 billion. TMP accounted for Php5.92 billion comprising advertising and sales promotion expenses, salaries, taxes and licenses and delivery and handling. PCFI contributed P2.36 billion comprising of salaries, commissions, advertising and promotions, outside services, and taxes and licenses. Fed Land contributed Php2.16 billion comprising salaries, commissions, taxes and licenses, advertising expenses and repairs and maintenance expenses. TMBC/TCI accounted for Php1.22 billion consisting of salaries, commissions, taxes and licenses, advertising and promotions, and other general and administrative expenses. The remaining Php1.18 billion came from GT Capital's salaries, professional fees and taxes and licenses.

Cost of real estate sales increased by 16% from Php6.51 billion to Php7.59 billion arising from the increase in real estate sales. Fed Land contributed 56% of the cost while PCFI accounted for the remaining 44%.

Interest expense increased by 54% from Php2.16 billion to Php3.33 billion with GT Capital, PCFI, Fed Land, TMP, and TMBC/TCI accounting for Php2.73 billion, Php0.31 billion, Php0.12 billion, Php0.12 billion and Php0.04 billion, respectively.

Income from discontinued operations amounted to Php4.92 billion consisting of non-recurring gains from sale of the Parent Company's investment in GBPC and CPAIC amounting to Php3.44 billion and Php0.25 billion, respectively, and net income contribution of GBPC amounted to Php1.39 billion offset by Php0.16 billion losses incurred by CPAIC.

Net income attributable to non-controlling interest decreased by 11% from Php8.83 billion to Php7.89 billion due to a decline in the net income of subsidiaries which are not wholly-owned.

Consolidated net income attributable to equity holders of the Parent Company increased by 21% from Php12.11 billion in 2015 to Php14.63 billion in 2016.

GT Capital Consolidated Statements of Financial Position	**Audited December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2016**	2015	**Amount**	**Percentage**
ASSETS				
Current Assets				
Cash and cash equivalents	**20,954**	37,861	(16,907)	(45%)
Short-term investments	**1,598**	1,861	(263)	(14%)
Available-for-sale investments	**1,284**	-	1,284	100%
Receivables	**22,798**	27,056	(4,258)	(16%)
Inventories	**52,060**	51,490	570	1%
Due from related parties	**80**	370	(290)	(78%)
Prepayments and other current assets	**6,992**	7,673	(681)	(9%)
Assets of disposal group classified as held for sale	**-**	8,434	(8,434)	(100%)
Total Current Assets	**105,766**	134,745	(28,979)	(22%)
Noncurrent Assets				
Available-for-sale investments	**1,443**	3,195	(1,752)	(55%)
Receivables – net of current portion	**7,141**	6,682	459	7%
Land held for future development	**18,464**	15,357	3,107	20%
Investment properties	**14,314**	10,797	3,517	33%
Investments in associates and joint venture	**94,828**	60,265	34,563	57%
Property and equipment	**9,367**	51,972	(42,605)	(82%)
Goodwill and intangible assets	**12,802**	19,727	(6,925)	(35%)
Deferred tax asset	**540**	748	(208)	(28%)
Other noncurrent assets	**781**	878	(97)	(11%)
Total Noncurrent Assets	**159,680**	169,621	(9,941)	(6%)
TOTAL ASSETS	**265,446**	304,366	(38,920)	(13%)
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%)

(Forward)

(In Million Pesos, Except for Percentage)	Audited December 31		Increase (Decrease)	
	2016	2015	**Amount**	**Percentage**
Noncurrent Liabilities				
Long term debt – net of current portion	**56,475**	81,847	(25,372)	(31%)
Bonds payable	**21,848**	21,801	47	0%
Liabilities on purchased properties – net of current portion	**1,993**	2,146	(153)	(7%)
Pension liabilities	**1,671**	2,219	(548)	(25%)
Deferred tax liabilities	**5,052**	5,501	(449)	(8%)
Other noncurrent liabilities	**2,085**	2,609	(524)	(20%)
Total Noncurrent Liabilities	**89,124**	116,123	(26,999)	(23%)
TOTAL LIABILITIES	**124,208**	167,834	(43,626)	(26%)
EQUITY				
Equity attributable to equity holders of Parent Company				
Capital stock	**2,960**	1,760	1,200	68%
Additional paid-in capital	**57,437**	46,695	10,742	23%
Treasury shares	**-**	(6)	6	(100%)
Retained earnings				
Unappropriated	**39,961**	33,264	6,697	20%
Appropriated	**14,900**	8,760	6,140	70%
Other comprehensive loss	**(2,775)**	(918)	(1,857)	202%
Other equity adjustments	**2,322**	576	1,746	303%
	114,805	90,131	24,674	27%
Non-controlling interests	**26,433**	46,401	(19,968)	(43%)
TOTAL EQUITY	**141,238**	136,532	4,706	3%
TOTAL LIABILITIES AND EQUITY	**265,446**	304,366	(38,920)	(13%)

The major changes in the balance sheet items of the Company from December 31, 2015 to December 31, 2016 are as follows:

Total assets of the Group decreased by 13% or Php38.92 billion from Php304.37 billion as of December 31, 2015 to Php265.45 billion as of December 31, 2016. Total liabilities decreased by 26% or Php43.63 billion from Php167.83 billion to Php124.21 billion while total equity slightly increased by 3% or Php4.71 billion from Php136.53 billion to Php141.24 billion.

The decline in consolidated assets and liabilities is mainly attributable to the sale of GBPC on May 27, 2016. As a result, GBPC ceased to be a subsidiary of GT Capital. Accordingly, GT Capital deconsolidated all the assets, liabilities, and non-controlling interest of GBPC effective May 31, 2016.

Cash and cash equivalents declined by Php16.91 billion reaching Php20.95 billion with TMP, GT Capital Parent, PCFI, Fed Land, GTCAD and TMBC accounting for Php13.22 billion, Php2.47 billion, Php3.02 billion, Php1.69 billion, Php0.32 billion and Php0.23 billion, respectively.

Short-term investments declined by Php0.26 billion from Php1.86 billion to Php1.60 billion, with TMP and TMBC accounting for Php1.58 billion and Php0.02 billion, respectively.

Available-for-sale (AFS) investments classified as current pertain to the Parent Company's investment in UITF.

Receivables declined by 16% from Php27.06 billion to Php22.80 billion with PCFI contributing Php8.56 billion comprising of installment contract receivables and other receivables; Fed Land contributing Php5.77 billion, a majority of which were installment contract receivables, rent receivable and other receivables; TMP contributing Php6.10 billion consisting of trade and non-trade receivables; and TMBC accounting for Php2.37 billion representing trade receivables from the sale of automobiles and after-sales maintenance services.

Due from related parties declined by Php0.29 billion from Php0.37 billion to Php0.08 billion mainly FLI's related parties.

Prepayments and other current assets dropped by 9% from Php7.67 billion to Php6.99 billion primarily due to the deconsolidation of GBPC's input tax, partially offset by increase in advances to contractors, ad valorem tax and creditable withholding tax.

Assets of disposal group classified as held-for-sale comprising CPAIC's current and non-current assets including reinsurance assets, receivables and available for sale was derecognized in Apri 2016 upon consummation of the sale of the Parent Company's investment in CPAIC to AXA Philippines.

Available-for-sale investments classified as non-current declined by 55% from Php3.20 billion to Php1.44 billion primarily due to the deconsolidation of GBPC's AFS investments.

Noncurrent receivables from Fed Land (Php4.03 billion) and PCFI (Php3.11 billion) unit buyers who opted for long-term payment arrangements rose by 7% from Php6.68 billion to Php7.14 billion.

Land held for future development consisting of PCFI's undeveloped land increased by 20% from Php15.36 billion to Php18.46 billion due to additional landbank acquired by PCFI.

Investments in associates and joint venture increased by 57% from Php60.26 billion to Php94.83 billion due to: 1) acquisition of 15.55% ownership over MPIC amounting to Php30.17 billion; 2) equity in net income amounting to Php6.37 billion; 3) Php3.04 billion additional investment in Metrobank; 4); Php1.92 billion realized gain on sale of subsidiaries; 5) Php0.25 billion initial investment in ST 6747 Resources Corporation; and 6)Php0.02 billion additional investment in Alveo Federal Land Communities, Inc. offset by 1) disposal of indirect investment in GBPC amounting to Php3.56 billion; 2) equity in other comprehensive loss amounting to Php1.39 billion; 3) Php1.22 billion effect of business combination of TMBC and FLOC from a jointly-controlled corporation to a fully consolidated subsidiary; 4) Php0.81 billion cash dividends received from Metrobank; 5) Php0.16 billion cash dividends received from MPIC; and 6) Php0.06 billion elimination of gain on sale of CPAIC to AXA Philippines.

Investment properties increased by 33% or Php3.52 billion from Php10.80 billion to Php14.31 billion due to the completion of Fed Land's projects intended for commercial purposes.

Property and equipment declined by 82% or Php42.61 billion from Php51.97 billion to Php9.37 billion mainly due to the deconsolidation of GBPC's power plant assets.

Goodwill and intangible assets declined by 35% from Php19.73 billion to Php12.80 billion due to the deconsolidation of GBPC's intangible assets comprising power purchase agreements.

Deferred tax assets decreased by 28% from Php0.75 billion to Php0.54 billion due to the deconsolidation of GBPC's deferred tax assets.

Other noncurrent assets declined by 11% from Php0.88 billion to Php0.78 billion due to the deconsolidation of GBPC's non-current input tax.

Short-term debt dropped by Php0.62 billion from Php7.32 billion to Php6.70 billion as TMBC partially prepaid its short term loans.

Current portion of long-term debt dropped by 77% from Php6.92 billion to Php1.58 billion primarily due to the deconsolidation of GBPC's current portion of long-term debt.
Current portion of liabilities on purchased properties declined by 74% from Php0.64 billion to Php0.17 billion due to Fed Land's scheduled annual principal amortization.

Customers' deposits increased by 4% from Php3.69 billion to Php3.84 billion mainly due to increased reservation sales in Fed Land and PCFI's horizontal development projects.

Dividends payable decreased by 79% from Php2.86 billion to Php0.59 billion as cash dividends declared by GBPC were fully paid in April 2016 and GT Capital declared dividends of Php0.59 billion to its holders of perpetual preferred shares.

Due to related parties increased by 12% from Php174 million to Php195 million mainly Fed Land's related parties.

Income tax payable declined by 80% from Php1.01 billion to Php0.20 billion due to the payment of previous year's income tax payable in April 2016.

Other current liabilities increased by 23% from Php0.52 billion to Php0.64 billion mainly due to the increase in output tax.

Liabilities of disposal group classified as held for sale dropped by Php6.44 billion due to the completion of the sale of CPAIC to AXA Philippines.

Long-term debt-net of current portion declined by Php25.37 billion from Php81.85 billion to Php56.48 billion due to the deconsolidation of GBPC's long-term debt.

Liabilities on purchased properties, net of current portion, declined by 7% from Php2.15 billion to Php1.99 billion due to Fed Land's scheduled principal payments.

Pension liabilities declined by 25% from Php2.22 billion to Php1.67 billion due to the deconsolidation of GBPC's pension liability.

Deferred tax liabilities decreased by 8% from Php5.50 billion to Php5.05 billion due to the deconsolidation of GBPC's deferred tax liabilities.

Other noncurrent liabilities declined by 20% from Php2.61 billion to Php2.09 billion due to the deconsolidation of GBPC's decommissioning liabilities and reversal of TMP's provisions.

Capital stock increased by Php1.20 billion due to GT Capital's issuance of perpetual preferred shares in October 2016.
Treasury shares representing investment in shares of stock in GT Capital, held by CPAIC, were derecognized due to GT Capital's sale of its investment in CPAIC in April 2016.

Unappropriated retained earnings increased by 20% from Php33.26 billion to Php39.96 billion due to: 1) the Php14.63 billion consolidated net income earned in 2016; and 2) Php9.36 billion reversal of appropriation of retained earnings, offset by 1) Php1.64 billion cash dividends declared in March and December 2016; 2) Php15.50 billion appropriation of retained earnings; and 3) Php0.16 billion effect of closing to retained earnings the cumulative other comprehensive income arising from the remeasurement of the retirement liabilities of GBPC, CPAIC and TMBC.

Appropriated retained earnings increased by Php6.14 billion from Php8.76 billion to Php14.90 billion due to the Php15.50 billion appropriation of retained earnings in 2016 composed of: investment in financial services (Php13.90 billion), capital call from TFSPC (Php0.50 billion), dividends on common (Php0.50 billion) and preferred shares (Php0.60 billion); offset by Php9.36 billion reversal of appropriation composed of: 2015 appropriation for additional investments in PCFI (Php8.76 billion) and appropriation for dividends on preferred shares (Php0.60 billion).

Other comprehensive loss increased by Php1.86 billion from Php0.92 billion to Php2.78 billion primarily due to mark-to-market losses incurred on available-for-sale investments of GT Capital's associates.

Other equity adjustments grew by Php1.75 billion due to GT Capital's acquisition of an additional 28.32% direct equity interest in PCFI.

Non-controlling interest (NCI) declined by Php19.97 billion from Php46.40 billion to Php26.43 billion primarily due to: 1) Php19.39 billion NCI of GBPC deconsolidated; 2) Php3.75 billion acquisition of 28.32% NCI in PCFI and PCFI's redemption of Series B of Non-Voting Preferred Shares; and 3) Php5.91 billion NCI share in dividends declared by subsidiaries; offset by 1) Php7.89 billion NCI share in the net income earned in 2016 ; 2) Php0.50 billion NCI share in the other comprehensive income of subsdiaries earned in 2016; and 3) Php0.69 billion set-up of NCI in TMBC (Php0.53 billion) and GTCAD (Php0.16 billion).

CALENDAR YEAR ENDED DECEMBER 31, 2015 VERSUS YEAR ENDED DECEMBER 31, 2014

GT Capital Consolidated Statements of Income	**Audited Year Ended December 31**		**Increase (Decrease)**	
(In Million Pesos, Except for Percentage)	**2015**	2014	**Amount**	**Percentage**
REVENUE				
Automotive operations	**120,802**	108,816	11,986	11%
Real estate sales and interest income on real estate sales	**10,636**	6,998	3,638	52%
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	**154**	223	(69)	(31%)
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 52% from Php7.00 billion to Php10.64 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 52% from Php7.0 billion to Php10.64 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 declined by 31% from Php0.22 billion to Php0.15 billion due to decline in cash available for short-term placements.

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**	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%

(Forward)

	Audited December 31		Increase (Decrease)	
	2015	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.

LIQUIDITY AND CAPITAL RESOURCES

In 2015, 2016 and 2017, 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, 2017, GT Capital's cash and cash equivalents reached Php20.16 billion.

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

	In Million Pesos		
	2015	**2016**	**2017**
Net cash provided by (used in) operating activities	(469)	2,849	6,977
Net cash used in investing activities	(25,509)	(33,933)	(30,505)
Net cash provided by financing activities	35,120	14,645	23,114
Effects of exchange rate changes on cash and cash equivalents	(89)	(468)	(385)
Net increase (decrease) in cash and cash equivalents	9,053	(16,907)	(799)
Cash and cash equivalents at the beginning of the period	29,702	37,861	20,954
Cash and cash equivalents of disposal group at end of the period	(894)	-	-
Cash and cash equivalents of continuing operations at end of the period	37,861	20,954	20,155

Cash flows from operating activities

Net cash provided by (used in) operating activities amounted to (Php0.47 billion) in 2015, Php2.85 billion in 2016 and Php6.98 billion in 2017. 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, partially settle other current liabilities by Php2.16 billion and pay dividends, income taxes and interest amounting to Php6.01 billion, Php4.22 billion and Php4.16 billion, respectively. In 2016, operating cash amounting to Php22.71 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 and pay dividends, income taxes and interest amounting to Php9.82 billion, Php5.46 billion and Php4.45 billion, respectively. In 2017, operating cash amounting to Php21.09 billion was used to increase inventories by Php6.89 billion, prepayments and other current assets by Php3.36 billion and pay dividends, income taxes and interest amounting to Php7.25 billion, Php3.70 billion and Php3.43 billion, respectively..

Cash flows used in investing activities

Net cash used in investing activities amounted to Php25.51 billion in 2015, Php33.93 billion in 2016 and Php30.50 billion in 2017. 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. In 2017, cash flows used in investing activities went to increase investment in associates and a joint venture by Php26.78 billion, investment properties by Php0.66 billion, property and equipment by Php3.48 billion, and intangible assets by Php0.23 billion.

Cash flows from financing activities

Net cash provided by financing activities amounted to Php35.12 billion in 2015, Php14.64 billion in 2016 and Php23.11 billion in 2017. 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 Php1.84 billion in redemption of non-controlling interest. In 2017, cash flows from financing activities came from Php38.35 billion in new loans and issuance of capital stock of Php21.69 billion which were used to partially settle Php38.40 billion in outstanding loans.

Item 8. Financial Statements

The consolidated financial statements and schedules as listed in the accompanying Index to Exhibits are filed as part of this SEC Form 17-A.

The accounting policies adopted in preparation of the consolidated financial statements are consistent with those of the previous year except for the new and amended Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and the Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) which were adopted as of January 1, 2017.

The Group will also adopt several amended and revised standards and interpretations subsequent to 2017.

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 2017 and new PFRS and PAS that will be effective subsequent to 2017.

Item 9. **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There have been no disagreements with SGV & Co. on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedure.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2015, 2016 and 2017 have been audited by SGV & Co. (a member firm of Ernst & Young Global Limited), independent auditors, as stated in their reports appearing herein.

SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

In relation to the audit of the Company's annual financial statements, its Corporate Governance Manual provides that the audit committee shall, among other activities (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of the Company's policies, controls, processes and activities; (ii) ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors; (iii) ensure the Company's compliance with acceptable auditing and accounting standards and regulations; and (iv) approve all related fees paid to the independent auditors.

The following table sets out the aggregate fees for audit and audit-related services, inclusive of out-of-pocket expenses and value-added-tax for each of the years ended December 31, 2015, 2016 and 2017 for professional services rendered by SGV & Co. to GT Capital:

	2015	**2016**	**2017**
		(in Php million)	
Audit and Audit-Related Services	1.8	11.37	2.30
Non-Audit Services	-	0.04	0.04
Total	1.8	11.41	2.34

Audit services rendered include the audit of the financial statements and supplementary schedules for submission to SEC, and review of annual income tax returns. SGV & Co. also rendered audit-related professional services in 2016 relating to the Company's Perpetual Preferred Shares Offering amounting to Php 9.29 million. Non-audit services were also provided by SGV & Co. for validation of stockholders' votes during Stockholder's Meeting. SGV & Co. did not provide any tax consultancy services.

The Audit Committee has the primary responsibility of recommending to the Board of Directors the appointment, re-appointment or removal of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approve the Audit Committee's recommendation.

PART III.

CONTROL AND COMPENSATION INFORMATION

Item 10. **Directors and Executive Officers of the Issuer**

(a) The incumbent Directors and Executive Officers of the Company are as follows:

Board of Directors

Office	Name	Age	Citizenship
Group Chairman	Dr. George S.K. Ty	85	Filipino
Chairman	Arthur Vy Ty	51	Filipino
Co-Vice Chairman	Francisco C. Sebastian	63	Filipino
Co-Vice Chairman	Alfred Vy Ty	50	Filipino
Director/President	Carmelo Maria Luza Bautista	60	Filipino
Director	Roderico V. Puno	55	Filipino
Director	David T. Go	64	Filipino
Lead Independent Director	Renato C. Valencia	76	Filipino
Independent Director	Jaime Miguel G. Belmonte	54	Filipino
Independent Director	Wilfredo A. Paras	71	Filipino
Adviser	Pascual M. Garcia III	64	Filipino
Adviser	Mary Vy Ty	77	Filipino
Adviser	Guillermo Co Choa	58	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
Renato C. Valencia	May 10, 2017*
Jaime Miguel G. Belmonte	December 2, 2011
Wilfredo A. Paras	May 14, 2013

**Prior to May 10, 2017, Mr. Valencia was first elected as an independent director of the Company on February 14, 2012 and served as Independent director until May 14, 2013.*

Board Committees:

The members of the Executive Committee are:

Arthur Vy Ty	- Chairman
Alfred Vy Ty	- Vice-Chairman
Carmelo Maria Luza Bautista	- Member
Francisco C. Sebastian	- Member
Mary Vy Ty	- Adviser

The members of the Audit Committee are:

Wilfredo A. Paras	- Chairman
Renato C. Valencia	- Member
Jaime Miguel G. Belmonte	- Member

Pascual M. Garcia III	- Adviser

The members of the Risk Oversight Committee are:

Renato C. Valencia	- Chairman
Wilfredo A. Paras	- Member
David T. Go	- Member

The members of the Compensation Committee are:

Jaime Miguel G. Belmonte	- Chairman
Alfred V. Ty	- Member
Renato C. Valencia	- Member

The members of the Nominations Committee are:

Renato C. Valencia	- Chairman
Wilfredo A. Paras	- Chairman
Jaime Miguel G. Belmonte	- Member

The members of the Corporate Governance Committee are:

Renato C. Valencia	- Chairman
Wilfredo A. Paras	- Member
Jaime Miguel G. Belmonte	- Member

Mr. Peter B. Favila resigned as an Independent Director of the Corporation effective July 04, 2017.

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

Dr. George S.K. Ty, 85 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, 51 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, 63 years old, Filipino, is one of the Corporation's Vice Chairman in May 2016. Prior to assuming this post, he was Chairman of GT Capital since June 2014 when he was first elected to the board. He joined the Metrobank Group in 1997 as President of FMIC, the investment arm of Metrobank, a post he held for 14 years until he became its Chairman in 2011. Mr. Sebastian concurrently serves as Vice Chairman of Metrobank since 2006. He is also a director of Metro Pacific Investments Corporation ("MPIC"), Federal Land Inc. 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, 50 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 Metropolitan Bank and Trust Company (MBTC) and Vice Chairman of Toyota Motor Philippines Corporation (TMP). He graduated from the University of Southern California in 1989 with a degree in Business Administration. Some of his other current roles and positions include: Chairman, Lexus Manila; Chairman, Federal Land, Inc.; 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 Director of Metro Pacific Investment Corporation, a listed company.

Carmelo Maria Luza Bautista, 60 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 40 years. Some highlights of his previous scope of responsibilities over this period include: Program Director at Citibank Asia Pacific Banking Institute; Vice President and Head of the Local Corporate and Public Sector Groups Citibank-Manila; Vice President-Real Estate Finance Group, Citibank N.A.-Singapore branch; Vice President-Structured Finance, Citibank N.A.-Singapore Regional Office; Country Manager, ABN AMRO Bank-Philippines; and President and CEO, Philippine Bank of Communications. Mr. Bautista has a Masters Degree in Business Management from the Asian Institute of Management where he graduated in the Dean's Citation List. He also has a Bachelor's degree, Major in Economics, from the Ateneo de Manila University. Mr. Bautista is currently serving as Director of Vivant Corporation, a listed company, Chairman of Toyota Financial Services Philippines Corporation ("TFSPH"), and Director of Federal Land, Inc., Toyota Motor Philippines Corporation ("TMP"), Property Company of Friends, Inc. ("PCFI"), GT Capital Auto Dealership Holdings, Inc. ("GTCAD") and Toyota Subic, Inc. ("TSB"). He is also an Adviser to the Board of Trustees of GT Foundation, Inc.

Dr. David T. Go, 64 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 Toyota Motor Philippines Corporation ("TMP"). He is also the Vice Chairman of Toyota Autoparts Phils., Inc.; Director and Treasurer of Toyota Financial Services Philippines Corporation ("TFSPH"); President of Toyota Motor Philippines Foundation, Inc. and Toyota Motor Phils. School of Technology, Inc.; Trustee of Toyota Savings and Loan Association; Chairman of Toyota San Fernando, Inc., Toyota Makati, Inc., Toyota Manila Bay Corporation ("TMBC"), Toyota Sta. Rosa Inc., Toyota Logistics, Inc., GT Capital Auto Dealership Holdings, Inc. ("GTCAD") and Toyota Subic Inc.; Director of Lexus Manila. Dr. Go has no directorships in other listed companies aside from GT Capital.

Roderico V. Puno, 55 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 a Director of listed company, LMG Chemicals Corp., Corporate Secretary of Atlas Consolidated and Mining and Development Corporation, a listed company, First Philippine Industrial Park 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.

Renato C. Valencia, 76 years old, Filipino, is currently Chairman of iPeople Inc. and Independent Director of EEI Corporation, Anglo Philippine Holdings, Inc. and Vulcan Industrial and Mining, Inc. His past positions include the following: President/CEO, Social Security System (SSS); Chairman/CEO, Union Bank of the Philippines; President/CEO, Roxas Holdings, Inc.; Vice Chairman/Director, San Miguel Corporation (SMC); Independent Director, Metropolitan Bank and Trust Company; Director, Philippine Long Distance Telephone Company (PLDT); Manila Electric Company (MERALCO); Philex Mining Corporation; Far East Bank and Trust Company; Roxas and Company, Inc.; Bases Conversion Development Academy (BCDA); Fort Bonifacio Development Corporation; Makati Stock Exchange; Chairman, Philippine Savings Bank; Board Adviser, Philippine Veterans Bank; Advisory Board Member, Philippines Coca-Cola System Council; and Board Member, Civil Aeronautics Board. He is a graduate of the Philippine Military Academy with a degree in B.S. Gen. Engineering, and also holds an MBA from the Asian Institute Management.

Jaime Miguel G. Belmonte, 54 years old, Filipino, was elected as Independent Director of GT Capital on July 11, 2012. He is also the President and Chief Executive Officer of The Philippine Star (since 1998); President and Chief Executive Officer of Business World (since 2015); President and Publisher of Pilipino Star Ngayon (since 1994) and PM-Pang Masa (since 2003); President of Pilipino Star Printing Company (since 1994); President of Nation Broadcasting Corp. of the Philippines (since 2016); and President of Hastings Holdings Inc. Mr. Belmonte is also the President of Cebu-based The Freeman and Banat News (since 2004); Vice Chairman of People Asia Magazine; and a member of the Board of Advisers of Manila Tytana College (since 2008). Aside from GT Capital, Mr. Belmonte also sits on the board of Cignal TV, Nation Broadcasting Corp. of the Philippines, and Hastings Holdings Inc. He earned his undergraduate degree from the University of the Philippines-Diliman. Mr. Belmonte has no directorships in other listed companies aside from GT Capital.

Wilfredo A. Paras, 71 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, 64 years old, Filipino, was appointed as Board Adviser in May 2013. He is currently the President of Federal Land Inc. He also holds several other positions in other companies among which are: Vice Chairman, Property Company of Friends, Inc.; Vice Chairman, Cathay International Resources Corp.; Chairman, Omni Orient Management Corp.; Chairman, Metpark Commercial Estate Association, Inc.; President, Horizon Land Resources Development Corp.; Chairman, Central Realty & Development Corp.; Chairman, Crown Central Properties; President, Bonifacio Landmark Realty & Development Corp.; Chairman, Alveo-Federal Land Communities, Inc.; President, ST 6747 Resources Corp.; President, Sunshine Fort North Bonifacio Realty and Dev't. Corp.; Chairman, Magnificat Resources Corp.; President, Federal Land Orix Corp. 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 Federal Land Inc., he served as the President and Director of PSBank from 2001 to 2013; Director of Toyota Financial Services Philippines Inc. from 2007 to 2017 and Director of Sumisho Finance Corp. from 2009 to 2016. Mr. Garcia earned his Bachelor's degree in Commerce, Major in Management, from the Ateneo de Zamboanga University.

Mary Vy Ty, 77 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.

Nominee Directors

As of the date of this report, the nominees for independent directors are Messrs., Renato C. Valencia, Wilfredo A. Paras, Jaime Miguel G. Belmonte and Rene J. Buenaventura. Mr. Renato C. Valencia was nominated by Mr. Francisco H. Suarez, Jr., Mr. Wilfredo A. Paras was nominated by Ms. Maria G. Ang, Mr. Jaime Miguel G. Belmonte was nominated by Ms. Maria Andrea R. Panganiban and Mr. Rene J. Buenaventura was nominated by Ms. Leila Rowena Limbo. The four (4) nominees for independent directors are not related either by consanguinity or affinity to the person who nominated them.

Based on Section 2.1.4 of GT Capital's Manual on Corporate Governance, the stockholders must elect at least three (3) independent directors as defined by existing laws and regulations.

Aside from the above nominees for independent directors, the other nominees for director are Messrs. Arthur Vy Ty, Alfred Vy Ty, Francisco C. Sebastian, Carmelo Maria Luza Bautista, David T. Go, Atty. Regis V. Puno and Mr. Pascual M. Garcia III.

All the nominees, except Mr. Rene J. Buenaventura and Atty. Regis V. Puno are incumbent directors of GT Capital. Mr. Garcia is an incumbent adviser of GT Capital. The experience and qualifications of the nominated incumbent directors and advisers are found above. The experience and qualifications of Mr. Rene J. Buenaventura and Atty. Regis V. Puno are as follows:

Rene J. Buenaventura, 63 years old, Filipino, currently holds the following positions: Vice-Chairman of Equicom Group of Companies which includes Maxicare Healthcare Corporation, Equicom Savings Bank, Algo Leasing and Finance Inc. and Equitable Computer Services Inc. ; Independent Director of Lorenzo Shipping Corporation, a listed company; Independent Director of AIG Insurance, Philippines and UBS Investments, Philippines, Inc.; Chairman of Consumer Creditscore Philippines, Inc.; Director of Strategic Equities Corporation; and Trustee of Equitable Foundation and Go Kim Pah Foundation. He previously served as President, Senior Executive Vice-President and Group Head of Retail Banking and Executive Vice-President of Equitable PCIBank; Executive Vice-President and Chief Operating Officer for Non-Banking Sector of Philippine Commercial International Bank; and President and Chief Operating Officer of PCI Leasing and Finance Corporation. He is a Certified Public Accountant and a summa cum laude graduate of De La Salle University Manila with a degree in Bachelor of Science in Commerce, Major in Accounting and Bachelor of Arts, Major in Behavioral Science. He also holds an MBA from De La Salle University, Manila and graduated from the International Banking Course of Wharton School of Business, Pennsylvania.

Atty. Regis V. Puno, 59 years old, Filipino, is a former Undersecretary of the Department of Justice (1998-2001), Mr. Puno obtained his Bachelor's Degree in Economics from the University of the Philippines. He graduated with Honors from the Ateneo de Manila University College of Law in 1985 and obtained his Masters of Laws degree from the Georgetown University Law Centre in Washington D.C. in 1987. Mr. Puno is currently Co-Vice-Chairperson of the Board and Director of Metrobank Credit Card Corporation; Director, Lepanto Consolidated Mining Co.; Director of LMG Chemicals Corp; Chairman, Alumni Admission Program (AAP) Philippine Committee, Georgetown University; Director, The Rockwell Club; Director and Corporate Secretary, Laura Vicuna Foundation for Street Children; Director and Chairman of Trust Committee, Philippine Savings Bank, (2004-2010); Director, Sithe Global Camaya Holdings, Inc. (2008-2016); Director/Vice-President, GN Power Holdings Philippines GP Corp., (2007-2016); Board of Trustees, Hands on Manila Foundation , (2014-2016); President, Georgetown University Alumni Club of the Philippines,(2006-2008); Board of Trustees, Rockwell Residential Tower Condominium Corp., (2008-2013); Director, Regency Investment and Development Holdings, Inc., (2008-2011); Director/President, Napnapan Mineral Resources, Inc., (2007-2011); Corporate Secretary, BDO Private Bank, (2003-2004); Director/Corporate Secretary, Banco Santander, Philippines, (1996-1998, 2001-2003).

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:

Arthur Vy Ty
Francisco C. Sebastian
Alfred Vy Ty
Carmelo Maria Luza Bautista
Dr. David T. Go
Atty. Regis V. Puno
Pascual M. Garcia III
Jaime Miguel G. Belmonte
Wilfredo A. Paras
Renato C. Valencia
Rene J. Buenaventura

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	60	Filipino
Francisco H. Suarez, Jr.	Executive Vice President/ Chief Financial Officer	58	Filipino
Anjanette T. Dy Buncio	Treasurer	49	Filipino
Alesandra T. Ty	Assistant Treasurer	38	Filipino
Antonio V. Viray	Corporate Secretary	78	Filipino
Jocelyn Y. Kho	Assistant Corporate Secretary	63	Filipino
Winston Andrew L. Peckson	First Vice President/Chief Risk Officer	66	Filipino
Jose B. Crisol, Jr.	First Vice President/Head, Investor Relations and Corporate Communication	51	Filipino
Reyna Rose P. Manon-Og	First Vice President/Controller and Head, Accounting and Financial Control	35	Filipino
Susan E. Cornelio	Vice President/Head, Human Resources and Administration	46	Filipino
Richel D. Mendoza*	Vice President/Chief Audit Executive	46	Filipino
Elsie D. Paras	Vice President/Deputy Chief Financial Officer	45	Filipino
Renee Lynn Miciano-Atienza	Vice President /Head, Legal and Compliance	35	Filipino

**Resigned effective March 01, 2018*

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
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
Reyna Rose P. Manon-og	First Vice President/Controller and Head, Accounting and Financial Control	2011-Present
Susan E. Cornelio	Vice President/Head, Human Resources and Administration	2012-Present
Richel D. Mendoza	Vice President/Chief Audit Executive	2013-February 28, 2018
Elsie D. Paras	Vice President/Deputy Chief Financial Officer	2015-Present
Renee Lynn Miciano-Atienza	Vice President /Head, Legal and Compliance	2016-Present

Francisco H. Suarez Jr., 58 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, bilateral fixed rate term loans 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, 78 years old, Filipino, joined the Corporation as Assistant Corporate Secretary and became Corporate Secretary in 2009. Concurrently, he is the Corporate Secretary of Metropolitan Bank & Trust Co. (MBT) and Property Company of Friends, Inc. (PCFI). He was formerly Senior Vice-President, General Counsel, Assistant Corporate Secretary and Director of MBT. He was also Senior Vice-President & General Counsel of PSBank and Director of Solidbank. At present, he is also the Corporate Secretary of Global Treasure Holdings, Inc. and Grand Titan Capital Holdings, Inc. He is also Of Counsel of Feria Tantoco Daos Law Office. He obtained his Bachelor of Laws from the University of Sto. Tomas and Master of Laws from Northwestern University in Chicago, U.S.A.

Jocelyn Y. Kho, 63 years old, Filipino, has served as the Corporation's Assistant Corporate Secretary since June 2011 and formerly the Corporation's Controller until 2010. She served as Vice President under the Office of the Assistant to the Group Chairman of MBT from 1978 to 2009. She concurrently holds the following positions: Assistant Corporate Secretary, Grand Titan Capital Holdings, Inc.; Controller and Assistant Corporate Secretary, Global Treasure Holdings, Inc.; Director and Treasurer, Global Business Holdings, Inc.; Director, Senior Vice President Federal Homes, Inc.; Director, Treasurer and Corporate Secretary of Crown Central Realty Corporation; Director of Cathay International Resources, Inc.; Ex-Com Member and Corporate Secretary, of Fed Land; Chairman and President of MBTC Management Consultancy, Inc.; Director and Treasurer, Nove Ferum Holdings, Inc.; Director and Treasurer, Horizon Royale Holdings, Inc.; Director and Treasurer, Grand Estate Property Corporation; Chairman and President, Glam Holdings Corporation; Vice Chairman and President, Glam Realty Corporation; Treasurer, First Metro Insurance Brokers Corporation; Corporate Secretary, First Metro Insurance Agency, Inc.; Director and President, Harmony Property Holdings, Inc.; Director and President, Splendor Fortune Holdings, Inc.; Director and President, Splendor Realty Corporation; and Director and Vice President, Circa 2000 Homes, Inc. She earned her Bachelor of Science degree in Commerce with a major in Accounting from the University of Santo Tomas in 1975, and is a candidate for the Master of Science Degree in Taxation from MLQ University.

Anjanette Ty Dy Buncio, 49 years old, Filipino, was appointed as GT Capital's Treasurer in May 2015. Prior to this, she served as the Corporation's Assistant Treasurer since 2007. She holds several other positions in other companies among which are: Vice Chairman and Director of Metrobank Card Corporation; Director, Treasurer and Senior Vice President of Federal Land, Inc.; Adviser and Treasurer of Property Company of Friends, Inc.; Treasurer and Vice Chairman of Manila Medical Services Inc.; Corporate Secretary of Metrobank Foundation Inc.; Vice President of GT Foundation Inc.; and Executive Vice President and Corporate Secretary of Pro Oil Corporation. She graduated from the International Christian University in Tokyo, Japan with a Bachelor of Social Science Degree in Economics.

Alesandra T. Ty, 38 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 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, 66 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., 51 years old, Filipino, serves as First Vice President and Head of the Investor Relations and Corporate Communication Department of GT Capital. He was appointed to the position on July 26, 2012. Before joining the Corporation, he was the Assistant Vice President for Investor Relations of SM Investments Corporation ("SM"). Prior to working with SM, he was a Director IV at the Department of Trade and Industry ("DTI"), heading its Trade and Industry Information Center. He also served for a time, on a concurrent basis, as Head of DTI's Office of Operational Planning. His other past employment includes occupying various positions at The Philippine American Life Insurance Company and Merrill Lynch Philippines, Inc., among others. He holds a Bachelor of Science degree in Economics from the University of the Philippines in Diliman, and completed the Strategic Business Economics Program (SBEP) of the University of Asia and the Pacific. He finished his primary and secondary education at the Ateneo De Manila University.

Susan E. Cornelio, 46 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. She recently completed the Strategic Business Economics Program of the University of Asia and the Pacific.

Richel D. Mendoza*, 46 years old, Filipino, joined the Corporation on October 1, 2013 as its Chief Audit Executive (CAE). She was also appointed as the concurrent CAE of the Corporation's property arm, Property Company of Friends, Inc. (PCFI) in March 2016 and was appointed as Internal Auditor of PCFI's wholly-owned financing company, Williamton Financing Corporation on August 30, 2016. She is currently the Second Vice Chairperson of the Board of Trustees and Vice President for Internal Affairs of the Institute of Internal Auditors (IIA) Philippines. She served as Board Director of the 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. **Resigned effective March 01, 2018*

Reyna Rose P. Manon-og, 35 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 with a Bachelor of Science degree in Accountancy. 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, 45 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, 35 years old, Filipino, is Vice President and Head of the Legal & Compliance Department of the Corporation. She was appointed to her position on May 11, 2016 and has been with GT Capital since August 2012. She concurrently holds the following positions: Director, GTCAD and TSB; Assistant Corporate Secretary, PCFI; Corporate Secretary, Micara Land, Inc., Marcan Development Corporation, Camarillo Development Corporation, Williamton Financing Corporation, Branchton Development Corporation, and Firm Builders Realty Development Corporation. Prior to joining the Corporation, she was the Head of the Investigation and Enforcement Department of the Capital Markets Integrity Corporation ("CMIC"). Before joining CMIC, she was the Officer-in-Charge of the Prosecution and Enforcement Department of the PSE. She was also Legal Counsel of the Office of Senator Miguel Zubiri, and prior to entering law school, a trader for United Coconut Planters Bank. She earned her Bachelor of Science degree in Management from the Ateneo De Manila University and finished her Juris Doctor degree in the same university.

Directorships in Other Reporting Companies and Subsidiaries

The following are directorships held by Directors and Executive Officers in other reporting (listed) companies and subsidiaries of the Corporation during the last five years:

Name of Corporation	Position
George S.K. Ty	
Toyota Motor Philippines Corporation	Chairman/Director
Metropolitan Bank & Trust Company	Director
Philippine AXA Life Insurance Corporation	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	Vice-Chairman/Director
Federal Land, Inc.	Director

Alfred Vy Ty

Toyota Motor Philippines Corporation	Vice-Chairman/Director
Federal Land, Inc.	Chairman/Director
Metropolitan Bank & Trust Company	Director
Property Company of Friends, Inc.	Chairman/Director
Metro Pacific Investment Corporation	Vice-Chairman*/Director
Philippine Long Distance Telephone Company	Independent Director
GT Capital Auto Dealership Holdings, Inc.	Director

**Appointed by MPIC's Board of Directors on March 1, 2018*

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
Toyota Subic, Inc.	Director
Toyota Financial Services Philippines Corporation	Chairman/Director
Vivant Corporation	Director

David T. Go	Chairman/Director
Toyota Manila Bay Corporation	Director/Senior Executive Vice
Toyota Motor Philippines Corporation	President and Treasurer
	Chairman/President/Director
GT Capital Auto Dealership Holdings, Inc.	Chairman/Director
Toyota Subic, Inc.	
Toyota Financial Services Philippines	Director/Treasurer
Corporation	Chairman/Director
Toyota Cubao, Inc.	

Roderico V. Puno

LMG Chemicals Corp.	Director

Renato C. Valencia

iPeople, Inc.	Chairman
EEI Corporation	Independent Director
Anglo Philippine Holdings Corporation	Independent Director
Vulcan Industrial and Mining, Inc.	Independent Director
Roxas Holdings, Inc.	President/CEO
Metropolitan Bank & Trust Company	Independent Director

Wilfredo A. Paras

Philex Mining Corporation	Independent Director

Anjanette Ty Dy Buncio

Federal Land, Inc.	Director/Treasurer/Senior Vice President

Alesandra T. Ty

Philippine AXA Life Insurance Corporation	Director/Treasurer
Sumisho Motorcycle Finance Corp.	Director

Francisco H. Suarez, Jr.	Director/Treasurer
GT Capital Auto Dealership Holdings, Inc.	Director/Treasurer

Toyota Subic, Inc.	
Winston Andrew L. Peckson	Director
First Metro Philippine Equity Exchange Traded Fund, Inc.	
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	Leo Paul C. Maagma
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 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 2016, 2017, and 2018. The amounts (in Php millions) set forth in the table below have been prepared based on what the Corporation paid its executive officers in 2016 and 2017, and what the Corporation expects to pay in 2018.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Named Executive Officers*....................................	2016	35.03	17.93	-
	2017	39.85	15.21	-
	2018**	43.44	16.57	-
All other Officers as a Group	2016	18.79	3.32	-
	2017	26.12	10.15	-
	2018**	28.47	11.06	-

** 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 2018 are estimates*

Summary compensation table of Directors

Remuneration Item	**Executive Directors**	**Non-Executive Directors** (other than independent directors)	**Independent Directors**
Per diem Allowance	Php 1.14 million	Php 7.22 million	Php 4.55 million
Bonuses	PhP 0.60 million	PhP6.08 million	PhP 2.60 million
Transportation Allowance			PhP 0.64 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, 2017, the following are the owners of more than 5% of the Company's voting stocks:

Title of Class	**Name and Address of Record Owner and Relationship with Issuer**	**Name of Beneficial Owner and Relationship with Record Owner**	**Citizenship**	**No. of Shares Held**	**Percent (%)**
Common	Grand Titan Capital Holdings, Inc. 43rd Floor GT Tower International 6813 Ayala Avenue cor. H.V. Dela Costa St., Makati City	Same as the Record Owner **Arthur Vy Ty** is authorized to vote the shares held by Grand Titan Capital Holdings, Inc.	Filipino	107,723,975	55.93%
Common	PCD Nominee Corp. (Non-Filipino)	Various Clients[1]	Foreign	62,546,866	32.476%
Common	PCD Nominee Corp. (Filipino)	Various Clients[1]	Filipino	40,018,397	20.778%
Voting Preferred	Grand Titan Capital Holdings, Inc. 43rd Floor GT Tower International 6813 Ayala Avenue cor. H.V. Dela Costa St., Makati City	Same as the Record Owner	Filipino	170,490,640	97.81%

(1) PCD Nominee Corporation ("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, 2017

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	0.1038%
Common	Arthur V. Ty	100,000 (D) 2,100 (I)	Filipino	0.0519% 0.0011%
Common	Alfred V. Ty	100,000 (D) 2,100 (I)	Filipino	0.0519% 0.0011%
Common	Anjanette T. Dy Buncio	46,547 (I)	Filipino	0.0242%
Common	Francisco C. Sebastian	100 (D) 50,000 (I)	Filipino	0.0000% 0.0260%
Common	Carmelo Maria Luza Bautista	1,000 (D) 12,000 (I)	Filipino	0.0005% 0.0062%

Common	Francisco H. Suarez, Jr.	5,000 (I)	Filipino	0.0026%
Perpetual Preferred Shares (GTPPA)		1000 (I)	Filipino	0.0207%
Common	Alesandra T. Ty	1,700 (I)	Filipino	0.0009%
Perpetual Preferred Share (GTPPA)		1900 (I)	Filipino	0.0393%
Perpetual Preferred Shares (GTPPB)		1100 (I)	Filipino	0.0154%
Common	Roderico V. Puno	1,000 (D)	Filipino	0.0005%
Common	Jaime Miguel G. Belmonte	1,000 (D)	Filipino	0.0005%
Common	Wilfredo A. Paras	1,000 (D)	Filipino	0.0005%
Common	Renato C. Valencia	1,000(D)	Filipino	0.0005%
Common	Winston Andrew L. Peckson	271 (I)	Filipino	0.0001%
Common	David T. Go	100 (D)	Filipino	0.0000%
Common	Renee Lynn Miciano-Atienza	45(I)	Filipino	0.0000%
Perpetual Preferred Shares (GTPPB)		50 (I)	Filipino	0.0007%
Common	Antonio V. Viray	0	Filipino	0.0000%
Common	Jocelyn Y. Kho	0	Filipino	0.0000%
Common	Jose B. Crisol	0	Filipino	0.0000%
Perpetual Preferred Shares (GTPPB)		50 (I)	Filipino	0.0007%
Common	Reyna Rose P. Manon-Og	0	Filipino	0.0000%
Common	Susan E. Cornelio	0	Filipino	0.0000%
Common	Richel D. Mendoza*	0	Filipino	0.0000%
Common	Elsie D. Paras	0	Filipino	0.0000%
Perpetual Preferred Shares (GTPPB)		300 (I)	Filipino	0.0042%
Total Common **GTPPA** **GTPPB**		**405,200 (D)** **119,763(I)** **2,900(I)** **1,500(I)** **529,363 (D) and (I)**		**0.2726%** **0.0599%** **0.0209%**

Resigned effective March 01, 2018

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, 2017.

Change in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

There are no existing or planned stock warrant offerings. There are no arrangements which may result in a change in control of the Company.

Item 13. **Certain Relationships and Related Transactions**

The Corporation maintains business relationships and has entered into transactions with related parties. The Corporation's Corporate Governance and Related Party Transactions Committee passes upon and provides clearance for related party transactions with material significance. In all cases, the Committee shall make its decision taking into consideration the best interest of the Corporation. If approved by the Committee, the proposed related party transaction is then recommended and endorsed to the Board for approval. For transactions of material significance, transactions are evaluated for fairness through a third party evaluator or assessor. Any ongoing contractual or other commitments as a result of the arrangement are stated in Note 27 (Related Party Transactions) of the Consolidated Financial Statements. Transactions with related parties of material significance are made in the ordinary course of business, do not deviate substantially from market terms and conditions and are made on an arm's length basis.

There are no known related party transactions other than those described in Note 27 (Related Party Transactions) of the Consolidated Financial Statements. Related Party Transactions are made on an arm's length basis.

There are no known transactions with parties that fall outside the definition of "related parties" under SFAS/IAS No. 24 with whom the registrants or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from the other, more clearly independent, parties on an arm's length basis.

Transactions with Promoters

There are no transactions with promoters within the past five (5) years.

Events after the Reporting Period

For detailed discussion, please refer to Note 37 of the Consolidated Financial Statements for December 31, 2017 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 21, 2017	Additional disbursement of GT Capital Holdings, Inc. ("GT Capital") from the gross proceeds of the offering of Series "A" and Series "B" Perpetual Preferred Shares
2.	March 21, 2017	Declaration of a regular cash dividend in favor of its stockholders of unlisted Voting Preferred Shares at a dividend rate of 3.77%, the 3 year PDST-R2 rate on issue date (April 13, 2015), with record date on April 4, 2017 and payment date on April 20, 2017
3.	March 21, 2017	Setting of the date of the Annual Stockholders' Meeting ("ASM") of GT Capital on May 10, 2017, in accordance with Article II, Section 1 of the Amended By-Laws of the Corporation. The Record Date for the ASM has been set on April 4, 2017
4.	March 21, 2017	Declaration of a regular cash dividend in the amount of Five Hundred Twenty Two Million Nine Hundred Thousand Pesos (Php522,900,000.00), or Three Pesos (Php3.00) per share, and a special cash dividend in the amount of Three Hundred Forty Eight Million Six Hundred Thousand Pesos (Php348,600,000.00), or Two Pesos (Php2.00) per share, in favor of GT Capital's common stockholders of record as of April 4, 2017, payable on or before April 20, 2017
5.	March 22, 2017	Resignation of Ms. Jeanne Frances T. Chua as Assistant Corporate Secretary of the Corporation due to personal reasons, effective March 22, 2017
6.	March 29, 2017	Press Release – GT Capital's Bonds Keep Highest Ratings
7.	March 31, 2017	Press Release – GT Capital Full-Year 2016 Net Income Rises 21% to Php14.6 Billion
8.	April 17, 2017	Press Release – GT Capital to Increase Metrobank Ownership
9.	April 21, 2017	Reply of GT Capital Holdings Inc. to the Philippine Stock Exchange's ("PSE") Correspondence dated April 20, 2017

10.	April 21, 2017	Press Release – BSP approved the transfer of 9.62 percent ownership in Metropolitan Bank & Trust Company (MBTC) to GT Capital Holdings, Inc. (GT Capital)
11.	April 21, 2017	Additional disbursement of GT Capital Holdings, Inc. from the gross proceeds of the offering of Series "A" and Series "B" Perpetual Preferred Shares
12.	May 4, 2017	Notice of 1Q 2017 Briefing on May 16, 2017
13.	May 10, 2017	Results of the Annual Stockholders' Meeting ("ASM") and Organizational Board Meeting ("Organizational Meeting") of GT Capital Holdings, Inc. (the "Corporation")
14.	May 15, 2017	Press Release – GT Capital January – March 2017 Core Net Income Up 12% to Php3.2 Billion
15.	May 22, 2017	Reply/Clarification to the Philippine Stock Exchange's correspondence requesting clarification of the news article that was posted in philSTAR.com on May 22, 2017 entitled "GT Capital bets big on infra".
16.	June 7, 2017	Notice from stock transfer agent that the latter has issued 18,296,685 primary common shares, or 9.50% of the resulting and outstanding common shares, of the Corporation in favor of Grand Titan Capital Holdings, Inc. Issuance of 18,296,685 common shares out of its unissued common shares in favor of Grand Titan Capital Holdings, Inc. increasing its issued and outstanding common shares from 174,300,000 to 192,596,685 and decreasing its public float percentage from 48.41% to 43.81%.
17.	June 9, 2017	Issuance of 18,296,685 common shares out of its unissued common shares in favor of Grand Titan Capital Holdings, Inc. increasing its issued and outstanding common shares from 174,300,000 to 192,596,685 and decreasing its public float percentage from 48.41% to 43.81% and its foreign ownership level from 17.06% to 16.21%.
18.	July 4, 2017	Resignation of Mr. Peter B. Favila's as an Independent Director of the Corporation for personal reasons, effective July 01, 2017
19.	July 10, 2017	Press Release – Federal Land Brings In Nomura Real Estate and Isetan Mitsukoshi Holdings for Strategic Partnership
20.	July 24, 2017	Notice of 1H 2017 Briefing on August 11, 2017
21.	August 8, 2017	In view of the resignation of Mr. Peter B. Favila as an Independent Director of GT Capital Holdings, Inc. ("GT Capital") effective July 1, 2017, the Board of Directors of GT Capital, in its August 8, 2017 meeting, approved the appointment of the following members of the Board of Directors to the positions left vacant by Mr. Favila: Mr. Renato C. Valencia as Chairman of the Risk Oversight Committee and Mr. Jaime Miguel G. Belmonte as Member of the Nominations Committee.

22.	August 8, 2017	Acquisition of 2,000,000 Sumisho Motor Finance Corporation ("SFC") common shares from Philippine Savings Bank ("PS Bank") and 2,000,000 SMFC common shares from PS Bank Retirement Fund, or a total of 4,000,000 SMFC common shares, representing 20% of the total issued and outstanding capital stock of SMFC, for a total consideration of Php379,920,000.00
23.	August 8, 2017	Promotion of Reyna Rose P. Manon-og to First Vice President and Renee Lynn Miciano-Atienza to Vice President effective August 1, 2017
24.	August 10, 2017	Press Release – GT Capital January to June 2017 Core Net Income Grows 19% to Php7.4 Billion
25.	August 11, 2017	Acquisition of 20% total stake in Sumisho Motor Finance Corporation ("SMFC") from Philippine Savings Bank ("PSBank") and PS Bank Retirement Fund, the parties executed a Sale and Purchase Agreement on August 9, 2017 and Deeds of Absolute Sale of Shares on August 11, 2017. The total purchase of Php379,920,000.00 was paid in cash on August 11, 2017.
26.	November 2, 2017	Notice of 9M 2017 Briefing on November 10, 2017
27.	November 9, 2017	Press Release – GT Capital January to September 2017 Core Net Income Up 19% to Php11.0 Billion
28.	December 7, 2017	Declaration of quarterly cash dividends for its non-voting, non-participating, non-convertible, and redeemable perpetual preferred shares for the year 2018 in the amount per quarter of Pesos: Fifty Six Million Twelve Thousand Nine Hundred Ninety Three and 19/100 (Php56,012,993.19) for Series A (GTPPA) and Pesos: Ninety One Million Two Hundred Eight Thousand Three Hundred Ninety and 31/100 (Php91,208,390.31) for Series B (GTPPB), such cash dividends to be paid out of the Corporation's unrestricted retained earnings.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 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 __________, 2018.

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 13 2018

SUBSCRIBED AND SWORN to before me this _____ day of _________ 2018 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	P3215592A	May 30, 2017	DFA Central North
Reyna Rose P. Manon-og	P1795823A	January 30, 2017	DFA NCR South
Renee Lynn Miciano-Atienza	EC6658919	February 2, 2016	DFA Manila

Doc No. 244;
Page No. 49;
Book No. 10;
Series of 2018.

Notary Public

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

INDEX TO EXHIBITS

I. FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

A. 2017 Audited Consolidated Financial Statements and Supplementary Schedules – GT Capital Holdings, Inc.

Statement of Management's Responsibility for Financial Statements
Independent Auditors' Report
Consolidated Statements of Financial Position as of December 31, 2017 and 2016
Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015
Consolidated Statements of Cash Flow for the Years Ended December 31, 2017, 2016 and 2015
Notes to Consolidated Financial Statements

Supplementary Schedules
Independent Auditors' Report on Supplementary Schedules
Schedule I: Reconciliation of Retained Earnings Available for Dividend Declaration
Schedule II: List of Effective Standards and Interpretations under the Philippine Financial reporting Standard (PFRS) as of December 31, 2017
Schedule III: Supplementary Schedules Required by Annex 68-E

A. Financial Assets
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)
C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of the Financial Statements
D. Intangible Assets – Other Assets
E. Long-Term Debt
F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)
G. Guarantees of Securities of Other Issues
H. Capital Stock

Schedule IV: Map of Relationship between and among the Parent Company, Subsidiaries, Jointly Controlled Entities and Associates
Schedule V: Schedule of Financial Soundness Indicators

Others
Use of Proceeds of the Company's Perpetual Preferred Shares for the period October 27, 2016 to June 30, 2017.

B. 2017 Audited Financial Statements - Metropolitan Bank and Trust Company

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number
CS200711792

COMPANY NAME

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
gtcap@gtcapital.com.ph	836-4500	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
72	2nd Wednesday of May	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Francisco H. Suarez, Jr.	francis.suarez@gtcapital.com.ph	836-4500	

CONTACT PERSON's ADDRESS

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

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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, 2017. 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. 6678202, January 31, 2018, Makati City
PRC Accreditation No. 2209, December 14, 2016, Manila

March 16, 2018

GT CAPITAL
HOLDINGS, INCORPORATED

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of GT Capital Holdings, Inc. (the Company) is responsible for the preparation and fair presentation of the parent and consolidated financial statements including the schedules attached therein, as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has audited the parent and consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature: ______________________
Arthur V. Ty, Chairman of the Board

Signature: ______________________
Carmelo Maria L. Bautista, President

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

March 16, 2018

43rd Floor, GT Tower International, 6813 Ayala Avenue corner H.V. Dela Costa Street, 1227 Makati City, Philippines
Tel: +632 836-4500 • Fax: +632 836-4159 • E-mail: gtcap@gtcapital.com.ph

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

SUBSCRIBED AND SWORN to before me on MAR 26 2018, 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

Doc. No. 214
Page No. 43
Book No. 10
Series of 2018

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
GT Capital Holdings, Inc.
43rd Floor, GT Tower International
Ayala Avenue corner H.V. Dela Costa Street
Makati City

Opinion

We have audited the consolidated financial statements of GT Capital Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Finalization of purchase price allocation on investment in Metro Pacific Investments Corporation (MPIC)

In 2016, the Group acquired 15.55% of common shares of MPIC for a total consideration of ₱29.90 billion. The Group applied the equity method in accounting for this investment. 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 2016, 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 2017 is significant to our audit because it required significant amount of management judgment and estimation in determining the fair values of assets and liabilities, particularly, on the use of discount rates and financial projections for the valuation of service concession assets. Goodwill recognized within the investment in associate account amounted to ₱2.73 billion. The significant estimates used and disclosures in relation to the finalization of the purchase price allocation of MPIC are included in Notes 3 and 8 to the consolidated financial statements.

Audit Response

We reviewed the purchase price allocation performed by the Group. We assessed the competence, capabilities and objectivity of the external valuation specialists who prepared the valuations by considering their qualifications, experience and reporting responsibilities. We involved our internal specialists in evaluating the methodologies and assumptions used to determine the fair value of service concession assets. We reviewed the discount rates used by assessing whether the underlying parameters used represent current market assumptions of risks specific to the asset being valued. We tested forecasted cash flows by comparing projections with industry and historical data.

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 account for 5.88% of total consolidated revenue and 4.69% 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.

Impairment Testing of Goodwill and Intangible Assets

Under PFRS, the Group is required to test goodwill and intangible assets with indefinite useful life for impairment at least on an annual basis. As of December 31, 2017, the Group has goodwill and customer relationship intangible asset amounting to ₱8.77 billion and ₱3.88 billion, respectively, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically discounted future cash flows forecasts, expected gross margins, discount rates and long-term growth rates. The disclosures in relation to the significant assumptions and carrying value of goodwill and intangible assets are included in Note 13 to the consolidated financial statements.

Audit Response

We involved our internal specialists to evaluate the assumptions and methodologies used. These assumptions include discounted future cash flows forecasts, expected gross margins, discount rates and long-term growth rates. We compared the key assumptions used, such as discount rates and growth rates against the historical performance of the cash-generating unit (CGU), industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Accounting for Acquisition of Additional Interest in an Associate

In 2017, the Group acquired additional common shares of Metropolitan Bank & Trust Company (MBTC) for a total consideration of ₱24.72 billion, increasing its ownership in MBTC from 26.47% to 36.09%.

The acquisition of additional interest in MBTC 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 additional interest in an associate, the increase in the investment must be notionally split between goodwill and the additional interest in the fair value of the net assets of the associate. The significant judgments and estimates used in determining the provisional fair value of the net assets and the disclosures in relation to the acquisition of additional interest in MBTC are included in Notes 3 and 8 to the consolidated financial statements.

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Audit Response

We discussed with management the valuation methodologies and inputs used in the provisional purchase price allocation, and reviewed the share purchase agreement covering the acquisition. We also involved our internal specialists in the review of the valuation methodologies and key assumptions. We reviewed the discount rates used to value certain assets and liabilities by assessing whether the underlying parameters used represent current market assumptions of risks specific to the assets and liabilities being valued. We also assessed and validated the adequacy and appropriateness of the related disclosures in the consolidated financial statements.

Accounting for Investments in Associates

The Group has effective ownership of 15.55% in MPIC and 36.09% in MBTC as of December 31, 2017. These investments are accounted for using the equity method. The application of equity method of accounting to these investments is a key audit matter because these investments in associates contributed ₱7.47 billion or 35.16% to the consolidated net income of the Group in 2017, and accounted for 58.03% and 36.53% of the consolidated total noncurrent assets and total assets, respectively, of the Group as of December 31, 2017.

The Group's share in MPIC's net income is significantly affected by MPIC's revenue on water and sewerage services. The recognition of water and sewerage service revenues involves processing large volumes of data from multiple locations. Different rates apply to different customers determined using the formula provided in the service concession agreement and regulated by the Metropolitan Waterworks and Sewerage System (MWSS) Regulatory Office. This matter is significant to our audit because water and sewerage service revenues depend on the completeness of data captured during monthly meter readings, which occur on different billing cut-off dates for different customers; the propriety of the application of rates to billable consumption; and the reliability of the systems involved in processing bills and recording revenues.

In addition, MPIC's goodwill, mainly arising from its acquisition of long term investments in water and tollways business, amounted to ₱21.0 billion and this is allocated to different CGUs. MPIC has also entered into several service concession agreements (SCAs) with the Philippine Government and/or its agencies or instrumentalities, of which ₱34.5 billion of these SCAs are not yet available for use. Under PFRS, MPIC is required to perform annual impairment test on the amount of goodwill and the SCAs not yet available for use. This matter is important to our audit because the assessment of impairment of goodwill and SCAs involves significant management judgment and estimation of its impact could have a material effect on the Group's share in MPIC's net income.

The Group's share in MBTC's net income is significantly affected by the level of provisioning made on MBTC's loans and receivables. The determination of the allowance for credit losses is a key area of judgment as it requires the management to make assumptions about various factors that include the financial condition of the counterparty, estimated future cash flows from the loans and receivables and estimated net selling prices of the collateral. The use of different assumptions and provisioning methodologies could produce significantly different estimates of allowance for credit losses.

Audit Response

For MPIC, we obtained an understanding of the water and sewerage service revenue process, which includes maintaining the customer database, capturing billable water consumption, uploading captured billable water consumption to the billing system, calculating billable amounts based on MWSS approved rates, and uploading data from the billing system to the financial reporting system. We also evaluated the design of and tested the relevant controls over this process. In addition, we performed test recalculation of the billed amounts using the MWSS approved rates and formulae, and compared them with the amounts reflected in the billing statements. Moreover, we involved our internal specialist in performing the aforementioned procedures on the automated aspects of this process.

We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the value in use of goodwill and SCAs not yet available for use. These assumptions include the expected volume of traffic for the toll roads, ridership for the rail, billed water volume for the water concession, growth rate and discount rates. We compared the forecast revenue growth against the historical data of the CGUs and inquired from management and operations personnel about the plans to support the forecast revenues. We also compared the key assumptions such as traffic volume, rail ridership and water volume against historical data and against available studies by independent parties that were commissioned by the respective subsidiaries. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with WACC of other comparable companies in the regions.

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

We obtained the relevant financial information of MPIC and MBTC and recomputed the Group's share in the net income of MPIC and MBTC for the year ended December 31, 2017.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSI
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Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, 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, 2017 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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
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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.

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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. 08-001998-53-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621273, January 9, 2018, Makati City

March 16, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
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GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Millions)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱20,155**	₱20,954
Short-term investments (Note 4)	**1,666**	1,598
Available-for-sale investments (Note 10)	**611**	1,284
Receivables (Note 5)	**24,374**	22,798
Inventories (Note 6)	**56,594**	52,060
Due from related parties (Note 27)	**166**	80
Prepayments and other current assets (Note 7)	**10,417**	6,992
Total Current Assets	**113,983**	105,766
Noncurrent Assets		
Available-for-sale investments (Note 10)	**2,103**	1,443
Receivables - net of current portion (Note 5)	**4,720**	7,141
Land held for future development (Note 6)	**18,278**	18,464
Investment properties (Note 9)	**17,392**	14,314
Investments and advances (Note 8)	**124,892**	94,828
Property and equipment (Note 11)	**11,671**	9,367
Goodwill and intangible assets (Note 13)	**13,012**	12,802
Deferred tax assets (Note 29)	**731**	540
Other noncurrent assets (Note 14)	**909**	781
Total Noncurrent Assets	**193,708**	159,680
	₱307,691	₱265,446

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Note 15)	**₱25,983**	₱21,177
Short-term debt (Note 16)	**6,033**	6,697
Current portion of long-term debt (Note 16)	**2,467**	1,581
Current portion of liabilities on purchased properties (Notes 20 and 27)	**582**	166
Customers' deposits (Note 18)	**4,941**	3,839
Dividends payable	**589**	589
Due to related parties (Note 27)	**189**	195
Income tax payable	**777**	202
Other current liabilities (Note 19)	**1,229**	638
Total Current Liabilities	**42,790**	35,084

(Forward)

	December 31	
	2017	2016
Noncurrent Liabilities		
Long-term debt – net of current portion (Note 16)	**₱57,021**	₱56,475
Bonds payable (Note 17)	**21,877**	21,848
Liabilities on purchased properties - net of current portion (Notes 20 and 27)	**3,152**	1,993
Pension liability (Note 28)	**1,399**	1,671
Deferred tax liabilities (Note 29)	**5,594**	5,052
Other noncurrent liabilities (Note 21)	**2,167**	2,085
Total Noncurrent Liabilities	**91,210**	89,124
	134,000	124,208
Equity		
Equity attributable to equity holders of the Parent Company		
Capital stock (Note 22)	**3,143**	2,960
Additional paid-in capital (Note 22)	**78,940**	57,437
Retained earnings – unappropriated (Note 22)	**48,582**	39,961
Retained earnings – appropriated (Note 22)	**19,000**	14,900
Other comprehensive loss (Note 22)	**(5,975)**	(2,775)
Other equity adjustments (Note 22)	**2,322**	2,322
	146,012	114,805
Non-controlling interests (Note 22)	**27,679**	26,433
Total Equity	**173,691**	141,238
	₱307,691	₱265,446

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		
	2017	2016	2015
CONTINUING OPERATIONS			
REVENUE			
Automotive operations (Note 35)	**₱211,692**	₱177,709	₱120,802
Real estate sales (Note 35)	**14,092**	12,438	9,000
Equity in net income of associates and joint venture (Note 8)	**8,699**	6,366	5,616
Interest income (Note 23)	**2,085**	2,262	1,790
Rent income (Notes 9 and 30)	**940**	826	840
Sale of goods and services	**640**	620	547
Commission income	**56**	192	194
Gain on revaluation of previously held interest (Note 31)	**–**	125	–
Other income (Note 23)	**1,607**	1,586	1,160
	239,811	202,124	139,949
COSTS AND EXPENSES			
Cost of goods and services sold (Note 24)	**147,713**	122,060	74,941
Cost of goods manufactured and sold (Note 25)	**39,635**	33,792	27,838
General and administrative expenses (Note 26)	**12,899**	12,837	7,482
Cost of real estate sales (Note 6)	**10,035**	7,586	6,512
Interest expense (Notes 16 and 17)	**3,394**	3,326	2,164
Cost of rental (Note 30)	**360**	326	272
	214,036	179,927	119,209
INCOME BEFORE INCOME TAXES FROM CONTINUING OPERATIONS	**25,775**	22,197	20,740
PROVISION FOR INCOME TAX (Note 29)	**4,524**	4,586	4,299
NET INCOME FROM CONTINUING OPERATIONS	**21,251**	17,611	16,441
NET INCOME FROM DISCONTINUED OPERATIONS (Note 12)	**–**	4,916	4,500
NET INCOME	**₱21,251**	₱22,527	₱20,941
ATTRIBUTABLE TO:			
Equity holders of the Parent Company			
Profit for the year from continuing operations	**₱14,182**	₱10,631	₱10,396
Profit for the year from discontinued operations	**–**	4,003	1,719
	14,182	14,634	12,115
Non-controlling interests			
Profit for the year from continuing operations	**7,069**	6,980	6,045
Profit for the year from discontinued operations	**–**	913	2,781
	7,069	7,893	8,826
	₱21,251	₱22,527	₱20,941
Basic/Diluted Earnings Per Share from Continuing Operations Attributable to Equity Holders of the Parent Company (Note 34)	**₱72.76**	₱60.39	₱59.64
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 34)	**₱72.76**	₱83.35	₱69.51

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2017	2016	2015
NET INCOME FROM CONTINUING OPERATIONS	**₱21,251**	₱17,611	₱16,441
NET INCOME FROM DISCONTINUED OPERATIONS (Note 12)	**–**	4,916	4,500
NET INCOME	**21,251**	22,527	20,941
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)	**661**	1,065	414
Changes in cumulative translation adjustments	**(3)**	–	–
Changes in cash flow hedge reserves (Note 16)	**(27)**	–	–
Equity in other comprehensive income of associates and joint venture (Note 8):			
Changes in fair value of available-for-sale investments	**(2,142)**	(1,578)	(891)
Cash flow hedge reserve	**8**	8	4
Remeasurement on life insurance reserves	**(190)**	–	–
Translation adjustments	**(1,382)**	175	111
Other equity adjustments	**–**	(13)	–
	(3,075)	(343)	(362)
Items that may not be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans (Note 28)	**(54)**	(20)	260
Equity in remeasurement of defined benefit plans of associates (Note 8)	**(169)**	26	(404)
Income tax effect	**67**	(2)	43
	(156)	4	(101)
OTHER COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS	**(3,231)**	(339)	(463)
OTHER COMPREHENSIVE INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	**–**	19	(39)
TOTAL OTHER COMPREHENSIVE LOSS, NET OF TAX	**(3,231)**	(320)	(502)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱18,020**	₱22,207	₱20,439
ATTRIBUTABLE TO:			
Equity holders of the Parent Company			
Total comprehensive income for the year from continuing operations	**₱10,982**	₱9,812	₱9,571
Total comprehensive income for the year from discontinued operations	**–**	4,004	1,729
	10,982	13,816	11,300
Non-controlling interests			
Total comprehensive income for the year from continuing operations	**7,038**	7,478	6,358
Total comprehensive income for the year from discontinued operations		913	2,781
	7,038	8,391	9,139
	₱18,020	₱22,207	₱20,439

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Millions)	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Treasury Shares (Note 22)	Retained Earnings - Appropriated (Note 22)	Retained Earnings - Unappropriated (Note 22)	Other Comprehensive Income (Loss) (Note 22)	Other Equity Adjustments (Note 22)	Total	Attributable to Non-controlling Interests (Note 22)	Total Equity
	Attributable to Equity Holders of the Parent Company									
Balance at January 1, 2017	**₱2,960**	**₱57,437**	**₱–**	**₱14,900**	**₱39,961**	**(₱2,775)**	**₱2,322**	**₱114,805**	**₱26,433**	**₱141,238**
Issuance of capital stock	**183**	**21,503**	–	–	–	–	–	**21,686**	–	**21,686**
Dividends declared (Note 22)	–	–	–	–	**(1,461)**	–	–	**(1,461)**	**(5,791)**	**(7,252)**
Appropriation during the period	–	–	–	**19,000**	**(19,000)**	–	–	–	–	–
Reversal of appropriation upon completion of expansion and acquisition	–	–	–	**(14,900)**	**14,900**	–	–	–	–	–
Acquisition of additional TMBC shares	–	–	–	–	–	–	–	–	**(1)**	**(1)**
Total comprehensive income	–	–	–	–	**14,182**	**(3,200)**	–	**10,982**	**7,038**	**18,020**
Balance at December 31, 2017	**₱3,143**	**₱78,940**	**₱–**	**₱19,000**	**₱48,582**	**(₱5,975)**	**₱2,322**	**₱146,012**	**₱27,679**	**₱173,691**
Balance at January 1, 2016	₱1,760	₱46,695	(₱6)	₱8,760	₱33,264	(₱918)	₱576	₱90,131	₱46,401	₱136,532
Issuance of capital stock	1,200	10,742	–	–	–	–	–	11,942	–	11,942
Effect of business combination (Notes 10 and 31)	–	–	–	–	(11)	11	–	–	687	687
Dividends declared (Note 22)	–	–	–	–	(1,636)	–	–	(1,636)	(5,910)	(7,546)
Acquisition of 28.32% of PCFI shares (Note 22)	–	–	–	–	–	–	1,746	1,746	(1,746)	–
Acquisition of 4.73% of GBPC shares (Note 12)	–	–	–	–	–	–	–	–	(1,322)	(1,322)
Appropriation during the period	–	–	–	15,500	(15,500)	–	–	–	–	–
Reversal of appropriation upon completion of expansion and acquisition	–	–	–	(9,360)	9,360	–	–	–	–	–
Effect of asset disposal (CPAIC) (Note 12)	–	–	6	–	(57)	56	–	5	–	5
Effect of asset disposal (GBPC) (Note 12)	–	–	–	–	(93)	(1,106)	–	(1,199)	(18,068)	(19,267)
Total comprehensive income	–	–	–	–	14,634	(818)	–	13,816	8,391	22,207
Effect of PCFI's redemption of Pref B shares (Note 22)	–	–	–	–	–	–	–	–	(2,000)	(2,000)
Balance at December 31, 2016	₱2,960	₱57,437	₱–	₱14,900	₱39,961	(₱2,775)	₱2,322	₱114,805	₱26,433	₱141,238
Balance at January 1, 2015	₱1,743	₱46,695	(₱2)	₱6,000	₱24,432	(₱103)	₱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	(815)	–	11,300	9,139	20,439
Balance at December 31, 2015	₱1,760	₱46,695	(₱6)	₱8,760	₱33,264	(₱918)	₱576	₱90,131	₱46,401	₱136,532

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱25,775**	₱22,197	₱20,740
Income before income tax from discontinued operations (Note 12)	–	4,955	4,726
Income before income tax	**25,775**	27,152	25,466
Adjustments for:			
Equity in net income of associates and joint venture (Note 8)	**(8,699)**	(6,366)	(5,616)
Interest expense (Notes 12, 16 and 17)	**3,394**	4,106	3,932
Interest income (Notes 12 and 23)	**(2,085)**	(2,327)	(2,052)
Depreciation and amortization (Note 11)	**1,921**	2,717	3,414
Unrealized foreign exchange losses (Note 26)	**385**	468	89
Pension expense (Note 28)	**319**	349	454
Provisions (Note 26)	**134**	468	350
Gain on disposal of property and equipment (Notes 11 and 23)	**(23)**	(50)	(30)
Gain on sale of available-for-sale investments (Note 10)	**(15)**	–	(18)
Dividend income (Notes 12 and 23)	**(8)**	–	(49)
Gain on disposal of direct ownership in subsidiaries (Note 12)	–	(1,769)	–
Realization of previously deferred gain (Note 12)	–	(1,918)	–
Gain on remeasurement of previously held interest (Note 31)	–	(125)	–
Operating income before changes in working capital	**21,098**	22,705	25,940
Decrease (increase) in:			
Short-term investments	**(68)**	(36)	408
Receivables	**768**	1,055	(1,520)
Reinsurance assets	–	–	1,005
Inventories	**(6,376)**	(4,245)	(11,618)
Land held for future development (Note 6)	**(1,745)**	(2,842)	(831)
Due from related parties	**(86)**	290	137
Prepayments and other current assets	**(2,360)**	(1,802)	(1,511)
Increase (decrease) in:			
Accounts and other payables	**5,315**	3,420	1,510
Insurance contract liabilities	–	–	(613)
Customers' deposits	**1,102**	116	466
Due to related parties	**(35)**	–	(2)
Other current liabilities	**590**	870	(2,162)
Cash provided by operations	**18,203**	19,531	11,209
Dividends paid (Note 22)	**(7,252)**	(9,817)	(6,005)
Interest paid	**(3,432)**	(4,447)	(4,163)
Income tax paid	**(3,700)**	(5,456)	(4,216)
Interest received	**2,188**	2,324	1,993
Dividends received (Note 8)	**1,611**	1,018	918
Contributions to pension plan assets and benefits paid (Note 28)	**(641)**	(304)	(205)
Net cash provided by (used in) operating activities	**6,977**	2,849	(469)

(Forward)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018
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	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Disposal of property and equipment and intangible assets (Note 11)	**₱117**	₱115	₱566
Sale of available-for-sale investments	**2,430**	–	271
Sale of subsidiaries (Note 12)	–	7,438	–
Disposal of investment property (Note 9)	–	86	140
Additions to:			
Investments in associates and joint venture (Note 8)	**(26,776)**	(33,767)	(8,833)
Investment properties (Note 9)	**(659)**	(649)	(485)
Property and equipment (Note 11)	**(3,475)**	(6,396)	(9,954)
Available-for-sale investments	**(1,742)**	(1,280)	(526)
Intangible assets (Note 13)	**(235)**	(196)	(29)
Acquisition of subsidiary, net of cash acquired (Note 31)	**(59)**	886	(6,902)
Decrease (increase) in other noncurrent assets	**(106)**	(170)	243
Net cash used in investing activities	**(30,505)**	(33,933)	(25,509)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loan availments (Note 16)	**38,354**	46,648	57,830
Issuance of capital stock (Note 22)	**21,686**	11,942	17
Payment of loans payable	**(38,397)**	(41,384)	(21,911)
Increase (decrease) in:			
Due to related parties	–	21	
Liabilities on purchased properties	**1,563**	(623)	(730)
Other noncurrent liabilities	**(91)**	(117)	(162)
Non-controlling interests (Note 22)	**(1)**	(1,842)	76
Net cash provided by financing activities	**23,114**	14,645	35,120
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(385)**	(468)	(89)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(799)**	(16,907)	9,053
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**20,954**	37,861	29,702
CASH AND CASH EQUIVALENTS OF DISPOSAL GROUP AT END OF YEAR (Note 12)	–	–	(894)
CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS AT END OF YEAR (Note 4)	**₱20,155**	₱20,954	₱37,861

See accompanying Notes to Consolidated Financial Statements.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

GT Capital Holdings, Inc. (GT Capital or the Parent Company) was organized and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 2007. The primary purpose of the Parent Company is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, exchange, develop or otherwise dispose of real property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, associations, domestic or foreign, and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned.

The common shares of the Parent Company were listed beginning April 20, 2012 and have since been traded in the Philippine Stock Exchange, Inc. (PSE).

The ultimate parent of GT Capital Holdings, Inc. is Grand Titan Capital Holdings, Inc. (Grand Titan).

Group Activities

The Parent Company, Federal Land, Inc. (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 Company (MBTC or Metrobank), Metro Pacific Investments Corporation (MPIC), Philippine AXA Life Insurance Corporation (AXA Philippines or Phil AXA), Toyota Financial Services Philippines Corporation (TFSPC) and Sumisho Motor Finance Corporation (SMFC).

The registered office address of the Parent Company is at the 43rd Floor, GT Tower International, Ayala Avenue corner H.V. Dela Costa Street, 1227 Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis except for 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:

		Direct Percentages of Ownership		Effective Percentages of Ownership	
	Country of	December 31		December 31	
	Incorporation	**2017**	2016	**2017**	2016
Fed Land and Subsidiaries	Philippines	**100.00**	100.00	**100.00**	100.00
PCFI and Subsidiaries (Note 31)	-do-	**51.00**	51.00	**51.00**	51.00
Toyota and Subsidiaries	-do-	**51.00**	51.00	**51.00**	51.00
TMBC and Subsidiaries (Note 31)	-do-	**58.10**	58.05	**58.10**	58.05
GTCAD and Subsidiary*	-do-	**100.00**	100.00	**100.00**	100.00

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

Fed Land's Subsidiaries

	Percentages of Ownership	
	2017	2016
Horizon Land Property and Development Corp. (HLPDC)	**100.00**	100.00
Omni - Orient Management Corp. (Previously as Top Leader Property Management Corp.) (TLPMC)	**100.00**	100.00
Federal Land Orix Corporation (FLOC)*	**100.00**	100.00
Topsphere Realty Development Company Inc. (TRDCI)**	**100.00**	–
Central Realty and Development Corp. (CRDC)	**75.80**	75.80
Federal Brent Retail, Inc. (FBRI)	**51.66**	51.66

** 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 December 12, 2016, the Board of Directors (BOD) of Fed Land approved the purchase of 3,000,000 preferred and 2,000,000 common shares of stocks in TRDCI, a wholly owned subsidiary of Solid Share Holding Philippines, Inc. The Deed of Absolute Sale was executed on February 10, 2017 when Fed Land also obtained control over TRDCI (Note 31).*

PCFI's Subsidiaries

	Percentages of Ownership	
	2017	2016
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**	100.00
Branchton Development Corporation (BDC)**	**100.00**	100.00
Williamton Financing Corporation (WFC)*** (Note 31)	**100.00**	100.00

** 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

	Percentages of Ownership	
	2017	2016
Toyota Makati, Inc. (TMI)	**100.00**	100.00
Toyota Sta. Rosa Laguna, Inc. (TSRLI)*	**100.00**	100.00
Toyota Motor Philippines Logistics, Inc. (TLI)**	**100.00**	100.00
Lexus Manila, Inc. (LMI)	**75.00**	75.00
Toyota San Fernando Pampanga, Inc. (TSFI)	**55.00**	55.00

** On June 24, 2015, TSRLI was incorporated and has started commercial business operations on August 17, 2017.*
*** On June 27, 2016, TLI was incorporated and has started commercial business operations on January 1, 2017.*

TMBC's Subsidiaries

	Percentages of Ownership	
	2017	2016
Oxfordshire Holdings, Inc. (OHI)	**100.00**	100.00
TMBC Insurance Agency Corporation (TIAC)*	**100.00**	100.00

** TIAC was incorporated on May 4, 2016.*

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of subsidiaries ceases when control is transferred out of the Parent Company.

Specifically, the Parent Company controls an investee if, and only if, the Parent Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

i. the contractual arrangement with the other vote holders of the investee
ii. rights arising from other contractual arrangements
iii. the Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intragroup transactions, balances, income and expenses resulting from intragroup transactions and dividends are eliminated in full on consolidation.

Non-controlling interests (NCI) represent the portion of profit or loss and net assets in a subsidiary not attributed, directly or indirectly, to the Parent Company. The interest of non-controlling shareholders may be initially measured at fair value or share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, NCI consists of the amount attributed to such interests at initial recognition and the NCI's share of changes in equity since the date of combination.

NCI are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the NCI, even if that results in the NCI having a deficit balance.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any NCI and the cumulative translation differences, recorded in equity;
- recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business Combinations Involving Entities Under Common Control
A business combination involving entities under common control is accounted for using the uniting of interest method, except when the acquisition is deemed to have commercial substance for the Group, in which case the business combination is accounted for under the acquisition method. The combined entities accounted for by the uniting of interests method reports the results of operations for the period in which the combination occurs as though the entities had been combined as of the beginning of the period. Financial statements of the separate entities presented for prior years are also restated on a combined basis to provide comparative information. The effects of intercompany transactions on assets, liabilities, revenues, and expenses for the periods presented, and on retained earnings at the beginning of the periods presented are eliminated to the extent possible.

Under the uniting of interest method, the acquirer accounts for the combination as follows:

- the assets and liabilities of the acquiree are consolidated using the existing carrying values instead of fair values;
- intangible assets and contingent liabilities are recognized only to the extent that they were recognized by the acquiree in accordance with applicable PFRS;
- no amount is recognized as goodwill;
- any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities; and
- comparative amounts are restated as if the combination had taken place at the beginning of the earliest comparative period presented.

The acquiree's equity are included in the opening balances of the equity as a restatement and are presented as 'Other equity adjustments' in the consolidated statement of changes in equity. Cash considerations transferred on acquisition of a subsidiary under common control are deducted in the 'Retained earnings' at the time of business combination.

When evaluating whether an acquisition has commercial substance, the Group considers the following factors, among others:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as NCI or other third parties; and
- whether or not the transaction is conducted at fair value.

<u>Business Combinations and Goodwill</u>
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer elects whether to measure the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the date of acquisition. Acquisition-related costs are expensed and included in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and liabilities of the acquiree for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. The Group also assesses whether assets or liabilities of the acquiree that are previously unrecognized in the books of the acquiree will require separate recognition in the consolidated financial statements of the Group at the acquisition date.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in the consolidated statements of income. Any recognized changes in the value of its equity interest in the acquiree previously recognized in other comprehensive income are recognized by the Group in profit or loss, as if the previously held equity interest are disposed of.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in the consolidated statements of income or as changes to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that if known, would have affected the amounts recognized as at that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as at the acquisition date and is subject to a maximum of one (1) year.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognized for any NCI in the acquiree and the fair value of the acquirer's previously held interest, if any, over the fair value of the net assets acquired.

If after reassessment, the fair value of the net assets acquired exceeds the consideration transferred, the amount recognized for any NCI in the acquiree and the fair value of the acquirer's previously held interest, if any, the difference is recognized immediately in the consolidated statements of income as 'Gain on bargain purchase'.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment loss is recognized immediately in the consolidated statements of income and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination from the acquisition date irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is not amortized but is reviewed for impairment at least annually. Any impairment losses are recognized immediately in profit of loss and is not subsequently reversed.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Change in Ownership without Loss of Control
Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent Company.

Changes in Accounting Policies
The accounting policies adopted in preparation of the consolidated financial statements are consistent with those of the previous year except for the following new and amended PFRSs and Philippine Accounting Standards (PAS) which were adopted as of January 1, 2017.

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 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
  This requires entities to provide disclosure about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes such as foreign exchange gains and losses. The Group has provided the required information in Note 38 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2017.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

The impact of the revised standards adopted effective January 1, 2017 has been reflected in the consolidated financial statements, as applicable.

Significant Accounting Policies

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements of financial position based on current/noncurrent classification. An asset is current when:

- It is expected to be realized or intended to be sold or consumed in normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or there is no unconditional right to defer the settlement of liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

Deferred income tax asset and liability are classified as noncurrent asset and liability, respectively.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Fair Value Measurement
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.

Financial Instruments - Initial Recognition and Subsequent Measurement

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, 2017 and 2016, 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 consolidated statements of income as 'Interest income' using the effective interest method.

The fair value of investments that are traded in active markets is determined by reference to quoted market bid prices at the close of business on the reporting date. The unquoted equity instruments are carried at cost less any impairment losses because fair value cannot be measured reliably due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Other financial liabilities
These are financial liabilities not designated at 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 or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy applies primarily to the Group's 'Accounts and other payables', 'Short-term debt', 'Long-term debt', 'Liabilities on purchased properties', 'Due to related parties' and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable). The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

Derivative Financial Instrument and Hedge Accounting
The Group uses derivative financial instruments such as cross currency interest rate swap to hedge its foreign currency and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from the changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized as OCI.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- Hedges of a net investment in a foreign operation

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

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized directly as OCI in the cash flow hedge reserve, while the ineffective portion is recognized directly in profit or loss.

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

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in OCI are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in OCI remains in OCI until the forecast transaction or firm commitment affects profit or loss. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original EIR of the asset.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as past due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost as at the reversal date.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity instruments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from the consolidated statement of changes in equity and recognized in the consolidated statement of income. Impairment losses on equity instruments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as 'Interest income' in the consolidated statements of income. If, in the subsequent year, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories
Real estate inventories
Property acquired that are being developed or constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as real estate inventory. Real estate inventories consist of land and improvements, condominium units held for sale and residential units.

Land and improvements are carried at the lower of cost or net realizable value (NRV). Cost includes the acquisition cost of the land and those costs incurred for development and improvement of the properties.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Construction in progress (CIP) includes development or construction costs incurred for real estate projects that have not yet reached the preliminary stage of completion and/or not yet launched. This account also includes owner supplied materials. Upon reaching the preliminary stage of completion, these are transferred to 'Condominium units held for sale'.

Costs of condominium units held for sale includes the carrying amount of the land transferred from 'Land and improvements' at the commencement of its real estate projects and those costs incurred for construction, development and improvement of the properties, including capitalized borrowing costs.

Costs of residential units include land cost, land improvement costs, borrowing costs, amounts paid to contractors for construction and development, planning and design cost, cost of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

Gasoline retail, petroleum products and chemicals
Cost is determined using first-in, first-out method. The costs of oil, petroleum products and chemicals include cost incurred for acquisition and freight charges.

Automotive inventories
These are inventories of the Toyota Group which are valued at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and spare parts	− Purchase cost on a weighted average cost
Finished goods and work-in-process	− Cost of direct material and labor and proportion of fixed and overhead manufacturing costs allocated based on normal operating capacity
Raw materials and spare parts in-transit	− Cost is determined using the specific identification method

Investments in Associates and Joint Venture
Investments in associates and joint venture are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. A joint venture (JV) is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control.

An investment is accounted for using the equity method from the day it becomes an associate or a joint venture. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is included as income in the determination of the share in the earnings of the investee.

Under the equity method, the investments in and advances to associates and joint venture are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value.

The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the investee companies and the Group's share on movements in the investee's other comprehensive income (OCI) are recognized directly in OCI in the consolidated financial statements. The Group's share on total comprehensive income of an associate is shown in the consolidated statement of income and consolidated statement of comprehensive income. The aggregate of the Group's equity in net income of associates and joint venture is shown on the face of the consolidated statement of income as part of operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate and joint venture.

Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies, and for unrealized losses, to the extent that there is no evidence of impairment of the assets transferred. Dividends received from investee companies are treated as a reduction of the accumulated earnings included under 'Investments and advances' account in the consolidated statements of financial position.

The Group discontinues applying the equity method when its investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates or joint venture. When the investees subsequently report net income, the Group will resume applying the equity method but only after its equity in the net income equals the equity in net losses of associates and joint venture not recognized during the period the equity method was suspended.

Upon loss of significant influence over the associates or joint control over the joint venture, the Group measures and recognizes any retained investments at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal in retained investments and proceeds from disposal is recognized in profit or loss.

Land held for Future Development
Land held for future development consists of properties for future developments and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less cost to complete and costs of sale. Costs include cost incurred for development and improvements of the properties. Upon start of development, the related cost of the land is transferred to real estate inventories.

Investment Properties
Investment properties consist of properties that are held to earn rentals and that are not occupied by the companies in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in residual value. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives (EUL) of the properties which is 5 to 41 years.

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

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

CIP is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of investment properties are capitalized during the construction period. CIP is not depreciated until such time as the relevant assets are in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use, including capitalized borrowing costs.

CIP is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are calculated on the straight-line basis over the following EUL of the property and equipment as follows:

	Years
Transportation equipment	5
Furniture, fixtures and equipment	3 to 5
Leasehold improvements	2 to 10 or lease term (whichever is shorter)
Machinery, tools and equipment	2 to 10
Building	15 to 41
Boilers and powerhouse	9 to 25
Turbine generators and desox system	9 to 25
Buildings and land improvements	9 to 25
Electrical distribution system	7 to 25
Other property and equipment	3 to 5

The assets' residual values, EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Transfers are made from property and equipment, when there is a change in use, evidenced by ending of owner-occupation, and with a view of sale.

Impairment or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated assets are still carried in the accounts until they no longer in use and no further depreciation is charged against current operations.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization

and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful life. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

The Group's intangible assets consist of customer relationship, software costs and franchise. A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Customer Relationship
Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers, which adds value to the operations of Toyota and enhances the latter's earnings potential. This is recognized initially at fair value and is assessed to have an indefinite useful life. Following initial recognition, the intangible asset is not amortized but assessed annually for impairment.

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.

<u>Goodwill</u>
Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segments as determined in accordance with PFRS 8, *Operating Segments*.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see Impairment of Non-financial Assets).

Where goodwill forms part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining the gain or loss on disposal of the operations. Goodwill disposed of in this circumstance is measured based on the relative values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill is presented together with the intangible assets in the consolidated statement of financial position.

Impairment of Non-financial Assets

The Group assesses at each financial reporting date whether there is an indication that their nonfinancial assets (e.g., investments in associates and joint venture, investment properties, property and equipment, goodwill and intangible assets), may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The recoverable amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

This accounting policy applies primarily to the Group's property and equipment and investment properties. Additional considerations for other non-financial assets are discussed below.

Investments in associates and joint venture
After application of the equity method, the Group determines whether it is necessary to recognize goodwill or any additional impairment loss with respect to the Group's net investment in its associates and joint venture. The Group determines at each financial reporting date whether there is any objective evidence that the investments in associates and joint venture are impaired.

If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and joint venture and the carrying cost and recognizes the amount in the consolidated statement of income.

Intangible assets
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 from discontinued operations' in the consolidated statement of income.

Additional disclosures are provided in Note 12. All other notes to the consolidated financial statements include amounts of disposal group, unless otherwise mentioned.

<u>Customers' Deposits</u>
The Group requires buyers of real estate to pay a minimum percentage of the total selling price. The minimum percentage is on the basis of the level of buyer's commitment to pay and is part of the revenue recognition criteria. When the revenue recognition criteria are met, sales are then recognized and these deposits and downpayments will be applied against the related installment contracts receivable. In the event that the customer decides to terminate the purchase prior to recognition of sale, an amount equivalent to the cash surrender value of the deposit will be refunded to the buyer.

Customer's deposits consist of payment from buyers which have not reached the minimum required percentage and amounts that have not been applied against the related installment contract receivables.

<u>Equity</u>
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 capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Other Comprehensive Income
Other comprehensive income comprises items of income and expenses that are recognized directly in equity. OCI items are either reclassified to profit or loss or directly to equity in subsequent periods.

Acquisition of Non-controlling Interest in a Subsidiary
Acquisition of non-controlling interest is accounted for as an equity transaction, whereby the difference between the fair value of consideration given and the share in the net book value of the net assets acquired is recognized in equity. When the consideration is less than the net assets acquired, the difference is recognized as a gain in the consolidated statement of income. In an acquisition without consideration involved, the difference between the share of the non-controlling interests in the net assets at book value before and after the acquisition is treated as transaction between equity owners.

Revenue and Cost Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Group has concluded that it is acting as principal in all of its revenue arrangements.
The following specific recognition criteria must also be met before revenue is recognized:

Automotive operations
Revenue from automotive operations arises from sale of manufactured vehicles and trading of completely built-up vehicles and local and imported parts. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer (including certain "bill and hold" sales, wherein in the buyer takes title and accepts billing), usually on dispatch of goods.

Real estate sales
Real estate revenue and cost from completed projects is accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the

Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-01, the percentage of completion (POC) method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When the sale of real estate does not meet the requirements for revenue recognition, the sale is accounted under the deposit method until all the conditions are met. Under this method, revenue is not recognized, the receivable from the buyer is not recorded and the cash received from buyers are presented under the 'Customers' deposits' account in the liabilities section of the consolidated statement of financial position. The related real estate inventories continue to be reported in the consolidated statement of financial position as 'Inventories'.

Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Interest income
Interest is recognized as it accrues using the effective interest method.

Rent income
Rent income under noncancellable leases is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Sale of goods
Sale of goods is recognized from retail customers at the point of sale in the stores. This is measured at the fair value of the consideration received, excluding (or 'net of,' or 'reduced for') discounts, returns, rebates and sales taxes.

Rendering of services
Service fees from installation of parts and repairs and maintenance of vehicles are recognized as revenue when the related services have been rendered.

Commission income
Commission income is recognized by reference to the percentage of collection of the agreed sales price or depending on the term of the sale as provided under the marketing agreement.

Management fees
Management fees from administrative, property management and other fees are recognized when services are rendered.

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

Other income
Other customer related fees such as penalties and surcharges are recognized as they accrue, taking into account the provisions of the related contract. Other income also includes sale of scrap and sludge oil which is recognized when there is delivery of goods to the buyer, and recovery from insurance which is recognized when the right to receive payment is established.

Expense Recognition

Cost of goods and services sold
Cost of goods sold for vehicles and spare parts includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. These costs include the costs of storing and transporting the products. Vendor returns and allowances are generally deducted from cost of goods and services sold.

Other cost of goods sold includes 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 POC method is used, commissions are likewise charged to expense in the period the related revenue is recognized. These are recorded as 'Prepaid expenses' under 'Prepayments and other current assets' account.

General and administrative expenses
General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Cost of real estate sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's project and construction department.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Pension Costs
The Parent Company and its subsidiaries have funded, noncontributory defined benefit retirement plans, administered by trustees, covering their permanent employees.

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Tax
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the financial reporting dates.

Deferred tax
Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liability is recognized for all taxable temporary differences. Deferred tax asset is recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefit of unused tax credits from MCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax asset and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Foreign Currency Transactions
The Group’s consolidated financial statements are presented in Philippine pesos, which is also the Parent Company’s functional currency. Each entity within the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions denominated in foreign currency are recorded using the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated using the closing exchange rates prevailing at reporting date. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange difference are taken to the consolidated statements of income.

Segment Reporting
The Group’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that

offers different products and serves different markets. Financial information on the Group's business segments is presented in Note 35.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

Provisions
Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Provision for product warranties
Provision for product warranties are recognized when sale of the related products are consummated. The best estimate of the provision is recorded based on three (3) year warranty coverage provided by the Group as part of the sold product. Reversals are made against provision for the expired portion.

Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis over the lease term. Variable rent is recognized as an income based on the terms of the lease contract.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specific asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and the date of renewal or extension period for scenario (b).

Operating leases
Operating leases represent those leases in which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized in the consolidated statement of income on a straight-line basis over the lease term.

Earnings Per Share
Basic earnings per share is calculated by dividing the net income for the year attributable to the owners of the Parent Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

Diluted earnings per share attributable to owners of the Parent Company is calculated in the same manner assuming that, the weighted average number of common shares outstanding is adjusted for potential common shares from the assumed exercise of dilutive instruments.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events after Financial Reporting Date
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Standards Issued But Not Yet Effective
The Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements.

Effective beginning on or after January 1, 2018

- 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 mets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the 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.

- Amendments to PAS 28, *Investment in Associate and Joint Venture - 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. Further if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value

measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interest in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- 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 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  The 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 and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- 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 PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of adopting PFRS 15.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*
  Philippine Interpretation IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Intepretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or payed at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

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.

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall

apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
  Philippine Interpretation IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

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

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

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28, *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 BOD or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the entity and its investee;
- interchange of managerial personnel; or
- provision of essential technical information.

As at December 31, 2017 and 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 BOD.

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 lessor
The Group entered into commercial property leases on its retail mall, investment properties and certain units of its real estate projects to different parties for a specific amount depending on the lease contracts. The Group has determined that based on the evaluation of the terms and conditions of the

arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life), that it retains all significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Distinction between 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.

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 is disclosed in Note 5. The Group recognized real estate sales in 2017, 2016 and 2015 amounting to ₱14.09 billion, ₱12.44 billion and ₱9.0 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.

The carrying values of these receivables and due from related parties are disclosed in Notes 5 and 27, respectively.

Evaluating net realizable value of inventories
Inventories are valued at the lower of cost and net realizable value. The Group reviews its inventory to assess NRV at least annually. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. In determining the recoverability of the inventories, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The amount and timing of recorded expense for any period would differ if different judgments were made or different estimates were utilized.

Estimating the useful life of non-financial assets
The Group determines the EUL of its intangibles assets based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property and equipment, investment properties and intangible assets based on factors that include asset utilization, internal technical evaluation, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of intangible assets would increase the recorded amortization expense.

Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers which lay out the principal terms upon which its dealers agree to do business. Management assessed the useful life of the customer relationship to be indefinite since management is of the view that there is no foreseeable limit to the period over which the customer relationship is expected to generate net cash inflows to Toyota.

The said assessment is based on the track record of stability for the auto industry and the Toyota brand. Added to this is the commitment of management to continue to invest for the long term, to extend the period over which the intangible asset is expected to continue to provide economic benefits.

The carrying values of investment properties, property and equipment, intangible assets from customer relationship, software costs and franchise are disclosed in Notes 9, 11 and 13, respectively.

Evaluating impairment of non-financial assets
The Group reviews input VAT, investments in and advances to associates and joint venture, investment properties, creditable withholding tax, property and equipment, intangible assets from customer relationship, software costs and 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 carrying values of input VAT and creditable withholding taxes, investments in associates and joint ventures, investment properties, property and equipment, intangible assets from customer relationship, software costs and franchise, and other noncurrent assets are disclosed in Notes 7, 8, 9, 11, 13 and 14, respectively.

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.

The carrying values of AFS investments is disclosed in Note 10. The change in fair value of AFS investments is recorded in the consolidated statements of comprehensive income. The net unrealized gain on AFS investments is disclosed in Note 10.

Impairment of goodwill and intangible assets with indefinite useful life
The Group conducts an annual review for any impairment in the value of goodwill and intangible assets with indefinite useful life (i.e., customer relationship). Goodwill is written down for impairment when the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Group estimates key inputs such as discounted future cash flows forecasts, expected gross margins, discount rates and long-term growth rates. The Group uses the weighted average cost of capital in discounting the expected cash flows from specific CGUs.

Refer to Note 13 for the details regarding the carrying values of the Group's goodwill and intangible assets as well as details regarding the impairment review and assessment.

Recognition of deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

The recognized and unrecognized deferred tax assets on temporary differences of the Group are disclosed in Note 29.

Estimating pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 28 to the consolidated statement of financial position and include among others, discount rates, turnover rates and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. The carrying values of pension asset, liability and expense are disclosed in Note 28.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Provision for product warranties
Estimated warranty costs are provided at the time of sale. The provision is based on the estimated costs of future servicing the products sold, the costs of which are not recoverable from customers. A provision is recognized for expected warranty claims on products sold during the last two (2) years, based on past experience of the level of returns and repairs. It is expected that most of these costs will be incurred in the next financial year and all will be incurred within three (3) years as of the reporting date. Provision for product warranty is disclosed in Note 21.

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.

Purchase price allocation of investment in MBTC
The Parent Company is required to perform a purchase price allocation for its investment in MBTC. A significant portion of MBTC's net assets pertain to loans and receivables and deposits, and the valuation of these assets require estimates from management. These estimates include future cash flows forecasts and discount rates.

4. Cash, Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

	2017	2016
Cash on hand	**₱38**	₱28
Cash in banks (Note 27)	**6,116**	15,186
Cash equivalents (Note 27)	**14,001**	5,740
	₱20,155	₱20,954

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 0.10% to 3.75% in 2017, from 0.01% to 2.50% in 2016, and from 0.25% to 2.50% in 2015 (Note 27).

Short-term Investments
These represent the Group's foreign currency and peso-denominated time deposits, as well as money market placements, with original maturities of more than 3 months and up to 12 months and earn interest at the respective short-term investment rates, ranging from 0.01% to 3.00% in 2017, from 0.75% to 2.50% in 2016, and from 0.16% to 1.70% in 2015 (Note 27).

5. Receivables

This account consists of:

	2017	2016
Installment contracts receivables	**₱16,825**	₱19,293
Trade receivables	**9,465**	8,031
Loans receivable	**962**	643
Nontrade receivables	**698**	399
Accrued rent and commission income	**347**	378
Management fee receivables	**246**	182
Accrued interest receivable	**49**	152
Others	**533**	883
	29,125	29,961
Less: Allowance for credit losses	**31**	22
	₱29,094	₱29,939

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

	2017	2016
Current portion	**₱24,374**	₱22,798
Noncurrent portion	**4,720**	7,141
	₱29,094	₱29,939

Noncurrent receivables consist of:

	2017	2016
Installment contracts receivables	**₱3,758**	₱6,498
Loans receivable	**962**	643
	₱4,720	₱7,141

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:

	2017	2016
Installment contracts receivables	**₱17,910**	₱20,152
Less: Unearned interest income	**1,085**	859
	16,825	19,293
Less: Noncurrent portion	**3,758**	6,498
Current portion	**₱13,067**	₱12,795

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 2017, 2016 and 2015. PCFI's installment contracts receivables bear annual interest of up to 21.00% in 2017, 14.00% to 21.00% in 2016 and 18.00% to 21.00% in 2015, computed on the diminishing balance of the principal.

Movements in the unearned interest income in 2017 and 2016 follow:

	2017	2016
Balance at beginning of year	**₱859**	₱993
Additions	**1,541**	1,159
Accretion (Note 23)	**(1,315)**	(1,293)
Balance at end of year	**₱1,085**	₱859

Trade Receivables
Trade receivables pertain to receivables from sale of vehicles and/or parts and services. These are noninterest-bearing and generally have 30 days to one year term.

Loans Receivable
Loans receivable from various counterparties pertain to long-term receivables as follows:

	2017	2016
Real estate	**₱962**	₱643

Loans receivable from Cathay International Resources Corp. (CIRC)
In 2012, Fed Land entered into a loan agreement with CIRC. Fed Land agreed to lend to CIRC a total amount of ₱705.00 million with a nominal and effective interest rate of 3.15% and 4.81%, respectively. The loan will mature on the tenth year anniversary from the date of execution of the agreement. 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 2017, 2016 and 2015 amounted to ₱8.52 million, ₱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, 2017 and 2016 amounted to ₱652.17 million and ₱643.04 million, respectively (Note 27).

Loans receivable from Multi Fortune Holdings, Inc. (MFHI)
In 2017, Fed Land entered into a loan agreement with MFHI. Fed Land agreed to lend to MFHI a total amount of ₱290.00 million with nominal interest rate of 6.60% annually. The loan will mature on the fifth year anniversary of the execution.

Fed Land used discounted cash flow analyses to measure the fair value of the loan. As discussed in Note 2, where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, Fed Land recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability.

The 'Day 1' difference from this receivable amounting to ₱21.39 million was recorded under 'Other income' in the consolidated statements of income in 2017 (Note 23). Accretion of interest expense in 2017 amounted to ₱1.52 million. Nominal interest income earned in 2017 amounted to ₱8.36 million.

The outstanding balance of long term loans receivable from MFHI as of December 31, 2017 amounted to ₱309.87 million.

Nontrade Receivables
Nontrade receivables mainly consist of vehicle acquisition plan loans extended to employees which are collectible within one year and expenses of the affiliates which were advanced by the Group (Note 27).

Accrued Rent and Commission Income
Accrued rent pertain to tenants' rentals and their share in utilities (electricity, water and liquefied petroleum gas) and other charges to customers and commission income pertains to commission earned from sale of real estate properties (Note 27).

Management Fee Receivables
Management fee receivables pertain to management fee being charged by the real estate businesses for the conduct of relevant studies for the maintenance, upkeep and improvement of real estate properties and equipment of associates and affiliated companies.

Others
Other receivables include receivable from employees and retention, bond and guarantee fee receivables (Note 27).

Allowance for Credit Losses
Changes in the allowance for credit losses on receivables are as follows:

	December 31, 2017		
	Trade Receivables	**Other Receivables**	**Total**
Balance at beginning of year	**₱–**	**₱22**	**₱22**
Provision for credit losses (Note 26)	**11**	**2**	**13**
Write-off	**(4)**	**–**	**(4)**
Balance at end of year	**₱7**	**₱24**	**₱31**
Individual impairment	**₱7**	**₱24**	**₱31**
Collective impairment	**–**	**–**	**–**
	₱7	**₱24**	**₱31**
Gross amount of receivables individually impaired before deducting any impairment allowance	**₱7**	**₱24**	**₱31**

	December 31, 2016		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱7	₱281	₱288
Provision for credit losses (Note 26)	16	5	21
Reversal (Note 26)	(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

6. Inventories and Land Held for Future Development

Inventories

This account consists of:

	2017	2016
At cost		
Real estate		
Land and improvements	**₱33,849**	₱34,323
Condominium units held for sale	**9,792**	5,582
Construction in progress	**4,852**	3,091
Materials and supplies	**1,137**	1,068
Gasoline retail and petroleum products (Note 24)	**10**	9
Food (Note 24)	**7**	1
Automotive		
Finished goods	**1,989**	5,754
Work-in-process	**14**	29
Raw materials in transit	**1,056**	217
	52,706	50,074
At NRV		
Automotive		
Spare parts	**3,888**	1,986
	3,888	1,986
	₱56,594	₱52,060

A summary of movements in real estate inventories (excluding materials and supplies, gasoline retail and petroleum products, and food) follows:

	2017			
	Land and improvements	**Condominium units held for sale**	**Construction in progress**	**Total**
Balance at beginning of the year	**₱34,323**	**₱5,582**	**₱3,091**	**₱42,996**
Effect of business combination	**–**	**321**	**–**	**321**
Construction and development costs incurred	**789**	**6,775**	**5,341**	**12,905**
Land acquired during the year	**2,323**	**–**	**–**	**2,323**
Borrowing costs capitalized	**241**	**136**	**1,031**	**1,408**
Cost of sales during the year	**(1,427)**	**(6,129)**	**(2,479)**	**(10,035)**
Transfers from construction in progress to condominium units for sale	**–**	**2,555**	**(2,555)**	**–**
Transfers to land held for future development	**(145)**	**–**	**–**	**(145)**
Transfers from land held for future development	**660**	**–**	**–**	**660**
Transfers to property and equipment (Note 11)	**(16)**	**–**	**–**	**(16)**
Transfers from (to) investment property (Note 9)	**5**	**(2,072)**	**(708)**	**(2,775)**
Transfers from land and improvements to condominium units held for sale	**(2,902)**	**2,902**	**–**	**–**
Reclassifications and others	**(2)**	**(278)**	**1,131**	**851**
Balance at end of the year	**₱33,849**	**₱9,792**	**₱4,852**	**₱48,493**

	2016			
	Land and improvements	Condominium units held for sale	Construction in progress	Total
Balance at beginning of the year	₱34,548	₱5,127	₱2,620	₱42,295
Construction and development costs incurred	1,110	5,371	3,801	10,282
Land acquired during the year	–	86	–	86
Borrowing costs capitalized	326	69	1,180	1,575
Cost of sales during the year	(2,143)	(4,264)	(1,179)	(7,586)
Transfers from construction in progress to condominium units for sale	–	972	(972)	–
Transfers to land held for future development	–	(265)	–	(265)
Transfers to investment property (Note 9)	(361)	(1,288)	(1,729)	(3,378)
Transfers from land and improvements to condominium units held for sale	(42)	42	–	–
Elimination of intragroup transactions	(36)	–	–	(36)
Reclassifications and others	921	(268)	(630)	23
Balance at end of the year	₱34,323	₱5,582	₱3,091	₱42,996

Fed Land’s capitalized borrowing costs in its real estate inventories amounted to ₱1.17 billion and ₱970.37 million in 2017 and 2016, respectively, for loans specifically used to finance Fed Land’s project construction with interest rates ranging from 2.58% to 6.27% and 2.55% to 6.27% in 2017 and 2016, respectively. Also, Fed Land’s capitalized borrowing costs in respect of its general borrowing amounted to ₱21.30 million and ₱17.79 million in 2017 and 2016, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 7.30% and 6.57% in 2017 and 2016, respectively.

PCFI’s capitalized borrowing cost as part of real estate inventories amounted to ₱213.43 million and ₱587.04 million in 2017 and 2016, respectively. The capitalization rate used to determine the borrowings eligible for capitalization is 5.89% and 5.10% as of December 31, 2017 and 2016, respectively.

Inventories charged to operations follow:

	2017	2016	2015
Cost of real estate sales	**₱10,035**	₱7,586	₱6,512
Cost of goods and services sold (Note 24)	**147,691**	120,652	73,787
Cost of goods manufactured and sold (Note 25)	**39,635**	33,792	27,838
	₱197,361	₱162,030	₱108,137

Allowance for inventory write-down on power and automotive spare parts inventories follow:

	2017	2016
Beginning balance	**₱69**	₱98
Effect of sale of a subsidiary (Note 12)	**–**	(10)
Provision for inventory write-down	**23**	1
Write-off of scrap inventories	**(1)**	–
Reversal	**–**	(20)
	₱91	₱69

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:

	2017	2016
Beginning of the year	**₱18,464**	₱15,357
Additions	**1,745**	2,842
Transfers from real estate inventories	**145**	265
Transfers to real estate inventories	**(660)**	–
Reclassifications	**(1,416)**	–
	₱18,278	₱18,464

Certain real estate inventories of PCFI with an aggregate carrying value of nil and ₱120.18 million as of December 31, 2017 and 2016, respectively, are mortgaged/pledged as security for loans payable to various local banks (Note 16).

7. Prepayments and Other Current Assets

This account consists of:

	2017	2016
Advances to contractors and suppliers	**₱2,732**	₱2,526
Prepaid expenses	**2,106**	988
Input VAT	**1,920**	1,603
Deposit for land purchases	**1,496**	262
Creditable withholding taxes (CWT)	**1,078**	569
Ad-valorem tax	**589**	595
Advances to officers, employees, agents and brokers (Note 27)	**387**	391
Others	**109**	58
	₱10,417	₱6,992

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, insurance and other land acquisition related costs.

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.

Deposit for land purchases are deposits made for the acquisition of certain parcels of land that are intended for future development. The Deed of Absolute Sale (DOAS) for these properties will be executed upon fulfillment by both parties of certain undertakings and conditions.

CWT are attributable to taxes withheld by third parties arising from service fees, real estate revenue, auto sales and rental income.

The ad-valorem tax represents advance payments to the Bureau of Internal Revenue (BIR). This is applied against taxes on the manufacture and importation of vehicles which generally occurs within one year from the date the ad-valorem taxes are paid.

Advances to officers and employees amounting to ₱47.60 million and ₱45.07 million as of December 31, 2017 and 2016, 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 ₱11.45 million and ₱49.55 million as of December 31, 2017 and 2016, 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 ₱327.45 million and ₱296.82 million as of December 31, 2017 and 2016, 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.

Others include deferred import charges, marginal deposits set aside for payment to the contractors and suppliers, security deposit for operating leases, ancillary services, and deposit for purchase of external services and materials.

8. Investments and Advances

This account consists of:

	2017	2016
Investments in associates	**₱114,187**	₱86,617
Investments in joint ventures	**10,599**	8,211
Advances	**106**	–
	₱124,892	₱94,828

The movements in the Group's investments in associates follow:

	2017	2016
Cost		
Balance at beginning of year	**₱63,050**	₱33,403
Acquisitions/additional investments during the year	**24,739**	33,211
Disposal of Group's indirect interest in a subsidiary (Note 12)	**–**	(3,564)
Balance at end of year	**87,789**	63,050
Accumulated equity in net income		
Balance at beginning of year	**29,967**	22,151
Equity in net income for the year	**8,250**	6,003
Realized gain on sale of subsidiaries (Note 12)	**–**	1,918
Elimination of advisory income from an associate	**–**	(105)
Balance at end of year	**38,217**	29,967
Dividends received		
Balance at beginning of year	**(5,832)**	(4,868)
Dividends received during the year	**(1,597)**	(964)
Balance at end of year	**(7,429)**	(5,832)
Accumulated equity in other comprehensive income		
Balance at beginning of year	**(2,753)**	(1,355)
Equity in net unrealized gain on AFS investments for the year	**(2,142)**	(1,578)
Translation adjustments	**(1,382)**	175
Remeasurement on life insurance reserves	**(190)**	–
Net unrealized (gain) loss on remeasurements of defined benefit plans	**(118)**	18
Other equity adjustments	**–**	(13)
Balance at end of year	**(6,585)**	(2,753)
Effect of elimination of intragroup profit		
Balance at beginning of year	**2,185**	2,243
Elimination during the year	**10**	(58)
Balance at end of year	**2,195**	2,185
	₱114,187	₱86,617

The movements in the Group's investments in joint ventures follow:

	2017	2016
Cost		
Balance at beginning of year	**₱6,527**	₱7,330
Acquisitions/additional investments	**1,931**	556
Effect of step-up acquisition of FLOC and TMBC (Note 31)	**–**	(1,359)
Balance at end of year	**8,458**	6,527

(Forward)

	2017	2016
Accumulated equity in net income		
Balance at beginning of year	**₱1,672**	₱1,950
Equity in net income for the year	**449**	468
Effect of step up acquisition of FLOC and TMBC (Note 31)	**–**	(746)
Balance at end of year	**2,121**	1,672
Dividends received		
Balance at beginning of year	**–**	(540)
Effect of step up acquisition of FLOC and TMBC (Note 31)	**–**	540
Balance at end of year	**–**	–
Accumulated equity in other comprehensive income		
Balance at beginning of year	**12**	(6)
Effect of step-up acquisition of FLOC and TMBC (Note 31)	**–**	11
Equity in net unrealized loss on remeasurements of defined benefit plans	**–**	(1)
Equity in cash flow hedge reserve	**8**	8
Balance at end of year	**20**	12
Effect of elimination of intragroup profit		
Balance at beginning of year	**–**	(43)
Reversal of previous year elimination	**–**	43
Balance at end of year	**–**	–
	₱10,599	₱8,211

Details regarding the Group's associates and joint venture follow:

	Nature of Business	Country of Incorporation	Effective Percentages of Ownership 2017	2016
Associates:				
MBTC	Banking	Philippines	**36.09**	26.47
MPIC	Infrastructure	-do-	**15.55**	15.55
Phil AXA	Insurance	-do-	**25.33**	25.33
Crown Central Properties Corporation (CCPC)	Real estate	-do-	**48.00**	48.00
Joint ventures:				
Bonifacio Landmark Realty and Development Corporation (BLRDC)	Real estate	-do-	**70.00**	70.00
Sunshine Fort North Bonifacio Realty and Development Corporation (Sunshine Fort)*	-do-	-do-	**60.00**	–
Alveo Federal Land Communities, Inc. (AFLCI)	-do-	-do-	**50.00**	50.00
ST 6747 Resources Corporation (STRC)	-do-	-do-	**50.00**	50.00
TFSPC	Financing	-do-	**40.00**	40.00
SMFC**	-do-	-do-	**20.00**	–

** On July 3, 2017, Fed Land entered into a Joint Venture Agreement with NREMI Development Company (NRE) to incorporate a joint venture company, Sunshine Fort in which Fed Land held 60% equity interest.*
*** On August 11, 2017, the Parent Company acquired 4.0 million common shares, representing 20% ownership in SMFC from Philippine Savings Bank (PSBank) and PSBank Retirement Fund.*

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
2017					
MBTC	**February 22, 2017**	**₱1.00**	**₱3,180**	**March 9, 2017**	**March 23, 2017**
MPIC	**March 1, 2017**	**0.068**	**2,143**	**March 30, 2017**	**April 26, 2017**
MPIC	**August 4, 2017**	**0.0345**	**1,087**	**September 1, 2017**	**September 26, 2017**
Phil AXA	**November 24, 2017**	**100.00**	**1,000**	**November 24, 2017**	**December 15, 2017**
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

Investment in MBTC

On various dates in 2016, the Parent Company acquired an aggregate of 39.83 million shares of MBTC for a total consideration of ₱3.04 billion. This increased the Parent Company's ownership interest in MBTC from 25.22% to 26.47%. Based on the final purchase price allocation, the difference between the total consideration and the net assets amounting to ₱585.63 million was allocated to notional goodwill, and is included in the carrying amount of the investment in MBTC.

On April 20, 2017, the Parent Company acquired a total of 306.00 million common shares of MBTC from Ty-Family Companies for a total purchase price of ₱24.72 billion. On April 21, 2017, the Parent Company paid the purchase price in cash. This increased the Parent Company's ownership in MBTC from 26.47% to 36.09%. As of December 31, 2017, the purchase price allocation relating to the Parent Company's acquisition of 9.62% ownership interest in MBTC has been prepared on a preliminary basis. The provisional fair value of the assets acquired and liabilities assumed as of date of acquisition is currently being finalized. The difference of ₱5.45 billion between the Parent Company's share in the carrying values of MBTC's specific identifiable assets and liabilities and total cost of the Parent Company's investment was allocated to the Parent Company's share in the difference between the fair values and carrying values of MBTC's specific and identifiable assets and liabilities as follows: ₱1.44 billion for loans and receivables; ₱0.33 billion for investment properties; (₱0.35) billion for other assets; ₱0.41 billion for deposit liabilities; ₱0.18 billion for other liabilities; and the remaining balance of ₱4.62 billion for goodwill.

In relation to the acquisition, the Parent Company capitalized advisory fees and other professional fees amounting to ₱0.02 billion as part of the cost of the investment.

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 ₱7.94 billion. On August 5, 2016, the SEC approved the increase in the authorized capital stock of MPIC. As a result, the Parent Company's ownership interest is 15.55% of the issued and outstanding capital stock of MPIC.

In relation to the acquisition, the Parent Company capitalized advisory fees and other professional fees amounting to ₱0.24 billion and ₱0.04 billion, respectively, as part of the cost of the investment.

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 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.

Based on the final purchase price allocation relating to the Parent Company's acquisition of investment in MPIC, the difference of ₱7.41 billion between the Parent Company's share in the carrying values of MPIC's specific identifiable assets and liabilities and total cost of the Parent Company's investment was allocated to the Parent Company's share in the difference between the fair values and carrying values of MPIC's specific and identifiable assets and liabilities as follows: ₱2.83 billion for investments and advances; ₱2.48 billion for service concession assets; ₱297.50 million for service concession fees payable; ₱334.05 million for long-term debt; and the remaining balance of ₱2.73 billion for goodwill.

Investment in BLRDC
On June 8, 2012, Fed Land and ORPI 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 Sunshine Fort
On July 3, 2017, the Fed Land entered into a Joint Venture Agreement with NREMI Development Company (NRE) to incorporate a joint venture company in which Fed Land held 60% equity interest. An initial investment amounting to ₱288.75 million was reflected as additions to the investment in associates and joint ventures in 2017.

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. An initial investment amounting to ₱574.13 million was reflected as additions to the investment in associates and joint ventures in 2015. In 2016, an additional investment amounting to ₱17.00 million was made.

Investment in STRC
In June 2016, SM Development Corporation (SMDC) entered into an agreement with 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. An initial investment amounting to ₱250.00 million was reflected as additions to the investment in associates and joint ventures in 2016.

On December 12, 2016, the BOD of Fed Land approved the additional investment in STRC amounting to ₱750.00 million divided into preferred shares in the amount of ₱712.50 million and common shares in the amount of ₱37.50 million. On January 10, 2017, Fed Land has fully paid its subscription to STRC. The percentage of ownership is retained as SMDC also invested an equivalent amount.

On September 26, 2017, Fed Land subscribed and paid in cash amounting to ₱31.25 million for the additional 31.25 million preferred shares in line with the increase in authorized capital stock of STRC. SMDC also invested an equivalent amount, thus, retaining its percentage of ownership in STRC.

Investment in TFSPC
On August 29, 2014, the Parent Company signed a Sale and Purchase Agreement with MBTC and PSBank, a majority owned subsidiary of MBTC, to purchase their respective shares in TFSPC representing 15.00% and 25.00%, respectively, of ownership interest for an aggregate consideration of ₱2.10 billion.

On February 21, 2017, the Parent Company remitted ₱480.00 million to TFSPC in response to the latter's equity call upon its stockholders.

Investment in SMFC
On August 11, 2017, the Parent Company acquired 4.0 million common shares, representing 20% ownership in SMFC for a total consideration of ₱379.92 million from PSBank and PSBank Retirement Fund.

In relation to the acquisition, the Parent Company capitalized documentary stamp taxes amounting to ₱1.50 million as part of the cost of the investment.

Investment in TMBC
On March 7, 2016, TMBC and Toyota Cubao, Inc. (TCI) merged, with TMBC as the surviving entity. The Group assessed that it has control over TMBC and accounted for its investment as investment in 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 million. As a result of the purchase, Fed Land gained control in FLOC and accounted for its investment as investment in a subsidiary as of December 31, 2016 (Note 31).

Fair Value of Investment in Associates and Joint ventures
Phil AXA and CCPC as well as BLRDC, AFLCI, STRC, TFSPC, SMFC and Sunshine Fort are private companies and there are no quoted market prices available for their shares.

As of December 31, 2017 and 2016, the fair values of the Group's investment in PSE-listed entities follow (Note 32):

	2017	2016
MBTC	**₱116,265**	₱61,026
MPIC	**33,467**	32,536
	₱149,732	₱93,562

The following tables present the carrying values of the Group's material associates:

Investments in MBTC

	2017	2016
Consolidated Statements of Comprehensive Income		
Revenues	**₱83,553**	₱78,171
Expenses	**54,982**	51,494
Net income	**21,270**	20,316
Other comprehensive loss	**(5,045)**	(7,156)
Total comprehensive income	**16,225**	13,160
*Consolidated Statements of Financial Position**		
Total assets	**2,080,292**	1,876,009
Total liabilities	**(1,876,202)**	(1,670,456)
Net assets	**204,090**	205,553
Equity attributable to NCI	**(9,535)**	(9,551)
Other equity reserves	**7,400**	–
Net assets attributable to common shareholders of MBTC	**201,955**	196,002
GT Capital's ownership interest in MBTC	**36.09%**	26.47%
GT Capital's share in net assets of MBTC	**72,886**	51,882
Notional goodwill	**5,205**	586
Fair value and other adjustments	**2,423**	1,792
Elimination of intercompany transactions	**(468)**	(468)
	₱80,046	₱53,792

**MBTC does not present classified statements of financial position.*

Investments in MPIC

	2017	2016
Consolidated Statements of Comprehensive Income		
Revenues	**₱93,515**	₱72,715
Expenses	**68,839**	51,778
Net income	**19,027**	16,779
Other comprehensive income (loss)	**(466)**	1,468
Total comprehensive income	**18,561**	18,247

(Forward)

	2017	2016
Consolidated Statements of Financial Position		
Current assets	**₱74,945**	₱31,800
Noncurrent assets	**428,806**	319,802
Current liabilities	**(54,877)**	(27,044)
Noncurrent liabilities	**(233,195)**	(136,477)
Net assets	**215,679**	188,081
Equity attributable to NCI	**(54,435)**	(36,049)
Net assets attributable to common shareholders of MPIC	**161,244**	152,032
GT Capital's ownership interest in MPIC	**15.55%**	15.55%
GT Capital's share in net assets of MPIC	**25,073**	23,641
Capitalized transaction cost	**277**	277
Notional goodwill	**2,727**	2,727
Fair value and other adjustments	**4,289**	4,708
	₱32,366	₱31,353

Investments in Phil AXA

	2017	2016
Consolidated Statements of Comprehensive Income		
Revenues	**₱14,621**	₱10,649
Expenses	**11,334**	9,943
Net income	**2,473**	586
Other comprehensive loss	**(879)**	(362)
Total comprehensive income	**1,594**	224
*Consolidated Statements of Financial Position**		
Total assets	**123,425**	68,007
Total liabilities	**(116,397)**	(63,915)
Net assets	**7,028**	4,092
GT Capital's ownerhip interest in Phil AXA	**25.33%**	25.33%
GT Capital's share in net assets of Phil AXA	**1,780**	1,037
Notional goodwill and fair value adjustments	**(93)**	355
	₱1,687	₱1,392

**Phil AXA does not present classified statements of financial position.*

The following table presents the carrying values of the Group's material joint venture:

	2017		2016	
	BLRDC	**TFSPC***	BLRDC	TFSPC*
Selected Financial Information				
Cash and cash equivalents	**₱231**	**₱1,100**	₱312	₱523
Current financial liabilities	**2,389**		774	
Non-current financial liabilities	**4,334**		3,507	
Financial liabilities		**64,776**		50,550
Depreciation and amortization	**20**	**35**	3	26
Interest income	**86**	**4,921**	152	3,642
Interest expenses	**89**	**2,060**	–	1,493
Income tax expense	**82**	**308**	178	221
Statements of Comprehensive Income				
Revenues	**1,688**	**5,053**	1,565	3,680
Expenses	**1,450**	**4,057**	1,092	2,904
Net income	**157**	**688**	296	555
Other comprehensive income	**–**	**21**	–	30
Total comprehensive income	**157**	**709**	296	585
Statements of Financial Position				
Current assets	**3,833**		3,195	
Noncurrent assets	**9,612**		8,117	
Total assets	**13,445**	**71,724**	11,312	55,581
Current liabilities	**(2,715)**		(1,607)	
Noncurrent liabilities	**(4,508)**		(3,640)	
Total liabilities	**(7,223)**	**(64,874)**	(5,247)	(50,640)
Net assets	**6,222**	**6,850**	6,065	4,941
GT Capital's ownerhip interest	**70.00%**	**40.00%**	70.00%	40.00%
GT Capital's share in net assets	**4,355**	**2,740**	4,246	1,976
Notional goodwill and other adjustments	**240**	**894**	239	894
	₱4,595	**₱3,634**	₱4,485	₱2,870

**TFSPC does not present classified statements of financial position.*

The following table presents the aggregate financial information of the Group's other associate and joint ventures as of and for the years ended December 31, 2017 and 2016:

	2017		2016	
	Associate	**Joint ventures**	Associate	Joint ventures
Statements of Financial Position				
Current assets	**₱189**	**₱4,205**	₱201	₱1,668
Non-current assets	**40**	**4,139**	35	1,493
Current liabilities	**229**	**2,504**	236	1,430
Non-current liabilities	**39**	**60**	60	29
Statements of Comprehensive Income				
Revenues	**41**	**1,572**	31	273
Expenses	**27**	**1,148**	21	230
Net income	**15**	**293**	6	32
Other comprehensive income	**–**	**1**	–	–
Total comprehensive income	**15**	**294**	6	32

Limitation on dividend declaration of associates and joint venture

Phil AXA

Section 195 of the Insurance Code provides that a domestic insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the margin of solvency required;
- the legal reserve fund required; and
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

MBTC

The Bangko Sentral ng Pilipinas (BSP) requires banks to keep certain levels of regulatory capital and liquid assets, limit their exposures to other parts of the Group and comply with other regulatory ratios.

As of December 31, 2017 and 2016, there were no agreements entered into by the associates and joint ventures of the Group that may restrict dividends and other capital distributions to be paid, or loans and advances to be made or repaid to or from other entities within the Group. MBTC's dividend declarations and payments are subject to the approval of BSP.

As of December 31, 2017 and 2016, accumulated equity in net earnings amounting to ₱32.91 billion and ₱25.81 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, 2017 and 2016, the Group has no share on commitments and contingencies of its associates and joint ventures.

Advances

In December 2017, Fed Land made a deposit in North Bonifacio Landmark Realty and Development, Inc. (NBLRDI) amounting to ₱105.61 million representing the paid-up capital of NBLRDI which is in the process of incorporation as of reporting date.

9. Investment Properties

The composition and rollforward analysis of this account follow:

	December 31, 2017			
	Land and Improvements	**Building and Improvements**	**Construction In Progress**	**Total**
Cost				
At January 1	**₱6,861**	**₱5,424**	**₱2,901**	**₱15,186**
Effect of business combination	**484**	**–**	**–**	**484**
Additions	**184**	**265**	**210**	**659**
Transfers to property and equipment (Note 11)	**(1,067)**	**(421)**	**905**	**(583)**
Transfers from (to) inventories (Note 6)	**(5)**	**2,072**	**708**	**2,775**
Reclassifications and others	**648**	**252**	**(905)**	**(5)**
At December 31	**7,105**	**7,592**	**3,819**	**18,516**

(Forward)

	December 31, 2017			
	Land and Improvements	**Building and Improvements**	**Construction In Progress**	**Total**
Accumulated Depreciation				
At January 1	**₱10**	**₱862**	**₱–**	**₱872**
Depreciation (Note 11)	**4**	**270**	**–**	**274**
Transfers to property and equipment (Note 11)	**–**	**(22)**	**–**	**(22)**
At December 31	**14**	**1,110**	**–**	**1,124**
Net Book Value at December 31	**₱7,091**	**₱6,482**	**₱3,819**	**₱17,392**

	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	400	38	211	649
Disposals	(62)	(133)	–	(195)
Transfers from inventories (Note 6)	361	1,288	1,729	3,378
Reclassification and others	801	(1,013)	–	(212)
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

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 ₱940.10 million, ₱826.59 million and ₱840.46 million in 2017, 2016 and 2015, respectively (Note 30).

Construction-in-progress pertains to the accumulated cost incurred for the development and redevelopment of Fed Land's malls.

The aggregate fair values of the Group's investment properties amounted to ₱36.55 billion and ₱30.20 billion as of December 31, 2017 and 2016, respectively. The fair values of the Group's investment properties have been determined based on valuations performed by Asian Appraisal Company (AAC) and Philippine Appraisal Co. Inc. (PACI), independent appraisers which are accredited by the SEC. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison. Valuation of the Group's investment properties are done every three years with the latest valuation report issued by AAC and PACI in 2017.

10. Available-for-sale Investments

This account consists of:

	2017	2016
Current:		
Quoted (Note 27)	**₱611**	₱1,284
Noncurrent:		
Quoted	**1,622**	962
Unquoted	**481**	481
	2,103	1,443
	₱2,714	₱2,727

Quoted AFS investment is based on the quoted market bid prices at the close of business on the reporting date or use inputs other than quoted price that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Quoted AFS investments include investments in unit investment trust fund (UITF).

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, 2017 and 2016. Also included in the balance are AFS investments of Fed Land and TMBC amounting to ₱9.94 million and ₱0.46 million, respectively, as of December 31, 2017 and 2016.

Unquoted AFS investments 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:

	2017		
	Attributable to Parent Company	**Non-controlling Interest**	**Total**
Balance at beginning of year	**₱186**	**₱293**	**₱479**
Net changes shown in other comprehensive income			
Changes in fair values of AFS investments	**640**	**6**	**646**
Realized gains	**15**	**–**	**15**
Balance at end of year	**₱841**	**₱299**	**₱1,140**

	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			
Changes in fair values of AFS investments	561	504	1,065
Effect of sale of a subsidiary (Note 12)	(1,198)	(941)	(2,139)
Balance at end of year	₱186	₱292	₱478

11. Property and Equipment

The composition and rollforward analysis of this account follow :

	2017											
	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	**₱541**	**₱722**	**₱304**	**₱981**	**₱2,759**	**₱–**	**₱–**	**₱2,343**	**₱–**	**₱3,950**	**₱778**	**₱12,378**
Additions	**164**	**237**	**15**	**798**	**19**	–	–	**343**	–	**376**	**1,523**	**3,475**
Transfers from inventories (Note 6)	–	–	–	–	**16**	–	–	–	–	–	–	**16**
Transfers from (to) investment properties (Note 9)	–	**36**	–	**83**	–	–	–	**1,369**	–	–	**(905)**	**583**
Disposals	**(88)**	**(38)**	–	**(41)**	**(8)**	–	–	–	–	**(142)**	–	**(317)**
Reclassifications and others	**(5)**	**(18)**	–	**22**	–	–	–	**(9)**	–	**(7)**	**(81)**	**(98)**
At December 31	**612**	**939**	**319**	**1,843**	**2,786**	–	–	**4,046**	–	**4,177**	**1,315**	**16,037**
Accumulated Depreciation and Amortization												
At January 1	**187**	**316**	**118**	**538**	**68**	–	–	**343**	–	**1,441**	–	**3,011**
Depreciation and amortization	**146**	**160**	**35**	**187**	**8**	–	–	**250**	–	**737**	–	**1,523**
Transfers from investment properties (Note 9)	–	–	–	–	–	–	–	**22**	–	–	–	**22**
Disposals	**(51)**	**(38)**	–	**(21)**	**(1)**	–	–	–	–	**(100)**	–	**(211)**
Reclassifications and others	**(1)**	**8**	–	**13**	–	–	–	**(2)**	–	**3**	–	**21**
At December 31	**281**	**446**	**153**	**717**	**75**	–	–	**613**	–	**2,081**	–	**4,366**
Net Book Value at December 31	**₱331**	**₱493**	**₱166**	**₱1,126**	**₱2,711**	**₱–**	**₱–**	**₱3,433**	**₱–**	**₱2,096**	**₱1,315**	**₱11,671**

	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	45	2	−	289	−	2,731	2,537	6,396
Disposals	(150)	(6)	−	(1)	−	−	−	−	−	(281)	−	(438)
Reclassifications and others	(2)	(3)	−	7	−	374	2	48	7	(34)	(1,406)	(1,007)
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	841	−	2,258
Disposals	(86)	(6)	−	(1)	−	−	−	−	−	(281)	−	(374)
Reclassifications and others	3	(8)	−	(4)	−	−	−	−	1	(147)	−	(155)
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

Construction-in-progress as of December 31, 2017 pertains to TMBC and GTCAD's building construction and Toyota group's machineries and building improvements which are all expected to be completed in 2018.

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 ₱23.09 million, ₱49.60 million and ₱29.61 million in 2017, 2016 and 2015, respectively (Note 23).

Fully depreciated buildings and land improvements and other property and equipment with cost of ₱3.41 billion and ₱2.05 billion as of December 31, 2017 and 2016, respectively, are still being used in the Group's operations.

Details of depreciation and amortization follow:

	2017	2016	2015
Continuing operations			
Property and equipment	**₱1,523**	₱1,433	₱926
Intangible assets (Note 13)	**124**	55	17
Investment properties (Note 9)	**274**	212	192
	1,921	1,700	1,135
Depreciation and amortization attributable to discontinued operations			
Property and equipment	–	825	1,816
Intangible assets (Note 13)	–	192	463
	–	1,017	2,279
	₱1,921	₱2,717	₱3,414

Breakdown of depreciation and amortization in the consolidated statements of income and consolidated statements of financial position follow:

	2017	2016	2015
Consolidated Statements of Income			
Cost of goods manufactured	**₱809**	₱889	₱571
Cost of rental (Note 30)	**240**	200	183
Cost of goods and services	**61**	40	37
General and administrative expenses (Note 26)	**655**	495	344
Attributable to disposal group classified as held-for-sale (Note 12)	–	–	20
Attributable to discontinued operations (Note 12)	–	1,017	2,259
	1,765	2,641	3,414
Consolidated Statements of Financial Position			
Real estate inventories	**156**	76	–
	₱1,921	₱2,717	₱3,414

12. **Disposal of Assets**

Sale of Investment in GBPC
On May 26, 2016, the Parent Company acquired FMIC's 4.73% direct equity stake in GBPC for a total consideration of ₱3.26 billion. This increased the Parent Company's direct ownership in GBPC from 51.27% to 56.00%. Subsequently, on May 27, 2016, the Parent Company sold its entire 56.00% investment in GBPC to Beacon Powergen Holdings, Inc. (Beacon) for a total consideration of ₱22.06 billion. Immediately after the sale, the Parent Company relinquished control over GBPC and GBPC ceased to be a subsidiary of the Parent Company effective May 31, 2016. Accordingly, GBPC was deconsolidated from the consolidated financial statements of the Group at that date.

The assets and liabilities of GBPC derecognized as of May 31, 2016 are as follows:

Assets	
Cash and cash equivalents	₱13,136
Short-term investments	300
Receivables	3,591
Inventories	1,523
Prepayments and other current assets	1,988
Available-for-sale securities	674
Property and equipment	47,117
Goodwill and intangible assets	7,105
Deferred tax assets	463
Other noncurrent assets	237
	76,134
Liabilities	
Accounts and other payables	₱5,200
Customer's deposits	1
Income tax payable	3
Other current liabilities	74
Pension liabilities	675
Long-term debt	37,200
Deferred tax liabilities	970
Other noncurrent liabilities	251
	44,374
Net assets	₱31,760

Remeasurement losses on defined benefit plan of GBPC amounting to ₱92.49 million were reclassified to retained earnings.

The aggregate consideration received consists of:

Cash received	₱22,058
Non-controlling interest	17,127
	₱39,185

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* requires income and expenses from discontinued operations to be presented separately from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

The results of operations of GBPC included in the consolidated financial statements are presented below:

	2016	2015
Net fees	₱6,840	₱18,391
Interest income	65	183
Sale of goods and services	32	89
Other income	17	644
Revenue	6,954	19,307
Power plant operation and maintenance expenses	3,273	9,477
General and administrative expenses	1,474	3,402
Interest expense	780	1,768
Cost and expenses	5,527	14,647
Income before income tax	1,427	4,660
Provision for income tax	34	210
Net income	1,393	4,450
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

With the loss of control over GBPC, the Parent Company realized its share in the gain on sale amounting to ₱1.84 billion arising from the sale of GBPC shares by FMIC to Orix P&E Philippines Corporation (Orix) and Meralco Powergen Corporation previously deferred in 2013.

The total gain on the sale of GBPC amounted to ₱3.44 billion, comprising ₱1.60 billion gain on sale of direct ownership and realization of the above previously deferred gain of ₱1.84 billion.

The net cash inflow arising from the deconsolidation of GBPC follows:

Cash proceeds from the sale of 56% of GBPC	₱22,058
Purchase price and related costs to increase stake in GBPC to 56%	(3,586)
Cash and cash equivalents deconsolidated	(13,136)
	₱5,336

On June 30, 2016, Orix exercised its tag-along rights in relation to its holdings of GBPC shares and sold its 22.00% ownership stake in GBPC to the Parent Company for a total consideration of ₱8.67 billion. On the same day, the Parent Company sold the same shares to a third party for the same amount of consideration.

Sale of Investment in Charter Ping An Insurance Company (CPAIC)
On November 5, 2015, the Parent Company signed an agreement to sell 100.00% of CPAIC to AXA Philippines for ₱2.30 billion, subject to closing conditions that are usual and customary (Note 27).

On April 4, 2016, the Parent Company completed the sale of CPAIC for a final consideration of ₱2.10 billion. This transaction resulted in a gain representing the excess of the cash consideration received over the carrying value of the non-current asset held-for-sale amounting to ₱172.89 million and such gain is included in 'Net income from discontinued operations'. Following the sale, the assets, liabilities and reserve of disposal group classified as held-for-sale were derecognized.

Remeasurement losses from defined benefit plan amounting to ₱57.10 million were reclassified to retained earnings.

In the consolidated statements of income, income and expenses from disposal group are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

The results of operation of CPAIC included in the 'Net income from discontinued operations' are presented below:

	2016	2015
Net premiums earned	₱389	₱1,996
Interest income	–	79
Commission income	42	159
Finance and other income	32	110
Revenue	463	2,344
Net insurance benefits and claims	287	1,122
General and administrative expenses	335	1,155
Interest expense	–	1
Cost and expenses	622	2,278
Income (loss) before income tax	(159)	66
Provision for income tax	5	16
Net income (loss)	(164)	50
Gain on disposal of direct ownership	173	–
Realization of previously deferred gain	78	–
Total Net Income from Discontinued Operations from CPAIC	₱87	₱50

The total gain on the sale of CPAIC amounted to ₱251.11 million, comprising ₱172.89 million gain on sale of direct ownership and the realization of the above previously deferred gain of ₱78.22 million.

The net cash flows directly associated with the disposal group are as follows:

	2016	2015
The net cash flows directly associated with disposal group:		
Operating	₱2,392	₱5,751
Investing	(1,886)	(6,964)
Financing	(1,956)	771
Net cash outflow	(₱1,450)	(₱442)

The earnings per share attributable to equity holders of the Parent Company from disposal group for the years ended December 31, 2016 and 2015 were computed as follows (amounts in millions except for earnings per share):

	2016	2015
Net income attributable to equity holders of the Parent Company from disposal group	₱4,003	₱1,719
Weighted average number of shares	174	174
	₱23.01	₱9.88

13. **Goodwill and Intangible Assets**

Goodwill and intangible assets consist of:

	2017	2016
Goodwill (Note 31)	**₱8,767**	₱8,679
Customer relationship	**3,883**	3,883
Software costs – net	**360**	238
Franchise – net	**2**	2
	₱13,012	₱12,802

Goodwill

Goodwill comprises the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Goodwill in relation to acquisitions has been attributed to the following CGUs:

	2017				
	Toyota	**TRDCI**	**PCFI**	**TMBC**	**Total**
Balances at beginning of year	**₱5,597**	**₱–**	**₱2,841**	**₱241**	**₱8,679**
Additions through business combinations (Note 31)	**–**	**88**	**–**	**–**	**88**
Balances at end of year	**₱5,597**	**₱88**	**₱2,841**	**₱241**	**₱8,767**

	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*	–	(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

**THC is a wholly-owned subsidiary of GBPC*

Toyota

The recoverable amount of Toyota CGU was based on VIU calculations using cash flow projections from financial budgets approved by management covering a three-year period. The pre-tax discount rate applied to cash flow projections is 12.68% in 2017 and 11.52% in 2016. Cash flows beyond the three-year period are extrapolated using a steady growth rate of 3.52% in 2017 and 2.66% in 2016. The carrying value of goodwill amounted to ₱5.60 billion as of December 31, 2017 and 2016. No impairment loss was recognized for goodwill arising from the acquisition of Toyota.

The calculations of VIU for the Toyota CGU are most sensitive to the following assumptions:

- Budgeted gross margins – Gross margins are based on vehicle models mix per dealer and the foreign exchange movements between the Philippine Peso versus the United States (US) Dollar and the Japanese Yen versus the US Dollar.
- Growth rate – The projected growth rate is based on a conservative steady growth rate that does not exceed the compounded annual growth rate for the global automotive industry; and
- Pre-tax discount rate – Discount rates reflect management's best estimate of the risks associated with the specific CGU. This is the benchmark rate used by management to measure operating performance.

Regarding the assessment of the VIU of Toyota, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

PCFI
The recoverable amount of PCFI CGU was based on VIU calculations using cash flow projections from financial budgets approved by management covering a four-year period. The pre-tax discount rate applied to cash flow projections is 9.41% in 2017 and 8.27% in 2016. Cash flows beyond the forecast period are extrapolated using a long-term growth rate of 2.0% in 2017 and 3.0% in 2016. The carrying value of goodwill amounted to ₱2.84 billion as of December 31, 2017 and 2016. No impairment loss was recognized on the goodwill arising from the acquisition of PCFI (Note 31).

The calculations of VIU for PCFI CGU are most sensitive to the following assumptions:

- Expected future cash inflows from real estate sales
- Growth rate; and
- Pre-tax discount rate - Discount rate reflects management's best estimate of the risks associated with the specific CGU.

Regarding the assessment of the VIU of PCFI, management believes that no reasonably possible change in any of the aforementioned assumptions would cause the carrying value of the CGU to exceed their recoverable amount.

TMBC
The recoverable amount of TMBC CGU was based on VIU calculations using cash flow projections from financial budgets approved by management covering a four-year period. The pre-tax discount rate applied to cash flow projections is 12.40% in 2017 and 10.55% in 2016. Cash flows beyond the forecast period are extrapolated using a long-term growth rate of 3.52% in 2017 and 2.66% in 2016. The carrying value of goodwill amounted to ₱241.06 million as of December 31, 2017 and 2016. No impairment loss was recognized on the goodwill arising from the acquisition of TMBC (Note 31).

The calculations of VIU for TMBC CGU are most sensitive to the following assumptions:

- Expected future cash inflows from automobile sales
- Growth rate; and
- Pre-tax discount rate - Discount rate reflects management's best estimate of the risks associated with the specific CGU.

Regarding the assessment of the VIU of TMBC, using the same projected cash flows, impairment will be recognized when either of the following is applied:

- Pre-tax discount rate is greater than 12.61%;
- Discounted free cash flows to equity decreased by more than 35.00%; or
- Growth rate is less than 3.10%.

Customer Relationship
Customer relationship pertains to Toyota's contractual arrangements with its top dealer customers which lay out the principal terms upon which its dealers agree to do business. Toyota's relationship with its top dealers adds value to the operations of Toyota and enhances the latter's earnings potential. Management assessed the useful life of the customer relationship to be indefinite since management is of the view that there is no foreseeable limit to the period over which the customer relationship is expected to generate net cash inflows to Toyota.

The recoverable amount of the customer relationship of the Group was based on VIU calculations using earnings projections from financial budgets approved by management covering a three-year period. The pre-tax discount rate applied to earnings projections is 15.83% and 11.52% in 2017 and 2016, respectively. Cash flows beyond the forecast period are extrapolated using a steady growth rate of 3.52% in 2017 and 2.66% in 2016. The carrying value of the customer relationship amounted to ₱3.88 billion as of December 31, 2017 and 2016. No impairment loss was recognized for the customer relationship arising from the acquisition of Toyota.

The VIU 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;
- Earnings before interest and taxes (EBIT) margin on key customers – A 6.85% 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:

	2017	2016
Cost		
Balance at beginning of year	**₱372**	₱186
Additions	**234**	196
Effect of sale of a subsidiary (Note 12)	**–**	(45)
Reclassifications	**–**	35
	606	372
Accumulated Amortization		
Balance at beginning of year	**₱134**	₱71
Amortization (Note 11)	**124**	54
Attributable to discontinued operations	**–**	1
Disposal/reclassification	**(12)**	35
Effect of sale of a subsidiary (Note 12)	**–**	(27)
	246	134
Net Book Value	**₱360**	₱238

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.

In 2017, Fed Land acquired additional franchise amounting to ₱0.87 million.

The amortization of the franchise fee amounting to ₱0.28 million, ₱0.46 million and ₱0.26 million in 2017, 2016 and 2015, 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):

	2017	2016	2015
Software cost	**₱124**	₱54	₱17
Franchise	–	1	–
Attributable to discontinued operations (Note 12)	–	192	463
	₱124	₱247	₱480

14. **Other Noncurrent Assets**

This account consists of:

	2017	2016
Rental and other deposits	**₱662**	₱519
Escrow fund	**134**	132
Deferred input VAT	**48**	69
Retirement asset (Note 28)	**7**	2
Others	**58**	59
	₱909	₱781

Rental and other deposits include rental deposits for the leased offices of the Group and deposits for the initial set-up of the services rendered by public utility companies. Rental deposits are to be applied on the last month's rent of the lease contract.

Escrow fund represents part of the proceeds from bank takeout that are required to be deposited in an escrow account until completion of certain documentation and other requirements of the bank.

15. **Accounts and Other Payables**

This account consists of:

	2017	2016
Trade payables	**₱14,289**	₱5,119
Accrued expenses	**4,080**	3,352
Deferred output tax	**1,497**	1,111
Telegraphic transfers and drafts and acceptances payable	**1,152**	6,903
Accrued commissions	**1,037**	759
Retentions payable	**671**	281
Customer advances	**611**	625
Nontrade payables	**535**	329
Payable for customer's refund	**457**	360
Accrued interest payable	**365**	487
Royalty payable	**344**	312
Due to landowners	**50**	483
Provision for other expenses	–	327
Others	**895**	729
	₱25,983	₱21,177

The details of trade payables are as follows:

	2017	2016
Automotive	**₱11,903**	₱3,418
Real estate	**2,383**	1,695
Others	**3**	6
	₱14,289	₱5,119

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 real estate pertain to billings received from contractors for construction costs incurred on a per project basis and commissaries for food products ordered.

The details of accrued expenses are as follows:

	2017	2016
Dealers' incentives, supports and promotions	**₱2,261**	₱1,993
Employee benefits	**625**	625
Office supplies	**122**	9
Utilities and services	**113**	87
Taxes	**105**	90
Payable to contractors	**104**	126
Freight, handling and transportation	**98**	96
Outsourced services	**48**	–
Repairs and maintenance	**34**	36
Rent	**31**	6
Regulatory fees and charges	**3**	22
Professional fees	**1**	1
Others	**535**	261
	₱4,080	₱3,352

Accrued expenses are noninterest-bearing and are normally settled within a 15 to 60 day term.

Deferred output tax pertains mostly to VAT on the uncollected portion of the contract price of sold units.

Telegraphic transfers and drafts and acceptance payable pertain to the liabilities of Toyota Group arising from importations of materials, spare parts and/or vehicles. These payables are normally settled after a 30-day term.

Accrued commissions are settled within one (1) year.

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).

Customer advances pertain to payments received from buyers for the processing of transfer of units upon turnover.

Payable for customer's refund account represents deposit from buyers subject for refund and are normally settled within one year.

Accrued interest payables are normally settled within a 15 to 60 day term.

Royalty payables represent cost of license for the use of technical know-how and information on data. The fees are calculated at 6.00% of the local value-added (LVA) of vehicles under production. The LVA represents the selling price less all costs for the knock-down parts, related taxes such as excise and sales tax and a certain percentage of administrative and selling costs. The fees also include charges from related affiliates and third party suppliers representing initial costs of testing materials and trial parts and tools, sample molds and jigs that were utilized to test TMPC's present technical feasibility for the commercial production of newer car models.

Due to landowners represents liabilities to various real estate property sellers. These are noninterest-bearing and will be settled within one year.

Provision for other expenses pertains to liabilities with uncertain amount or timing of actual disbursement. These include regulatory fees, management incentives and other charges which payment is probable and the amount is estimable as of reporting date. The management reassesses their estimates on an annual basis to determine the reasonableness of provision. Disclosure of information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* are not provided because of reasons permitted under paragraph 92 of PAS 37. Accordingly, general descriptions are provided.

Others include refunds from cancelled sales from Fed Land and other government-related payables which are non-interest bearing and are normally settled within one year. These also include other non-interest bearing payables which are all due within one year.

16. **Short-term Debt and Long-term Debt**

This account consist of:

			2017			
			Long-term debt			
	Interest rates	**Short-term debt**	**Corporate notes**	**Loans payable**	**Subtotal**	**Total**
Parent Company	**2.60% - 5.93%**	**₱–**	**₱–**	**₱25,000**	**₱25,000**	**₱25,000**
Fed Land Group	**2.80% - 6.27%**	**1,243**	**4,900**	**17,945**	**22,845**	**24,088**
PCFI Group	**3.13% - 6.00%**	**1,250**	**–**	**10,474**	**10,474**	**11,724**
TMPC Group	**2.55% - 4.20%**	**2,710**	**–**	**246**	**246**	**2,956**
TMBC Group	**2.60% - 5.94%**	**830**	**–**	**1,100**	**1,100**	**1,930**
		6,033	**4,900**	**54,765**	**59,665**	**65,698**
Less: Deferred financing cost		**–**	**–**	**177**	**177**	**177**
		6,033	**4,900**	**54,588**	**59,488**	**65,521**
Less: Current portion of long-term debt		**–**	**25**	**2,442**	**2,467**	**2,467**
		₱6,033	**₱4,875**	**₱52,146**	**₱57,021**	**₱63,054**

			2016			
			Long-term debt			
	Interest Rates	Short-term debt	Corporate notes	Loans payable	Subtotal	Total
Parent Company	2.60% - 5.93%	₱3,000	₱–	₱25,000	₱25,000	₱28,000
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	64,937
Less: Deferred financing cost		–	–	184	184	184
		6,697	4,925	53,131	58,056	64,753
Less: Current portion of long-term debt		–	25	1,556	1,581	1,581
		₱6,697	₱4,900	₱51,575	₱56,475	₱63,172

Short-term Debt

Parent Company Short -Term Loans

In 2016, the Parent Company obtained unsecured 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 in 2016.

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. In 2017, these short-term loans payable were fully settled.

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 2.80% to 4.00%, 2.55% to 4.00%, 3.00% to 4.00% in 2017, 2016 and 2015, respectively.

PCFI Group Short -Term Loans

In December 2017, PCFI obtained two (2) unsecured working capital loans from a non-affiliated bank amounting to ₱250.00 million each. The promissory notes bear 3.95% fixed interest rate payable in monthly arrears while the principal amount shall be payable in lump sum on maturity dates.

On October 24, 2017 and December 12, 2017, the PCFI obtained two (2) unsecured 90-day promissory notes from a non-affiliated bank amounting to ₱500.00 million and ₱250.00 million, respectively. This will be used for working capital requirements. The promissory notes bear 3.125% fixed interest rate payable in monthly arrears while the principal amount shall be payable in lump sum on maturity dates.

<u>Toyota Group Short -Term Loans</u>
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 3.00% in 2017 and 2.55% to 2.90% in 2016 and 2015.

<u>TMBC Short -Term Loans</u>
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 2.50% to 2.75% in 2017 and 2.60% in 2016.

Interest expense charged to operations from the above-mentioned short-term loans amounted to ₱145.39 million and ₱355.71 million in 2017 and 2016, respectively. Interest expense capitalized amounted to ₱20.51 million and ₱33.72 million in 2017 and 2016, respectively.

<u>Fed Land - Corporate Notes</u>
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, 2017 and 2016, outstanding balance amounted to ₱4.90 billion and ₱4.92 billion, respectively. As of December 31, 2017 and 2016, 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, 2017 and 2016, the Group has complied with the loan covenants.

Interest expense charged to operations amounted to nil in 2017, 2016 and 2015. Interest expense capitalized amounted to ₱289.73 million, ₱222.62 million and ₱288.85 million in 2017, 2016 and 2015, respectively.

Long-term Loans
<u>Parent Company Long -Term Loans</u>
In 2015, the Parent Company obtained long-term loans with various non-affiliated local banks with an aggregate principal amount of ₱25.00 billion. Said loans bear fixed interest rates ranging from 5.05% to 5.93%, with various terms ranging from 10 to 13 years and maturity dates ranging from 2025 to 2028. As of December 31, 2017 and 2016, the carrying value of these long-term loans payable amounted to ₱24.90 billion and ₱24.89 billion, respectively.

As of December 31, 2017 and 2016, the movement of the deferred financing cost is as follows:

	2017	2016
Balances at beginning of year	**₱112**	₱121
Amortization	**(9)**	(9)
Balances at end of year	**₱103**	₱112

Total interest expense incurred on these long-term loans payable in 2017, 2016 and 2015 amounted to ₱1.39 billion (including amortization of deferred financing cost of ₱9.43 million), ₱1.41 billion (including amortization of deferred financing cost of ₱8.99 million) and ₱0.57 billion (including amortization of deferred financing cost of ₱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 5.86% per annum; ₱1.50 billion payable in full after 10 years from drawdown date with fixed interest rate of 5.85% per annum; ₱2.00 billion payable at 40.00% quarterly 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 to 2017, the Fed Land Group obtained long-term loans with various non-affiliated local banks with an aggregate principal amount of ₱4.85 billion. Said loans bear fixed interest rates ranging from 5.00% to 6.07%, various terms ranging from 5 to 10 years and maturity dates ranging from 2020 to 2026.

As of December 31, 2017 and 2016, the carrying value of these non-affiliated long-term loans payable amounted to ₱11.45 billion and ₱10.84 billion, respectively, net of unamortized deferred financing cost.

Affiliated loans (Note 27)
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 an affiliated bank with interest at prevailing market rate ranging from 3.75% to 4.00% with spread of 85-100 basis points, payable in lump sum after five (5) years or on August 25, 2016. MBTC is an associate of the Parent Company. These loans are secured by Phil Exim Guarantee under Mortgage Participation Certificate. The loans were fully paid on August 25, 2016.

On August 25, 2016, Fed Land obtained a 5-year loan from an affiliated bank 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 an affiliated bank with an aggregate principal amount of ₱1.24 billion. The loans bear interest rates of 2.55% to 2.60%, with terms of five (5) years and maturity date of 2021.

On various dates in 2017, the Fed Land Group obtained various unsecured loans from an affiliated bank totaling ₱3.26 billion. Said loans bear interest rates of 2.60% to 2.90% and will be payable in 2021 and 2022. The loan proceeds were used to finance the real estate projects.

As of December 31, 2017 and 2016, the carrying value of these affiliated long-term loans payable amounted to ₱6.47 billion and ₱3.22 billion, respectively, net of unamortized deferred financing cost.

As of December 31, 2017 and 2016, the movement of the deferred financing cost is as follows:

	2017	2016
Balances at beginning of year	**₱18**	₱–
Additions	**18**	18
Amortization	**(10)**	–
Balances at end of year	**₱26**	₱18

Interest expense charged to operations amounted to nil, ₱4.12 million and nil in 2017, 2016 and 2015, respectively. Interest expense capitalized from the above-mentioned loans payable amounted to ₱774.17 million, ₱784.83 million and ₱535.90 million, in 2017, 2016 and 2015, respectively.

PCFI Group Long-Term Loans
Non-affiliated Loans
On January 10, 2012, PCFI issued ₱3.00 billion 5-year fixed rate notes to non-affiliated banks which were used to fund the acquisition of real estate properties, finance project development and construction costs and fund other general corporate purposes. The notes are payable quarterly and bear fixed rate of 7.18% plus 5% gross receipts tax are secured by various real estate properties (Note 6). The notes were paid in full on January 26, 2017.

In 2013, PCFI also issued ₱2.00 billion five-year fixed rate notes to a non-affiliated bank, of which ₱500.00 million, ₱750.00 million and ₱750.00 million were drawn on January, March and May 2013, respectively. The principal amount of these loans shall be payable in 16 quarterly installments commencing on 5th quarter from the initial drawdown date of January 18, 2013 and bear fixed rate of 6.23%. The loan was used to finance working capital for land development, house construction and land acquisition. The notes were pre-terminated on August 25, 2016.

On July 1, 2015, PCFI entered into a three-year Promissory Note Line facility with a non-affiliated bank amounting to ₱1.00 billion. The note bears 5.29% interest rate fixed, payable monthly in arrears and the principal are payable in lump sum on June 29, 2018. The loan was used to finance working capital requirement. The note was fully paid in 2017.

On December 11, 2015, PCFI entered into a 5-year Loan Facility Agreement with a non-affiliated bank. The approved credit line was ₱6.00 billion of which ₱4.00 billion was drawn as of December 31, 2015 and ₱2.00 billion was drawn as of December 31, 2016. The loan availment bears 6.00% interest rate payable quarterly in arrears with a grace period on the payment of principal for one year, thereafter, the principal shall be payable on quarterly installment. The net proceeds from the loan pursuant to the loan facility were used for working capital expenditures. As of December 31, 2017 and 2016, the outstanding balance of the note amounted to ₱4.56 billion and ₱5.97 billion, respectively.

On December 19, 2016, WFC issued ₱3.00 billion 5-year fixed rate term loan to non-affiliated banks which were used as permanent working capital in relation to the purchase of sales receivable from PCFI. The notes are payable quarterly and bear fixed rate of 6.00%. As of December 31, 2017 and 2016, the outstanding balance of the note amounted to ₱1.45 billion and ₱2.99 billion, respectively.

Affiliated Loans (Note 27)
In March 2011, PCFI entered into a Notes Facility Agreement with an affiliated bank whereby PCFI issued ₱1.50 billion 5-year fixed rate corporate notes to finance their 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 Philippine Dealing System Treasury - Fixing Rate (PDST-F) plus 2.50% plus gross receipts tax. The note was paid in full on March 2, 2016.

On July 1, 2015, the Company entered into a three-year Promissory Note Line facility with an affiliated bank amounting to ₱1.50 billion (Note 27). The note bears 5.29% interest rate fixed, payable monthly in arrears and the principal are payable in lump sum on June 29, 2018. The loan was used to finance working capital requirement. As of December 31, 2017 and 2016, the outstanding balance of the note amounted to ₱1.50 billion for both years.

On June 22, 2017, WFC entered into a US Dollar denominated loan agreement with an affiliated bank. On the same day, WFC also entered into a cross-currency swap (CCS) agreement with an affiliated bank to hedge the foreign currency and interest rate risks in the US Dollar loan. WFC received $19.89 million on each tranche made in July, August and September 2017 for a total of $59.67 million but will pay in peso equivalent to ₱3.00 billion within 10 years in accordance with the CCS agreement. Also, WFC, on a semi-annual basis, will pay fixed interest rate of 5.13% per annum on the peso principal amounting to ₱3.00 billion and will receive floating interest rate at 6-month US Dollar LIBOR plus 0.75% on $59.67 million over a period of 10 years or up to the maturity date of June 25, 2027. Effectively, under the swap agreement, WFC swaps its US Dollar-denominated floating rate loans into peso fixed rate loans. On the same date, WFC designated the swap as effective hedging instrument under a cash flow hedge relationship. As such, the effective portion of the changes in fair value of the swaps was recognized under other comprehensive income amounting to ₱26.78 million. As of December 31, 2017, the negative fair value of the currency swap amounting to ₱47.07 million is included in ‘Derivative liabilities’ under ‘Other noncurrent liabilities’ (Note 21).

The loan has one-year grace period on principal payments and the partial payment on principal will be computed as follows:

i. 1% of original loan amount at the end of the 2nd year
ii. 3% of original loan amount at the end of 3rd, 4th and 5th year
iii. 18% of original loan amount at the end of 6th, 7th, 8th, 9th and 10th year

As of December 31, 2017 and 2016, the movement of the deferred financing cost is as follows:

	2017	2016
Balances at beginning of year	**₱47**	₱41
Additions	**15**	25
Amortization	**(19)**	(19)
Balances at end of year	**₱43**	₱47

Total interest expense incurred in 2017, 2016 and 2015 from the aforementioned loans payable amounted to ₱415.13 million, ₱913.75 million and ₱840.13 million, respectively. Interest expense capitalized as part of real estate inventories amounted to ₱293.76 million and ₱587.04 million in 2017 and 2016, respectively.

Debt Covenants
The agreements covering the above mentioned loans provide for restrictions and requirements with respect to, among others, declaration or making payment of dividends (except stock dividends);

making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; sustaining current ratio of at least 1.75; debt-to-equity financial ratio should not be more than 2.00 and entering into any partnership, merger, consolidation or reorganization.

These restrictions and requirements were complied with by the Group as of December 31, 2017 and 2016.

Loans Payable - TMPC Group
As of December 31, 2017 and 2016, this account consists of unsecured long-term debt of the following entities:

	2017	2016
TAPI	**₱79**	₱79
Other entities	**167**	166
	₱246	₱245

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 10-year term loan with a maturity date of September 28, 2025 and October 23, 2026. These loans are automatically renewed upon maturity for another 10 years.

The loan covenants restrict TMPC from encumbering or disposing properties leased by the lenders during the respective terms of various loan agreements. TMPC is not required to maintain any financial ratios under the mentioned loan agreements. Interest expense on these loans amounted to ₱7.82 million in 2017, 2016 and 2015.

<u>TMBC Long-Term Loans</u>
On March 21, 2016, TMBC entered into a Term Loan Facility with a non-affiliated local bank amounting to ₱1.50 billion to finance the construction of building, with interest rates ranging from 4.85% to 5.94% and payable for a period of 10 years, inclusive of three (3) years grace period on principal repayments subject to interest rate based on 10-year PDST-R2 plus a minimum spread of 1.25%. TMBC loan is secured by a real estate mortgage. The carrying value of the mortgaged properties amounted to ₱392.70 million and ₱392.68 million as of December 31, 2017 and 2016, respectively.

TMBC is required to maintain the following financial ratios during the term of the loans:

- Minimum current ratio (CR) of 1.0x - defined as Current Assets divided by Current Liabilities
- Maximum debt to equity ratio (DER) of 4.0x - defined as Total Liabilities divided by Total Tangible Net Worth (Total Equity - Intangibles)
- Minimum debt service ratio (DSR) of 1.2x - defined as Earnings before Interest, Taxes, Depreciation and Amortization divided by Interest Expense plus current portion of Long-term debt of the previous year

As of December 31, 2017 and 2016, TMBC has complied with the required financial ratios.

As of December 31, 2017 and 2016, the movement of the deferred financing cost is as follows:

	2017	2016
Balances at beginning of year	**₱7**	₱–
Additions	**–**	7
Amortization	**(3)**	–
Balances at end of year	**₱4**	₱7

Interest expense on long-term loans payable amounted to ₱34.60 million and ₱16.58 million in 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the carrying value of long-term loans payable amounted to ₱1.10 billion and ₱1.49 billion, respectively.

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	DER	2.3:1
PCFI	DSR	1.5x
PCFI	DER	2:1
PCFI	CR	1.75:1

As of December 31, 2017 and 2016, the Group has complied with the foregoing financial ratios.

17. **Bonds Payable**

			Carrying Value	
Maturity Dates	Interest rate	Par Value	**2017**	2016
₱10.0 billion Bonds				
February 27, 2020	4.8371%	₱3,900	**₱3,886**	₱3,880
February 27, 2023	5.0937%	6,100	**6,062**	6,056
		10,000	**9,948**	9,936
₱12.0 billion Bonds				
November 7, 2019	4.7106%	3,000	**2,988**	2,982
August 7, 2021	5.1965%	5,000	**4,971**	4,964
August 7, 2024	5.6250%	4,000	**3,970**	3,966
		12,000	**11,929**	11,912
Balances at end of year		₱22,000	**₱21,877**	₱21,848

<u>₱10.00 billion GT Capital bonds due 2020 and 2023</u>
On February 13, 2013, the Parent Company issued ₱10.00 billion 7-year and 10-year bonds due on February 27, 2020 and February 27, 2023, respectively, with 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 the Philippine Dealing and Exchange Corporation on February 27, 2013.

The net proceeds were utilized for general corporate requirements which included various equity calls (e.g., Toledo plant and Panay plant) and refinancing of corporate notes.

Prior to the relevant maturity dates, the Parent Company may redeem (in whole but not in part) any series of the outstanding bonds on every anniversary date, or the immediately succeeding banking day if such is not a banking day, starting on the fourth (4th) anniversary date for the seven-year bonds and the seventh anniversary date for the 10-year bonds (the relevant Optional Redemption Dates). The Parent Company shall give no less than 30 but not more than 60 days prior written notice of its intention to redeem the bonds at the relevant Optional Redemption Date.

<u>₱12.00 billion GT Capital bonds due 2019, 2021 and 2024</u>
On July 24, 2014, the Parent Company issued ₱12.00 billion bonds with tenors of five years, seven years and ten years due November 7, 2019 (Series A Bonds), August 7, 2021 (Series B Bonds) and August 7, 2024 (Series C Bonds), respectively, with 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, 2017 and 2016, the movement of the deferred financing cost is as follows:

	2017	2016
Balances at beginning of year	**₱152**	₱179
Amortization	**(29)**	(27)
Balances at end of year	**₱123**	₱152

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, 2017 and 2016, the Parent Company has complied with its bond covenants. Total interest expense incurred on bonds payable in 2017, 2016 and 2015 amounted to ₱1.15 billion (including amortization of deferred financing cost of ₱28.98 million), ₱1.15 billion (including amortization of deferred financing cost of ₱27.51 million), and ₱1.15 billion (including amortization of deferred financing cost of ₱26.11 million), respectively.

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, 2017 and 2016, the balance of this account amounted to ₱4.94 billion and ₱3.84 billion, respectively (Note 27).

19. Other Current Liabilities

This account consists of:

	2017	2016
VAT payable	**₱644**	₱253
Withholding taxes payable	**544**	360
Others	**41**	25
	₱1,229	₱638

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 2017, Fed Land entered into a contract with Kabayan Realty Corporation (KRC) to acquire certain land for ₱2.26 billion. Upon execution of the contract, Fed Land paid KRC with 22% downpayment amounting to ₱500.00 million and the outstanding balance amounting to ₱1.76 billion shall be paid in five installments with 3.00% interest per annum based on the outstanding balance. The outstanding balance was discounted at the prevailing market rate of 4.75% and the discounted liability as of December 31, 2017 amounted to ₱1.66 billion.

In 2017, HLPDC entered into various contracts to acquire parcels of land for ₱161.37 million. Upon execution of the contracts, HLPDC paid ₱93.99 million and the outstanding balance amounting to ₱67.37 million shall be paid in 2018. The outstanding balance as of December 31, 2017 amounted to ₱67.37 million.

In 2012, 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, 2017 and 2016 amounted to ₱2.00 billion and ₱2.16 billion, respectively.

Total outstanding liabilities on purchased properties (including current portion) amounted to ₱3.73 billion and ₱2.16 billion as of December 31, 2017 and 2016, respectively (Note 27).

21. Other Noncurrent Liabilities

This account consists of:

	2017	2016
Retentions payable - noncurrent portion	**₱917**	₱805
Provisions	**740**	974
Refundable and other deposits	**455**	297
Derivative liabilities (Note 16)	**47**	–
Finance lease obligation - net	**8**	9
	₱2,167	₱2,085

Retentions payable represent a portion of construction cost withheld by the Group and paid to the contractors after an agreed period commencing the completion of the project.

Provisions consist of:

	2017	2016
Claims and assessments	**₱522**	₱775
Product warranties	**218**	199
	₱740	₱974

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, 2017 and 2016, the paid-up capital consists of the following (amounts in millions, except for number of shares):

	Shares		Amount	
	2017	2016	**2017**	2016
Voting Preferred stock -				
₱0.10 par value				
Authorized	**174,300,000**	174,300,000		
Issued and outstanding	**174,300,000**	174,300,000	**₱17**	₱17
Perpetual Preferred stock -				
₱100.00 par value				
Authorized	**20,000,000**	20,000,000		
Issued and outstanding	**12,000,000**	12,000,000	**1,200**	1,200
Common stock - ₱10.00 par value				
Authorized	**298,257,000**	298,257,000		
Issued and outstanding	**192,596,685**	174,300,000	**1,926**	1,743
Additional paid-in capital			**78,940**	57,437
			₱82,083	₱60,397

The Parent Company's common shares with par value of ₱10.00 were listed on the Philippine Stock Exchange on April 20, 2012.

Amendment to Articles of Incorporation to Create Voting Preferred Shares of Stock
On October 23, 2014, the BOD approved the proposed amendment to Article Seven of the Parent Company’s Amended Articles of Incorporation to create a new class of shares – Voting Preferred Shares, to be taken from existing authorized capital stock of ₱5.00 billion. The Voting Preferred Shares of stock shall be voting, non-cumulative, non-participating and non-convertible.

On January 9, 2015, the stockholders of the Parent Company by the affirmative vote of over two-thirds (2/3) of the outstanding capital stock of the Parent Company, approved the amendment to Article Seventh of the Parent Company’s Articles of Incorporation to create of a new class of shares – voting preferred shares, taken out of the Parent Company’s existing and unissued portion of the Authorized Capital Stock. The Amended Articles of Incorporation was approved by the Securities and Exchange Commission on February 18, 2015.

Voting Preferred Shares Stock Rights Offering
On March 13, 2015, the BOD of the Parent Company approved the issuance of 174,300,000 Voting Preferred Shares with a par value of ₱0.10 per share through a 1:1 Stock Rights Offering, to all stockholders of record as of March 25, 2015, offered from April 1 to 8, 2015 and issued on April 13, 2015.

Amendment to Articles of Incorporation to Create Perpetual Preferred Shares of Stock
On March 13, 2015, the BOD of the Parent Company approved the amendment to Article Seven of its amended Articles of Incorporation to create a new class of shares (Perpetual Preferred Shares). The authorized capital stock of the corporation of ₱5.00 billion in lawful money of the Philippines, will be divided into 298,257,000 common shares with a par value of ₱10.00 per share, 20,000,000 perpetual preferred shares with a par value of ₱100.00 per share and 174,300,000 voting preferred shares with a par value of ₱0.10 per share.

On October 14, 2016, the Philippine SEC approved the offering of up to 12.00 million cumulative, non-voting, non-participating, non-convertible, redeemable peso-denominated perpetual preferred shares ('the Offer') with a par value of ₱100.00 per share at an offer price of ₱1,000.00 per share for a total offer price of ₱12.00 billion. The Offer consists of Series A and Series B with dividend rates per annum of 4.6299% and 5.0949%, respectively. Both series of said perpetual preferred shares were listed on the Philippine Stock Exchange on October 27, 2016. The proceeds from the Offer will be used to refinance short-term loans and fund strategic acquisitions.

Common Shares
On April 20, 2017, the Parent Company and Grand Titan signed a subscription agreement for the subscription of 18.30 million common shares of the Parent Company for a total subscription price of ₱21.69 billion. On April 26, 2017, Grand Titan paid the subscription price in cash.

As of December 31, 2017 and 2016, the total number of stockholders of common shares of the Parent Company is 72 and 73, respectively.

Retained Earnings
On December 7, 2017, the BOD of the Parent Company approved the appropriation of retained earnings amounting to ₱19.00 billion to be earmarked for strategic investment in financial services.

On December 15, 2016, the BOD of the Parent Company approved the appropriation of retained earnings amounting to ₱15.50 billion to be earmarked for the following:

Project Name	Timeline	Amount
Strategic investment in Financial Services	2017	₱13.90 billion
Dividends on Perpetual Preferred Shares	2017	0.60 billion
Dividends on Common Shares	2017	0.50 billion
Capital Call from TFSPC	2017	0.50 billion
		₱15.50 billion

Appropriation of retained earnings amounting to ₱14.90 billion and ₱0.60 billion were reversed in 2017 and 2016, respectively, upon completion of the purpose of appropriation.

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 21, 2017	₱0.00377	₱0.66	April 4, 2017	April 20, 2017
March 10, 2016	0.00377	0.66	April 8, 2016	May 4, 2016
Perpetual Preferred Shares				
Series A				
December 7, 2017	11.57475	56.01	January 3, 2018	January 29, 2018
December 7, 2017	11.57475	56.01	April 3, 2018	April 27, 2018
December 7, 2017	11.57475	56.01	July 3, 2018	July 27, 2018
December 7, 2017	11.57475	56.01	October 3, 2018	October 29, 2018
December 15, 2016	11.5748	56.01	January 3, 2017	January 27, 2017
December 15, 2016	11.5748	56.01	March 30, 2017	April 27, 2017
December 15, 2016	11.5748	56.01	July 3, 2017	July 27, 2017
December 15, 2016	11.5748	56.01	October 3, 2017	October 27, 2017
Series B				
December 7, 2017	12.73725	91.21	January 3, 2018	January 29, 2018
December 7, 2017	12.73725	91.21	April 3, 2018	April 27, 2018
December 7, 2017	12.73725	91.21	July 3, 2018	July 27, 2018
December 7, 2017	12.73725	91.21	October 3, 2018	October 29, 2018
December 15, 2016	12.7373	91.21	January 3, 2017	January 27, 2017
December 15, 2016	12.7373	91.21	March 30, 2017	April 27, 2017
December 15, 2016	12.7373	91.21	July 3, 2017	July 27, 2017
December 15, 2016	12.7373	91.21	October 3, 2017	October 27, 2017

Details of the Parent Company's dividend distributions to common shareholders out of the Parent Company's retained earnings as approved by the Parent Company's BOD follow:

Date of declaration	Per share	Total amount (in millions)	Record date	Payment date
March 21, 2017	₱5.00	₱871.50	April 4, 2017	April 20, 2017
March 10, 2016	6.00	1,045.80	April 8, 2016	May 4, 2016
March 13, 2015	3.00	522.90	April 17, 2015	May 4, 2015

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, 2017 and 2016.

In addition, certain amount of retained earnings is required to be maintained to enable the Group to meet certain financial ratios as stipulated in the loan covenants.

Details of dividend declarations of the Group's subsidiaries follow:

	Date of declaration	Class of stock	Total amount (in millions)	Record date	Payment date
Fed Land	December 15, 2017	Preferred Shares-A	₱240.00	December 15, 2017	February 28, 2018
	December 15, 2017	Preferred Shares-B	272.58	December 15, 2017	February 28, 2018
	February 17, 2017	Common	100.00	February 17, 2017	March 15, 2017
	December 12, 2016	Preferred Shares-A	240.00	December 12, 2016	February 28, 2017
	December 12, 2016	Preferred Shares-B	272.58	December 12, 2016	February 28, 2017
	February 22, 2016	Common	94.00	December 31, 2015	March 31, 2016
	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

	Date of declaration	Class of stock	Total amount (in millions)	Record date	Payment date
PCFI	December 13, 2016	Preferred Shares-A	1,334.64	June 29, 2016	December 15, 2016
Toyota	May 23, 2017	Common	11,573.15	December 31, 2016	May 2017
	May 4, 2016	Common	9,890.73	December 31, 2015	May 2016
	May 13, 2015	Common	7,025.38	December 31, 2014	May 2015

Other comprehensive income
Other comprehensive income consists of the following, net of applicable income taxes:

	2017	2016	2015
Net unrealized gain on available-for-sale investments	**₱841**	₱186	₱823
Net unrealized loss on remeasurement of retirement plan	**(236)**	(221)	(305)
Cash flow hedge reserve (Note 16)	**(14)**	–	–
Cumulative translation adjustments	**(2)**	–	–
Equity in other comprehensive income of associates:			
Equity in net unrealized loss on AFS investments	**(4,689)**	(2,547)	(969)
Equity in net unrealized loss on remeasurement of retirement plan	**(987)**	(869)	(898)
Equity in cumulative translation adjustments	**(705)**	677	502
Equity in remeasurement on life insurance reserves	**(190)**	–	–
Equity in cash flow hedge reserves	**20**	12	4
Equity in other equity adjustments of associates	**(13)**	(13)	–
Reserve of disposal group classified as held-for-sale	**–**	–	(75)
	(₱5,975)	(₱2,775)	(₱918)

The movements and analysis of the other comprehensive income are presented in the consolidated statements of comprehensive income.

Other Equity Adjustments
PCFI
In accordance with the Master Subscription Agreement dated August 6, 2015, the Parent Company subscribed to the final 28.32% of PCFI for a total subscription price of ₱8.76 billion on June 30, 2016. This subscription increased the Parent Company's direct ownership stake in PCFI from 22.68% to 51.00%. This subscription is accounted for as an equity transaction in the consolidated financial statements and resulted in the recognition of other equity adjustments amounting to ₱1.75 billion.

TCI
In June 2015, the Parent Company acquired 2,705,295 shares of TCI for a total consideration of ₱13.50 million, resulting in 53.80% ownership over TCI. This acquisition was accounted for as an equity transaction and resulted in the recognition of negative other equity adjustments amounting to ₱7.12 million.

Non-controlling interests
The following table presents the rollforward of non-controlling interests:

	2017	2016	2015
Beginning balance	**₱26,433**	₱46,401	₱26,595
Share of non-controlling interest shareholders on:			
Net income	**7,069**	7,893	8,826
Other comprehensive income	**(31)**	498	313
Cash dividends paid to non-controlling interest shareholders	**(5,791)**	(5,910)	(6,309)
Acquisition of additional interests in a subsidiary	**(1)**	(1,746)	–
Preferred shares redemption of a subsidiary	**–**	(2,000)	–
Sale of direct interest in a subsidiary (Note 12)	**–**	(19,390)	–
Effect of business combination (Note 31)	**–**	687	16,996
Acquisition of non-controlling interests in consolidated subsidiaries	**–**	–	(5)
Return of deposits	**–**	–	(15)
	₱27,679	₱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**		**Effective Ownership**	
		2017	2016	**2017**	2016
TMPC	Motor	**49.00**	49.00	**49.00**	49.00
PCFI	Real Estate	**49.00**	49.00	**49.00**	49.00

Carrying value of material non-controlling interests

	2017	2016
PCFI	**₱14,157**	₱13,967
TMPC	**12,278**	11,390

Net income for the period allocated to material non-controlling interests

	2017	2016
TMPC	**₱6,712**	₱6,030
PCFI	**176**	814
GBPC	**–**	913

The following table presents the financial information of subsidiaries with material NCI as of and for the years ended December 31, 2017 and 2016:

	2017		2016	
	TMPC	**PCFI**	TMPC	PCFI
Statement of Financial Position				
Current assets	**₱34,436**	**22,829**	₱29,226	₱21,391
Non-current assets	**7,723**	**16,057**	6,778	18,884
Current liabilities	**20,936**	**7,425**	16,059	6,034
Non-current liabilities	**2,074**	**8,265**	2,452	11,658
Dividends paid to non-controlling interests	**5,776**	**–**	4,858	1,032
Statement of Comprehensive Income				
Revenues	**186,282**	**6,941**	156,693	4,126
Expenses	**169,051**	**6,370**	140,761	3,767
Net income	**13,431**	**723**	12,130	233
Total comprehensive income	**13,334**	**751**	12,165	213
Statement of Cash Flows				
Net cash provided by operating activities	**16,945**	**1,275**	12,164	2,597
Net cash used in investing activities	**(2,065)**	**(2,098)**	(2,865)	(3,183)
Net cash provided by (used in) financing activities	**(10,922)**	**(745)**	(9,605)	2,235

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 2017 and 2016.

The Parent Company considers total equity as its capital amounting to ₱105.27 billion and ₱78.28 billion as of December 31, 2017 and 2016, 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:

	2017	2016	2015
Interest income on:			
Installment contract receivables (Note 5)	**₱1,723**	₱1,721	₱1,462
Short-term investments (Note 4)	**316**	26	20
Cash and cash equivalents (Note 4)	**4**	373	268
Receivables	**–**	119	–
Others	**42**	23	40
	₱2,085	₱2,262	₱1,790

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 ₱1.32 billion in 2017 and ₱1.29 billion in 2016 and 2015. Interest income from collections amounted to ₱0.41 billion, ₱0.43 billion and ₱0.17 billion in 2017, 2016 and 2015, respectively.

Other Income

This account consists of:

	2017	2016	2015
Ancillary income	**₱769**	₱665	₱306
Real estate forfeitures, charges and penalties	**201**	235	266
Subscription income	**95**	–	–
Management fee (Note 27)	**76**	234	64
Gain on disposal of property and equipment (Note 11)	**23**	50	30
Dividend income	**8**	–	14
Gain on asset swap	–	–	337
Others	**435**	402	143
	₱1,607	₱1,586	₱1,160

Ancillary income represents incentives received by Toyota dealers from financing institutions for vehicles sold to financing customers and from insurance companies for policies written for buyers.

Real estate forfeitures, charges and penalties are earned when a buyer is delinquent on his payment or cancels his purchase of condominium units, after deducting any cash surrender value.

Management fee includes services rendered by Fed Land and PCFI in the administration of different projects related to the joint venture (Note 27).

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. 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. Cost of Goods and Services Sold

Cost of goods and services sold consists of:

	2017	2016	2015
Beginning inventory			
Automotive	**₱6,861**	₱1,891	₱2,293
Gasoline, retail and petroleum products	**9**	7	6
Food	**1**	1	1
	6,871	1,899	2,300
Add: Net purchases	**145,571**	125,624	73,386
Total inventories available for sale	**152,442**	127,523	75,686
Less: Ending inventory (Note 6)			
Automotive	**4,734**	6,861	1,891
Gasoline, retail and petroleum products	**10**	9	7
Food	**7**	1	1
Subtotal (Note 6)	**147,691**	120,652	73,787
Cost adjustments	**(202)**	764	712
Internal and other transfers	**(368)**	(82)	(357)
Direct labor	**365**	38	27
Overhead (Note 30)	**227**	688	772
	₱147,713	₱122,060	₱74,941

Overhead includes rent expense and common usage and service area charges.

25. Cost of Goods Manufactured and Sold

Cost of goods manufactured and sold consists of:

	2017	2016	2015
Raw materials, beginning	**₱1,329**	₱1,382	₱885
Purchases	**35,350**	29,486	25,184
Total materials available for production	**36,679**	30,868	26,069
Less: Raw materials, end	**1,423**	1,329	1,382
Raw materials placed in process	**35,256**	29,539	24,687
Direct labor	**400**	372	329
Manufacturing overhead	**4,084**	3,876	2,901
Total cost of goods placed in process	**39,740**	33,787	27,917
Work-in-process, beginning	**13**	68	43
Total Cost of goods in process	**39,753**	33,855	27,960
Less: Work-in-process, ending	**12**	13	68
Total cost of goods manufactured	**39,741**	33,842	27,892
Finished goods, beginning	**66**	63	21
Total goods available for sale/transfer	**39,807**	33,905	27,913
Less: Finished goods, ending	**19**	66	63
Other transfers	**153**	47	12
	₱39,635	₱33,792	₱27,838

26. **General and Administrative Expenses**

This account consists of:

	2017	2016	2015
Salaries, wages and employee benefits (Notes 27 and 28)	**₱3,347**	₱2,866	₱1,920
Advertising and promotions	**1,915**	1,838	1,313
Taxes and licenses	**1,608**	2,010	991
Commissions	**1,536**	1,394	725
Delivery and handling	**709**	586	427
Depreciation and amortization (Note 11)	**655**	495	344
Light, water and other utilities	**496**	420	352
Office supplies	**418**	244	138
Outside services	**388**	223	70
Unrealized foreign exchange losses	**385**	468	89
Repairs and maintenance	**311**	258	108
Professional fees	**236**	429	133
Transportation and travel	**232**	183	132
Rent (Note 30)	**159**	149	74
Provision of product warranties	**121**	121	119
Communications	**82**	93	45
Entertainment, amusement and recreation	**72**	89	65
Administrative and management fees	**59**	55	16
Insurance	**44**	40	27
Provision for (recoveries from) credit losses (Note 5)	**13**	(6)	95
Royalty and service fees	**11**	13	10
Donation	**3**	–	–
Provisions for other expenses	**–**	353	136
Others	**99**	516	153
	₱12,899	₱12,837	₱7,482

Other expenses include membership and subscription fees, dealer development, corporate events and contractual services.

27. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities. These related parties include subsidiaries, associates, joint venture, key management personnel, stockholders and other related parties which include affiliates.

An entity is considered an affiliate if such entity and the Parent Company have common shareholders. In effect, such entity is a sister company of the Parent Company by virtue of ownership and common control. It is neither a subsidiary nor associate of the Group.

The Group, in its regular conduct of its business, has entered into transactions with its associates, joint venture and other related parties principally consisting of cash advances for reimbursement of expenses, merger and acquisitions and capital infusion, leasing agreements, management agreements and dividends received from associates.

As of December 31, 2017 and 2016, 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, 2017		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Significant investor			
Rent income	₱1		Lease of office space
Associates			
Cash and cash equivalents	881	₱9,367	Due and demandable; fixed rate; 0.38% to 3.50%; 14 days to 35 days
Short-term investments	16	597	Various; fixed rate; 0.01%; 181 days
Vehicle receivables (Note 5)		226	Non-interest bearing, unsecured, no impairment; 30 days
Commission receivable		11	Non-interest bearing; due and demandable; Unsecured; no impairment
Rent receivable		22	Non-interest bearing; due and demandable; Unsecured; no impairment
Receivable from sharing expenses		33	Non-interest bearing; due and demandable; Unsecured; no impairment
Other receivables		3	Non-interest bearing; due and demandable; Unsecured; no impairment
Available-for-sale investments (Note 10)		611	Investment in unit investment trust fund invested in money market placements sponsored by the trust department of an associate
Due from related parties		11	Non-interest bearing; due and demandable; Unsecured; no impairment
Other noncurrent assets	1	46	Unsecured; Fixed; 2.00%; 1261 days
Property and equipment		26	Purchased of properties
Loans payable (Note 16)	6,264	11,000	2.55% to 5. 29% interest rate
Other payables		159	Non-interest bearing; due and demandable; Unsecured
Due to related parties		17	Non-interest bearing; due and demandable; Unsecured
Interest income	26		Various; fixed rate
Rent income	124		Lease of office space
Dividend income	1,597		Dividend income from associates
Interest expense	139		Various; fixed rate
Gain on sale of AFS investments (Note 10)	15		Realized gain on UITF
Joint ventures			
Cash and cash equivalents	3	7	Savings, current and time deposits accounts earning annual interest rate ranging from 0.38% to 1.75%
Commission receivable		74	Non-interest bearing; due and demandable; Unsecured; no impairment
Financing receivables		268	Non-interest bearing; Unsecured; no impairment; 30 days
Rent receivable		5	Non-interest bearing; due and demandable; Unsecured; no impairment
Management fee receivable		37	Non-interest bearing; due and demandable; Unsecured; no impairment
Due from related parties	100	100	Non-interest bearing; due and demandable; Unsecured; no impairment
Other receivables		20	Non-interest bearing; due and demandable; Unsecured; no impairment
Investment and advances	1,656	1,656	Initial/additional investment in joint ventures
Other payables		23	Non-interest bearing; due and demandable; Unsecured

(Forward)

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2017		
Commission income	₱33		Commission fee received from selling or marketing the real estare units
Management fee income (Note 23)	37		Service fee in the administration of different project related to the JV
Rent income	49		Lease of office space
Interest income	7		Interest income from cash and cash equivalents
Other related parties			
Cash and cash equivalents	19	₱1,003	Due and demandable, unsecured, no impairment; Fixed; 2.70%; 29 days
Financing receivables		160	Non-interest bearing, unsecured, no impairment; 30days
Service receivables		50	Non-interest bearing, unsecured, no impairment; 30days
Vehicle receivables		198	Non-interest bearing, unsecured, no impairment; 30days
Management receivables		182	Due and demandable
Commission receivable		5	Non-interest bearing; due and demandable; Unsecured; no impairment
Interest receivable		30	Non-interest bearing; due and demandable; Unsecured; no impairment
Receivable from sharing expenses		2	Non-interest bearing; due and demandable; Unsecured; no impairment
Rent receivable		14	Non-interest bearing; due and demandable; Unsecured; no impairment
Other receivables		16	Non-interest bearing; due and demandable; Unsecured; no impairment
Prepaid expenses and others		1	Car plan insurance and directors and officers liability insurance premium
Long-term loans receivable (Note 5)		652	With interest of 3.15%; payable in 2022; Unsecured; no impairment
Investments and advances (Note 8)	25,120	25,120	Additional investment in MBTC and initial investment in a joint venture
Due from related parties		55	Non-interest bearing; due and demandable; Unsecured; no impairment
Advances		9	Due and demandable
Property and equipment		101	Purchased of properties
Insurance premium payable		181	Non-interest bearing, unsecured; 90days
Other payables		37	Non-interest bearing; due and demandable; Unsecured
Due to related parties		172	Non-interest bearing; due and demandable; Unsecured
Loans payable (Note 16)	3	79	Unsecured; 4.20% interest rate
Liabilities on purchased properties (Note 20)	1,575	3,734	With 3.00% interest; payable annually until 2026; unsecured
Bonds payable		20	GT Capital bonds held by a subsidiary of an associate
Commission income	9		Commission fee received from selling or marketing the real estare units
Interest income	102		Interest income from cash and cash equivalents
Rent income	74		Lease of office space
Interest expense	44		Various; fixed rate
Insurance expense	2		Car plan insurance and directors and officers liability insurance paid to a subsidiary of an associate

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2016		
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	Non-interest-bearing; unsecured; no impairment
Rent receivables		12	Non-interest-bearing; unsecured; no impairment
Vehicle receivables		345	Non-interest-bearing; unsecured; no impairment
Due from related parties		21	Non-interest-bearing; unsecured; no impairment
Receivables from sharing of expenses	30	27	Non-interest-bearing; unsecured; no impairment
Other receivables		6	Non-interest-bearing; unsecured; no impairment

(Forward)

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
	December 31, 2016		
Available-for-sale investments (Note 10)	₱1,284	₱1,284	Investment in UITF
Investments and advances (Note 8)	32,934	32,934	Initial investment in MPIC and additional investment in MBTC
Investments and advances (Note 8)	241	241	Advisory fees of FMIC
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	Sale of transportation equipment
Commission income	2		Commission fee received from selling or marketing the real estare units
Interest income	60		Interest from bank deposits with an associate at 0.38% to 2.5% per annum
Management fee income (Note 23)	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 (Note 10)	16		Realized gain on UITF
Joint ventures			
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
Investments and advances (Note 8)	556	556	Initial/additional investment in joint ventures
Management fee income (Note 23)	39		
Rent income	33		Lease of office space
Commission income	115		
Vehicle & service sales	81		
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	Non-interest-bearing; unsecured; no impairment
Trade receivables	7,890	691	Non-interest-bearing; unsecured; no impairment
Rent receivables		1	Non-interest-bearing; unsecured; no impairment
Vehicle receivables		169	Non-interest-bearing; unsecured; no impairment
Nontrade receivables	3	5	Receivable arising from reimbursable expenses and other nontrade transactions
Receivables from sharing of expenses	7	6	Non-interest-bearing; unsecured; no impairment
Prepaid expenses and others	1	3	Unsecured; no impairment
Due from related parties		59	Non-interest-bearing; unsecured; no impairment
Financing receivables		70	Unsecured; no impairment
Other receivables		436	Non-interest-bearing; unsecured; no impairment
Loans receivables		643	With interest of 3.15%; payable in 2022; unsecured
Accounts and other payables	110,625	7,054	Non-interest-bearing; unsecured; no impairment
Customers' deposits		22	Non-interest-bearing; unsecured; no impairment
Due to related parties		175	Non-interest-bearing; unsecured; no impairment
Royalty payable	83	7	Non-interest-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

Details of the transactions with affiliates are as follows:

Cash and cash equivalents and short-term investments
The Group maintains cash and short-term deposits accounts with MBTC, an associate. The Group also has cash and short-term deposits with other related parties such as Metrobank Card Corporation and PSBank, which are subsidiaries of MBTC. Cash and cash equivalents earn interest at the prevailing investment rates.

Available-for-sale investments
In 2016, the Parent Company invested in UITF products of MBTC. As of December 31, 2017 and 2016, the Parent Company's investment in UITF amounted to ₱0.61 billion and ₱1.28 billion, respectively (Note 10).

Operating advances
Due from and to related parties consist mostly of operating advances which are non-interest bearing and due and demandable.

Long-term loans receivable
In 2012, Fed Land entered into a loan agreement with CIRC. Fed Land agreed to lend to CIRC a total amount of ₱705.00 million with a nominal and effective interest rate of 3.15% and 4.81%, respectively. The outstanding balance of long-term loans receivable as of December 31, 2017 and 2016 amounted to ₱652.17 million and ₱643.04 million, respectively (Note 5).

Affiliated bank loans
The Group's loans payable to an affiliated commercial bank bears interest rates ranging from 2.50% to 5.13%, 2.55% to 5.29% and 3.75% to 6.20% per annum for 2017, 2016 and 2015, respectively.

Management fee
Management fee amounting to ₱37.48 million, ₱41.76 million and ₱52.76 million in 2017, 2016 and 2015, respectively, pertains to the income received from a joint venture of Fed Land with BLRDC and STRC (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 range from 5 to 10 years and are generally renewable for 5 years. The rent is payable monthly with annual rent escalation rates ranging from 5% to 8%. The rental income on these leases amounted to ₱130.34 million, ₱179.47 million and ₱195.25 million in 2017, 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 CPAIC to AXA Philippines for ₱2.30 billion, subject to closing conditions that are usual and customary. On April 4, 2016, the Parent Company completed the sale of CPAIC for a final consideration of ₱2.10 billion (Note 12).

Compensation of key management personnel for the years ended December 31, 2017, 2016 and 2015 follow:

	2017	2016	2015
Short-term employee benefits	**₱643**	₱606	₱590
Post-employment benefits	**81**	59	102
	₱724	₱665	₱692

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, 2017 and 2016 amounted to ₱2.04 billion and ₱1.51 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, 2017 and 2016 (in absolute amounts):

	December 31, 2017		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/Nature**
Associate			
Savings deposit		**₱34,361**	Savings account with annual interest of 1%, unsecured and no impairment;
Time deposit		**379,851,411**	With annual interest of 3.88%, 1 - 3 months maturity; unsecured and no impairment
Investment in equity securities		**80,083,375**	Unsecured with no impairment
Investment in UITF		**8,591,147**	Unsecured with no impairment
Interest income	**₱5,198,953**		Income earned from savings and time deposit
Gain on sale of shares	**430,978**		Income from sale of shares
Gain on sale of UITF	**368,493**		Income from sale of UITF

	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

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:

		2017		
		Actuarial Assumptions		
	Date of Actuarial Valuation	**Expected Return on Plan Assets**	**Salary Rate Increase**	**Discount Rate**
Real estate	**December 31, 2017**	**3.00%**	**7.00% to 9.00%**	**4.69% to 6.69%**
Automotive	**-do-**	**4.00%**	**5.00% to 7.00%**	**5.28% to 6.05%**
Financial	**-do-**	**3.50%**	**8.00%**	**5.74%**

		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 to 8.00%	5.00% to 7.00%	5.21% to 5.86%
Financial	-do-	3.50%	7.00%	5.53%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

Net retirement liability (asset) included in the consolidated statement of financial position follow:

	2017	2016
Retirement asset (Note 14)	**(₱7)**	(₱2)
Retirement liability	**1,399**	1,671
Net retirement liability	**₱1,392**	₱1,669

The net pension liability and asset recognized in the Group's consolidated statements of financial position are as follows:

		Net benefit cost					Remeasurements in other comprehensive income						
	January 1, 2017	Current service cost	Net interest	Past service cost	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions paid	December 31, 2017
Present value of defined benefit obligation	**₱3,183**	**₱238**	**₱158**	**₱–**	**₱396**	**(₱84)**	**₱–**	**₱41**	**₱3**	**(₱106)**	**(₱62)**	**₱–**	**₱3,433**
Fair value of plan assets	**(1,514)**	**–**	**(77)**	**–**	**(77)**	**71**	**107**	**–**	**–**	**–**	**107**	**(628)**	**(2,041)**
Net defined benefit liability	**₱1,669**	**₱238**	**₱81**	**₱–**	**₱319**	**(₱13)**	**₱107**	**₱41**	**₱3**	**(₱106)**	**₱45**	**(₱628)**	**₱1,392**

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	₱88	(₱771)	₱2,840	₱214	₱187	₱6	₱407	(₱79)	₱–	₱96	(₱13)	(₱68)	₱15	₱–	₱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	₱67	(₱675)	₱1,606	₱214	₱129	₱6	₱349	(₱3)	₱3	₱96	(₱13)	(₱68)	₱18	(₱301)	₱1,669

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:

	2017	2016
Cash and cash equivalents	**₱334**	₱46
Investment in government securities	**1,181**	966
Investment in equity securities	**362**	258
Investment in debt and other securities	**112**	86
Receivables	**22**	125
Investment in mutual funds	**33**	21
Others	**(1)**	15
Liabilities	**(2)**	(3)
	₱2,041	₱1,514

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:

		2017	2016
	Possible Fluctuations	**Increase (Decrease)**	Increase (Decrease)
Discount rates	+1%	**(₱244)**	(₱202)
	-1%	**276**	232
Future salary increase rate	+1%	**290**	244
	-1%	**(260)**	(216)

The Group expects to contribute ₱405.44 million to its defined benefit pension plan in 2018.

The average duration of the defined benefit retirement liability at the end of the reporting period is 16.02 years for the Group.

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

Less than 1 year	**₱292**
More than 1 year to 5 years	**1,248**
More than 5 years to 10 years	**2,431**
More than 10 years to 15 years	**2,093**
More than 15 years to 20 years	**1,721**
More than 20 years	**7,005**

The Group does not currently have any asset-liability matching study.

29. **Income Taxes**

Provision for income tax account consists of:

	2017	2016	2015
Current	**₱4,209**	₱4,377	₱4,241
Deferred	**248**	126	(5)
Final	**67**	83	63
	₱4,524	₱4,586	₱4,299

The components of the Group's deferred taxes as of December 31, 2017 and 2016 are as follows:

Net deferred tax asset:

	2017	2016
Deferred tax asset on:		
Retirement benefit obligation	**₱505**	₱439
Deferred gross profit	**114**	2
Accrued expenses	**77**	32
Warranties payable and other provisions	**66**	60
Allowance for inventory obsolescence	**25**	20
Unamortized past service cost from pension obligation	**24**	–
Allowance for impairment losses	**22**	9
NOLCO	**7**	–
Unrealized foreign exchange gain	**40**	–
Accrued dealers' incentives, support and promotions	**–**	18
Others	**14**	2
	894	582
Deferred tax liability on:		
Capitalized custom duties	**28**	23
Unearned gross profit on ending inventories	**11**	–
Unearned gross profit on real estate sales	**5**	–
Unrealized foreign exchange gain	**–**	13
Capitalized borrowing cost and guarantee fees	**–**	3
Deferred financing cost	**–**	2
Others	**119**	1
	163	42
Net deferred tax asset	**₱731**	₱540

Net deferred tax liability:

	2017	2016
Deferred tax asset on:		
Unrealized gain on sale of land	**₱725**	₱718
Excess of cost over fair value of investment property	**107**	108
Prepaid commission	**79**	89
Unearned income	**52**	34
Retirement benefit obligation	**48**	109
Accrued expenses	**32**	194
Interest expense on Day 1 loss	**20**	18
Unearned gross profit on ending inventories	**13**	24
Allowance for probable losses	**6**	5
NOLCO	–	68
Fair value adjustment on acquisition	**–**	15
Others	**6**	10
	1,088	1,392

(Forward)

	2017	2016
Deferred tax liability on:		
Fair value adjustment on acquisition - by Parent Company	**₱5,133**	₱5,437
Capitalized borrowing cost and guarantee fees	**933**	768
Excess of book basis over tax basis of deferred gross profit	**255**	112
Fair value adjustment on acquisition - by subsidiaries	**219**	–
Unamortized discount on long-term payable	**83**	33
Lease differential	**20**	15
Deferred financing costs − bonds	**17**	–
Accrued income	**13**	–
Retirement asset	**2**	1
Others	**7**	78
	6,682	6,444
Net deferred tax liability	**₱5,594**	₱5,052

The Group has deductible temporary differences for which deferred tax asset has not been recognized since management believes that it is not probable that sufficient taxable income will be available against which the said deductible temporary differences can be utilized.

The Group's unrecognized deductible temporary differences pertain to its NOLCO and MCIT with details as follows:

NOLCO

Year Incurred	Amount	Expired/Applied	Balance	Expiry Date
2017	₱2,891	₱–	₱2,891	2020
2016	3,149	(101)	3,048	2019
2015	1,882	(100)	1,782	2018
2014	1,002	(1,002)	–	2017
	₱8,924	(₱1,203)	₱7,721	

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:

	2017	2016	2015
Provision for income tax computed at statutory rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Income subjected to final tax	**(0.18)**	(0.06)	(0.36)
Nondeductible interest and other expenses	**0.85**	1.05	0.71
Change in unrecognized deferred tax assets	**3.97**	5.05	3.38
Nontaxable income	**(10.27)**	(17.28)	(9.11)
Operating income within ITH	**(7.10)**	(1.99)	(6.32)
Others	**0.28**	0.26	(0.53)
Effective income tax rates	**17.55%**	17.03%	17.77%
Continuing operations	**17.55%**	16.89%	16.88%
Disposal group	–	0.14%	0.89%
	17.55%	17.03%	17.77%

Board of Investments (BOI) Incentives

Fed Land

The BOI issued a Certificate of Registration as a New Developer of Mass Housing Project for its real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the registered projects have been granted Income Tax Holiday (ITH) for a period of three to four years. The projects namely: PGMH - Narra Tower and PGMH - Mandarin Tower are entitled to ITH from 2013 to 2016 and Axis Residences Tower A is entitled to ITH from 2015 to 2018.

PCFI

On various dates, the BOI issued in favor of PCFI the Certificates of Registration (COR) as a new developer of Mass Housing Project for its 31 real estate projects in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the projects were granted an ITH for a period of three (3) to four (4) years commencing on various dates from 2014 to 2017 and expiring on various dates from 2017 to 2020.

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 10 years. Rent expense included under 'General and administrative expenses' amounted to ₱158.78 million, ₱149.49 million and ₱73.80 million in 2017, 2016 and 2015, respectively (Note 26). Rental incurred on the lease of land for its mall and gasoline stations are presented as 'Overhead' and included in the 'Cost of goods and services sold' account, amounting to ₱22.12 million, ₱23.66 million and ₱20.57 million in 2017, 2016 and 2015, respectively (Note 24).

As of December 31, 2017 and 2016, the future minimum rental payments are as follows:

	2017	2016
Within one year	**₱118**	₱103
After one year but not more than five years	**478**	261
More than five years	**42**	263
	₱638	₱627

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 ₱940.10 million, ₱826.59 million and ₱840.46 million, in 2017, 2016 and 2015, respectively (Note 9). The cost of rental services amounting ₱360.43 million, ₱326.35 million and ₱271.61 million in 2017, 2016 and 2015, respectively, includes maintenance fee, depreciation, repairs and maintenance, and taxes and licenses.

As of December 31, 2017 and 2016, the future minimum rental receipts from these lease commitments are as follows:

	2017	2016
Within one year	**₱676**	₱586
After one year but not more than five years	**1,066**	1,118
More than five years	**521**	534
	₱2,263	₱2,238

31. Business Combinations and Disposals

Acquisition of TRDCI
On February 10, 2017, FLI acquired 100.00% interest in TRDCI from Solid Share Holdings Philippines, Inc.

The fair values of the net liabilities assumed as of acquisition date, are as follow:

Current assets	₱433
Current liabilities	(847)
Noncurrent assets	486
Noncurrent liabilities	(100)
Fair value of net liabilities assumed	(28)
Consideration paid in cash	60
Goodwill (Note 13)	**₱88**

The gross contractual amount of receivables acquired amounted to ₱44.60 million. The goodwill of ₱0.09 billion comprises the value of the expected synergies arising from having TRDCI within the Group. Goodwill is allocated entirely to the acquisition of TRDCI and none of the goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, TRDCI contributed gross revenues and net income amounting to ₱16.35 million and ₱27.86 million, respectively, to the Group for the year ended December 31, 2017.

<u>Acquisition of TMBC</u>
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 (Note 13)	₱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, for the year ended December 31, 2016. 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 for the year ended December 31, 2016 would have been ₱24.30 billion and ₱0.17 billion, respectively.

Acquisition of FLOC

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.

Acquisition of WFC

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.

<u>Acquisition of PCFI</u>
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	
Cash and cash equivalents	₱338
Short-term investments	962
Receivables	13,078
Inventories	23,147
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 (Note 13)		₱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 of these instruments.

Receivables
The fair value of receivables due within one year approximates its carrying amounts. The fair values of installment contracts receivable are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 3.24% to 12.00% and 2.16% to 12.00% as of December 31, 2017 and 2016, respectively. For the long-term loan receivable, the Group used discounted cash flow analyses to measure the fair value of the loan. The interest rate used was the average bank lending rate for both December 31, 2017 and 2016.

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). Quoted AFS investment includes investment in UITFs. UITFs are ready-made investments that allow pooling of funds from different investors with similar investments objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark-to-market method in valuing the fund's securities.

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 5.94% and 2.55% to 7.18% for the year ended December 31, 2017 and 2016, respectively.

Liabilities on purchased properties
Estimated fair value was based on the discounted value of future cash flows using the applicable interest rates for similar types of loans as of reporting date. Long-term payable was incurred in 2017 and 2012 with 3.00% interest per annum.

The following tables summarize the carrying amount and fair values of financial assets and liabilities, as well as nonfinancial assets, analyzed based on the fair value hierarchy (see accounting policy on Fair Value Measurement), except for assets and liabilities where the carrying values as reflected in the consolidated statements of financial position and related notes approximate their respective fair values.

	2017				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:					
Financial Assets					
AFS investments:					
Quoted equity securities	**₱2,233**	**₱1,622**	**₱611**	**₱–**	**₱2,233**
	₱2,233	**₱1,622**	**₱611**	**₱–**	**₱2,233**
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Installment contracts receivables	**₱16,825**	**₱–**	**₱–**	**₱20,135**	**₱20,135**
Loans receivables	**962**	**–**	**–**	**1,077**	**1,077**
Non-financial Assets					
Investment in listed associates	**112,412**	**149,732**	**–**	**–**	**149,732**
Investment properties	**17,392**	**–**	**–**	**36,549**	**36,549**
	147,591	**₱149,732**	**–**	**57,761**	**207,493**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Liabilities on purchased properties	**₱3,734**	**₱–**	**₱–**	**₱3,608**	**₱3,608**
Loans payable	**65,521**	**–**	**–**	**66,104**	**66,104**
Bonds payable	**21,877**	**21,801**	**–**	**–**	**21,801**
	₱91,132	**₱21,801**	**₱–**	**₱69,712**	**₱91,513**

	2016				
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:					
Financial Assets					
AFS investments:					
Quoted equity securities	₱2,246	₱104	₱2,142	₱–	₱2,246
	₱2,246	₱104	₱2,142	₱–	₱2,246
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Installment contracts receivables	₱19,293	₱–	₱–	₱21,734	₱21,734
Loans receivables	643	–	–	610	610
Non-financial Assets					
Investment in listed associates	85,145	93,562	–	–	93,562
Investment properties	14,314	–	–	30,199	30,199
	119,395	93,562	–	52,543	146,105
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Liabilities on purchased properties	2,159	–	–	2,582	2,582
Loans payable	64,753	–	–	67,112	67,112
Bonds payable	21,848	22,382	–	–	22,382
	₱88,760	₱22,382	₱–	₱69,694	₱92,076

As of December 31, 2017 and 2016, other than AFS investments, no transfers were made among the three levels in the fair value hierarchy.

In 2017, portion of AFS quoted equity securities amounting to ₱1.50 billion was transferred from Level 2 to Level 1. The prices of these securities are quoted in an active market.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The fair value of the Group's investment properties has been determined based on valuations performed by third party valuers. The value of the land was estimated by using the Market Data Approach, a valuation approach that considers the sales, listings and other related market data within the vicinity of the subject properties and establishes a value estimate by processes involving comparison.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Group:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence
Building and Land Improvements	Cost Approach 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.

Significant Unobservable Inputs

Location	Location of comparative properties whether on a Main Road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a Main Road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

33. **Financial Risk Management and Objectives**

The Group's principal financial instruments are composed of cash and cash equivalents, short-term investments, receivables, due from related parties, AFS investments, accounts and other payables, due to/from related parties, loans payable and derivative liabilities.

Exposures to credit, liquidity, foreign currency and 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, 2017 and 2016, 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.

The table below shows the credit quality per class of financial assets based on the Group's rating system:

	December 31, 2017						
	Neither Past Due Nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Medium Grade	Low Grade	Total			
Cash and cash equivalents* (Note 4)	₱20,117	₱–	₱–	₱20,117	₱–	₱–	₱20,117
Short-term investments (Note 4)	1,666	–	–	1,666	–	–	1,666
Receivables (Note 5)							
Installment contracts receivable	14,539	1,308	435	16,282	535	8	16,825
Trade receivables	7,002	–	1	7,003	2,458	4	9,465
Loans receivable	962	–	–	962	–	–	962
Nontrade receivables	500	95	31	626	67	5	698
Accrued rent and commission income	315	1	–	316	4	27	347
Management fee receivables	246	–	–	246	–	–	246
Accrued interest receivable	49	–	–	49	–	–	49
Others	487	–	–	487	40	6	533
Due from related parties (Note 27)	166	–	–	166	–	–	166
	₱46,049	₱1,404	₱467	₱47,920	₱3,104	₱50	₱51,074

**Excludes cash on hand amounting to ₱37.88 million.*

	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)	₱20,926	₱–	₱–	₱20,926	₱–	₱–	₱20,926
Short-term investments (Note 4)	1,598	–	–	1,598	–	–	1,598
Receivables (Note 5)							
Installment contracts receivable	16,184	1,783	465	18,432	860	1	19,293
Trade receivables	6,321	51	96	6,468	1,563	–	8,031
Loans receivable	643	–	–	643	–	–	643
Nontrade receivables	207	108	44	359	27	13	399
Accrued rent and commission income	318	15	2	335	17	26	378
Management fee receivables	182	–	–	182	–	–	182
Accrued interest receivable	152	–	–	152	–	–	152
Dividends receivable	5	–	–	5	–	–	5
Others	813	–	–	813	64	1	878
Due from related parties (Note 27)	80	–	–	80	–	–	80
	₱47,429	₱1,957	₱607	₱49,993	₱2,531	₱41	₱52,565

**Excludes cash on hand amounting to ₱28.03 million.*

As of December 31, 2017 and 2016, the aging analysis of past due but not individually impaired financial assets presented per class, is as follows :

	December 31, 2017								
	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)	**₱20,117**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,117**
Short-term investments (Note 4)	**1,666**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,666**
Receivables (Note 5)									
Installment contracts receivable	**16,282**	**118**	**102**	**130**	**50**	**135**	**535**	**8**	**16,825**
Trade receivable	**7,003**	**966**	**814**	**251**	**310**	**117**	**2,458**	**4**	**9,465**
Loans receivable	**962**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**962**
Non-trade receivable	**626**	**25**	**18**	**2**	**3**	**19**	**67**	**5**	**698**
Accrued rent and commission income	**316**	**1**	**1**	**1**	**1**	**–**	**4**	**27**	**347**
Management fee receivables	**246**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**246**
Accrued interest receivable	**49**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**49**
Others	**487**	**–**	**–**	**–**	**–**	**40**	**40**	**6**	**533**
Due from related parties (Note 27)	**166**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**166**
	₱47,920	**₱1,110**	**₱935**	**₱384**	**₱364**	**₱311**	**₱3,104**	**₱50**	**₱51,074**

**Excludes cash on hand amounting to ₱37.88 million*

	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)	₱20,926	₱–	–	₱–	₱–	₱–	₱–	₱–	₱20,926
Short-term investments (Note 4)	1,598	–	–	–	–	–	–	–	1,598
Receivables (Note 5)									
Installment contracts receivable	18,432	259	253	131	50	167	860	1	19,293
Trade receivable	6,468	514	518	232	226	73	1,563	–	8,031
Loans receivable	643	–	–	–	–	–	–	–	643
Non-trade receivable	359	6	9	4	7	1	27	13	399
Accrued rent and commission income	335	1	–	16	–	–	17	26	378
Management fee receivables	182	–	–	–	–	–	–	–	182
Accrued interest receivable	152	–	–	–	–	–	–	–	152
Dividend receivable	5	–	–	–	–	–	–	–	5
Others	813	14	3	3	3	41	64	1	878
Due from related parties (Note 27)	80	–	–	–	–	–	–	–	80
	₱49,993	₱794	₱783	₱386	₱286	₱282	₱2,531	₱41	₱52,565

**Excludes cash on hand amounting to ₱28.03 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, 2017			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents* (Note 4)	**₱20,117**	**₱–**	**₱–**	**₱20,117**
Short-term investments (Note 4)	**1,666**	–	–	**1,666**
Receivables (Note 5)				
Installment contracts receivables	**15,929**	**7,875**	**587**	**24,391**
Trade receivables	**9,465**	–	–	**9,465**
Loans receivable	**159**	**1,161**	–	**1,320**
Nontrade receivable	**698**	–	–	**698**
Accrued rent and commissions income	**347**	–	–	**347**
Management fee receivables	**246**	–	–	**246**
Accrued interest receivable	**49**	–	–	**49**
Others	**533**	–	–	**533**
Due from related parties	**166**	–	–	**166**
Total undiscounted financial assets	**₱49,375**	**₱9,036**	**₱587**	**₱58,998**
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade payables	**₱14,289**	**₱–**	**₱–**	**₱14,289**
Accrued expenses	**4,080**	–	–	**4,080**
Retentions payable	**671**	**917**	–	**1,588**
Telegraphic transfers and drafts and acceptances payable	**1,152**	–	–	**1,152**
Accrued commissions	**1,037**	–	–	**1,037**
Accrued interest payable	**365**	–	–	**365**
Royalty payable	**344**	–	–	**344**
Nontrade payables**	**210**	–	–	**210**
Due to landowners	**50**	–	–	**50**
Others	**1,396**	–	–	**1,396**
Dividends payable	**589**	–	–	**589**
Loans payable (Note 16)	**11,603**	**23,077**	**52,394**	**87,074**
Bonds payable (Note 17)	**1,126**	**15,058**	**10,510**	**26,694**
Due to related parties	**189**	–	–	**189**
Liabilities on purchased properties (Note 20)	**750**	**2,748**	**875**	**4,373**
Derivative liabilities (Note 21)	**47**	–	–	**47**
Total undiscounted financial liabilities	**₱37,898**	**₱41,800**	**₱63,779**	**₱143,477**
Liquidity Gap	**₱11,477**	**(₱32,764)**	**(₱63,192)**	**(₱84,479)**

**Excludes cash on hand amounting to ₱37.88 million.*
***Pertains to payable to building contractors amounting to ₱210.00 million.*

	December 31, 2016			
	< 1 year	> 1 to < 5 years	> 5 years	Total
Financial assets				
Cash and cash equivalents* (Note 4)	₱20,926	₱–	₱–	₱20,926
Short-term investments (Note 4)	1,598	–	–	1,598
Receivables (Note 5)		–	–	
Installment contracts receivables	14,476	10,866	1,487	26,829
Trade receivables	8,031	–	–	8,031
Loans receivable	110	89	727	926
Nontrade receivable	399	–	–	399
Accrued rent and commissions income	378	–	–	378
Accrued interest receivable	152	–	–	152
Management fee receivables	182	–	–	182
Others	883	–	–	883
Due from related parties	80	–	–	80
Total undiscounted financial assets	₱47,215	₱10,955	₱2,214	₱60,384
Other financial liabilities				
Accounts and other payables (Note 15)				
Trade payables	₱5,119	₱–	₱–	₱5,119
Telegraphic transfers and drafts and acceptances payable	6,903	–	–	6,903
Accrued expenses	3,352	–	–	3,352
Retentions payable	281	805	–	1,086
Accrued commissions	759	–	–	759
Accrued interest payable	487	–	–	487
Due to landowners	483	–	–	483
Nontrade payables	329	–	–	329
Royalty payable	312	–	–	312
Others	399	–	–	399
Dividends payable	589	–	–	589
Loans payable (Note 16)	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	₱31,835	₱42,911	₱59,059	₱133,805
Liquidity Gap	₱15,380	(₱31,956)	(₱56,845)	(₱73,421)

**Excludes cash on hand amounting to ₱28.03 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$142.63 million and JP¥15.62 million as of December 31, 2017 and US$0.31 million and JP¥22.90 million as of December 31, 2016. Short-term investments denominated in foreign currency amounted to US$32.21 million and JP¥120.00 million as of December 31, 2017 and US$30.82 million and JP¥100.00 million as of December 31, 2016. Receivables denominated in foreign currency amounted to US$0.46 million and US$13.96 million as of December 31, 2017 and December 31, 2016, respectively. Accounts and other payables denominated in foreign currency amounted to US$179.85 million and JP¥14.27 million as of December 31, 2017 and US$138.38 million and JP¥53.19 million as of December 31, 2016. Loans payables denominated in foreign currency amounted to US$59.68 million as of December 31, 2017.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱49.92 to US$1.00, the Philippine peso-U.S. dollar exchange rates, and ₱0.44 to JP¥1.00 as at December 31, 2017 and ₱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.

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, 2017 and 2016. There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

	Currency	Change in Variable	Increase (Decrease) in Income Before Tax
2017	**US$**	**₱1.74**	**(₱78)**
		(1.74)	**78**
	JP¥	**0.0002**	**–**
		(0.0002)	**–**
2016	US$	₱1.79	(₱117)
		(1.79)	117
	JP¥	0.0003	–
		(0.0003)	–
2015	US$	₱1.96	(₱137)
		(1.96)	137
	JP¥	0.0011	–
		(0.0011)	–

The Group determined the reasonably possible change in foreign exchange rate by using the absolute average change in peso-U.S. dollar and peso-JPY exchange rate for the past three (3) years.

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).

Reasonably Possible Changes in Interest Rates	**Increase (decrease) in income before tax**		
	2017	2016	2015
100 basis points (bps)	**₱–**	₱–	(₱115)
100 bps	–	–	115

As of December 31, 2017 and 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
2017	**Increase by 24.73%**	**₱373**
	Decrease by 24.73%	**(373)**
2016	Increase by 28.85%	₱248
	Decrease by 28.85%	(248)
2015	Increase by 14.45%	₱278
	Decrease by 14.45%	(278)

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, 2017, 2016 and 2015 were computed as follows (amounts in million, except earnings per share):

	2017	2016	2015
Net income attributable to equity holders of the Parent Company from continuing operations	**₱14,182**	₱10,631	₱10,396
Effect of dividends declared to voting and perpetual preferred shareholders of the Parent Company	**(590)**	(105)	–
	13,592	10,526	10,396
Weighted average number of shares	**187**	174	174
	₱72.76	₱60.39	₱59.64

The basic/diluted earnings per share attributable to equity holders of the Parent Company for the years ended December 31, 2017, 2016 and 2015 were computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	**₱14,182**	₱14,634	₱12,115
Effect of dividends declared to voting and perpetual preferred shareholders of the Parent Company	**(590)**	(105)	–
	13,592	14,529	12,115
Weighted average number of shares	**187**	174	174
	₱72.76	₱83.35	₱69.51

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 the following reportable segments:

- Real estate is engaged in real estate and leasing, development and selling of properties of every kind and description, as well as ancillary trading of goods such as petroleum, non-fuel products on wholesale or retail basis, maintenance of a petroleum service station, engaging in food and restaurant service and acting as a marketing agent for and in behalf of any real estate development company or companies;
- Financial institutions are engaged in the banking and insurance industry and financing institution;
- Automotive operations is engaged in the assembly, manufacture, importation, sale and distribution of all kinds of automobiles including automobile parts, accessories, and instruments;
- Infrastructure is engaged in the water distribution, toll operation, power sector, hospitals and rail;
- Others pertain to other corporate activities of the Group (i.e., capital raising activities, acquisitions and investments); and
- Power is engaged mainly in the generation and distribution of electricity and was disposed in 2016.

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, 2017, 2016 and 2015:

	December 31, 2017					
	Real Estate	Financial Institution	Automotive Operations	Infrastructure	Others	Total
Revenue	₱14,092	₱–	₱211,692	₱–	₱–	₱225,784
Other income	2,169	–	1,068	–	6	3,243
Equity in net income of associates and joint venture	160	6,979	–	1,560	–	8,699
	16,421	6,979	212,760	1,560	6	237,726
Cost of goods and services sold	555	–	147,158	–	–	147,713
Cost of goods manufactured and sold	–	–	39,635	–	–	39,635
Cost of rental	360	–	–	–	–	360
Cost of real estate sales	10,035	–	–	–	–	10,035
General and administrative expenses	4,369	–	8,262	–	268	12,899
	15,319	–	195,055	–	268	210,642
Earnings before interest and taxes	1,102	6,979	17,705	1,560	(262)	27,084
Depreciation and amortization	476	–	1,283	–	6	1,765
EBITDA	1,578	6,979	18,988	1,560	(256)	28,849
Interest income	1,742	–	320	–	23	2,085
Interest expense	(595)	–	(189)	–	(2,610)	(3,394)
Depreciation and amortization	(476)	–	(1,283)	–	(6)	(1,765)
Pretax income	2,249	6,979	17,836	1,560	(2,849)	25,775
Provision for income tax	(544)	–	(3,975)	–	(5)	(4,524)
Net income	₱1,705	₱6,979	₱13,861	₱1,560	(₱2,854)	₱21,251
Segment assets	₱125,480	₱85,771	₱61,835	₱32,365	₱2,240	₱307,691
Segment liabilities	₱57,244	₱–	₱29,178	₱–	₱47,578	₱134,000

	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	₱–	₱–	₱54,621	₱124,208

	December 31, 2015					
	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	250	–	880	–	5	1,135
EBITDA	2,466	5,095	14,871	–	(183)	22,249
Interest income	1,477	–	279	–	34	1,790
Interest expense	(242)	1	(119)	–	(1,804)	(2,164)
Depreciation and amortization	(250)	–	(880)	–	(5)	(1,135)
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

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:

	2017	2016	2015
Domestic	**₱231,855**	₱194,229	₱130,522
Foreign	**7,956**	7,895	9,427
	₱239,811	₱202,124	₱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 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 and in the ordinary course of the Group's business, the Parent Company issued Letters of Guarantee (LG) in favor of the Housing and Land Use Regulatory Board for a total guarantee amount of ₱2.01 billion and ₱1.39 billion as of December 31, 2017 and 2016, respectively.

37. **Events after the Reporting Date**

On January 29, 2018, the Parent Company paid the quarterly cash dividends amounting to ₱56.01 million or ₱11.57475 per share in favor of GT Capital's perpetual preferred series A stockholders as of record date January 3, 2018.

On January 29, 2018, the Parent Company paid the quarterly cash dividends amounting to ₱91.21 million or ₱12.73725 per share in favor of GT Capital's perpetual preferred series B stockholders as of record date January 3, 2018.

On March 16, 2018, the BOD of the Parent Company approved the declaration of a regular cash dividend amounting to ₱577.79 million or Three Pesos (₱3.00) per share in favor of GT Capital's common stockholders of record as of April 4, 2018, payable on or before April 13, 2018.

On March 16, 2018, the BOD of the Parent Company approved the declaration of a regular cash dividend in favor of its Voting Preferred stockholders at a dividend rate of 3.77%, the three (3)-year PDST-R2 rate on issue date (April 13, 2015), with record date on April 4, 2018 and payment date on April 13, 2018.

On March 16, 2018, the BOD of the Parent Company approved the declaration of a 3.5% stock dividend in favor of GT Capital's stockholders of common stock, subject to shareholder's approval.

38. **Consolidated Statements of Cash Flows**

Below are the noncash operating, investing and financing transactions of the Group:

	2017	2016	2015
Transfers between investment property and inventories (Note 6)	**₱2,775**	₱3,378	₱98
Transfer between inventories and land held for future development (Note 6)	**(515)**	265	29
Borrowing cost capitalized to inventories (Note 6)	**1,408**	1,575	990
Fair value of previously held interest	–	969	–
Gain on asset swap	–	–	337
Reclassification during the year:			
Prepayments and other current assets	**998**	–	–
Land held for future development	**(1,416)**	–	–
Investment properties	**(561)**	–	–
Property and equipment	**561**	–	–
Accounts and other payables	**418**	–	–
Fair value of net assets acquired from business combinations (Note 31):			
Assets			
Cash and cash equivalents	**1**	177	338
Short-term investments	–	–	962
Receivables	**44**	906	13,078
Inventories	**321**	467	23,147
Due from related parties	–	–	337
Prepayments and other current assets	**67**	35	1,120
Available-for-sale investments	–	–	2
Property and equipment	–	1,290	715
Investment properties	**484**	–	–
Deferred tax assets	–	39	–
Intangible assets	–	22	13
Other noncurrent assets	**2**	–	–
Liabilities			
Accounts and other payables	**28**	526	2,871
Customer's deposits	–	32	676
Loans payable – current	**789**	810	13,139
Due to related parties	**30**	–	–
Other current liabilities	–	18	125
Income tax payable	–	22	–
Loans payable – Noncurrent	–	–	110
Deferred tax liabilities on fair value increment	**94**	198	7,313
Pension liabilities	–	67	110
Other noncurrent liabilities	**6**	–	–
Net assets deconsolidated due to sale of subsidiary (Note 12)			
Assets			
Cash and cash equivalents	–	13,136	–
Short-term investments	–	300	–
Receivables	–	3,591	–
Inventories	–	1,523	–
Prepayments and other current assets	–	1,988	–
Available-for-sale securities	–	674	–
Property and equipment	–	47,117	–
Goodwill and intangible assets	–	7,105	–
Deferred tax assets	–	463	–
Other noncurrent assets	–	237	–

(Forward)

	2017	2016	2015
Liabilities			
Accounts and other payables	–	5,200	–
Customer's deposits	–	1	–
Income tax payable	–	3	–
Other current liabilities	–	74	–
Pension liabilities	–	675	–
Long-term debt	–	37,200	–
Deferred tax liabilities	–	970	–
Other noncurrent liabilities	–	251	–

The following are the changes in liabilities in 2017 arising from financing activities including both cash and non-cash changes:

	Balance at beginning of year	Availment	Payment	Forex movement	Amortization of Day 1 loss	Amortization of Deferred Financing cost	Others*	Balance at end of year
Short-term debt (Note 16)	₱6,697	₱31,549	(₱33,002)	₱–	₱–	₱–	₱789	₱6,033
Current portion of long-term debt (Note 16)	1,581	–	(4,995)	–	–	–	5,881	2,467
Long-term debt – net of current portion (Note 16)	56,475	6,805	(400)	(20)	–	42	(5,881)	57,021
Bonds payable (Note 17)	21,848	–	–	–	–	29	–	21,877
Current portion of liabilities on purchased properties (Notes 20 and 27)	166	250	(166)	–	–	–	332	582
Liabilities on purchased properties - net of current portion (Notes 20 and 27)	1,993	1,479	–	–	12	–	(332)	3,152
	₱88,760	₱40,083	(₱38,563)	(₱20)	₱12	₱71	₱789	₱91,132

* *Others include effect of business combination and reclassification from noncurrent to current portion.*

39. Approval for the Release of the Financial Statements

The accompanying financial statements of the Group were approved and authorized for issue by the Parent Company's BOD on March 16, 2018.

SGV
Building a better working world

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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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in this Form 17-A and have issued our report thereon dated March 16, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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. 08-001998-53-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621273, January 9, 2018, Makati City

March 16, 2018

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

DECEMBER 31, 2017

GT CAPITAL HOLDINGS, INC.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2017

(In Millions)

Unappropriated Retained Earnings, as previously reported, beginning		₱2,983
Add: Adjustment in previous year's reconciliation		83
Unappropriated Retained Earnings, as adjusted, beginning		3,066
Add: Net income actually earned during the period		
Net income during the period closed to Retained earnings		5,257
Subtotal		8,323
Add (Less):		
Appropriations during the period	(19,000)	
Reversal of appropriation upon completion of the expansion and acquisition	14,900	
Dividend declaration during the period	(1,461)	(5,561)
Unappropriated Retained Earnings, as adjusted, ending		₱2,762

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS

FOR THE YEAR ENDED DECEMBER 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		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: Borrowing Costs	✓		
	Amendments to PFRS 1 – Deletion of short-term exemptions for first-time adopters		✓	
	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 PAS 39 and PFRS 4: Financial Guarantee Contracts		✓	
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations		✓	
	Amendments to PFRS 5: Changes in methods of disposal		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		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	✓		
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			✓
	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			✓
	Financial Instruments (final version), incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition			✓
	Amendments to PFRS 9, Prepayment Features with Negative Compensation			✓
PFRS 10	Consolidated Financial Statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Applicable	Not Early Adopted
	Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PFRS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11 and PFRS 12: 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 10, PFRS 11 and PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
	Amendments to PFRS 12: Clarification 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			✓
	Amendments to PFRS 15: Clarifications to PFRS 15			✓
PFRS 16	Leases			✓
PFRS 17	Insurance Contracts		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment 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: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Applicable	Not Early Adopted
	Amendment to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
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 and PAS 8 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: 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 19 (Amended)	Employee Benefits			
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	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Applicable	Not Early Adopted
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception		✓	
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓
	Amendments to PFRS 10 and PFRS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies		✓	
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: Revaluation Method - Proportionate Restatement of Accumulated Depreciation		✓	
	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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Applicable	Not Early Adopted
	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		✓	
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 16 and 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 9	Reassessment of Embedded Derivatives		✓	
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives		✓	
IFRIC 10	Interim Financial Reporting and Impairment		✓	
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 15	Agreements for the Construction of Real Estate	✓		
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		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Applicable	Not Early Adopted
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments			✓
SIC-7	Introduction of the Euro		✓	
SIC-10	Government Assistance – No Specific Relation to Operating Activities		✓	
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders		✓	
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.		✓	
SIC-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, 2017
(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	₱2,233	₱2,233	₱13
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
J.E. Trinidad	Assistant Vice President	₱1	₱–	₱–	₱–	₱1	₱–	₱1
R.G. Oña	Rank & File / Supervisor	–	1	–	–	–	1	1
M.L. Gopez	Officer	–	1	–	–	–	1	1
G.H. Dacillo	Officer	–	1	–	–	–	1	1
J.E. Sobrevega	Officer	1	–	–	–	–	1	1
I.E. Claudio	Officer	–	1	–	–	–	1	1
R.B. De Grano	Officer	1	–	–	–	–	1	1
M.N. Arevalo	Officer	1	–	–	–	–	1	1
N.O. Manglo	Officer	1	–	–	–	–	1	1
M.W. Guieb	Rank & File / Supervisor	–	1	–	–	–	1	1
C.M. Gutierrez	Rank & File / Supervisor	1	–	–	–	–	1	1
R.B. Dugang	Officer	–	1	–	–	–	1	1
A.E. Capoquian Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
C.B. Limcuando	Rank & File / Supervisor	–	1	–	–	–	1	1
H.G. De Guzman	Officer	1	–	–	–	–	1	1
O.L. Cuenca	Officer	1	–	–	–	–	1	1
A.S. Bonifacio	Officer	–	1	–	–	–	1	1
W.A. Endaya	Rank & File / Supervisor	1	–	–	–	–	1	1
R.S. Maaño	Rank & File / Supervisor	–	1	–	–	–	1	1
M.D. Mendoza	Rank & File / Supervisor	–	1	–	–	–	1	1
R.N. Gaspar	Officer	1	–	–	–	–	1	1
J.R. Ubaña	Rank & File / Supervisor	–	1	–	–	–	1	1
G.E. Amoranto	Officer	–	1	–	–	–	1	1
A.G. Lopez	Officer	–	1	–	–	–	1	1
G.G. Deangkinay	Officer	–	1	–	–	–	1	1
L.Y. Fernandez	Rank & File / Supervisor	–	1	–	–	–	1	1
V.P. Constantino Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
M.M. Tañola Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
C.M. Aberin Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
L.C. Jimenez	Officer	1	–	–	–	–	1	1
A.D. Cojuangco	Rank & File / Supervisor	1	–	–	–	–	1	1
R.T. Rodriguez	Officer	2	–	(1)	–	–	1	1
A.A. Oblea	Officer	–	1	–	–	–	1	1
J.S. De Leon	Officer	1	–	–	–	–	1	1
G.A. Javier	Rank & File / Supervisor	1	–	–	–	–	1	1
P.B. Amoroso	Rank & File / Supervisor	–	1	–	–	–	1	1
G.M. Arcangel Jr.	Officer	1	–	–	–	–	1	1
E.E. Embile	Rank & File / Supervisor	–	1	–	–	–	1	1
F.C. Escrimadora	Rank & File / Supervisor	–	1	–	–	–	1	1
F.M. Mercado Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
E.J. Nil	Rank & File / Supervisor	–	1	–	–	–	1	1
A.M. Prado Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
R.M. Gayorgor	Rank & File / Supervisor	–	1	–	–	–	1	1
B.V. De Leon	Rank & File / Supervisor	–	1	–	–	–	1	1
M.D. Garcia	Rank & File / Supervisor	–	1	–	–	–	1	1
A.A. Nazareth	Rank & File / Supervisor	–	1	–	–	–	1	1
N.R. Amboy	Rank & File / Supervisor	–	1	–	–	–	1	1
R.Q. Villanueva	Rank & File / Supervisor	–	1	–	–	–	1	1
R.B. Fortuna	Rank & File / Supervisor	–	1	–	–	–	1	1
R.M. Maunahan	Rank & File / Supervisor	–	1	–	–	–	1	1
B.C. Punzalan Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
A.L. Cansicio	Rank & File / Supervisor	–	1	–	–	–	1	1
M.M. Legaspi	Rank & File / Supervisor	–	1	–	–	–	1	1
E.P. Ramos	Rank & File / Supervisor	–	1	–	–	–	1	1
A.T. Aldave Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
R.G. Jaspe	Rank & File / Supervisor	–	1	–	–	–	1	1
R.T. Namo	Rank & File / Supervisor	–	1	–	–	–	1	1
A.C. Prado	Rank & File / Supervisor	–	1	–	–	–	1	1
A.S. Zaide	Rank & File / Supervisor	1	–	–	–	–	1	1
L.F. Ternate	Rank & File / Supervisor	–	1	–	–	–	1	1
C.G. Sevilla	Rank & File / Supervisor	1	–	–	–	–	1	1
R.M. Lanip	Rank & File / Supervisor	1	–	–	–	–	1	1
A.L. Bautista	Rank & File / Supervisor	–	1	–	–	–	1	1
R.P. Habaña	Rank & File / Supervisor	1	–	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
A.B. Nuñez	Rank & File / Supervisor	–	1	–	–	–	1	1
R.C. Castillo	Rank & File / Supervisor	–	1	–	–	–	1	1
L.B. Sison	Rank & File / Supervisor	–	1	–	–	–	1	1
N.A. Dedicatoria	Rank & File / Supervisor	–	1	–	–	–	1	1
E.M. Lacibal	Rank & File / Supervisor	–	1	–	–	–	1	1
A.M. Brecia	Rank & File / Supervisor	–	1	–	–	–	1	1
C.G. Malate	Rank & File / Supervisor	–	1	–	–	–	1	1
E.P. Agbay Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
A.E. Rizaldo	Rank & File / Supervisor	–	1	–	–	–	1	1
A.S. Mendoza	Rank & File / Supervisor	–	1	–	–	–	1	1
R.B. Fabula	Rank & File / Supervisor	–	1	–	–	–	1	1
R.M. Simon	Rank & File / Supervisor	–	1	–	–	–	1	1
W.V. Gonzales	Officer	–	1	–	–	–	1	1
L.N. Sombilon	Rank & File / Supervisor	–	1	–	–	–	1	1
J.L. Orteza	Officer	–	1	–	–	–	1	1
R.M. Valenzuela	Rank & File / Supervisor	–	1	–	–	–	1	1
R.P. Gabiana	Rank & File / Supervisor	–	1	–	–	–	1	1
J.O. Benaid	Rank & File / Supervisor	–	1	–	–	–	1	1
R.L. O Coner	Rank & File / Supervisor	1	–	–	–	–	1	1
J.E. Erfe	Rank & File / Supervisor	–	1	–	–	–	1	1
K.C. Escober	Rank & File / Supervisor	–	1	–	–	–	1	1
J.P. Almario	Rank & File / Supervisor	–	1	–	–	–	1	1
N.C. Espiritu	Rank & File / Supervisor	–	1	–	–	–	1	1
J.L. Agustin	Rank & File / Supervisor	–	1	–	–	–	1	1
S.R. Lopez	Rank & File / Supervisor	–	1	–	–	–	1	1
N.M. Agao	Rank & File / Supervisor	–	1	–	–	–	1	1
N.S. Francisco	Rank & File / Supervisor	–	1	–	–	–	1	1
J.A. Aligada	Officer	1	–	–	–	–	1	1
R.R. Gutierrez	Officer	1	–	–	–	–	1	1
D.R. Escuro	Officer	1	1	–	–	–	2	2
L.T. Gilbuena	Officer	2	–	(1)	–	–	1	1
I.C. Sincioco	Officer	–	1	–	–	–	1	1
M.T. Esplana	Officer	–	1	–	–	–	1	1
E.M. Albina	Rank & File / Supervisor	–	1	–	–	–	1	1
A.G. Tepora	Rank & File / Supervisor	–	1	–	–	–	1	1
M.C. Buena	Officer	–	1	–	–	–	1	1
A.M. Sabido	Rank & File / Supervisor	1	–	–	–	–	1	1
M.B. Antonio	Officer	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
A.B. Bautista	Officer	–	1	–	–	–	1	1
E.M. Claro	Rank & File / Supervisor	–	1	–	–	–	1	1
J.G. Jimenez	Rank & File / Supervisor	–	1	–	–	–	1	1
M.M. Faustino	Rank & File / Supervisor	–	1	–	–	–	1	1
A.P. Herrera	Rank & File / Supervisor	–	1	–	–	–	1	1
R.M. Gregorio	Officer	1	–	–	–	1	–	1
J.C. Villanueva	Officer	1	1	–	–	–	2	2
J.T. Arias	Officer	–	1	–	–	–	1	1
E.U. De La Peña	Rank & File / Supervisor	1	–	–	–	–	1	1
P.L. Peñaflorida	Rank & File / Supervisor	–	1	–	–	–	1	1
M.E. Gutierrez	Rank & File / Supervisor	–	1	–	–	–	1	1
J.T. Gutierrez	Rank & File / Supervisor	1	–	–	–	–	1	1
E.P. Chua	Rank & File / Supervisor	–	1	–	–	–	1	1
J.M. Atienza	Officer	1	–	–	–	–	1	1
J.O. Sandoval	Officer	–	1	–	–	–	1	1
M.C. Capco	Rank & File / Supervisor	–	1	–	–	–	1	1
B.L. Aquino	Rank & File / Supervisor	–	1	–	–	–	1	1
F.S. Ocampo	Rank & File / Supervisor	–	1	–	–	–	1	1
R.V. Cabatcan	Rank & File / Supervisor	1	–	–	–	–	1	1
S.T. Chua-Lim	Officer	1	–	–	–	–	1	1
D.C. Cruz	Officer	–	1	–	–	–	1	1
J.M. Gecolea	Rank & File / Supervisor	–	1	–	–	–	1	1
D.R. Villacorta	Rank & File / Supervisor	1	–	–	–	–	1	1
E.O. Marcellana	Rank & File / Supervisor	–	1	–	–	–	1	1
B.E. Dionela	Officer	–	1	–	–	–	1	1
M.J. Rosario	Officer	–	1	–	–	–	1	1
D.Z. Robosa	Officer	–	1	–	–	–	1	1
N.O. Bravante	Officer	1	–	–	–	–	1	1
C.R. Ofilada	Rank & File / Supervisor	–	1	–	–	–	1	1
R.A. Kalambacal	Rank & File / Supervisor	–	1	–	–	–	1	1
C.C. Santiago	Rank & File / Supervisor	–	1	–	–	–	1	1
A.A. Marcellana	Rank & File / Supervisor	–	1	–	–	–	1	1
A.Z. Untalan	Rank & File / Supervisor	–	1	–	–	–	1	1
A.D. Bargo	Rank & File / Supervisor	1	–	–	–	–	1	1
R.P. Pedregosa	Rank & File / Supervisor	–	1	–	–	–	1	1
J.C. Albay	Rank & File / Supervisor	1	–	–	–	–	1	1
S.D. Gumabao Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
E.D. Lucio	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
E.M. Caisip	Rank & File / Supervisor	–	1	–	–	–	1	1
M.G. Canlobo	Rank & File / Supervisor	1	–	–	–	–	1	1
E.I. Manzanero	Rank & File / Supervisor	–	1	–	–	–	1	1
H.L. Buendia	Officer	–	1	–	–	–	1	1
R.B. Santilles	Rank & File / Supervisor	1	–	–	–	–	1	1
R.S. Mercado	Rank & File / Supervisor	–	1	–	–	–	1	1
R.P. Ocampo	Rank & File / Supervisor	–	1	–	–	–	1	1
V.A. Nazareth	Rank & File / Supervisor	1	–	–	–	–	1	1
J.M. Mañalac	Rank & File / Supervisor	1	–	–	–	–	1	1
R.O. Romero	Rank & File / Supervisor	–	1	–	–	–	1	1
A.P. Peralta	Rank & File / Supervisor	1	–	–	–	–	1	1
F.C. Garcia	Rank & File / Supervisor	–	1	–	–	–	1	1
I.E. Borsigue	Rank & File / Supervisor	–	1	–	–	–	1	1
D.C. Rosales	Rank & File / Supervisor	–	1	–	–	–	1	1
J.R. Santos	Rank & File / Supervisor	1	–	–	–	–	1	1
C.M. Alcantara	Rank & File / Supervisor	–	1	–	–	–	1	1
V.Y. Margallo Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
D.M. Miranda	Rank & File / Supervisor	1	–	–	–	–	1	1
T.A. Echano	Rank & File / Supervisor	1	–	–	–	–	1	1
G.F. Pante	Rank & File / Supervisor	–	1	–	–	–	1	1
R.R. De Guzman	Rank & File / Supervisor	–	1	–	–	–	1	1
F.A. Pagaspas	Rank & File / Supervisor	1	–	–	–	–	1	1
C.J. Completo	Officer	1	–	–	–	–	1	1
N.B. De La Cueva	Rank & File / Supervisor	–	1	–	–	–	1	1
A.F. Parayno	Rank & File / Supervisor	–	1	–	–	–	1	1
B.L. Abraham	Rank & File / Supervisor	–	1	–	–	–	1	1
D.A. Carpio	Rank & File / Supervisor	–	1	–	–	–	1	1
M.C. Visaya	Rank & File / Supervisor	–	1	–	–	–	1	1
E.E. Sto Tomas	Rank & File / Supervisor	–	1	–	–	–	1	1
L.R. Olaco Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
R.D. Andal	Rank & File / Supervisor	–	1	–	–	–	1	1
J.M. Broqueza	Rank & File / Supervisor	–	1	–	–	–	1	1
R.O. Obmina	Rank & File / Supervisor	–	1	–	–	–	1	1
R.S. Macasieb	Rank & File / Supervisor	–	1	–	–	–	1	1
C.V. Aldea	Rank & File / Supervisor	–	1	–	–	–	1	1
M.A. Calderon	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
A.C. Hayag	Rank & File / Supervisor	–	1	–	–	–	1	1
R.V. Liwanag	Rank & File / Supervisor	–	1	–	–	–	1	1
A.M. Marquez	Rank & File / Supervisor	–	1	–	–	–	1	1
R.T. Pahati Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
C.L. Rodelas	Rank & File / Supervisor	–	1	–	–	–	1	1
W.M. Solas	Rank & File / Supervisor	1	–	–	–	–	1	1
E.B. Tatad	Rank & File / Supervisor	–	1	–	–	–	1	1
L.D. Tejano	Officer	–	1	–	–	–	1	1
D.A. Casas	Rank & File / Supervisor	1	–	–	–	–	1	1
N.F. Fuedan	Rank & File / Supervisor	–	1	–	–	–	1	1
A.S. Paguio Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
R.B. Turico	Rank & File / Supervisor	1	–	–	–	–	1	1
R.G. Waje	Rank & File / Supervisor	–	1	–	–	–	1	1
G.D. Baybay	Rank & File / Supervisor	1	–	–	–	–	1	1
V.P. Gozo	Rank & File / Supervisor	1	–	–	–	–	1	1
T.V. Pinca	Rank & File / Supervisor	–	1	–	–	–	1	1
E.E. Aguila	Rank & File / Supervisor	–	1	–	–	–	1	1
O.S. Tirador	Rank & File / Supervisor	–	1	–	–	–	1	1
R.D. Miranda	Rank & File / Supervisor	–	1	–	–	–	1	1
L.G. Perey	Rank & File / Supervisor	–	1	–	–	–	1	1
E.M. Caancan	Rank & File / Supervisor	–	1	–	–	–	1	1
R.A. Parado	Rank & File / Supervisor	–	1	–	–	–	1	1
G.V. Rodriguez	Rank & File / Supervisor	–	1	–	–	–	1	1
J.M. Santiago	Rank & File / Supervisor	–	1	–	–	–	1	1
R.C. Bay	Rank & File / Supervisor	–	1	–	–	–	1	1
D.M. Cabantog	Rank & File / Supervisor	1	–	–	–	–	1	1
F.B. Cosino	Rank & File / Supervisor	1	–	–	–	–	1	1
N.C. Abang	Rank & File / Supervisor	–	1	–	–	–	1	1
I.B. Del Mundo	Rank & File / Supervisor	1	–	–	–	–	1	1
R.B. Cube	Rank & File / Supervisor	1	–	–	–	–	1	1
F.D. Lescano Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
F.A. Macatangay	Rank & File / Supervisor	–	1	–	–	–	1	1
A.A. Ercillo	Rank & File / Supervisor	1	–	–	–	–	1	1
M.J. Vicente	Rank & File / Supervisor	1	–	–	–	–	1	1
G.S. Espinosa	Officer	1	–	–	–	–	1	1
E.T. Lambio	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
A.B. Divinagracia	Rank & File / Supervisor	–	1	–	–	–	1	1
A.G. Go	Rank & File / Supervisor	–	2	–	–	–	2	2
G.T. Laural	Rank & File / Supervisor	–	1	–	–	–	1	1
D.A. Lagman	Rank & File / Supervisor	1	–	–	–	–	1	1
R.C. Vargas	Rank & File / Supervisor	–	1	–	–	–	1	1
R.V. Barcos	Rank & File / Supervisor	1	–	–	–	–	1	1
J.D. Bernardo	Rank & File / Supervisor	1	–	–	–	–	1	1
M.P. De Leon	Rank & File / Supervisor	–	1	–	–	–	1	1
V.E. Dionela Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
G.V. Lemon	Rank & File / Supervisor	1	–	–	–	–	1	1
J.C. Mandras	Rank & File / Supervisor	–	1	–	–	–	1	1
M.B. Ancheta	Rank & File / Supervisor	1	–	–	–	–	1	1
R.C. Delos Santos Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
T.T. Lopez Jr.	Officer	–	1	–	–	–	1	1
F.M. Aspuria	Rank & File / Supervisor	–	1	–	–	–	1	1
E.C. Anido	Rank & File / Supervisor	–	1	–	–	–	1	1
R.D. Barrinuevo	Rank & File / Supervisor	1	–	–	–	–	1	1
W.L. Duena Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
L.C. Capidos	Rank & File / Supervisor	–	1	–	–	–	1	1
R.A. Adorador	Rank & File / Supervisor	–	1	–	–	–	1	1
A.D. Gimang	Rank & File / Supervisor	–	1	–	–	–	1	1
F.C. Hermosa	Rank & File / Supervisor	–	1	–	–	–	1	1
R.M. Cantalejo	Rank & File / Supervisor	–	1	–	–	–	1	1
E.N. Alcantara Jr.	Rank & File / Supervisor	1	–	–	–	–	1	1
D.M. Natividad	Rank & File / Supervisor	1	–	–	–	–	1	1
E.C. Cruz	Rank & File / Supervisor	1	–	–	–	–	1	1
F.B. De Guzman Jr.	Rank & File / Supervisor	–	1	–	–	–	1	1
A.A. Palomares	Rank & File / Supervisor	1	–	–	–	–	1	1
A.A. Andallo	Rank & File / Supervisor	–	1	–	–	–	1	1
D.L. Samson	Rank & File / Supervisor	–	1	–	–	–	1	1
O.A. Del Valle	Rank & File / Supervisor	–	1	–	–	–	1	1
J.V. Orcajada	Rank & File / Supervisor	–	1	–	–	–	1	1
B.P. Oclarino	Rank & File / Supervisor	–	1	–	–	–	1	1
B.Z. Villaroman III	Rank & File / Supervisor	–	1	–	–	–	1	1
R.J. Cordero	Rank & File / Supervisor	–	1	–	–	–	1	1

Name of debtor	Designation of debtor	Balance of beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
H.H. Hara	Rank & File / Supervisor	–	1	–	–	–	1	1
		₱79	₱174	(₱2)	–	₱2	₱249	₱251

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
Topsphere Realty Development Co. Inc.	Subsidiary of Federal Land, Inc.	₱–	₱835	₱835	₱–	835	(835)	–
Omni Orient Management Corp.	-do-	4	–	4	–	4	(4)	–
Central Realty & Dev't Corp.	-do-	348	(20)	328	–	328	(328)	–
Horizon Land Property Development Corp.	-do-	2,684	(317)	2,367	–	2,367	(2,367)	–
Micara Land Inc.	Subsidiary of Property Company of Friends, Inc.	860	68	928	–	928	(928)	–
Firm Builders Realty Development Corporation	-do-	145	19	164	–	164	(164)	–
Marcan Development Corporation	-do-	–	1	1	–	1	(1)	–
Williamton Holdings Inc.	-do-	–	(173)	(173)	–	(173)	173	–
Toyota San Fernando Pampanga, Inc.	Subsidiary of Toyota Motor Philippines Corp.	155	(75)	80	–	80	(80)	–
Toyota Makati, Inc.	-do-	93	98	191	–	191	(191)	–
Lexus Manila, Inc.	-do-	–	1	1	–	1	(1)	–
Toyota Sta. Rosa Laguna Inc.	-do-	–	16	16	–	16	(16)	–
TMP Logistics, Inc.	-do-	18	(18)	–	–	–	–	–
		₱4,307	₱435	₱4,742	₱–	₱4,742	(₱4,742)	₱–

Schedule D. Intangible Assets - Other Assets

Description (i)	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)*	Ending balance
Goodwill	₱8,679	₱88	₱–	₱–	₱–	₱8,767
Customer relationship	3,883	–	–	–	–	3,883
Software cost and license - net	238	234	(124)	–	12	360
Franchise - net	2	–	–	–	–	2
	₱12,802	₱322	(₱124)	₱–	₱12	₱13,012

**Other changes (Additions/deductions) pertains to reclassification.*

Schedule E. Long Term Debt

Title of issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Other details
Bonds payable	₱3,900	₱–	₱3,886	Interest rate of 4.8371% and will mature on February 27, 2020
Bonds payable	6,100	–	6,062	Interest rate of 5.0937% and will mature on February 27, 2023
Bonds payable	3,000	–	2,988	Interest rate of 4.7106% and will mature on November 7, 2019
Bonds payable	5,000	–	4,971	Interest rate of 5.1965% and will mature on August 7, 2021
Bonds payable	4,000	–	3,970	Interest rate of 5.6250% and will mature on August 7, 2024
	22,000	–	21,877	
Note Facility Agreement	4,900	25	4,875	Annual payment of P25 million from 2014 to 2020, P5 million payable in years 2021 and 2022 P955 million payable on July 5, 2023
Loans payable	2,000	–	1,995	Interest rate of 2.08% and will mature on August 25, 2021
Loans payable	200	–	199	Interest rate of 2.6% and will be mature on November 22, 2021
Loans payable	536	–	534	Interest rate of 2.55% and will mature on November 22, 2021
Loans payable	300	–	299	Interest rate of 2.55% and will mature on November 22, 2021
Loans payable	200	–	199	Interest rate of 2.55% and will mature on November 22, 2021
Loans payable	3,264	–	3,251	Interest rate of 2.90% and will mature in 2022
Loans payable	6,600	–	6,600	P2,000.00 million payable in full after 10 years from drawdown date with fixed interest rate of 5.84% per annum; P1,500.00 million payable in full after 10 years from drawdown date with fixed interest rate of 5.85% per annum; P2,000.00 million payable at 40% quarterly payment starting at the end of 5th year and 60% on maturity date with fixed interest rate of 5.67% per annum; P1,100.00 payable at 40% quarterly payment at the end of 5th year to 9th year and 60% on maturity date with fixed interest rate of 5.05% per annum.
Loans payable	2,200	–	2,200	Fixed interest rate of 5.05%. Principal payment of the loan will start on December 31, 2020 to 2024 at the amount of P176 million per year and the remaining balance will be paid on maturity date.
Loans payable	800	–	800	Interest rate of 6.07% with a term of 20 years and will be paid in full on maturity date.
Loans payable	200	–	200	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	335	–	335	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	140	–	140	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	120	–	120	Interest rate of 5.0% with a term of 5 years and will be paid in full on maturity date.
Loans payable	200	–	199	Interest rate of 5.8633%, subject to equal annual principal amortization amounting to P0.20 million starting on May 29, 2021 and fully payable on May 29, 2026
Loans payable	250	–	249	Interest rate of 5.25%, due in annual payment of P12.5 million starting on September, 2018 and fully payable on September, 2021
Loans payable	100	–	100	Interest rate of 5.725% and will mature on March 16, 2022
Loans payable	500	–	498	Interest rate of 5.9625% and will mature on November 4, 2022
Loans payable	79	–	79	Interest rate of 4.2% and will mature on February 26, 2021
Loans payable	91	–	91	Interest rate of 2.7% and will mature on September 28, 2025
Loans payable	76	–	76	Interest rate of 2.7% and will mature on October 23, 2026

Title of issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Other details
Loans payable	1,500	−	1,095	Interest rates ranging from 4.85% to 5.94% and payable for a period of ten years
Loans payable	6,006	953	5,024	Interest rate of 6.0% and will mature in 2025 and 2016
Loans payable	4,500	1,489	2,965	Interest rate of 5.29% and will mature in 2018
Loans payable	7,000	−	6,973	Interest rate of 5.555% and will mature on March 26, 2025
Loans payable	6,000	−	5,977	Interest rate of 5.0500% and will mature on March 26, 2025
Loans payable	2,000	−	1,991	Interest rate of 5.8081% and will mature on December 4, 2027
Loans payable	4,000	−	3,983	Interest rate of 5.8075% and will mature on December 3, 2027
Loans payable	2,000	−	1,991	Interest rate of 5.9343% and will mature on December 22, 2028
Loans payable	4,000	−	3,983	Interest rate of 5.5556% and will mature on December 22, 2026
	60,097	2,467	57,021	
	₱82,097	₱2,467	₱78,898	

Schedule F. Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period	Remarks
Metropolitan Bank & Trust Co.	₱1,500	₱1,500	
Metropolitan Bank & Trust Co.	−	3,000	Will be used as part of the working capital
Metropolitan Bank & Trust Co.	3,236	3,236	
Metropolitan Bank & Trust Co.	−	3,264	Will be used as part of the working capital
Toyota Autoparts Philippines, Inc.	79	79	

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				

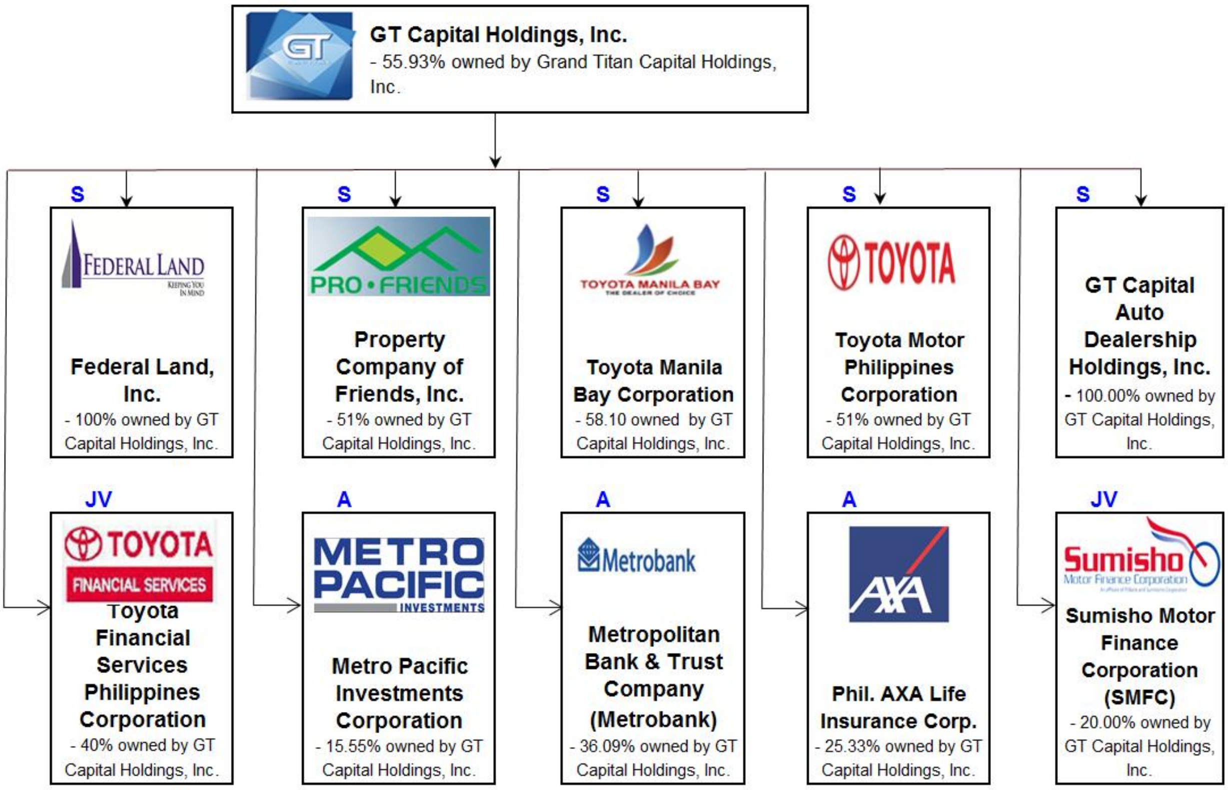
Schedule H. Capital Stock (in absolute amounts)

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	192,596,685	−	107,723,795	524,963	−
Voting preferred stock	174,300,000	174,300,000	−	170,490,640	722,548	−
Perpetual preferred stock	20,000,000	12,000,000	−	−	4,400	−

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

MAP OF RELATIONSHIP BETWEEN AND AMONG THE PARENT COMPANY AND ITS ULTIMATE PARENT, SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

AS OF DECEMBER 31, 2017



LEGEND:

Subsidiary (S)

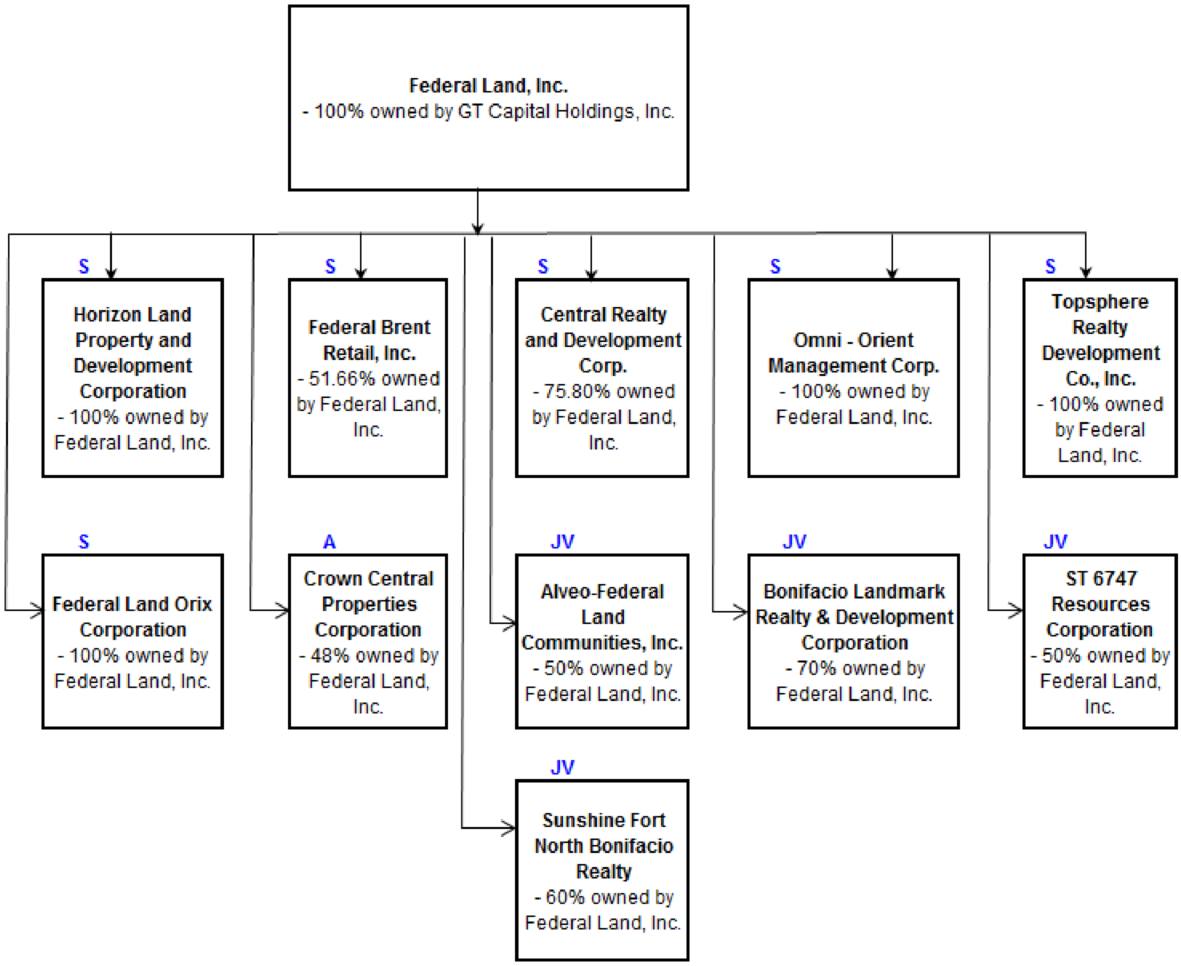
Associate (A)

Joint Venture (JV)

FEDERAL LAND, INC.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

AS OF DECEMBER 31, 2017



LEGEND:

Subsidiary (S)

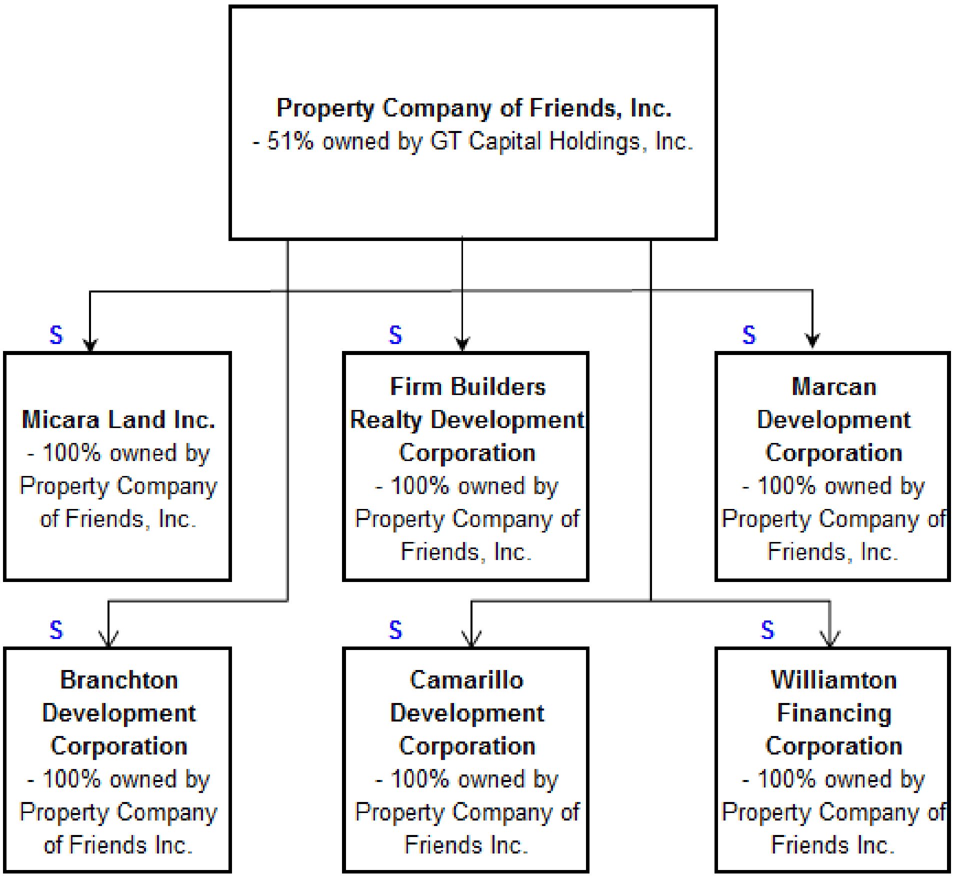
Associate (A)

Joint Venture (JV)

PROPERTY COMPANY OF FRIENDS, INC.

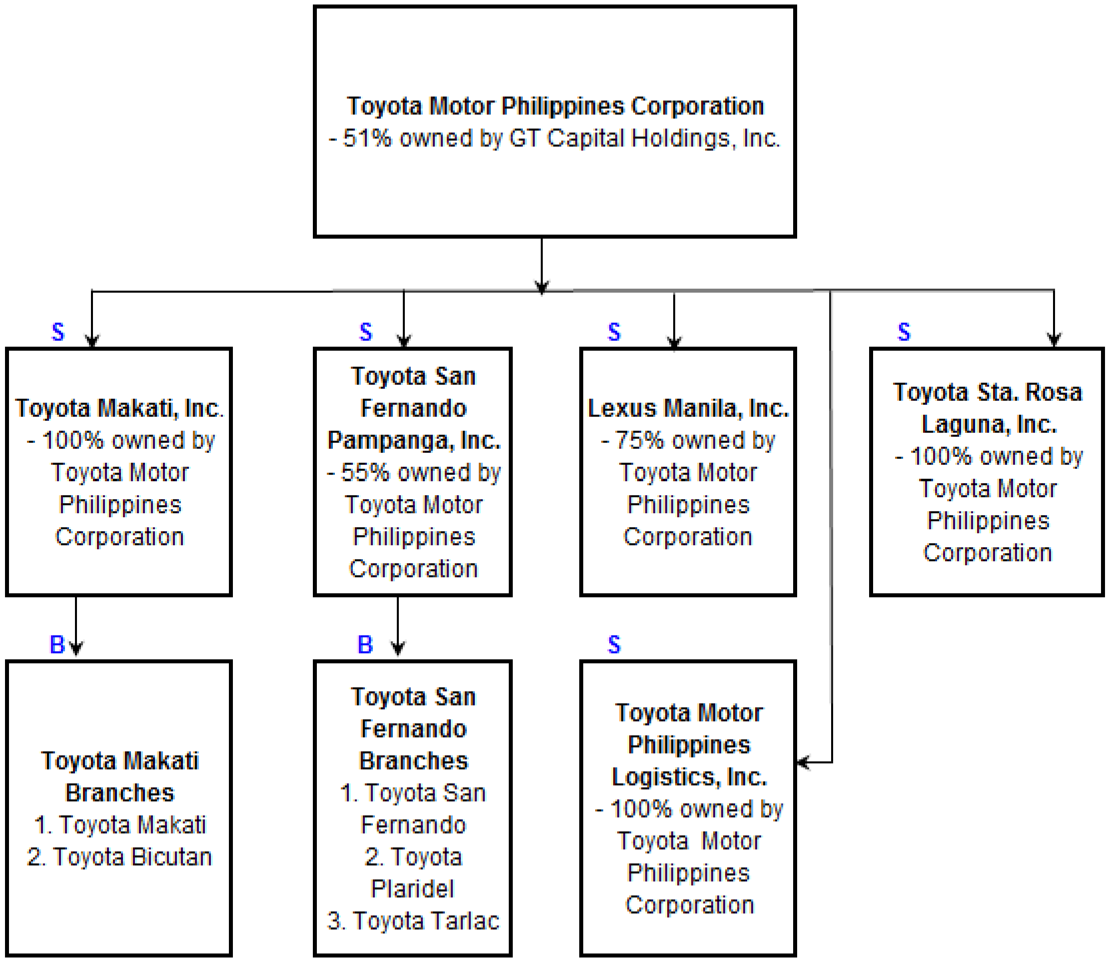
SUBSIDIARIES

AS OF DECEMBER 31, 2017



LEGEND:
Subsidiary (S)

TOYOTA MOTOR PHILIPPINES CORPORATION
SUBSIDIARIES
AS OF DECEMBER 31, 2017

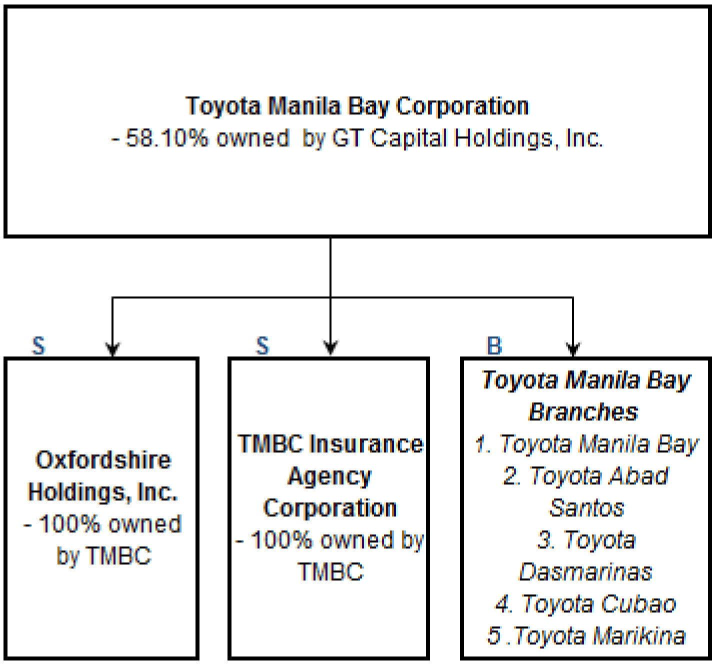


LEGEND:
Subsidiary (S)
Branch (B)

TOYOTA MANILA BAY CORPORATION

SUBSIDIARIES

AS OF DECEMBER 31, 2017

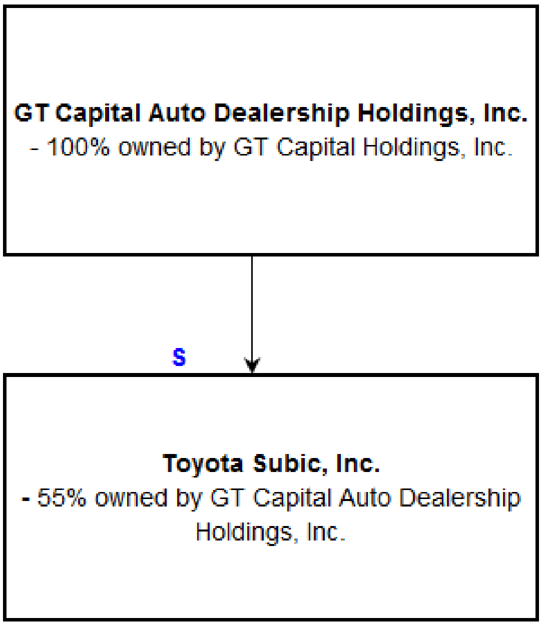


LEGEND:

Subsidiary (S)

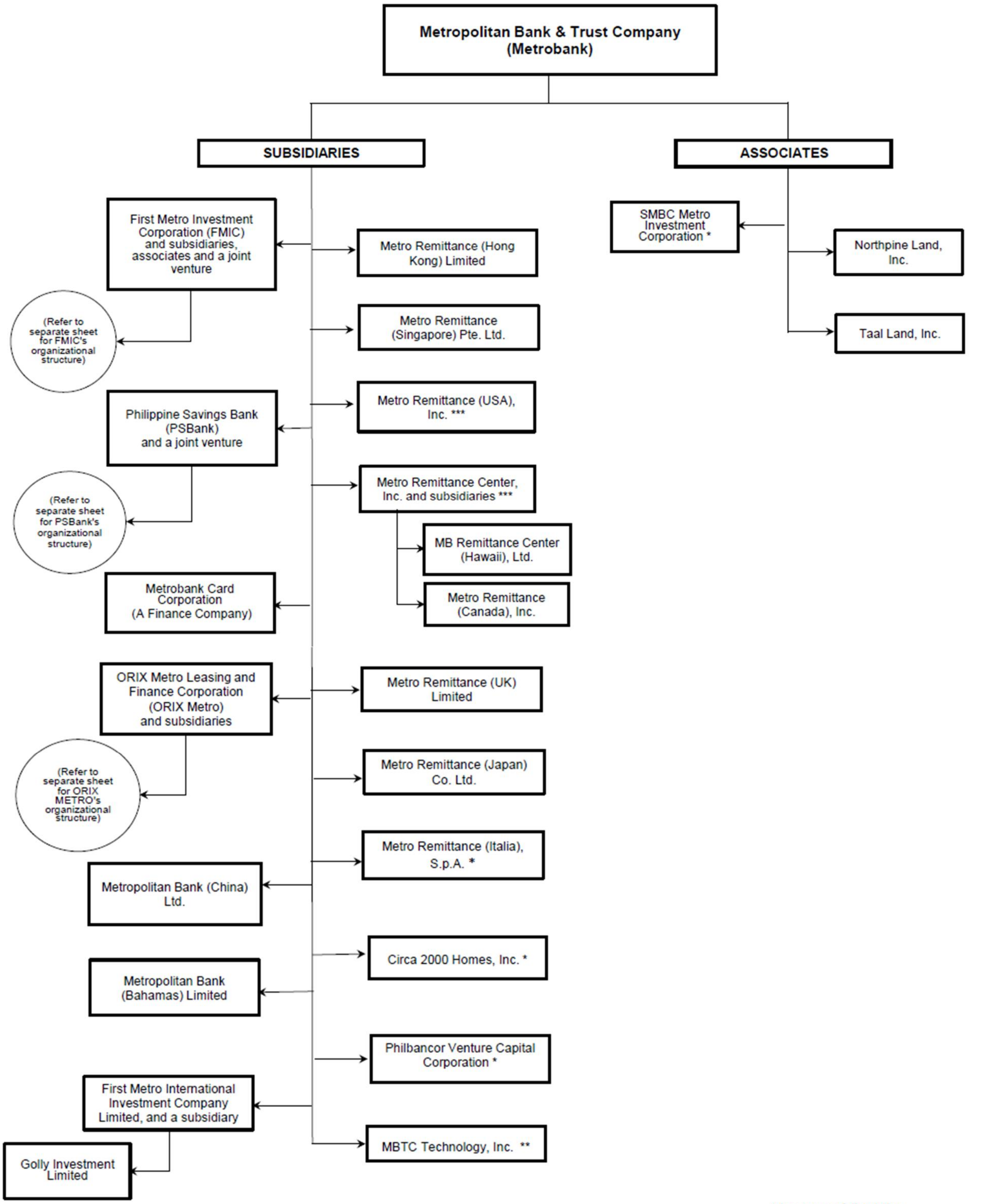
Branch(B)

GT CAPITAL AUTO DEALERSHIP HOLDINGS, INC.
SUBSIDIARY
AS OF DECEMBER 31, 2017



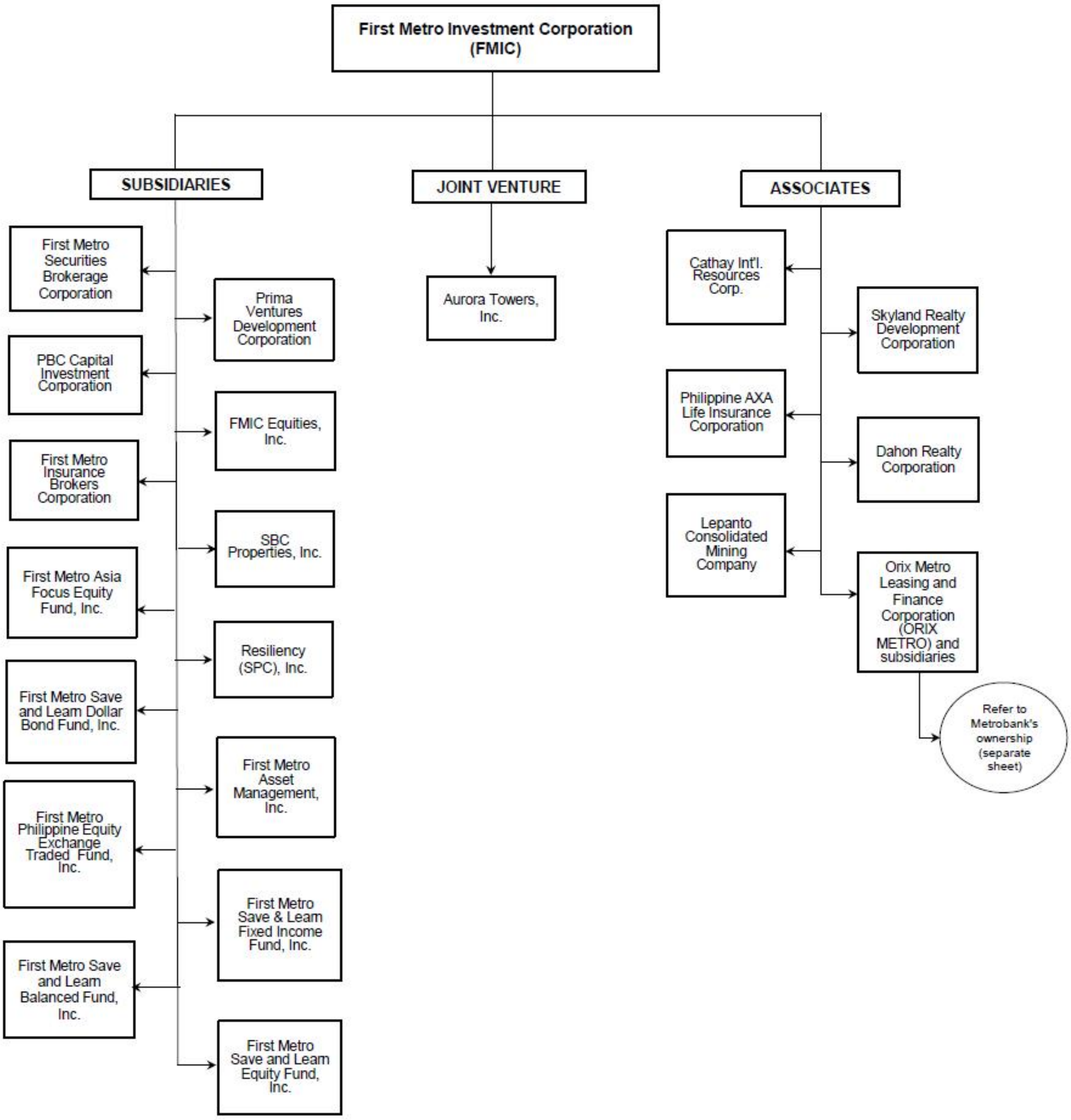
LEGEND:
Subsidiary (S)

METROPOLITAN BANK AND TRUST COMPANY
SUBSIDIARIES AND ASSOCIATES
AS OF DECEMBER 31, 2017

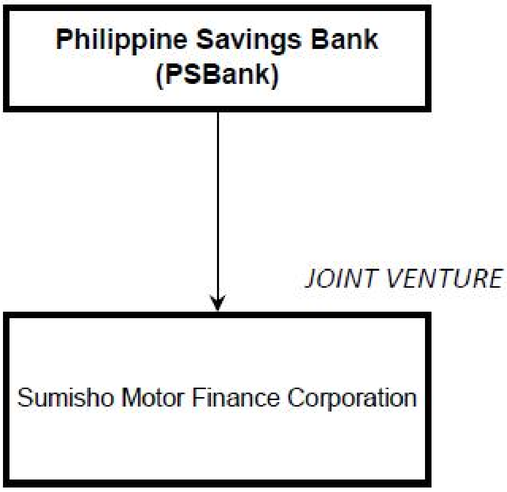


** In process of dissolution*
*** In process of liquidation*
**** With approved agreement of merger*

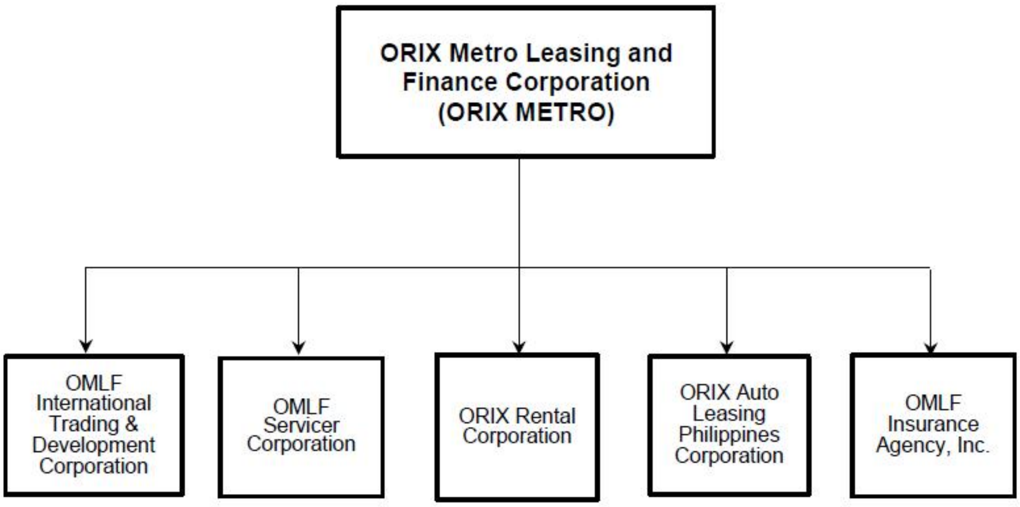
First Metro Investment Corporation
Subsidiaries, Joint Venture and Associates
As of December 31, 2017



Philippine Savings Bank
Joint Venture
As of December 31, 2017

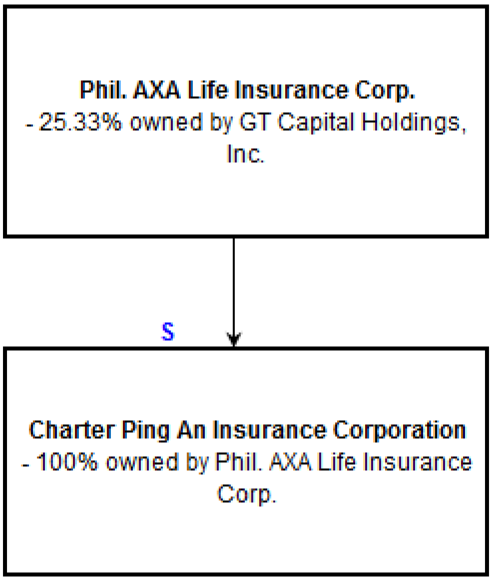


ORIX Metro Leasing and Finance Corporation (ORIX METRO)
Subsidiaries
As of December 31, 2017



PHIL. AXA LIFE INSURANCE CORPORATION

SUBSIDIARY
AS OF DECEMBER 31, 2017

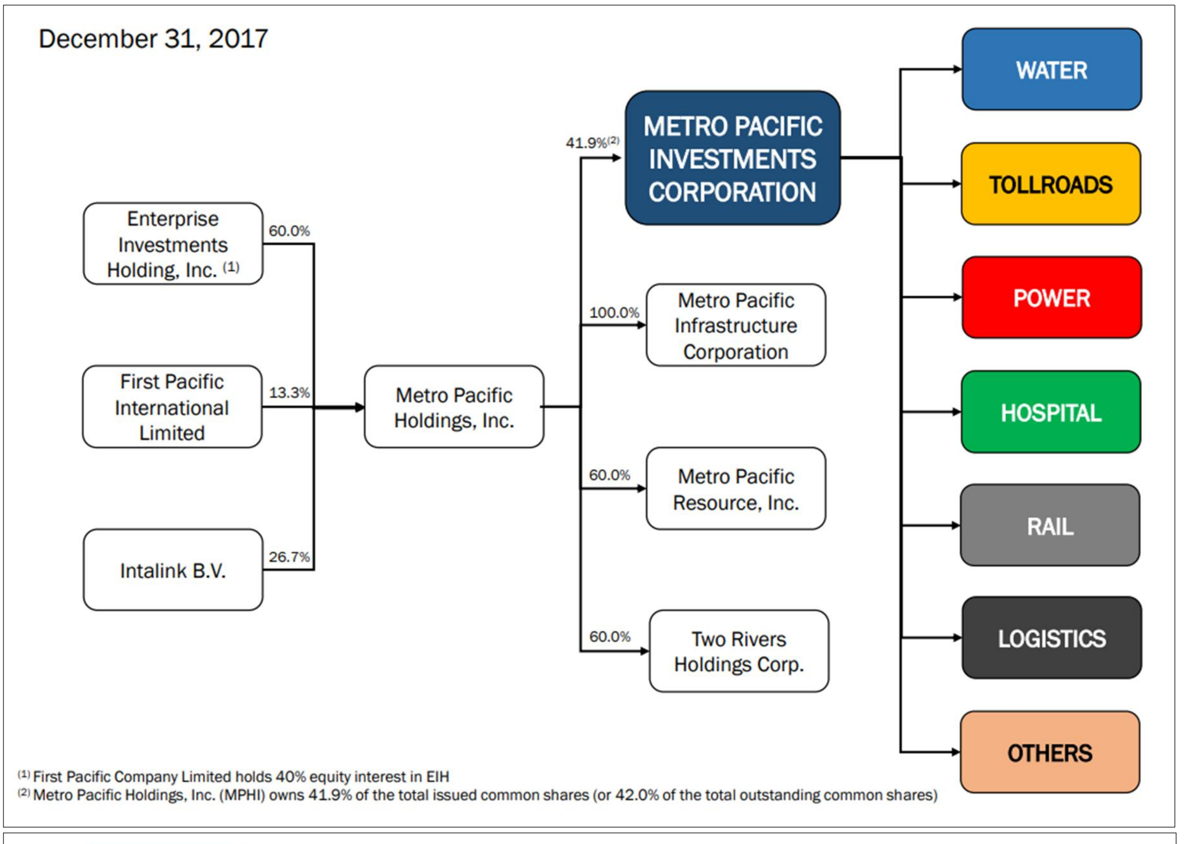


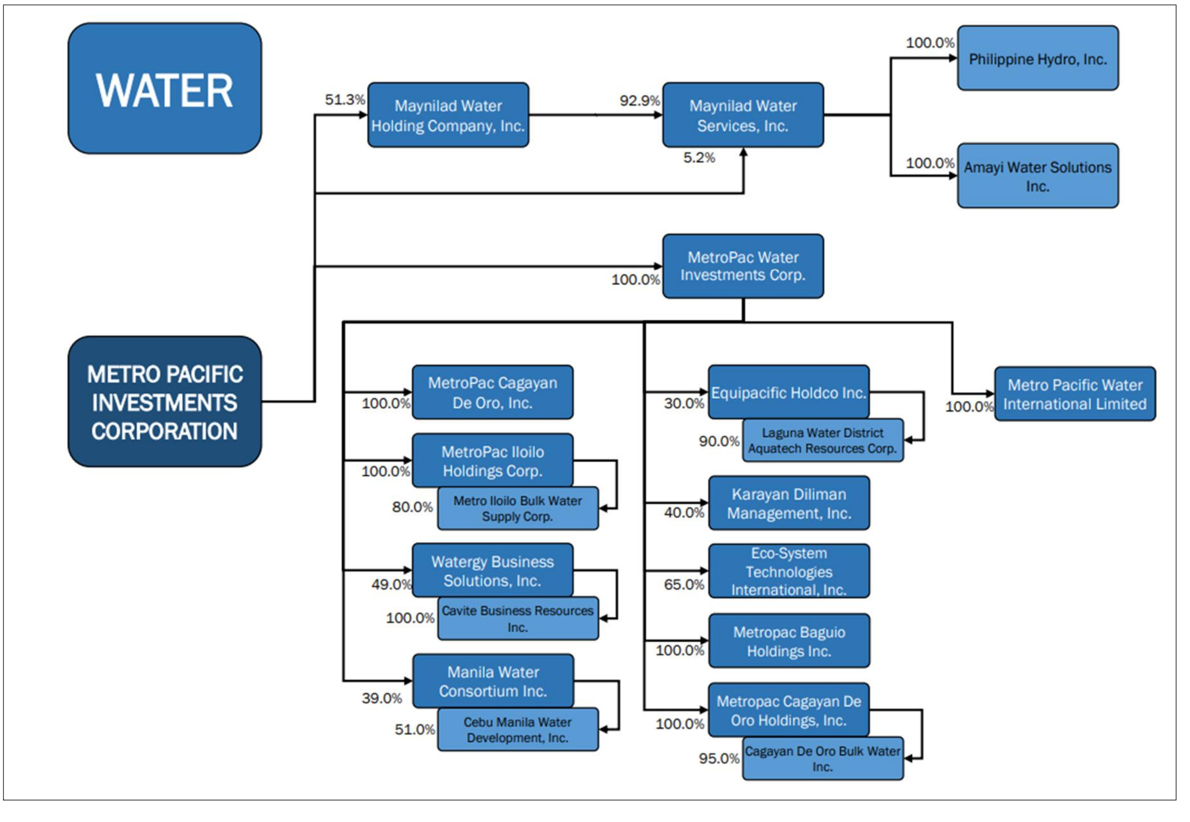
LEGEND:
Subsidiary (S)

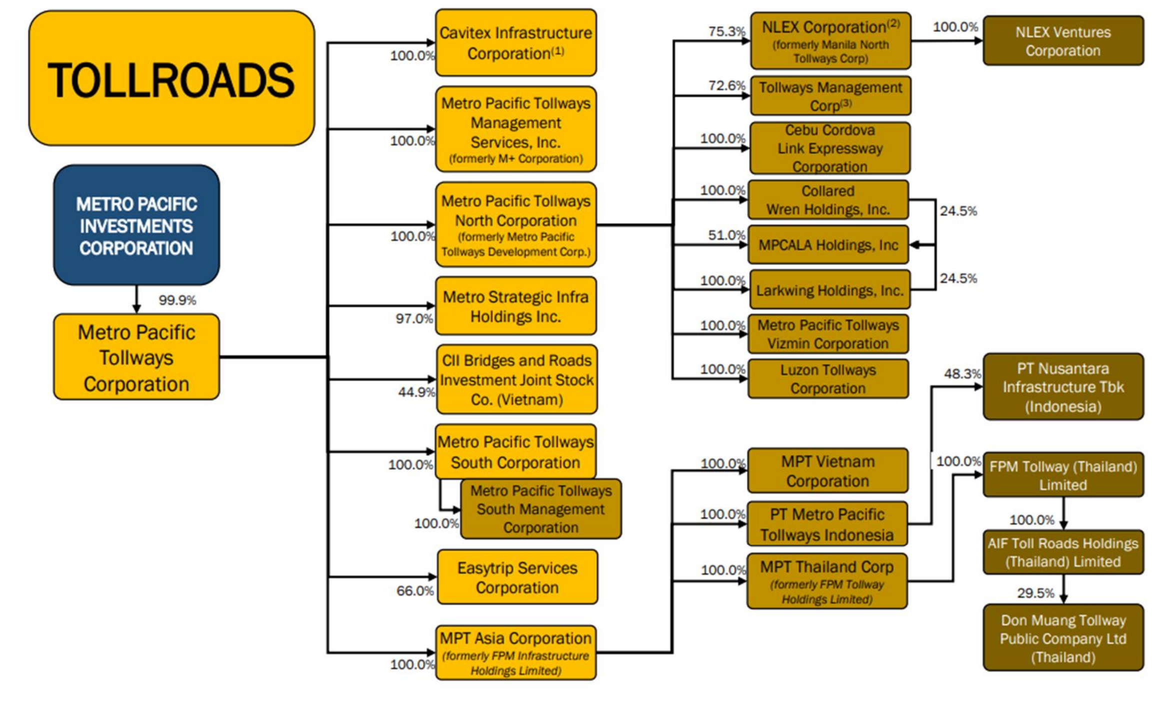
METRO PACIFIC INVESTMENTS CORPORATION

SUBSIDIARIES

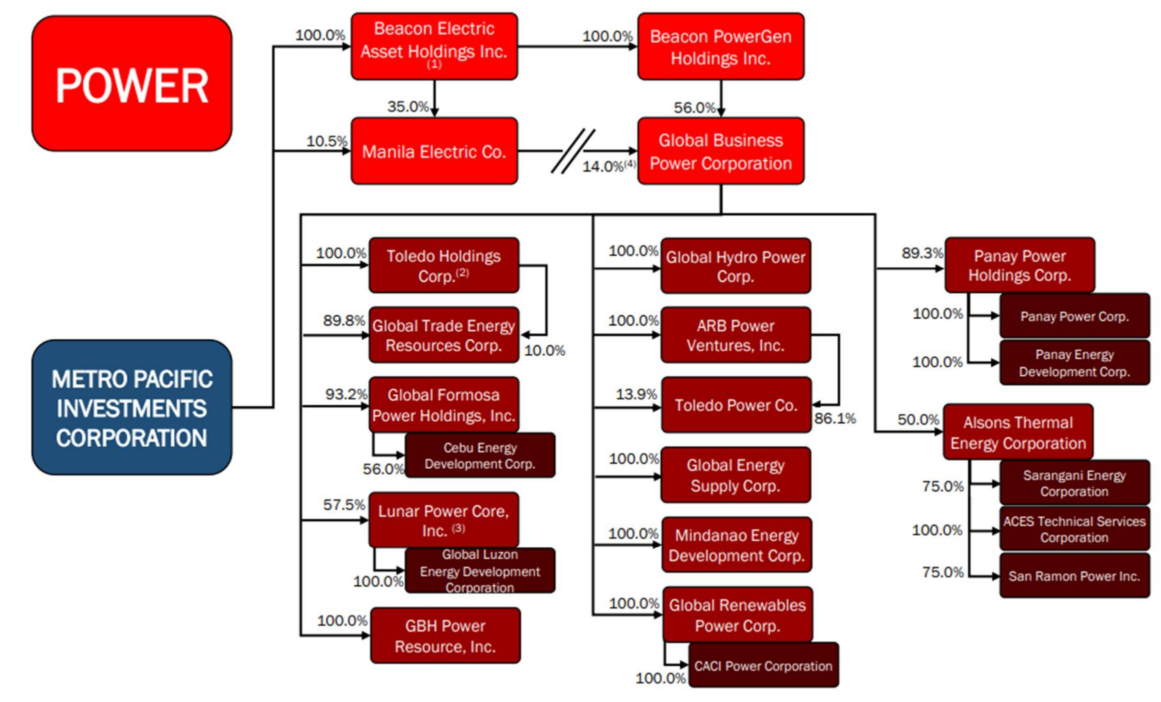
AS OF DECEMBER 31, 2017



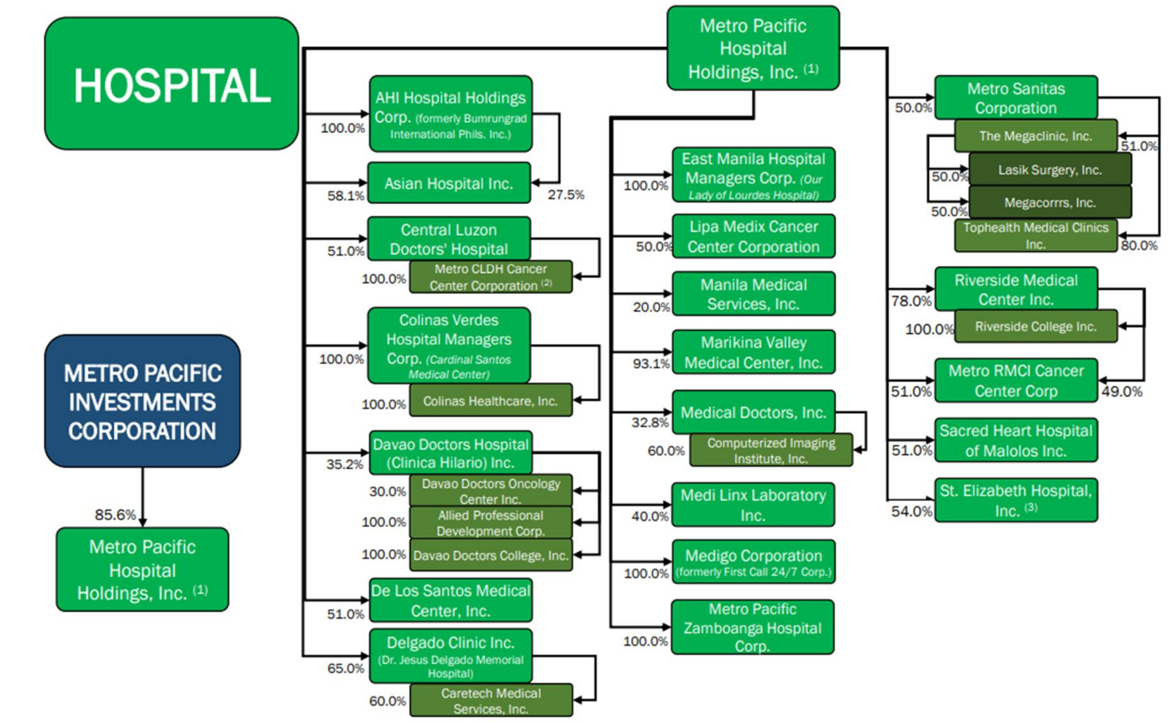




(1) By virtue of the Management Letter-Agreement, MPTC acquired control over CIC effective Jan 2, 2013.
(2) 4.3% is owned through 42.8% ownership in Egis Investment Partners Philippines Inc. Change in corporate name on Feb 13, 2017.
(3) 5.6% is owned through 42.8% ownership in Egis Investment Partners Philippines Inc.



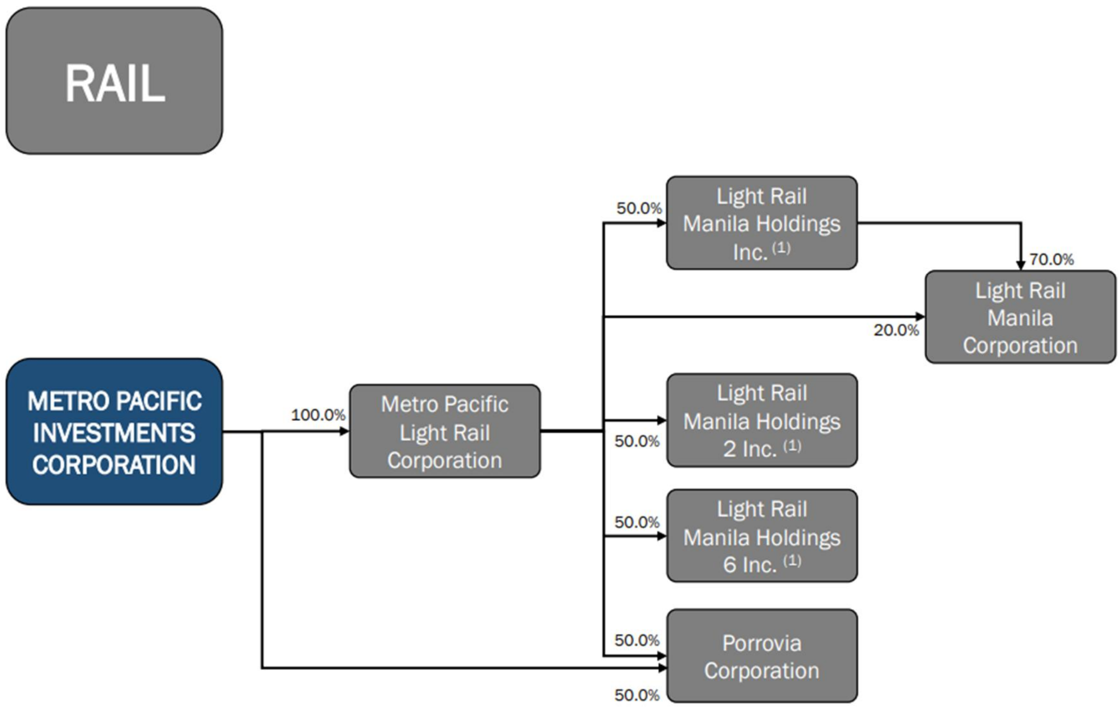
(1) MPIC's ownership of common and preferred shares at 75% but voting rights remain at 50% as per Omnibus Agreement between MPIC and PCEV.
(2) Includes 16% shares owned by GBH Cebu Limited Duration Company which was assigned to GPBC but pending issuance of BIR Certificate Authorizing Registration.
(3) GBPC owns 56.5% of common (voting) shares, and thus exercises 56.5% voting rights.
(4) MERALCO owns 14% effective interest in GBPC through a wholly owned subsidiary Meralco PowerGen Corporation.



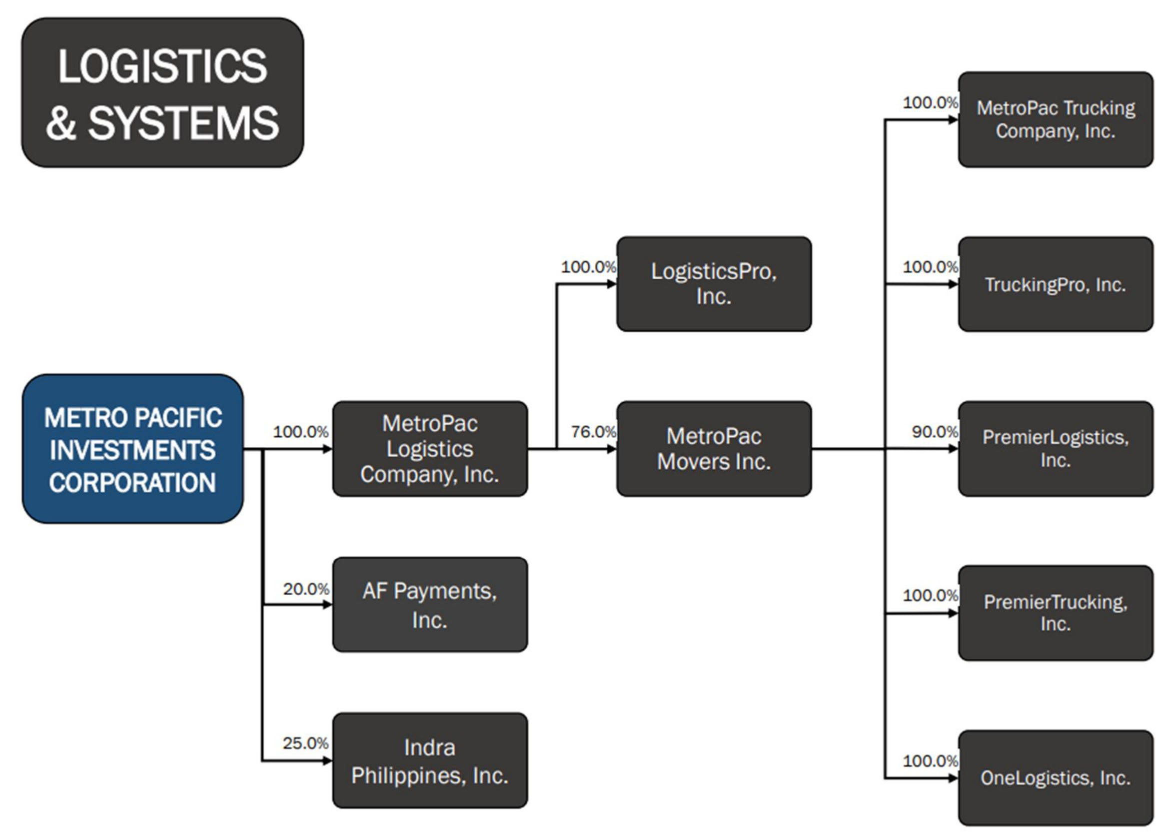
(1) GIC also holds an Exchangeable Bond issued by MPIC which can be exchanged into a 25.5% stake in NSHI in the future, subject to certain conditions.

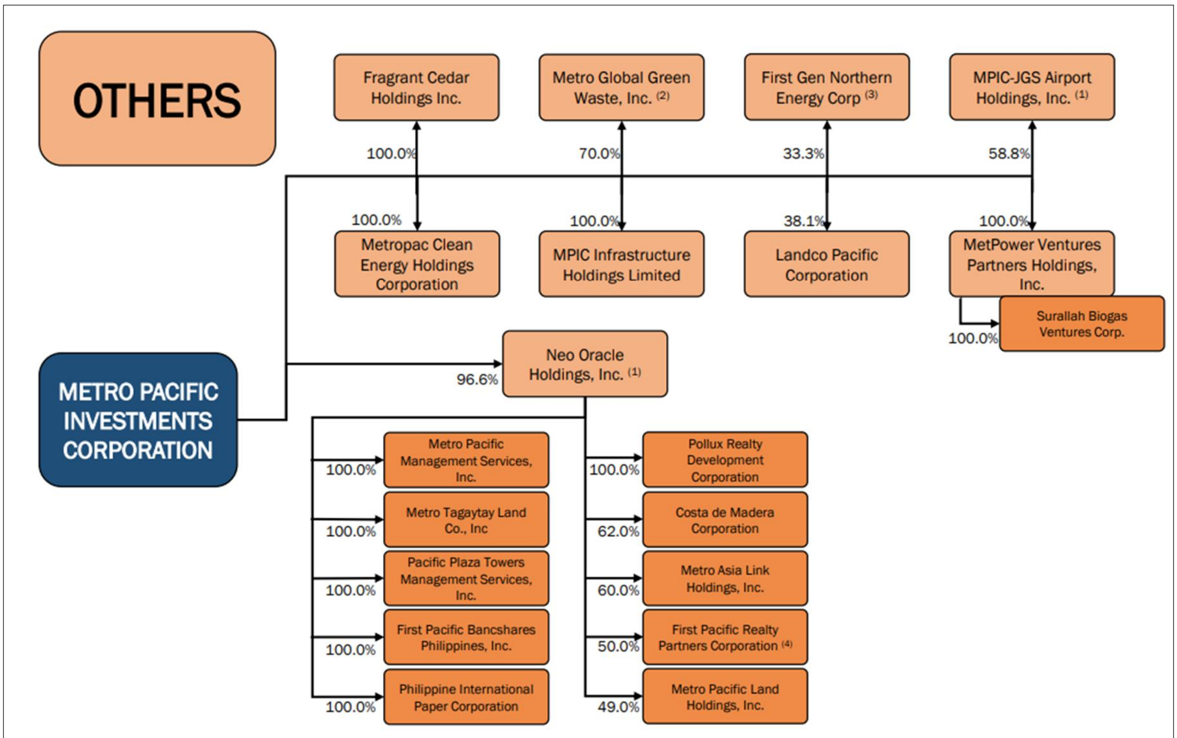
(2) As at December 31, 2017, Metro CLDH Cancer Center Corp is 100% owned by Central Luzon Doctors' Hospital. In December 2017, MPHHI subscribed for 51% ownership in MCCCC diluting CLDH to 49% pending filing to and approval of the increase in Authorized Capital Stock by the SEC.

(3) As at December 31, 2017, MPHHI owns 54% ownership in SEHI. On December 8, 2017, MPHHI subscribed to an additional 26% increasing the total ownership to 80% pending filing to and approval of the increase in Authorized Capital Stock by the SEC.



(1) Controlling interest in LRMHI, LRMH2 and LRMH6. Equity interest of 50% plus one share.





(1) End of corporate life (under liquidation).
(2) Corporate life has been shortened to until December 31, 2017.
(3) Corporate life has been shortened to until December 31, 2016.
(4) Corporate life has been shortened to until May 31, 2018.

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Liquidity Ratio		
Current ratio	**2.66**	3.01
Current assets	**₱113,983**	₱105,766
Current liabilities	**42,790**	35,084
Solvency Ratio		
Total liabilities to total equity ratio	**0.77**	0.88
Total liabilities	**134,000**	124,208
Total equity	**173,691**	141,238
Debt to equity ratio	**0.52**	0.63
Total debt	**91,132**	88,760
Total equity	**173,691**	141,238
Asset to Equity Ratio		
Asset to equity ratio	**1.77**	1.88
Total assets	**307,691**	265,446
Total equity	**173,691**	141,238
Interest Rate Coverage Ratio*		
Interest rate coverage ratio	**7.98**	7.05
Earnings before interest and taxes (EBIT)	**27,084**	**28,931
Interest expense	**3,394**	**4,106
Profitability Ratio		
Return on average assets	**4.95%**	5.14%
Net income attributable to Parent Company	**14,182**	14,634
Average assets	**286,569**	284,906
Return on Average Equity	**10.88%**	14.28%
Net income attributable to Parent Company	**14,182**	14,634
Average equity attributable to Parent Company	**130,409**	102,468
Income before income tax	**25,775**	**27,152
Interest expense	**3,394**	**4,106
Interest income	**2,085**	**2,327
EBIT	**27,084**	**28,931

*computed as EBIT/Interest Expense

**consist of continuing and discontinued operations

GT CAPITAL HOLDINGS, INC. AND SUBSIDIARIES

DETAILS OF THE USE OF PROCEEDS OF THE COMPANY'S PERPETUAL PREFERRED SHARES OFFERING
FOR THE PERIOD OCTOBER 27, 2016 TO JUNE 30, 2017
(In millions)

Gross proceeds	₱12,000
Less: Offer-related fees and expenses	87
Net Proceeds	11,913
Use of Proceeds	
Refinancing of short-term loans in 2016	7,520
Acquisition of additional investment in Metropolitan Bank & Trust Company in 2016	1,442
Infusion of capital into Toyota Financial Services Philippines in response to an equity call representing 40% share in 2017	480
Acquisition of additional investment in Metropolitan Bank & Trust Company in 2017	2,471
Total	11,913
Balance of the Net Offering Proceeds as of June 30, 2017	₱–

EXHIBIT 4

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

2 0 5 7 3

C O M P A N Y   N A M E

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
https://www.metrobank.com.ph	898-8000	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
3,068		12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Marilou C. Bartolome	marilou.bartolome@metrobank.com.ph	898-8805	09178172814

CONTACT PERSON's ADDRESS

NOTE 1 In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated and Parent Company Financial Statements

Opinion

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

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

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated and parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the audit of the consolidated and Parent Company financial statements

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

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

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

Audit response

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

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

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

Deferred Tax Assets

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

Audit response

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

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

Investments in Associates and a Joint Venture

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

Audit response

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

Goodwill

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

Audit response

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

Other Information

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

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

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent company financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Philippine GAAP for banks and the parent company financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated and parent company financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's and Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.

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

January 30, 2018

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

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

(Forward)

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

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Millions, Except Earnings Per Share)

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

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

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

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

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

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

See accompanying Notes to Financial Statements.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Millions)

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

(Forward)

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

OPERATIONAL CASH FLOWS FROM INTEREST

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

See accompanying Notes to Financial Statements.

1. Corporate Information

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

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

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

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant Accounting Policies

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

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

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

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

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

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

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

Derivatives recorded at FVPL
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps (IRS), call options, non-deliverable forwards (NDF) and other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those

accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and securities gain (loss) - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

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

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

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

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

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

Financial assets or financial liabilities held for trading
Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in ‘Trading and securities gain (loss) - net’. Interest earned or incurred is recorded in ‘Interest income’ or ‘Interest expense’ respectively, while dividend income is recorded in ‘Dividends’ when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are included in the statement of comprehensive income as ‘Changes in net unrealized loss on AFS investments’.

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as ‘Trading and securities gain (loss) - net’ in the statement of income. Gains and losses on disposal are determined using the average cost method.

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

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

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

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

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

Loans and receivables
This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements (SPURA)' and 'Loans and receivables'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'other financial assets held for trading', designated as AFS investments or 'financial assets designated at FVPL'.

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

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

After initial measurement, 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivables', are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for (reversal of) credit and impairment losses' in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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 (reversal of) credit and impairment losses' in the statements of income. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

AFS investments
In case of quoted equity investments classified as 'AFS investments', this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the statement of comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

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

In case of debt instruments classified as 'AFS investments', impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements except for certain trading transactions. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs. Building under construction (BUC) is stated at cost and includes cost of construction and other direct costs. BUC is not depreciated until such time that the relevant asset is completed and put into operational use.

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

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

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

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

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

Investment in subsidiaries

Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

Investment in associates

Associates pertain to all entities over which the Group and the Parent Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for under the equity method of accounting.

Investment in a JV

A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investment in a JV is accounted for under the equity method of accounting. The Group's investment in a JV represents the 30% (40% in 2016) interest of PSBank in Sumisho Motor Finance Corporation (SMFC) (Note 11).

Upon loss of significant influence over the associate or joint control over the JV, the Group and the Parent Company measure and recognize any retained investment at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

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

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

Investment Properties

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

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

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

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

Interest in Joint Operations

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

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

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

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

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

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

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

Impairment of Non-financial Assets
Property and equipment, investments in subsidiaries, associates and a JV, investment properties, chattel mortgage properties, and intangible assets with finite useful lives
At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

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

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

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

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables'. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries. Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss. Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income. Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the DBO, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Equity
When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

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

Surplus represents accumulated earnings of the Group less dividends declared.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as ‘Interest expense’.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred taxes

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

Current tax and deferred tax relating to items recognized directly in equity are recognized in other comprehensive income and not in the statement of income.

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

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

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

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.

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

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

Standards Issued but not yet Effective

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

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

Amendments

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

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

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

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

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

New Standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Philippine Interpretations

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

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

Effective beginning on or after January 1, 2019

New Standards

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

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

Amendments

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

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

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
Philippine Interpretation IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

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

Deferred effectivity

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

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

3. Significant Accounting Judgments and Estimates

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

<u>Judgments</u>

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

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

b. *Existence of significant influence over an associate with less than 20.00% ownership*
As discussed in Note 11, there are instances that an investor exercises significant influence even if its ownership is less than 20.00%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following:
(a) representation in the board of directors or equivalent governing body of the investee;
(b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee;

(d) interchange of managerial personnel; (e) joint voting agreement with other investors; or (f) provision of essential technical information.

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

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

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

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

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

Estimates

a. *Credit losses of loans and receivables*

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

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

The carrying values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Note 9. In 2017, 2016 and 2015, provision for (reversal of) credit losses on loans and receivables amounted to ₱8.0 billion, ₱7.3 billion and ₱2.1 billion, respectively, for the Group and ₱1.8 billion, ₱1.2 billion and (₱2.9 billion), respectively, for the Parent Company (Note 15).

b. *Impairment of AFS equity securities*

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

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

c. *Recognition of deferred income taxes*

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 28.

d. *Present value of retirement liability*
The cost of defined retirement pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 27.

e. *Impairment of non-financial assets*
Property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs and chattel mortgage properties
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:
a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends.

The Group uses the higher of fair value less costs to sell and VIU in determining recoverable amount. As of December 31, 2017 and 2016, there has been a significant and prolonged decline in the fair value of an associate. The recoverable amount of the investment in the associate has been determined based on a VIU calculation. Key assumptions in VIU calculation are most sensitive to the following assumptions: (a) production volume; (b) price; (c) exchange rates; (d) capital expenditures and (e) long-term growth rates. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

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

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group uses the higher of fair value less costs to sell (FVLCTS) and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount. The fair value of the CGU is determined using the discounted cash flow method for unquoted equity securities and liabilities at the appropriate market rate, while appraisal reports were used for non-financial assets and liabilities. Fair values of listed debt and equity securities are based on their quoted market prices. In applying the discounted cash flow method, the Group used weighted average cost of capital or cost of equity, as appropriate, to discount the future cash flows from the business. Average growth rate was derived based on the historical or industry data as applicable.

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

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

4. Financial Risk and Capital Management

Introduction

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

Risk management framework

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

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

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

Credit Risk

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

Management of credit risk
The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enter into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation; and
- Monitoring compliance with approved exposure limits.

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

The ICRRS contains the following:

a. Borrower Risk Rating (BRR) - an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations when it falls due. The assessment is described below:

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

b. Facility Risk Factor (FRF) - determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.

c. Adjusted Borrower Risk Rating - combination of BRR and FRF.

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

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

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

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

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

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

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

(Forward)

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

Excessive risk concentration

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

Concentration of risks of financial assets with credit risk exposure

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

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

(Forward)

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

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

(Forwarrd)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following table shows the credit quality of financial assets:

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

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

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

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

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

(Forward)

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

(Forward)

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

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

(Forward)

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

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

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

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

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

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

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

The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2017 and 2016.

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

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

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

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

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

Financial assets
Analysis of debt securities a FVPinto maturity groupings is based on the expected date on which these assets will be realized. For other financial assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity groupings are based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

The table below summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

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

(Forward)

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

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

(Forward)

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

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

Market Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EaR methodology assumptions and parameters

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

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

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

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

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

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

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

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

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

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

Capital Management

The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital

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

The Group complied with BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%; capital conservation buffer of 2.50% comprised of CET1 capital and Total Capital Adequacy Ratio (CAR) at 10.00%. These ratios shall be maintained at all times.

Further, Basel III requires that existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital and capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals) and before the effectivity of BSP Circular No. 781, are recognized as qualifying capital until December 31, 2015.

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

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

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

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

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, additional paid-in capital, retained earnings including current year profit, retained earnings reserves, other comprehensive income (net unrealized gains or losses on AFS securities, cumulative foreign currency translation and remeasurement of net defined benefit liability/asset) and non-controlling interest less required deductions such as unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and related interests (DOSRI), unsecured loans, other credit accomodations and guarantees granted to subsidiaries, deferred income tax, goodwill, other intangible assets, defined benefit pension fund assets and investments in equity. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision.

RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

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

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

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

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

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

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory edicts. The deadline for submission of ICAAP documents is on March 31 each year.

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

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

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

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

5. Fair Value Measurement

Financial Instruments

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

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

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

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

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

Liabilities - Fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any. The carrying amount of demand and savings deposit liabilities and other short-term liabilities approximate fair value considering that these are either due and demandable or with short-term maturities.

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

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

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

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

(Forward)

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

(Forward)

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

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

(Forwarrd)

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

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

(Forward)

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

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

(Forwarrd)

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

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

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

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

6. Segment Information

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

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

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

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

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

(Forward)

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

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

Geographical Information

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

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

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

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

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

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

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

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

8. Trading and Investment Securities

This account consists of:

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

Financial assets at FVPL consist of the following:

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

Derivative Financial Instruments

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

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

(Forward)

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

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

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

AFS investments consist of the following:

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

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

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

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

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

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

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

Bond Exchange Transaction

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

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

Reporting under PFRS

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

Interest income on trading and investment securities consists of:

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

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

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

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

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

9. Loans and Receivables

This account consists of:

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

Receivables from customers consist of:

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

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

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

Interest income on loans and receivables consists of:

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

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

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

BSP Reporting

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

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

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

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

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

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

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

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.00% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

10. **Property and Equipment**

The composition of and movements in this account follow:

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

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

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

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

11. **Investments in Subsidiaries, Associates and a Joint Venture**

Investments in subsidiaries consist of:

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

(Forward)

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments in associates and a JV consist of:

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

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

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

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

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

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

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

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

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

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

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

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

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

(Forward)

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

Dividends declared by investee companies of the Parent Company follow:

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

Dividends declared by significant investee companies of FMIC follow:

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

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

12. **Investment Properties**

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

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

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

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

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

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

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

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

13. **Long-term Leases**

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

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

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

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

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

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

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

14. **Other Assets**

This account consists of:

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

(Forward)

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

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

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

Movements in software costs account follow:

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

Movements in chattel properties acquired in foreclosure follow:

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

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

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

15. **Allowance for Credit and Impairment Losses**

Changes in the allowance for credit and impairment losses follow:

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

(Forward)

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

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

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

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

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

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

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

(Forward)

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

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

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

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

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

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

16. **Deposit Liabilities**

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

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

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

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

Interest expense on deposit liabilities consists of:

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

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

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

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

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

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

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

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

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

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

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

18. Accrued Interest and Other Expenses

This account consists of:

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

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

19. Bonds Payable

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

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

* The bonds have matured in 2017.

These bonds were issued in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any quarterly interest payment after the fourth or fifth anniversary of the issue date at 102.00% of its face value plus accrued interest. These are exempt securities pursuant to certain provisions of the Securities Regulation Code and are covered by deed of assignments on government securities held in trust by a collateral agent which shall have aggregate market value of 100.00% of the issued amount, otherwise, additional government securities shall be offered to increase and maintain the cover at 100.00%.

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

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

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

20. **Subordinated Debts**

This account consists of the following Peso Notes:

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

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

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

Specific terms of these Basel III - compliant Notes follow:

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

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

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

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

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

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

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

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

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

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

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

Other liabilities consist of:

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

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

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

22. Maturity Profile of Assets and Liabilities

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

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

(Forward)

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

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

(Forward)

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

23. Capital Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

24. Surplus Reserves

This account consists of:

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

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

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

25. Miscellaneous Income and Expenses

In 2017, 2016 and 2015, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱1.1 billion, ₱834.4 million and ₱713.4 million, respectively, for the Group and ₱25.5 million, ₱24.2 million and ₱21.4 million, respectively, for the Parent Company; recovery on charged-off assets amounting to ₱1.1 billion, ₱774.0 million and ₱722.2 million, respectively, for the Group and ₱28.9 million, ₱28.3 million and ₱10.2 million, respectively, for the Parent Company; and information technology and other fees amounting to ₱338.5 million, ₱354.0 million and ₱432.8 million, respectively, for the Parent Company (Note 31).

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Insurance	**₱3,220**	₱2,832	₱2,712	**₱2,457**	₱2,203	₱2,140
Security, messengerial and janitorial	**2,359**	2,265	2,117	**1,779**	1,830	1,651
Advertising	**895**	1,499	920	**284**	803	216
Litigation (Note 12)	**794**	644	640	**309**	249	291
Information technology (Note 31)	**769**	809	827	**520**	581	621
Management and professional fees	**652**	600	775	**397**	351	567
Supervision fees	**650**	616	573	**539**	516	469
Communications	**616**	600	603	**96**	84	62
Repairs and maintenance	**608**	557	591	**292**	286	301
Transportation and travel	**497**	501	463	**344**	344	315
Stationery and supplies used	**403**	426	490	**240**	264	319
Entertainment, amusement and representation (EAR) (Note 28)	**302**	505	290	**261**	461	246
Others (Note 31)	**1,965**	1,785	1,183	**1,035**	909	518
	₱13,730	₱13,639	₱12,184	**₱8,553**	₱8,881	₱7,716

26. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and securities purchased under agreements to resell considered as cash and cash equivalents follow:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Interbank loans receivable and SPURA	**₱45,475**	₱91,646	₱36,118	**₱27,208**	₱73,094	₱25,951
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**(12,739)**	(15,778)	(4,586)	**(7,966)**	(7,644)	(2,423)
	₱32,736	₱75,868	₱31,532	**₱19,242**	₱65,450	₱23,528

Significant non-cash transactions of the Group and the Parent Company include reclassification of remaining HTM investments to AFS investments in 2016 as discussed in Note 8; foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; accrual of cash dividends from subsidiaries and SMBC Metro as disclosed in Notes 11 and 31; reclassifications of BUC (Note 10); and reclassification of investment in LCMC in 2015 (Note 11).

The table below provides for the changes in liabilities arising from financing activities:

	Consolidated					
	January 1, 2017	Cash flows	Foreign exchange movement	Changes in fair values	Others	December 31, 2017
Bills payable and SSURA (Note 17)	₱161,376	₱64,034	₱–	₱–	₱2,425	₱227,835
Derivative liabilities (Note 8)	4,612	(27)	–	832	(65)	5,352
Bonds payable (Note 19)	11,498	(8,599)	–	–	11	2,910
Subordinated debts (Note 20)	29,524	(3,000)	–	–	56	26,580
Dividends payable (Note 21)	84	(3,180)	–	–	3,187	91
Total liabilities from financing activities	₱207,094	₱49,228	₱–	₱832	₱5,614	₱262,768

	Parent Company					
	January 1, 2017	Cash flows	Foreign exchange movement	Changes in fair values	Others	December 31, 2017
Bills payable and SSURA (Note 17)	₱68,865	₱37,617	₱–	₱–	₱–	₱106,482
Derivative liabilities (Note 8)	4,547	(27)	–	832	–	5,352
Subordinated debts (Note 20)	22,404	–	–	–	33	22,437
Dividends payable (Note 21)	–	(3,180)	–	–	3,180	–
Total liabilities from financing activities	₱95,816	₱34,410	₱–	₱832	₱3,213	₱134,271

Others include the effect of cash flows of liabilities arising from operating activities, declaration of dividends, and effect of accretion of interest.

27. Retirement Plan and Other Employee Benefits

The Parent Company and most of its subsidiaries have funded non-contributory defined benefit retirement plan covering all their respective permanent and full-time employees. Benefits are based on the employee's years of service and final plan salary.

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

Under the existing regulatory framework, Republic Act (RA) 7641 (Retirement Pay Law) requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Parent Company and most of its subsidiaries meet the minimum retirement benefit specified under RA 7641.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries are shown below:

	Parent Company	**FMIC**	**PSBank**	**MCC**	**ORIX Metro**
As of January 1, 2017					
Average remaining working life	**8 years**	**9 to 10 years**	**12 years**	**12 years**	**12 to 27 years**
Discount rate	**5.11%**	**5.11% to 5.49%**	**5.31%**	**4.84%**	**3.89% to 5.36%**
Future salary increases	**7%**	**5%**	**5%**	**8.50%**	**8%**
As of January 1, 2016					
Average remaining working life	10 years	7 to 10 years	12 years	12 years	13 to 27 years
Discount rate	4.79%	4.93% to 5.08%	5.01%	5.23%	4.59% to 5.56%
Future salary increases	8.00%	5.00%	5.00%	8.70%	8.00%

Discount rates used in computing for the present value of the DBO of the Parent Company and significant subsidiaries as of December 31, 2017 and 2016 follow:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2017	**5.39%**	**5.62% to 5.77%**	**5.73%**	**5.74%**	**4.84% to 5.40%**
2016	5.11%	5.11% to 5.49%	5.31%	4.84%	3.89% to 5.36%

Net retirement liability included in 'Other liabilities' as of December 31, 2017 and 2016 amounted to ₱3.7 billion and ₱4.7 billion, respectively, for the Group and ₱2.8 billion and ₱3.6 billion, respectively, for the Parent Company (Note 21).

The fair value of plan assets by each class as at the end of the reporting year are as follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Cash	**₱555**	₱33	**₱–**	₱–
Due from BSP	**–**	602	**–**	–
Deposit in banks	**904**	251	**707**	98
	1,459	886	**707**	98
Financial assets at FVPL				
Equity securities	**16**	17	**–**	–
Debt securities	**812**	62	**735**	–
Unit investment trust fund and others	**232**	468	**100**	464
Total financial assets at FVPL	**1,060**	547	**835**	464
AFS investments - net				
Quoted debt instruments				
Private	**1,193**	1,441	**660**	817
Government	**9,028**	8,433	**7,562**	7,691
	10,221	9,874	**8,222**	8,508
Equity securities				
Quoted	**2,851**	2,439	**2,691**	2,355
Unquoted	**13**	213	**13**	13
	2,864	2,652	**2,704**	2,368
Investment funds	**636**	382	**600**	234
Total AFS investments	**13,721**	12,908	**11,526**	11,110
HTM investments				
Government	**16**	–	**–**	–
Loans and discounts - net	**265**	71	**259**	71
Other receivables - net	**161**	142	**140**	128
Liabilities	**(8)**	(23)	**(6)**	–
Total assets	**₱16,674**	₱14,531	**₱13,461**	₱11,871

Changes in net defined benefit liability of funded funds in 2017 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2017	**₱19,188**	**(₱14,531)**	**₱4,657**
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	**1,588**	**–**	**1,588**
Past service cost	**1**	**–**	**1**
Net interest	**932**	**(755)**	**177**
Sub-total	**2,521**	**(755)**	**1,766**
Benefits paid	**(1,182)**	**1,184**	**2**
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	**–**	**199**	**199**
Actuarial changes arising from experience adjustments	**393**	**–**	**393**
Actuarial changes arising from changes in financial/demographic assumptions	**(639)**	**–**	**(639)**
Sub-total	**(246)**	**199**	**(47)**
Contributions paid	**–**	**(2,771)**	**(2,771)**
December 31, 2017	**₱20,281**	**(₱16,674)**	**₱3,607**

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2017	**₱15,427**	**(₱11,871)**	**₱3,556**
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	**1,176**	**–**	**1,176**
Net interest	**744**	**(614)**	**130**
Sub-total	**1,920**	**(614)**	**1,306**
Benefits paid	**(1,034)**	**1,034**	**–**
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	**–**	**33**	**33**
Actuarial changes arising from experience adjustments	**295**	**–**	**295**
Actuarial changes arising from changes in financial/demographic assumptions	**(329)**	**–**	**(329)**
Sub-total	**(34)**	**33**	**(1)**
Contributions paid	**–**	**(2,043)**	**(2,043)**
December 31, 2017	**₱16,279**	**(₱13,461)**	**₱2,818**

Changes in net defined benefit liability of funded funds in 2016 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2016	₱17,404	(₱13,003)	₱4,401
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	1,448	–	1,448
Past service cost	3	–	3
Net interest	831	(627)	204
Sub-total	2,282	(627)	1,655
Benefits paid	(845)	845	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	360	360
Actuarial changes arising from experience adjustments	1,896	–	1,896
Actuarial changes arising from changes in financial/demographic assumptions	(1,549)	(1)	(1,550)
Sub-total	347	359	706
Contributions paid	–	(2,105)	(2,105)
December 31, 2016	₱19,188	(₱14,531)	₱4,657

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2016	₱13,928	(₱10,924)	₱3,004
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	1,081	–	1,081
Net interest	667	(523)	144
Sub-total	1,748	(523)	1,225
Benefits paid	(705)	705	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	326	326
Actuarial changes arising from experience adjustments	1,817	–	1,817
Actuarial changes arising from changes in financial/demographic assumptions	(1,361)	–	(1,361)
Sub-total	456	326	782
Contributions paid	–	(1,455)	(1,455)
December 31, 2016	₱15,427	(₱11,871)	₱3,556

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of December 31, 2017 and 2016, assuming all other assumptions were held constant:

	Parent Company	FMIC	PSBank	MCC	Orix Metro
As of December 31, 2017					
Discount rate					
+100 basis points (bps)	**₱15,321**	**₱237**	**₱2,222**	**₱843**	**₱(47)**
- 100 bps	**17,352**	**270**	**2,639**	**1,052**	**56**
Salary increase rate					
+100 bps	**17,296**	**271**	**2,654**	**1,025**	**50**
- 100 bps	**15,348**	**236**	**2,206**	**865**	**(43)**
Turnover rate					
+50 bps	**–**	**–**	**–**	**889**	**–**
+300 bps	**15,893**	**10**	**2,405**	**–**	**–**
- 25 bps	**–**	**–**	**–**	**968**	**–**
- 300 bps	**16,740**	**11**	**2,427**	**–**	**–**
As of December 31, 2016					
Discount rate					
+100 bps	₱14,460	₱258	₱2,032	₱859	₱282
- 100 bps	16,513	296	2,444	1,094	371
Salary increase rate					
+100 bps	16,414	298	2,461	1,065	366
- 100 bps	14,528	256	2,014	878	286
Turnover rate					
+50 bps	–	–	–	896	–
+300 bps	15,093	–	–	–	–
- 25 bps	–	–	–	1,008	–
- 300 bps	15,720	–	–	–	–

The Group and the Parent Company expect to contribute to the defined benefit retirement plans the required funding for normal cost in 2018 amounting to ₱1.8 billion and ₱1.4 billion, respectively.

The average duration of the DBO of the Group as of December 31, 2017 and 2016 are as follows:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2017	**11.56 years**	**10.82 to 18.26 years**	**16.13 years**	**16.25 years**	**10.20 to 13.50 years**
2016	11.98 years	12.56 to 18.70 years	16.49 years	16.79 years	12.90 to 17.30 years

Shown below is the maturity analysis of the undiscounted benefit payments:

	Parent Company	FMIC	PSBank	MCC	Orix Metro
As of December 31, 2017					
Less than 1 year	**₱1,749**	**₱34**	**₱261**	**₱33**	**₱4**
More than 1 year to 5 years	**7,555**	**103**	**728**	**162**	**103**
More than 5 years to 10 years	**12,559**	**213**	**1,673**	**619**	**266**
More than 10 years to 15 years	**7,716**	**212**	**1,991**	**1,100**	**–**
More than 15 years to 20 years	**6,526**	**170**	**2,002**	**2,059**	**–**
More than 20 years	**8,881**	**171**	**4,280**	**1,482**	**–**
As of December 31, 2016					
Less than 1 year	₱1,730	₱27	₱147	₱24	₱4
More than 1 year to 5 years	6,590	135	661	152	15
More than 5 years to 10 years	11,596	219	1,365	447	158
More than 10 years to 15 years	8,195	221	2,014	1,227	–
More than 15 years to 20 years	6,661	184	1,954	1,733	–
More than 20 years	9,180	278	4,096	1,922	–

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2017 and 2016 amounted to ₱263.9 million and ₱249.0 million, respectively.

As of December 31, 2017 and 2016, the retirement fund of the Parent Company's employees amounting to ₱13.5 billion and ₱11.9 billion, respectively, is being managed by the Parent Company's Trust Banking Group (as defined in the trust agreement), which has a Trust Committee that is mandated to approve, the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee. Directors' fees and bonuses of the Parent Company in 2017, 2016 and 2015 amounted to ₱65.7 million, ₱59.4 million and ₱61.2 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱7.3 billion, ₱6.8 billion and ₱6.2 billion, respectively.

28. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30.00% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

Foreign Branches	Tax Rates
USA - New York (NY) Branch	34.00% income tax; 7.10% state tax ; 8.85% city tax
Japan - Tokyo and Osaka Branches	23.40% income tax; various rates for business taxes - income tax, local business, sheet value and sheet capital allocations
Korea - Seoul and Pusan Branches	various rates; 0.50% education tax
Taiwan - Taipei Branch	17.00% income tax; 5.00% gross business receipts tax; 5.00% VAT

The provision for income tax consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Current:						
Final tax	**₱2,875**	₱3,235	₱3,895	**₱2,286**	₱2,509	₱3,323
RCIT*	**5,374**	3,779	2,036	**2,318**	1,382	129
MCIT	**–**	–	324	**–**	–	324
	8,249	7,014	6,255	**4,604**	3,891	3,776
Deferred*	**(259)**	(392)	(1,018)	**(89)**	(1)	(570)
	₱7,990	₱6,622	₱5,237	**₱4,515**	₱3,890	₱3,206

* Includes income taxes of foreign subsidiaries.

Components of net deferred tax assets of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Deferred tax asset on:				
Allowance for credit and impairment losses	**₱7,165**	₱6,215	**₱5,167**	₱4,310
Unamortized past service cost	**1,170**	969	**956**	860
Retirement liability	**1,076**	1,408	**845**	1,094
Accumulated depreciation of investment properties	**295**	380	**190**	284
Deferred membership/awards	**167**	189	**–**	–
Unrealized losses	**9**	308	**5**	294
Others	**471**	411	**108**	117
	10,353	9,880	**7,271**	6,959
Deferred tax liability on:				
Unrealized gains	**633**	367	**574**	293
Unrealized gain on initial measurement of investment properties	**523**	580	**169**	227
Retirement asset	**22**	–	**–**	–
Others	**14**	78	**–**	–
	1,192	1,025	**743**	520
Net deferred tax assets	**₱9,161**	₱8,855	**₱6,528**	₱6,439

Components of net deferred tax liabilities of the Group follow:

	2017	2016
Deferred tax asset on:		
Allowance for credit and impairment losses	**₱194**	₱–
Retirement liability	**24**	20
Unamortized past service cost	**2**	–
Others	**16**	154
	236	174
Deferred tax liability on:		
Leasing income differential between finance and operating lease method	**500**	467
Others	**13**	19
	513	486
Net deferred tax liabilities	**₱277**	₱312

As of December 31, 2017 and 2016, no deferred tax asset was recognized on the following temporary differences: (a) allowance for credit and impairment losses amounting to ₱2.2 billion and ₱4.1 billion, respectively, for the Group and ₱2.1 billion and ₱3.5 billion, respectively, for the Parent Company; (b) NOLCO of ₱909.5 million and ₱1.2 billion, respectively, for the Group and ₱55.0 million and ₱220.2 million, respectively, for the Parent Company; (c) MCIT of ₱8.0 million and ₱16.4 million, respectively, for the Group and ₱8.0 million and ₱9.9 million, respectively, for the Parent Company; and (d) others amounting to ₱10.7 thousand in 2016 for the Group. The Group believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

There are no income tax consequences attaching to the payment of dividends by the Group to the shareholders of the Group.

Details of the excess MCIT credits follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2014	₱4	₱4	₱–	2017	₱4	₱4	₱–	2017
2015	1	–	1	2018	1	–	1	2018
2016	3	–	3	2019	3	–	3	2019
2017	4	–	4	2020	4	–	4	2020
	₱12	₱4	₱8		₱12	₱4	₱8	

Details of the NOLCO follow:

	Consolidated				Parent Company			
Inception Year	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2014	₱335	₱335	₱–	2017	₱–	₱–	₱–	2017
2015	566	179	387	2018	234	179	55	2018
2016	301	–	301	2019	–	–	–	2019
2017	236	–	236	2020	–	–	–	2020
	₱1,438	₱514	₱924		₱234	₱179	₱55	

A reconciliation of the statutory income tax rates and the effective income tax rates follows:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effect of:						
Tax-paid and tax-exempt income	**(7.35)**	(13.15)	(10.56)	**(5.03)**	(11.84)	(9.38)
Non-deductible interest expense	**3.33**	4.90	6.62	**3.04**	3.39	4.52
Non-recognition of deferred tax asset	**(5.19)**	(2.44)	(2.29)	**2.51**	(2.52)	(2.61)
FCDU income	**(2.29)**	(3.30)	(0.84)	**(2.52)**	(3.10)	(0.89)
Others - net	**8.81**	8.57	(2.69)	**(8.14)**	1.77	(6.95)
Effective income tax rate	**27.31%**	24.58%	20.24%	**19.86%**	17.70%	14.69%

29. **Trust Operations**

Properties held by the Parent Company and certain subsidiaries in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not resources of the Parent Company and its subsidiaries (Note 30).

In compliance with current banking regulations relative to the Parent Company and certain subsidiaries' trust functions, as of December 31, 2017 and 2016, government securities classified as AFS investments with the following total face values amounting to ₱8.7 billion and ₱5.1 billion, respectively, for the Group, and ₱8.6 billion and ₱5.0 billion, respectively, for the Parent Company, are deposited with the BSP.

On June 24, 2016, the Board of Directors of FMIC approved the recommendation of its Trust Committee to surrender its trust license to the BSP and on January 19, 2017, the BSP has issued the Revocation of Authority to conduct FMIC's trust and fiduciary business.

30. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Trust Banking Group accounts (Note 29)	**₱450,492**	₱427,741	**₱443,989**	₱422,812
Credit card lines	**160,057**	132,901	**–**	–
Unused commercial letters of credit (Note 31)	**44,759**	46,678	**43,423**	45,725
Bank guaranty with indemnity agreement (Note 31)	**13,555**	12,045	**13,555**	12,045
Credit line certificate with bank commission	**6,351**	5,322	**6,351**	5,322
Outstanding shipside bonds/airway bills	**5,248**	4,712	**5,248**	4,712
Inward bills for collection	**2,824**	930	**2,823**	929
Undrawn commitments - facilities to lend	**1,965**	20,521	**1,965**	20,521
Outward bills for collection	**682**	622	**681**	622
Late deposits/payments received	**472**	2,292	**467**	2,229
Confirmed export letters of credits	**246**	109	**57**	97
Outstanding guarantees	**92**	117	**88**	117
Others	**6,076**	12,137	**382**	5,550
	₱692,819	₱666,127	**₱519,029**	₱520,681

On October 17, 2011, a consortium of eight banks including the Parent Company filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the ROP, Bureau of Internal Revenue (BIR) and its Commissioner, the Department of Finance and its Secretary and the BTr and the National Treasurer, asking the Court to annul BIR Ruling No. 370-2011 which imposes a 20-percent FWT on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe Bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20-percent FWT be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. The respondents have not complied with the said TRO, i.e., they have not credited the banks' escrow accounts with the amount corresponding to the questioned 20-percent FWT. On January 13, 2015, the Court promulgated a Decision granting the petition wherein BIR Ruling No. 370-2011 was nullified, and the respondent BTr was ordered to immediately release and pay to the bondholders the amount corresponding to the 20-percent FWT withheld on October 18, 2011. On March 13, 2015, respondents filed a Motion for Reconsideration and Clarification of the Court's Decision. On August 16, 2016, the Court issued a Resolution denying the respondents' Motion for Reconsideration and Clarification, and ordered the respondent BTr to immediately release and pay the bondholders for the 20-percent FWT on the PEACe Bonds, with legal interest of 6.00% per annum from October 19, 2011 until full payment. On October 19, 2016, the respondents' filed a Motion for Leave (i) to File Motion for Partial Reconsideration and (ii) to Admit Motion for Partial Reconsideration of the said Resolution. On November 22, 2016, the Court issued a Resolution denying the said Motion, considering that a second motion for reconsideration is a prohibited pleading under the Rules of Civil Procedure. The Resolution also stated that no further pleadings or motions will be entertained. The case was settled on April 11, 2017 by way of issuance of RTB (Note 14).

Upon its own discovery, the Parent Company immediately caused the arrest of its Corporate Service Management Division Head, Ma. Victoria S. Lopez on July 17, 2017 for qualified theft through falsification of commercial documents. Both the Motion to Fix Bail and Motion for Reconsideration were denied and the case is now pending trial with the Regional Trial Court (RTC) of Makati City. She is currently incarcerated at the Makati City Jail. On July 24, 2017, another criminal complaint for qualified theft through falsification of commercial documents and violation of Section 55 of the General Banking Law (GBL) was filed against her and her cohorts for the abstraction of ₱900.0 million before The Office of the City Prosecutor of Makati City and is pending resolution. On the civil case, RTC Makati City granted the preliminary writ of attachment in the civil case against her, her family, cohorts and corporations, for the collection of the said sum of money, interests and penalties, damages and other costs. This case is scheduled for judicial dispute resolution. On December 5, 2017, a third criminal case for the qualified theft through falsification of commercial documents and violation of Section 55 of GBL was filed against her, her cohorts and family members relative to the abstraction of ₱850.0 million. This case is undergoing preliminary investigation. In addition, foreign proceedings are ongoing on the cases which were filed in the USA to preserve and recover their identified properties; and in Singapore to preserve and recover funds in identified accounts. As of December 31, 2017, accounts receivable classified under 'Loans and Receivables' includes total identified claims of ₱1.75 billion with full provisioning (Notes 9 and 15). Relative to this incident, the MB approved the imposition of certain sanctions to the Parent Company (Note 4) and added that the MB took into consideration the strong financial condition and immediate corrective actions and re-affirms the safety and soundness of the Parent Company given the medium to long-term initiatives that improve governance, controls and compliance. The Parent Company does not expect this isolated incident to have long term material impact on its financial statements. Further, the Parent Company is reinforcing its commitment to the highest standards of integrity and upholds the protection of its customers as its main priority.

Several suits and claims relating to the Group's operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

31. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities and are classified as entities with significant influence, subsidiaries, associates, other related parties and key personnel (Notes 2 and 11).

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectibility and did not present other unfavorable conditions.

The Parent Company has a Related Party Transactions Committee (RPTC) and a Related Party Transactions Management Committee (RPTMC), both of which are created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTC and RPTMC disclose all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD, composed of at least three (3) Board non-executive members, two (2) of whom should be independent directors, including the Chairperson. Currently, RPTC is composed of three (3) independent directors (including the Committee's Chairman); the head of Internal Audit Group (as Resource Person); and the Compliance Officer (as the Committee Secretary) and meets monthly or as the need arises. On the other hand, RPTMC members are appointed annually by the President, composed of four (4) members. RPTC's and RPTMC's review of the proposed related party transactions considers the following: (a) identity of the parties involved in the transaction or relationship; (b) terms of the transaction or relationship and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances; (c) business purpose, timing, rationale and benefits of the transaction or relationship; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; (j) extent that such transaction or relationship would present an improper conflict of interest; and (k) the availability of other sources of comparable products or services. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, except in order to provide material information on the related party transaction to RPTC.

Major subsidiaries, which include FMIC, PSBank, MCC and MBCL, have their own respective RPTCs which assist their respective BODs in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that their corporate or business resources are not misappropriated or misapplied.

In the ordinary course of business, the Group has loan transactions with investees and with certain DOSRI based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Parent Company, PSBank, FMIC and ORIX Metro.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Total outstanding DOSRI accounts	**₱4,879**	₱4,205	**₱3,442**	₱2,270
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%	**0.00%**	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.39%**	0.40%	**0.35%**	0.27%
Percent of DOSRI accounts to total loans	**0.39%**	0.40%	**0.35%**	0.27%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**13.11%**	13.97%	**5.54%**	8.65%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%	**0.00%**	0.00%

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2017 and 2016, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.00% of such net worth wherein the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 10.14% and 7.14%, respectively, of the Parent Company's net worth.

Further, BSP Circular No. 654 allows a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2017 and 2016, the Parent Company has no outstanding loans, other credit accommodations and guarantees to subsidiaries and affiliates engaged in energy and power generation.

Total interest income on the DOSRI loans in 2017, 2016 and 2015 amounted to ₱52.3 million, ₱124.3 million and ₱107.2 million, respectively, for the Group and ₱37.2 million, ₱88.6 million and ₱55.6 million, respectively, for the Parent Company.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

	Consolidated	
	December 31, 2017	
Category	Amount	Terms and Conditions/Nature
Entity with Significant Influence Over the Group		
Outstanding Balance:		
Deposit liabilities*	**₱16**	With annual fixed interest rates ranging from 0.00% to 0.25% (Note 16)
Amount/Volume:		
Deposit liabilities	**(2,119)**	Generally similar to terms and conditions above
Bills payable	**(303)**	Peso borrowing in 2016 subject to annual fixed interest rate of 2.00% with maturity term of 17 days (Note 17)
Investments in associates and a JV	**190**	Proceeds from sale of 10% ownership of PSBank in SMFC (Note 11)
Interest expense	**11**	Interest expense on deposit liabilities and bills payable (Note 16)
Foreign currency - sell	**7**	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱3,439**	Peso and foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 days to 94 days no impairment (Note 7)
Receivables from customers*	**235**	Secured and unsecured amounted to ₱140.0 million and ₱94.6 million, respectively; no impairment. With annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 days to 359 days (Note 9)
Accounts receivable	**500**	Non-interest bearing receivables on service fees, remittance, rental fees and common use service area fees
Deposit liabilities*	**7,211**	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Bills payable	**888**	Peso borrowings subject to annual fixed interest rates ranging from 1.13% to 4.63% with maturity terms from 15 days to 33 days (Note 17)
Bonds payable*	**81**	Issued by FMIC with interest rate ranging from 5.75% and maturity term of 5 years (Note 19)
Treasury stock	**46**	Parent Company's shares held by First Metro Philippine Equity Exchange Traded Fund Inc. (Note 23)
Amount/Volume:		
Interbank loans receivable	**(2,655)**	Generally similar to terms and conditions above
Receivables from customers	**(2,129)**	Generally similar to terms and conditions above
Accounts receivable	**163**	Generally similar to terms and conditions above
Deposit liabilities	**2,433**	Generally similar to terms and conditions above
Bills payable	**881**	Generally similar to terms and conditions above
Bonds payable	**(439)**	Generally similar to terms and conditions above
Treasury stock	**455**	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	**133**	Income on receivables from customers (Note 9) and interbank loans receivables (Note 7)
Service charges, fees and commissions	**125**	Income from transactional fees
Trading and securities loss - net	**(21)**	Net loss from securities transactions (Note 11)
Foreign exchange gain - net	**165**	Net gain from foreign exchange transactions
Leasing income	**90**	Income from leasing agreements with various lease terms
Miscellaneous income	**347**	Information technology and other fees
Interest expense	**51**	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16 and 17)

(Forward)

	Consolidated	
	December 31, 2017	
Category	**Amount**	**Terms and Conditions/Nature**
Miscellaneous expense	**₱73**	Other fees (Note 25)
Dividends declared	**3,649**	Dividends declared by PSBank, FMIC, MB Bahamas, MR Singapore (Note 11)
Contingent - Derivatives	**75**	Outright forward exchange bought with various terms
Securities transactions		
Purchases	**24,503**	Outright purchases of HFT securities and AFS investments
Sales	**28,765**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**1,063,463**	Outright purchases of foreign currency
Sell	**1,037,786**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Accounts receivable	**₱2**	Non-interest bearing receivable on rental fees
Deposit liabilities*	**1,125**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 4 days to 90 days (Note 16)
Amount/Volume:		
Accounts receivable	**1**	Generally similar to terms and conditions above
Deposit liabilities	**374**	Generally similar to terms and conditions above (Note 16)
Leasing income	**20**	Income from leasing agreements with various lease terms
Interest expense	**2**	Interest expense on deposit liabilities (Note 16)
Dividends declared	**6**	Dividends declared by NLI (Note 11)
Securities transactions		
Outright purchases	**299**	Outright purchases of HFT securities and AFS investments
Outright sales	**200**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**174**	Outright purchases of foreign currency
Sell	**25,804**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱19,703**	Secured - ₱4.4 billion and unsecured - ₱15.3 billion, no impairment With annual fixed interest rates ranging from 1.80% to 8.50% and maturity terms from 30 days to 5 years (Note 9)
Accounts receivable	**4**	Credit card receivables, current and non-revolving
Assets held under joint operations	**259**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**26,970**	With annual fixed interest rates ranging from 0.00% to 3.75% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Bills payable*	**197**	Peso-denominated borrowings subject to annual fixed interest rates ranging from 2.00% to 2.75% with maturity terms from 30 days to 122 days (Note 17)
Amount/Volume:		
Receivables from customers	**11,525**	Generally similar to terms and conditions above
Accounts receivable	**1**	Generally similar to terms and conditions above
Deposit liabilities	**6,564**	Generally similar to terms and conditions above
Bills payable	**(517)**	Generally similar to terms and conditions above
Interest income	**375**	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**20**	Income from leasing agreements with various lease terms
Profit from assets sold	**56**	Gain on sale of condominium units and parking spaces
Interest expense	**392**	Interest expense on deposit liabilities (Note 16) and bills payable (Note 17)
Contingent - Unused commercial LCs	**102**	LC transactions with various terms
Securities transactions		
Outright purchases	**249**	Outright purchases of HFT securities and AFS investments
Outright sales	**686**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**11,626**	Outright purchases of foreign currency
Sell	**83,219**	Outright sale of foreign currency

(Forward)

Category	**Amount**	**Terms and Conditions/Nature**
	Consolidated	
	December 31, 2017	
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱76**	Secured and unsecured amounted to ₱51.9 million and ₱23.8 million, respectively; no impairment. With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1.5 years to 15 years (Note 9)
Deposit liabilities	**164**	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	**(4)**	Generally similar to terms and conditions above
Deposit liabilities	**(9)**	Generally similar to terms and conditions above
Interest income	**3**	Interest income on receivables from customers (Note 9)

*including accrued interest

Category	Amount	Terms and Conditions/Nature
	Consolidated	
	December 31, 2016	
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	₱2,135	With annual fixed interest rate of 1.75% including time deposits with maturity term of 30 days (Note 16)
Bills payable*	303	Peso borrowing subject to annual fixed interest rate of 2.00% with maturity term of 17 days (Note 17)
Amount/Volume:		
Deposit liabilities	(4,249)	Generally similar to terms and conditions above
Miscellaneous income	327	Other income from sale of securities of FMIC
Service charges, fees and commisions	444	FMIC's advisory and underwriting fees charged to GT Capital
Interest expense	46	Interest expense on deposit liabilities and bills payable (Note 16)
Outright sale of securities	3,259	Outright sale of AFS investments of FMIC
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱6,094	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.97% to 2.90% with maturity terms from 14 days to 372 days, no impairment (Note 7)
Receivables from customers*	2,364	Unsecured with no impairment With annual fixed interest rates ranging from 2.45% to 2.80% and maturity terms from 6 days to 275 days (Note 9)
Accounts receivable	337	Outstanding remittance receivables, service fees, rental fees and common use service area fees, non-interest bearing
Other receivables	2,980	Dividends receivable from FMIC (Notes 9 and 11)
Derivative assets	66	Fair value of forward leg swap bought and forward exchange sold with various terms
Deposit liabilities*	4,778	With annual fixed interest rates ranging from 0.00% to 1.75% including time deposits with maturity terms from 5 days to 364 days (Note 16)
Bills payable	7	Peso borrowings subject to annual fixed interest rates ranging from 2.00% to 1.25% with maturity terms from 15 days to 17 days (Note 17)
Bonds payable*	520	Issued by FMIC with interest rates ranging from 1.38% to 5.75% with maturity terms from 42 days to 7 years (Note 19)
Treasury stock	485	Parent Company's shares held by FMIC's mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	4,681	Generally similar to terms and conditions above
Receivables from customers	(929)	Generally similar to terms and conditions above
Accounts receivable	58	Generally similar to terms and conditions above
Deposit liabilities	(492)	Generally similar to terms and conditions above
Bills payable	(4,412)	Generally similar to terms and conditions above
Bonds payable	70	Generally similar to terms and conditions above
Interest income	111	Income on receivables from customers (Note 9) and interbank loans receivables (Note 7)
Service charges, fees and commissions	88	Income from transactional fees

(Forward)

	Consolidated	
	December 31, 2016	
Category	Amount	Terms and Conditions/Nature
Trading and securities gain - net	₱48	Net gain from securities transactions; includes gain on sale of PSBank shares by FMIC (Note 11)
Foreign exchange gain - net	69	Net gain from foreign exchange transactions
Leasing income	84	Income from leasing agreements with various lease terms
Miscellaneous income	600	Information technology and other fees; gain on buy back of shares
Interest expense	92	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16 and 17)
Miscellaneous expense	126	Management and other professional fees and merchant discount (Note 25)
Dividends declared	4,802	Dividends declared by PSBank, MCC, Metrobank Bahamas and FMIC (Note 11)
Contingent		
Derivatives	2,668	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	53,716	Outright purchases of HFT securities and AFS investments
Sales	56,565	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	46,284	Outright purchases of foreign currency
Sell	40,745	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Accounts receivable	₱1	Non-interest bearing receivable on rental fees
Other receivables	30	Dividends receivable from SMBC Metro (Notes 9 and 11)
Deposit liabilities*	751	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 days to 63 days (Note 16)
Amount/Volume:		
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	(1,037)	Generally similar to terms and conditions above (Note 16)
Trading and securities gain - net	3	Net gain from securities transactions
Foreign exchange loss - net	(3)	Net loss from foreign exchange transactions
Leasing income	20	Income from leasing agreements with various lease terms
Interest expense	4	Interest expense on deposit liabilities (Note 16)
Dividends declared	55	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	680	Outright purchases of HFT securities and AFS investments
Outright sales	1,500	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	680	Outright purchases of foreign currency
Sell	1,802	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱8,178	Secured - ₱3.3 billion and unsecured - ₱4.9 billion, no impairment With annual fixed interest rates ranging from 1.50% to 8.50% and maturity terms from 30 days to 5 years (Note 9)
Accounts receivable	3	Credit card receivables, current and non-revolving
Assets held under joint operations	368	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	20,406	With annual fixed interest rates ranging from 0.00% to 2.38% including time deposits with maturity terms from 5 days to 365 days (Note 16)
Bills payable*	714	Peso-denominated borrowings subject to annual fixed interest rates ranging from 1.25% to 2.25% with maturity terms from 17 days to 183 days (Note 17)
Amount/Volume:		
Receivables from customers	(1,738)	Generally similar to terms and conditions above
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	4,276	Generally similar to terms and conditions above
Bills payable	(2,525)	Generally similar to terms and conditions above
Interest income	223	Interest income on receivables from customers (Note 9)
Foreign exchange loss - net	(17)	Net loss from foreign exchange transactions
Leasing income	19	Income from leasing agreements with various lease terms

(Forward)

Category	Consolidated December 31, 2016 Amount	Terms and Conditions/Nature
Interest expense	₱292	Interest expense on deposit liabilities (Note 16) and bills payable (Note 17)
Contingent		
Unused commercial LCs	68	LC transactions with various terms
Others	3	Bank guaranty with indemnity agreement
Securities transactions		
Outright purchases	404	Outright purchases of HFT securities and AFS investments
Outright sales	4,671	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	83	Outright purchases of foreign currency
Sell	73,761	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱80	Secured - ₱55.9 million and unsecured - ₱24.5 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 2 years to 15 years (Note 9)
Deposit liabilities	173	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	(2)	Generally similar to terms and conditions above
Deposit liabilities	38	Generally similar to terms and conditions above
Interest income	4	Interest income on receivables from customers (Note 9)

Category	**Parent Company December 31, 2017 Amount**	**Terms and Conditions/Nature**
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	**₱16**	With annual fixed interest rate ranging from 0.00% to 0.25% (Note 16)
Amount/Volume:		
Deposit liabilities	**(2,119)**	Generally similar to terms and conditions above
Interest expense	**10**	Interest expense on deposit liabilities (Note 16)
Foreign currency - sell	**7**	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱2,138**	Peso foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 days to 94 days, no impairment (Note 7)
Receivables from customers*	**235**	Secured – P140.0 million and unsecured – P94.6 million, no impairment. With annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 days to 359 days (Note 9)
Accounts receivable	**445**	Non-interest bearing receivables on service fees, remittance, rental fees and common use service area fees
Deposit liabilities*	**5,754**	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Treasury stock	**46**	Parent Company's shares held by First Metro Philippine Equity Exchange Traded Fund Inc. (Note 23)
Amount/Volume:		
Interbank loans receivable	**(3,956)**	Generally similar to terms and conditions above
Receivables from customers	**(2,129)**	Generally similar to terms and conditions above
Accounts receivable	**151**	Generally similar to terms and conditions above
Deposit liabilities	**2,082**	Generally similar to terms and conditions above
Treasury stock	**455**	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	**123**	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**75**	Income from transactional fees
Trading and securities loss - net	**(5)**	Net loss from securities transactions
Foreign exchange gain - net	**165**	Net gain from foreign exchange transactions
Leasing income	**35**	Income from leasing agreements with various lease terms

(Forward)

	Parent Company	
	December 31, 2017	
Category	**Amount**	**Terms and Conditions/Nature**
Miscellaneous income	**₱339**	Information technology and other fees (Note 25)
Interest expense	**13**	Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17)
Miscellaneous expense	**73**	Other fees
Dividends declared	**3,649**	Dividends declared by PSBank, FMIC, MB Bahamas and MR Singapore (Note 11)
Contingent - derivatives	**75**	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	**19,388**	Outright purchases of HFT securities and AFS investments
Sales	**25,117**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**1,063,463**	Outright purchases of foreign currency
Sell	**1,037,786**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Deposit liabilities*	**₱1,111**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 4 days to 90 days (Note 16)
Amount/Volume:		
Deposit liabilities	**372**	Generally similar to terms and conditions above
Leasing income	**9**	Income from leasing agreements with various lease terms
Interest expense	**2**	Interest expense on deposit liabilities
Dividends declared	**6**	Dividends received from NLI (Note 11)
Outright sale of securities	**200**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**174**	Outright purchases of foreign currency
Sell	**25,804**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱19,702**	Secured - ₱4.4 billion and unsecured - ₱15.3 billion, no impairment With annual fixed interest rates ranging from 1.80% to 5.29% and maturity terms from 30 days to 5 years (Note 9)
Assets held under joint operations	**259**	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	**25,420**	With annual fixed interest rates ranging from 0.00% to 3.75% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Amount/Volume:		
Receivables from customers	**11,527**	Generally similar to terms and conditions above
Deposit liabilities	**11,643**	Generally similar to terms and conditions above
Interest income	**375**	Interest income on receivables from customers
Foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**20**	Income from leasing agreements with various lease terms
Profit from assets sold	**24**	Gain on sale of condominium units and parking spaces
Interest expense	**303**	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	**102**	LC transactions with various terms
Securities transactions		
Outright purchases	**70**	Outright purchases of HFT securities and AFS investments
Sales	**150**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**11,626**	Outright purchases of foreign currency
Sell	**83,219**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱60**	Secured - ₱48.9 million and unsecured - ₱10.7 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities	**164**	With various terms and with minimum annual interest rate of 0.00% (Note 16)

(Forward)

	Parent Company	
	December 31, 2017	
Category	**Amount**	**Terms and Conditions/Nature**
Amount/Volume:		
Receivables from customers	**(₱2)**	Generally similar to terms and conditions above
Deposit liabilities	**(9)**	Generally similar to terms and conditions above
Interest income	**2**	Interest income on receivables from customers (Note 9)
*including accrued interest		

	Parent Company	
	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)
Amount/Volume:		
Deposit liabilities	(4,249)	Generally similar to terms and conditions above
Interest expense	38	Interest expense on deposit liabilities (Note 16)
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱6,094	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.97% to 2.90% with maturity terms from 14 days to 372 days, no impairment (Note 7)
Receivables from customers*	2,364	Unsecured with no impairment With annual fixed interest rates ranging from 2.45% to 2.80% and maturity terms from 6 days to 275 days (Note 9)
Accounts receivable	294	Outstanding information technology fees and remittance receivable, non-interest bearing
Other receivables	2,880	Dividends receivable from FMIC (Note 9)
Derivative assets	66	Fair value of forward leg swap bought and forward exchange sold with various terms
Deposit liabilities*	3,672	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 days to 364 days (Note 16)
Treasury stock	485	Parent Company's shares held by FMIC's mutual fund subsidiaries (Note 23)
Amount/Volume:		
Interbank loans receivable	4,681	Generally similar to terms and conditions above
Receivables from customers	(929)	Generally similar to terms and conditions above
Accounts receivable	17	Generally similar to terms and conditions above
Deposit liabilities	(1,530)	Generally similar to terms and conditions above
Bills payable	(3,876)	Foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 1 day to 33 days (Note 17)
Interest income	108	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	35	Income from transactional fees
Trading and securities gain - net	141	Net gain from securities transactions
Foreign exchange gain - net	69	Net gain from foreign exchange transactions
Leasing income	34	Income from leasing agreements with various lease terms
Miscellaneous income	354	Information technology and other fees (Note 25)
Interest expense	37	Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17)
Miscellaneous expense	126	Management and other professional fees and merchant discount
Dividends declared	4,802	Dividends declared by PSBank, MCC, Metrobank Bahamas and FMIC (Note 11)
Contingent		
Derivatives	2,668	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	44,108	Outright purchases of HFT securities and AFS investments
Sales	46,036	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	46,284	Outright purchases of foreign currency
Sell	40,745	Outright sale of foreign currency

(Forward)

	Parent Company	
	December 31, 2016	
Category	Amount	Terms and Conditions/Nature
Associates		
Outstanding Balance:		
Other receivables	₱30	Dividends receivable from SMBC Metro (Note 9)
Deposit liabilities*	739	With annual fixed interest rates ranging from 0.00% to 1.13% including time deposits with maturity terms from 5 days to 63 days (Note 16)
Amount/Volume:		
Deposit liabilities	(1,044)	Generally similar to terms and conditions above
Trading and securities gain - net	3	Net gain from securities transactions
Foreign exchange loss - net	(3)	Net loss from foreign exchange transactions
Leasing income	8	Income from leasing agreements with various lease terms
Interest expense	4	Interest expense on deposit liabilities
Dividends declared	55	Dividends declared by NLI and SMBC Metro (Note 11)
Securities transactions		
Outright purchases	680	Outright purchases of HFT securities and AFS investments
Outright sales	1,500	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	680	Outright purchases of foreign currency
Sell	1,802	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	₱8,175	Secured - ₱3.3 billion and unsecured - ₱4.9 billion, no impairment With annual fixed interest rates ranging from 1.50% to 5.29% and maturity terms from 30 days to 5 years (Note 9)
Assets held under joint operations	368	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,777	With annual fixed interest rates ranging from 0.00% to 2.38% including time deposits with maturity terms from 5 days to 365 days (Note 16)
Amount/Volume:		
Receivables from customers	(1,036)	Generally similar to terms and conditions above
Deposit liabilities	1,769	Generally similar to terms and conditions above
Interest income	223	Interest income on receivables from customers
Foreign exchange loss - net	(17)	Net loss from foreign exchange transactions
Leasing income	19	Income from leasing agreements with various lease terms
Interest expense	50	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	68	LC transactions with various terms
Others	3	Bank guaranty with indemnity agreement
Securities transactions		
Outright purchases	143	Outright purchases of HFT securities and AFS investments
Sales	3,825	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	83	Outright purchases of foreign currency
Sell	73,761	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	₱62	Secured - ₱50.9 million and unsecured - ₱10.7 million, no impairment With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 years to 15 years (Note 9)
Deposit liabilities	173	With various terms and with minimum annual interest rate of 0.00% (Note 16)
Amount/Volume:		
Receivables from customers	3	Generally similar to terms and conditions above
Deposit liabilities	38	Generally similar to terms and conditions above
Interest income	2	Interest income on receivables from customers (Note 9)

*including accrued interest

On September 5, 2017 and December 23, 2016, the Parent Company purchased selected loans from MBCL totalling to RMB443.3 million (equivalent to ₱3.4 billion) in two tranches through separate biddings held on August 31, 2017 and October 24, 2016, respectively, in Nanjing, China. These transactions have been reviewed and endorsed by the Overseas Banking Committee and RPTC in separate meetings and approved by the Parent Company's BOD on September 26, 2016 and August 16, 2017 for the first tranche and second tranche, respectively. The BSP noted the purchase on October 27, 2016 and this transaction has also been approved by the required regulators in China. As of December 31, 2017 and 2016, the Parent Company recognized allowance for credit losses of ₱1.9 billion and ₱1.2 billion, respectively (Notes 9 and 15).

As of December 31, 2017 and 2016, government bonds (classified under AFS investments) with total face value of ₱50.0 million are pledged by PSBank to the Parent Company to secure the latter's payroll account with the PSBank. Also, the Parent Company has assigned to PSBank government securities (classified under AFS investments) with total face value of ₱3.0 billion to secure PSBank deposits to the Parent Company.

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group and the Parent Company. Together with the sale of investment properties, borrowings, contingent accounts including derivative transactions, outright purchases and sales of HFT securities and AFS investments, foreign currency buy and sell, leasing of office premises, securing of insurance coverage on loans and property risk, and other management services rendered, these are conducted in the normal course of business, at arm's-length transactions and are generally settled in cash. The amounts and related volumes and changes are presented in the summary above. Terms of receivables from customers, deposit liabilities and borrowings are also disclosed in Notes 9, 16 and 17, respectively, while other related party transactions above have been referred to their respective note disclosures.

The compensation of the key management personnel of the Group and the Parent Company follows:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Short-term employee benefits	**₱2,910**	₱2,572	₱2,197	**₱2,165**	₱1,865	₱1,546
Post-employment benefits	**132**	129	193	**46**	42	93
	₱3,042	₱2,701	₱2,390	**₱2,211**	₱1,907	₱1,639

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Certain trustees of the plans are either officers or directors of the Parent Company and/or the subsidiaries. Income earned by the Parent Company from such services amounted to ₱65.2 million, ₱58.5 million and ₱54.1 million in 2017, 2016 and 2015, respectively. As of December 31, 2017 and 2016, the Parent Company sold securities totaling ₱2.0 billion and ₱1.7 billion, respectively, to its related party retirement plans and recognized net trading loss of ₱0.2 million and ₱0.1 million, and has also purchased securities totaling ₱171.3 million and ₱288.9 million as of December 31, 2017 and 2016, respectively. In 2017, the retirement fund of PSBank sold equity securities to GT Capital totaling ₱200.0 million and recognized a trading loss of ₱10.0 million. Further, as of December 31, 2017 and 2016, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱855.6 million and ₱403.6 million, respectively. Interest expense on deposit liabilities amounted to ₱13.8 million, ₱1.3 million and ₱0.7 million in 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱218.9 million and ₱380.6 million, respectively, with unrealized trading gains of ₱32.2 million and ₱28.6 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱745.0 million and ₱412.2 million, respectively, with unrealized trading gains of ₱19.4 million and ₱1.4 million, respectively. As of December 31, 2017, 2016 and 2015, dividend income recognized from these securities amounted to nil, ₱6.9 million and ₱17.3 million, respectively, and realized trading gains amounted to ₱7.8 million, ₱262.8 million and ₱14.7 million, respectively (Note 11).

32. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

		2017	2016	2015
a.	Net income attributable to equity holders of the Parent Company	**₱18,223**	₱18,086	₱18,625
b.	Share of hybrid capital securities holders	**–**	(267)	(506)
c.	Net income attributable to common shareholders	**18,223**	17,819	18,119
d.	Weighted average number of outstanding common shares of the Parent Company	**3,179**	3,176	3,092
e.	Basic/diluted earnings per share (c/d)	**₱5.73**	₱5.61	₱5.86

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Return on average equity	**9.16%**	9.28%	10.83%	**9.05%**	9.28%	10.83%
Return on average assets	**0.92%**	0.99%	1.11%	**1.12%**	1.20%	1.33%
Net interest margin on average earning assets	**3.75%**	3.54%	3.54%	**2.85%**	2.72%	2.79%

33. Foreign Exchange

PDS closing rates as of December 31 and PDSWAR for the year ended December 31 are as follows:

	2017	2016	2015
PDS Closing	**₱49.93**	₱49.72	₱47.06
PDSWAR	**50.41**	47.48	45.50

34. **Other Matters**

The Group has no significant matters to report in 2017 on the following:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.

b. Explanatory comments about the seasonality or cyclicality of operations.

c. Issuances, repurchases and repayments of debt and equity securities except for the issuance of LTNCD amounting to ₱3.8 billion for the Parent Company and ₱3.4 billion for PSBank as discussed in Note 16, and maturity of bonds payable with total face value of ₱9.0 billion as discussed in Note 19.

d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividends and semi-annual coupons on the hybrid capital securities by the Parent Company as discussed in Note 23; and

e. Effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations (except as discussed in Notes 2 and 11).

35. **Subsequent Events**

a. The purchase of 200 million MCC shares by the Parent Company representing 20% ownership was completed on January 8, 2018 (Note 11).

b. On January 17, 2018, the BOD of the Parent Company approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares which is equivalent to the remaining unissued portion of the authorized capital stock for the purpose of raising additional capital of up to ₱60.0 billion. This was noted by the BSP with the issuance of a letter of no objection to the Rights Issue on January 29, 2018. The SRO issuance shall be further subject to other regulatory approvals as well as market and other conditions.

c. On January 18, 2018, the BOD of PSBank declared a 7.50% regular cash dividend for the fourth quarter of 2017 amounting to ₱180.2 million or ₱0.75 per share, payable not later than February 19, 2018 to all common stockholders as of record date of February 2, 2018.

36. **Approval of the Release of the Financial Statements**

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on January 30, 2018.

37. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

Supplementary Information Under RR No. 15-2010
On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2017 included under 'Taxes and licenses' account in the statements of income:

GRT	₱1,820
DST	1,617
Local taxes	123
Real estate tax	73
Others	68
	₱3,701

Details of total withholding taxes remitted for the taxable year December 31, 2017 follow:

Taxes withheld on compensation	₱2,592
FWT	2,032
Expanded withholding taxes	223
	₱4,847

SGV
Building a better working world

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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
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil Puyat Avenue
Urdaneta Village, Makati City
Metro Manila, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Metropolitan Bank & Trust Company and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated January 30, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 6621305, January 9, 2018, Makati City

January 30, 2018

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

Other Required Schedules/Information

Metropolitan Bank & Trust Company and Subsidiaries
Schedule A - Financial Assets
December 31, 2017

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes in ₱	Amount shown in the balance sheet * (in ₱ millions)	Valued based on market quotation at end of reporting period (in ₱ millions)	Income received and accrued (in ₱ million)
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVPL)				
Held-for-Trading (HFT) Securities				
Debt Securities				
Philippine Government Bonds (including its agencies)	16,245,354,195.52	16,878	16,878	
Other Government Bonds	3,050,562,520.76	3,218	3,218	
Private	9,389,625,491.82	9,560	9,560	
		29,656	29,656	1,585
Equity Securities	363,205,096	7,862	7,862	129
Derivative Assets	253,535,092,581.28	6,369	6,369	-
TOTAL FINANCIAL ASSETS AT FVPL		**43,887**	**43,887**	**1,714**
AVAILABLE-FOR-SALE (AFS) INVESTMENTS				
Debt Securities				
Philippine Government Bonds (including its agencies)	260,956,782,344.11	269,000	269,000	
Other Government Bonds	18,627,858,239.84	19,358	19,358	
Private				
ABN AMRO	331,315,600.00	342	342	
ABOITIZ EQUITY VENTURES	25,000,000.00	25	25	
ABOITIZ POWER CORP.	554,770,000.00	553	553	
AGRICULTURAL BANK OF CHINA	24,965,000.00	24	24	
AYALA CORPORATION	475,930,000.16	482	482	
AYALA LAND	771,379,000.00	773	773	
BANCO DE ORO	299,580,000.00	296	296	
BANK FEDERATIVE CREDIT MUTUEL	421,935,520.00	423	423	
BANK OF AMERICA	3,150,234,000.00	3,254	3,254	
BANK OF BEIJING	384,380,000.00	376	376	
BANK OF CHINA LONDON	1,004,646,318.40	988	988	
BANK OF JIANGSU	384,380,000.00	372	372	
BANK OF NANJING	384,380,000.00	381	381	
BANK OF NINGBO LTD	384,380,000.00	383	383	
BANK OF NOVA SCOTIA	199,720,000.00	201	201	
BANK OF TOKYO MITSUBISHI	990,960,710.00	993	993	
BANK RAKYAT	489,064,350.00	489	489	
BARCLAYS	1,353,602,300.00	1,358	1,358	
BNP PARIBAS	1,147,238,760.00	1,151	1,151	
CEBU HOLDINGS	800,000,000.00	805	805	
CHINA AGRICULTURAL DEVELOPMENT BANK	384,380,000.00	373	373	
CHINA CONSTRUCTION BANK	180,676,800.00	184	184	
CHINA DEVELOPMENT BANK	1,691,272,000.00	1,677	1,677	
CHINA EXPORT IMPORT BANK	538,132,000.00	526	526	
CITIBANK	1,073,495,000.00	1,074	1,074	
COMMONWEALTH BANK OF AUSTRALIA	779,836,800.00	781	781	
CREDIT AGRICOLE	830,175,000.02	836	836	
CREDIT SUISSE	311,360,000.00	313	313	
FILINVEST DEVELOPMENT CORP.	52,000,000.00	54	54	
FILINVEST LAND, INC.	519,050,000.00	518	518	
FIRST GULF BANK	41,842,564.00	43	43	
FIRST PACIFIC CORP.	1,293,187,000.00	1,336	1,336	
GLOBE	48,000,000.18	47	47	
GOLDMAN SACHS	1,941,478,120.00	2,037	2,037	
GT CAPITAL	64,660,000.00	66	66	
ICICI BANK	164,769,000.00	167	167	
ICTSI	1,373,075,000.00	1,496	1,496	
INDKOR	649,090,000.00	639	639	
INDUSTRIAL BANK CO	384,380,000.00	375	375	
ING	600,158,600.00	601	601	
JG SUMMIT	1,305,000,000.00	1,321	1,321	
JP MORGAN CHASE & CO.	499,300,000.00	500	500	
KASIKORN BANK	174,755,000.00	177	177	
KOOKMIN	1,447,970,000.00	1,421	1,421	
KOREA EXCHANGE BANK	873,775,000.00	859	859	
LLOYDS BANK	313,380,720.00	317	317	
MACQUARIE	734,020,930.00	736	736	
MANILA NORTH TOLLWAYS CORP.	670,300,000.00	673	673	
MAYBANK	667,200,000.00	667	667	
MEGAWORLD	1,154,000,000.00	1,169	1,169	
MERALCO	4,347,000,000.00	4,213	4,213	
MIZUHO BANK	526,761,500.00	528	528	
MORGAN STANLEY	889,600,000.00	891	891	
NATIONAL AUSTRALIA BANK	1,040,421,340.00	1,035	1,035	
NATIONAL BANK OF ABU DHABI	157,202,904.00	158	158	
PERUSAHAAN LISTIK NEGARA	100,464,631.84	109	109	

Metropolitan Bank & Trust Company and Subsidiaries
Schedule A - Financial Assets
December 31, 2017

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes in ₱	Amount shown in the balance sheet * (in ₱ millions)	Valued based on market quotation at end of reporting period (in ₱ millions)	Income received and accrued (in ₱ million)
PETRON	175,000,000.00	171	171	
PREMIERE HORIZON ALLIANCE CORP.	15,000,000.00	15	15	
QATAR NATIONAL BANK	998,600,000.00	995	995	
RABOBANK	206,275,600.00	209	209	
RCBC	249,650,000.00	253	253	
ROCKWELL	100,000,000.00	101	101	
SAN MIGUEL GROUP	1,200,000,000.00	1,216	1,216	
SECURITY BANK	236,118,970.00	242	242	
SHINHAN	378,918,770.00	374	374	
SIAM COMMERCIAL	149,790,000.00	151	151	
SM INVESTMENTS	1,125,823,000.00	1,154	1,154	
SM PRIME HOLDINGS	612,200,000.00	583	583	
SOCIETE GENERALE	1,053,174,000.00	1,083	1,083	
STANDARD CHARTERED BANK	349,510,000.00	347	347	
STI EDUCATION SERVICES	500,000,000.00	513	513	
SUMITOMO	1,054,324,020.00	1,069	1,069	
UBS	450,918,000.00	449	449	
UNITED OVERSEAS BANK	77,741,542.78	78	78	
WELLS FARGO	172,657,940.00	172	172	
WESTPAC	1,736,650,000.00	1,732	1,732	
WOORI BANK	1,267,223,400.00	1,261	1,261	
		53,754	53,754	
Total AFS Debt Securities		342,112	342,112	13,480
Total AFS Equity Securities	119,758,317	1,798	1,798	53
TOTAL AFS INVESTMENTS		**343,910**	**343,910**	**13,533**
UNQUOTED DEBT SECURITIES CLASSIFIED AS LOANS	2,046,695,105.75	**866**	**915**	**69**

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other Than Related Parties)
December 31, 2017

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period

NOT APPLICABLE

Note: Transactions to these parties are made in the ordinary course of business.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule C - Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements

December 31, 2017

(In ₱ Millions)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Not Current	Balance at End of Period
			Amounts Collected	Amounts Written-Off			
First Metro Investment Corporation	3,745	17,211	19,556	-	1,400	-	1,400
Metrobank Card Corporation	846	3,185	3,655	-	376	-	376
Metropolitan Bank (China) Ltd.	5,348	17,243	21,703	-	888	-	888
ORIX Metro Leasing and Finance Corporation	1,517	14,451	15,372	-	596	-	596
Philippine Savings Bank	37	1,083	567	-	553	-	553
Remittance Centers:							
Metro Remittance Center, Inc.	216	2,984	2,925	-	275	-	275
Metro Remittance (Singapore) Pte. Ltd.	5	177	144	-	38	-	38
Metro Remittance (USA), Inc.	30	514	484	-	60	-	60
Metro Remittance (UK) Limited	17	198	196	-	19	-	19
Metro Remittance (Japan) Co. Limited	-	1	1		-	-	-
Others	13	169	169	-	13	-	13
Total	11,774	57,216	64,772	-	4,218	-	4,218

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule D - Intangible Assets - Other Assets

December 31, 2017
(In ₱ Millions)

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balance
Software Costs	1,640	978	(494)	-	(377)	1,747
Goodwill	5,200	-	-	-	-	5,200

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture (in P millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in P millions)	Interest Rates	Maturity Dates
Subordinated Debt					
2023 Peso Notes issued December 20, 2013	1,170		1,164	6.210%	December 20, 2023
2024 Peso Notes issued May 23, 2014	3,000		2,979	5.5000%	August 23, 2024
2024 Peso Notes issued March 27, 2014	16,000		15,962	5.375%	June 27, 2024
2025 Peso Notes issued August 8, 2014	6,500		6,475	5.250%	August 8, 2025
Total Subordinated Debt	26,670		26,580		
Bills Payable					
Local Banks	744		742	5.2600%	April 22, 2019
Local Banks	100		100	5.3300%	April 22, 2019
Local Banks	1,900		1,895	6.3400%	April 29, 2019
Local Banks	600		599	5.2700%	May 13, 2019
Local Banks	245		245	3.7500%	June 17, 2019
Local Banks	498		499	3.7500%	June 19, 2019
Local Banks	249		250	3.7500%	August 23, 2019
Local Banks	199		200	3.7500%	August 27, 2019
Local Banks	144		144	3.7500%	September 8, 2019
Local Banks	154		154	3.7500%	September 9, 2019
Local Banks	2,497		2,497	2.7813%	September 16, 2019
Local Banks	113		113	4.2500%	September 25, 2019
Local Banks	498		499	3.7500%	September 29, 2019
Local Banks	448		449	4.2500%	November 11, 2019
Local Banks	328		329	4.2500%	November 15, 2019
Local Banks	498		499	4.5000%	November 27, 2019
Local Banks	587		589	4.7500%	December 5, 2019
Local Banks	647		648	5.4500%	December 9, 2019
Local Banks	498		499	5.0429%	December 13, 2019
Local Banks	65		65	5.4500%	December 26, 2019
Local Banks	65		65	6.4500%	December 26, 2019
Local Banks	500		499	4.7500%	August 18, 2020
Local Banks	970		968	5.5300%	April 21, 2021
Local Banks	1,000		998	4.7400%	May 20, 2021
Local Banks	300		299	4.6500%	August 12, 2021
Local Banks	1,000		998	5.0000%	March 31, 2022
	14,847		14,840		
Foreign Banks	175		175	3.2500%	February 4, 2019
Foreign Banks	2,496		2,496	3.5875%	June 13, 2019
Foreign Banks	2,490		2,490	3.7625%	December 2, 2019

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

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Foreign Banks	5,007		5,007	3.5875%	October 18, 2021
	10,169		10,169		
Deposit Substitutes	22		22	2.8800%	January 3, 2019
Deposit Substitutes	14		14	3.0000%	January 3, 2019
Deposit Substitutes	2		2	2.8800%	January 7, 2019
Deposit Substitutes	27		27	3.0000%	January 7, 2019
Deposit Substitutes	5		5	3.1000%	January 7, 2019
Deposit Substitutes	7		7	3.3800%	January 7, 2019
Deposit Substitutes	6		6	3.7500%	January 7, 2019
Deposit Substitutes	4		4	2.8800%	January 8, 2019
Deposit Substitutes	1		1	3.7500%	January 8, 2019
Deposit Substitutes	22		22	3.0000%	January 9, 2019
Deposit Substitutes	2		2	3.0000%	January 10, 2019
Deposit Substitutes	2		2	3.7500%	January 10, 2019
Deposit Substitutes	10		10	2.8800%	January 11, 2019
Deposit Substitutes	2		2	2.8800%	January 14, 2019
Deposit Substitutes	20		20	3.0000%	January 14, 2019
Deposit Substitutes	5		5	3.1000%	January 14, 2019
Deposit Substitutes	6		6	3.7500%	January 14, 2019
Deposit Substitutes	2		2	3.0000%	January 16, 2019
Deposit Substitutes	14		14	2.8800%	January 17, 2019
Deposit Substitutes	3		3	2.8800%	January 21, 2019
Deposit Substitutes	5		5	3.1000%	January 21, 2019
Deposit Substitutes	1		1	3.7500%	January 21, 2019
Deposit Substitutes	2		2	2.8800%	January 23, 2019
Deposit Substitutes	5		5	3.0000%	January 23, 2019
Deposit Substitutes	1		1	2.8800%	January 24, 2019
Deposit Substitutes	7		7	3.0000%	January 24, 2019
Deposit Substitutes	1		1	2.8800%	January 28, 2019
Deposit Substitutes	5		5	3.1000%	January 28, 2019
Deposit Substitutes	8		8	3.7500%	January 28, 2019
Deposit Substitutes	1		1	3.7500%	January 29, 2019
Deposit Substitutes	25		25	2.7500%	January 30, 2019
Deposit Substitutes	2		2	2.8800%	January 30, 2019
Deposit Substitutes	2		2	2.8800%	January 31, 2019
Deposit Substitutes	5		5	3.0000%	January 31, 2019
Deposit Substitutes	2		2	2.8800%	February 4, 2019
Deposit Substitutes	20		20	3.0000%	February 4, 2019
Deposit Substitutes	5		5	3.1000%	February 4, 2019
Deposit Substitutes	26		26	3.7500%	February 4, 2019
Deposit Substitutes	12		12	2.7500%	February 7, 2019

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture (in P millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in P millions)	Interest Rates	Maturity Dates
Deposit Substitutes	12		12	2.7500%	February 11, 2019
Deposit Substitutes	15		15	2.8800%	February 11, 2019
Deposit Substitutes	5		5	3.1000%	February 11, 2019
Deposit Substitutes	22		22	3.7500%	February 11, 2019
Deposit Substitutes	2		2	2.7500%	February 13, 2019
Deposit Substitutes	1		1	3.7500%	February 14, 2019
Deposit Substitutes	5		5	2.7500%	February 18, 2019
Deposit Substitutes	5		5	3.1000%	February 18, 2019
Deposit Substitutes	12		12	3.7500%	February 18, 2019
Deposit Substitutes	5		5	3.7500%	February 19, 2019
Deposit Substitutes	4		4	2.7500%	February 20, 2019
Deposit Substitutes	5		5	3.7500%	February 21, 2019
Deposit Substitutes	2		2	2.7500%	February 25, 2019
Deposit Substitutes	26		26	2.8800%	February 25, 2019
Deposit Substitutes	5		5	3.1000%	February 25, 2019
Deposit Substitutes	20		20	3.7500%	February 25, 2019
Deposit Substitutes	1		1	2.7500%	February 27, 2019
Deposit Substitutes	6		5	3.7500%	February 28, 2019
Deposit Substitutes	4		3	2.7500%	March 4, 2019
Deposit Substitutes	30		30	2.8800%	March 4, 2019
Deposit Substitutes	5		5	3.1000%	March 4, 2019
Deposit Substitutes	30		30	3.7500%	March 4, 2019
Deposit Substitutes	3		2	2.7500%	March 6, 2019
Deposit Substitutes	11		11	3.7500%	March 7, 2019
Deposit Substitutes	5		5	3.1000%	March 11, 2019
Deposit Substitutes	15		15	3.7500%	March 11, 2019
Deposit Substitutes	16		15	3.7500%	March 14, 2019
Deposit Substitutes	20		20	2.8800%	March 15, 2019
Deposit Substitutes	20		20	3.8800%	March 15, 2019
Deposit Substitutes	5		5	3.1000%	March 18, 2019
Deposit Substitutes	4		4	3.7500%	March 18, 2019
Deposit Substitutes	6		6	2.8800%	March 21, 2019
Deposit Substitutes	6		6	3.6300%	March 25, 2019
Deposit Substitutes	5		5	3.7500%	March 25, 2019
Deposit Substitutes	200		199	3.8000%	March 25, 2019
Deposit Substitutes	4		4	3.7500%	March 28, 2019
Deposit Substitutes	2		2	2.7500%	April 1, 2019
Deposit Substitutes	10		10	2.9500%	April 1, 2019
Deposit Substitutes	5		5	3.1000%	April 1, 2019
Deposit Substitutes	22		22	3.7500%	April 2, 2019
Deposit Substitutes	3		2	2.8800%	April 4, 2019
Deposit Substitutes	26		26	3.6300%	April 4, 2019
Deposit Substitutes	2		2	2.7500%	April 8, 2019

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture (in P millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in P millions)	Interest Rates	Maturity Dates
Deposit Substitutes	5		5	3.1000%	April 8, 2019
Deposit Substitutes	5		5	3.6300%	April 8, 2019
Deposit Substitutes	3		2	3.6300%	April 11, 2019
Deposit Substitutes	5		5	3.1000%	April 15, 2019
Deposit Substitutes	3		3	2.8800%	April 17, 2019
Deposit Substitutes	4		4	3.6300%	April 18, 2019
Deposit Substitutes	16		16	3.0000%	April 22, 2019
Deposit Substitutes	5		5	3.1000%	April 22, 2019
Deposit Substitutes	3		3	3.6300%	April 22, 2019
Deposit Substitutes	5		5	3.0000%	April 24, 2019
Deposit Substitutes	17		17	3.6300%	April 25, 2019
Deposit Substitutes	1		1	2.8800%	April 29, 2019
Deposit Substitutes	7		7	3.0000%	April 29, 2019
Deposit Substitutes	5		5	3.3800%	April 29, 2019
Deposit Substitutes	29		29	3.6300%	April 29, 2019
Deposit Substitutes	1		1	2.8800%	May 2, 2019
Deposit Substitutes	2		2	3.6300%	May 2, 2019
Deposit Substitutes	7		7	3.6300%	May 6, 2019
Deposit Substitutes	5		5	3.3800%	May 6, 2019
Deposit Substitutes	3		3	2.8800%	May 8, 2019
Deposit Substitutes	8		8	3.0000%	May 8, 2019
Deposit Substitutes	1		1	2.8800%	May 9, 2019
Deposit Substitutes	2		2	3.6300%	May 9, 2019
Deposit Substitutes	3		3	2.8800%	May 13, 2019
Deposit Substitutes	4		3	3.0000%	May 13, 2019
Deposit Substitutes	10		9	3.6300%	May 13, 2019
Deposit Substitutes	14		14	3.6300%	May 16, 2019
Deposit Substitutes	0		0	2.7500%	May 20, 2019
Deposit Substitutes	1		1	3.0000%	May 20, 2019
Deposit Substitutes	4		4	3.6300%	May 20, 2019
Deposit Substitutes	1		1	3.0000%	May 21, 2019
Deposit Substitutes	3		2	2.8800%	May 22, 2019
Deposit Substitutes	0		0	2.8800%	May 23, 2019
Deposit Substitutes	8		8	3.6300%	May 23, 2019
Deposit Substitutes	6		5	3.6300%	May 27, 2019
Deposit Substitutes	3		3	3.2500%	May 30, 2019
Deposit Substitutes	1		1	3.6300%	May 30, 2019
Deposit Substitutes	3		2	3.1300%	June 3, 2019
Deposit Substitutes	31		31	3.6300%	June 3, 2019
Deposit Substitutes	1		1	3.0000%	June 5, 2019
Deposit Substitutes	3		3	3.1300%	June 5, 2019
Deposit Substitutes	3		3	3.2500%	June 6, 2019
Deposit Substitutes	1		1	3.5000%	June 6, 2019

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

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Deposit Substitutes	3		3	3.6300%	June 6, 2019
Deposit Substitutes	1		1	3.1300%	June 10, 2019
Deposit Substitutes	3		3	3.6300%	June 10, 2019
Deposit Substitutes	23		23	3.6300%	June 13, 2019
Deposit Substitutes	10		10	3.2500%	June 17, 2019
Deposit Substitutes	32		32	3.6300%	June 17, 2019
Deposit Substitutes	2		2	3.2500%	June 19, 2019
Deposit Substitutes	1		1	3.2500%	June 20, 2019
Deposit Substitutes	54		54	3.6300%	June 20, 2019
Deposit Substitutes	2		2	3.2500%	June 24, 2019
Deposit Substitutes	22		22	3.6300%	June 24, 2019
Deposit Substitutes	51		51	3.6300%	June 25, 2019
Deposit Substitutes	6		5	3.6300%	June 27, 2019
Deposit Substitutes	10		10	3.2500%	July 1, 2019
Deposit Substitutes	66		65	3.6300%	July 1, 2019
Deposit Substitutes	2		2	3.2500%	July 3, 2019
Deposit Substitutes	52		52	3.7500%	July 8, 2019
Deposit Substitutes	3		3	3.6300%	July 15, 2019
Deposit Substitutes	75		75	3.6300%	July 18, 2019
Deposit Substitutes	10		10	3.0000%	July 19, 2019
Deposit Substitutes	11		11	3.6300%	July 22, 2019
Deposit Substitutes	10		9	3.6300%	July 25, 2019
Deposit Substitutes	4		4	3.6300%	July 29, 2019
Deposit Substitutes	10		10	3.6300%	July 30, 2019
Deposit Substitutes	8		7	3.3800%	August 5, 2019
Deposit Substitutes	10		9	3.3800%	August 8, 2019
Deposit Substitutes	1		1	3.3800%	August 12, 2019
Deposit Substitutes	1		1	3.7500%	August 12, 2019
Deposit Substitutes	2		2	3.7500%	August 13, 2019
Deposit Substitutes	1		1	3.3800%	August 15, 2019
Deposit Substitutes	3		3	3.2500%	August 19, 2019
Deposit Substitutes	6		6	3.2500%	August 22, 2019
Deposit Substitutes	4		4	3.2500%	August 26, 2019
Deposit Substitutes	1		1	3.2500%	August 29, 2019
Deposit Substitutes	5		5	3.2500%	September 5, 2019
Deposit Substitutes	5		5	3.3800%	September 5, 2019
Deposit Substitutes	12		12	2.5000%	September 6, 2019
Deposit Substitutes	4		4	3.2500%	September 16, 2019
Deposit Substitutes	3		3	3.3800%	September 16, 2019
Deposit Substitutes	14		14	3.2500%	September 19, 2019
Deposit Substitutes	5		5	3.2500%	September 23, 2019
Deposit Substitutes	3		3	3.3800%	September 26, 2019
Deposit Substitutes	2		2	3.2500%	September 30, 2019

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

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Deposit Substitutes	8		8	3.3800%	September 30, 2019
Deposit Substitutes	3		3	3.2500%	October 3, 2019
Deposit Substitutes	15		15	3.3800%	October 3, 2019
Deposit Substitutes	9		9	3.2500%	October 7, 2019
Deposit Substitutes	3		3	3.3800%	October 7, 2019
Deposit Substitutes	11		10	3.2500%	October 10, 2019
Deposit Substitutes	6		6	3.3800%	October 10, 2019
Deposit Substitutes	15		15	3.2000%	October 14, 2019
Deposit Substitutes	5		5	3.2500%	October 14, 2019
Deposit Substitutes	11		11	3.2500%	October 17, 2019
Deposit Substitutes	4		4	3.2500%	October 21, 2019
Deposit Substitutes	5		5	3.3800%	October 21, 2019
Deposit Substitutes	5		5	3.5000%	October 21, 2019
Deposit Substitutes	7		7	3.2500%	October 24, 2019
Deposit Substitutes	15		15	3.3800%	October 24, 2019
Deposit Substitutes	9		9	3.2500%	October 28, 2019
Deposit Substitutes	2		2	3.3800%	November 4, 2019
Deposit Substitutes	6		6	3.2500%	November 7, 2019
Deposit Substitutes	7		7	3.3800%	November 7, 2019
Deposit Substitutes	6		6	3.2500%	November 11, 2019
Deposit Substitutes	5		5	3.3800%	November 11, 2019
Deposit Substitutes	14		14	3.2500%	November 14, 2019
Deposit Substitutes	7		7	3.2500%	November 25, 2019
Deposit Substitutes	3		3	3.2500%	November 28, 2019
Deposit Substitutes	19		19	3.3800%	November 28, 2019
Deposit Substitutes	10		10	3.3800%	December 2, 2019
Deposit Substitutes	1		1	3.7500%	December 2, 2019
Deposit Substitutes	8		8	3.2500%	December 4, 2019
Deposit Substitutes	2		1	3.2500%	December 5, 2019
Deposit Substitutes	1		1	3.3800%	December 9, 2019
Deposit Substitutes	1		1	3.7500%	December 9, 2019
Deposit Substitutes	10		10	3.3800%	December 12, 2019
Deposit Substitutes	11		11	3.2500%	January 6, 2020
Deposit Substitutes	98		97	3.3800%	January 6, 2020
Deposit Substitutes	6		6	3.8800%	January 6, 2020
Deposit Substitutes	1		1	3.8800%	January 7, 2020
Deposit Substitutes	3		3	3.2500%	January 9, 2020
Deposit Substitutes	1		1	3.3800%	January 13, 2020
Deposit Substitutes	1		1	3.2500%	January 16, 2020
Deposit Substitutes	44		44	3.3800%	January 20, 2020
Deposit Substitutes	33		32	3.3800%	January 23, 2020
Deposit Substitutes	7		6	3.2500%	January 27, 2020
Deposit Substitutes	3		3	3.2500%	January 30, 2020

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

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Deposit Substitutes	4		4	3.2500%	February 3, 2020
Deposit Substitutes	59		59	3.3800%	February 3, 2020
Deposit Substitutes	3		3	3.2500%	February 6, 2020
Deposit Substitutes	4		4	3.1300%	February 10, 2020
Deposit Substitutes	25		25	3.8800%	February 10, 2020
Deposit Substitutes	35		35	3.2500%	February 17, 2020
Deposit Substitutes	1		1	3.1300%	February 20, 2020
Deposit Substitutes	87		87	3.2500%	February 20, 2020
Deposit Substitutes	9		8	3.1300%	February 24, 2020
Deposit Substitutes	4		4	3.1300%	February 27, 2020
Deposit Substitutes	4		4	3.1300%	March 2, 2020
Deposit Substitutes	5		5	3.2500%	March 2, 2020
Deposit Substitutes	1		1	3.8800%	March 5, 2020
Deposit Substitutes	7		7	3.1300%	March 9, 2020
Deposit Substitutes	2		1	3.2500%	March 9, 2020
Deposit Substitutes	2		2	3.1300%	March 16, 2020
Deposit Substitutes	2		2	3.8800%	March 16, 2020
Deposit Substitutes	1		1	3.1300%	March 23, 2020
Deposit Substitutes	4		4	3.2500%	March 23, 2020
Deposit Substitutes	1		1	3.8800%	March 24, 2020
Deposit Substitutes	2		2	3.1300%	March 30, 2020
Deposit Substitutes	1		1	3.1300%	March 31, 2020
Deposit Substitutes	2		1	3.1300%	April 6, 2020
Deposit Substitutes	2		2	3.2500%	April 6, 2020
Deposit Substitutes	8		8	4.0000%	April 20, 2020
Deposit Substitutes	28		28	4.1300%	April 20, 2020
Deposit Substitutes	10		10	4.2500%	April 20, 2020
Deposit Substitutes	180		179	4.5000%	April 20, 2020
Deposit Substitutes	3		3	4.0000%	April 27, 2020
Deposit Substitutes	26		26	4.1300%	April 27, 2020
Deposit Substitutes	10		10	4.2500%	April 27, 2020
Deposit Substitutes	8		7	3.8800%	April 28, 2020
Deposit Substitutes	6		6	4.0000%	May 4, 2020
Deposit Substitutes	40		40	4.1300%	May 4, 2020
Deposit Substitutes	1		1	3.1300%	May 11, 2020
Deposit Substitutes	3		3	4.0000%	May 11, 2020
Deposit Substitutes	2		2	4.1300%	May 11, 2020
Deposit Substitutes	5		5	4.1300%	May 15, 2020
Deposit Substitutes	2		2	3.1300%	May 18, 2020
Deposit Substitutes	5		5	3.1300%	May 25, 2020
Deposit Substitutes	15		15	3.2500%	May 25, 2020
Deposit Substitutes	8		8	3.8800%	May 27, 2020
Deposit Substitutes	5		5	3.2500%	June 8, 2020

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

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Deposit Substitutes	5		5	3.3800%	June 8, 2020
Deposit Substitutes	5		5	3.5000%	June 15, 2020
Deposit Substitutes	50		50	3.6300%	June 15, 2020
Deposit Substitutes	5		5	3.8800%	June 16, 2020
Deposit Substitutes	1		1	3.3800%	June 22, 2020
Deposit Substitutes	15		15	3.8800%	June 29, 2020
Deposit Substitutes	2		2	3.3800%	July 6, 2020
Deposit Substitutes	4		4	4.0000%	August 5, 2020
Deposit Substitutes	1,231		1,227	4.0000%	August 12, 2020
Deposit Substitutes	63		63	4.1300%	August 25, 2020
Deposit Substitutes	165		164	4.0000%	August 31, 2020
Deposit Substitutes	2		2	4.1300%	September 2, 2020
Deposit Substitutes	6		6	4.1300%	September 8, 2020
Deposit Substitutes	5		5	4.1300%	September 9, 2020
Deposit Substitutes	3		3	4.1300%	September 10, 2020
Deposit Substitutes	2		1	4.1300%	September 21, 2020
Deposit Substitutes	1		1	4.1300%	October 26, 2020
Deposit Substitutes	10		10	4.1300%	October 27, 2020
Deposit Substitutes	1		1	3.5000%	December 1, 2020
Deposit Substitutes	20		20	4.2500%	December 1, 2020
Deposit Substitutes	7		7	4.1300%	December 2, 2020
Deposit Substitutes	9		8	3.6300%	December 7, 2020
Deposit Substitutes	1		1	3.5000%	December 14, 2020
Deposit Substitutes	3		3	3.6300%	January 11, 2021
Deposit Substitutes	2		2	3.5000%	February 9, 2021
Deposit Substitutes	3		3	4.1300%	February 10, 2021
Deposit Substitutes	5		5	3.6300%	March 8, 2021
Deposit Substitutes	1		1	4.1300%	March 9, 2021
Deposit Substitutes	9		9	3.7500%	March 15, 2021
Deposit Substitutes	1		1	4.1300%	March 17, 2021
Deposit Substitutes	5		5	3.5000%	March 22, 2021
Deposit Substitutes	4		4	3.6300%	April 6, 2021
Deposit Substitutes	14		13	4.1300%	April 7, 2021
Deposit Substitutes	6		6	3.6300%	April 12, 2021
Deposit Substitutes	11		11	4.1300%	April 12, 2021
Deposit Substitutes	1		1	4.1800%	April 12, 2021
Deposit Substitutes	1		1	4.1300%	April 14, 2021
Deposit Substitutes	8		8	4.1300%	April 19, 2021
Deposit Substitutes	6		6	3.6300%	April 20, 2021
Deposit Substitutes	5		5	4.1300%	April 23, 2021
Deposit Substitutes	7		7	4.1300%	April 26, 2021
Deposit Substitutes	3		3	4.1300%	May 4, 2021
Deposit Substitutes	1		1	4.1300%	May 5, 2021

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture (in P millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in P millions)	Interest Rates	Maturity Dates
Deposit Substitutes	3		2	3.5000%	May 10, 2021
Deposit Substitutes	1		1	4.1300%	May 17, 2021
Deposit Substitutes	3		3	3.5000%	May 18, 2021
Deposit Substitutes	27		27	4.1300%	May 26, 2021
Deposit Substitutes	1		1	4.1300%	May 31, 2021
Deposit Substitutes	2		2	4.1300%	June 2, 2021
Deposit Substitutes	1		1	4.1300%	June 7, 2021
Deposit Substitutes	13		13	4.1300%	June 9, 2021
Deposit Substitutes	12		11	3.8800%	June 14, 2021
Deposit Substitutes	30		30	4.1300%	June 14, 2021
Deposit Substitutes	1		1	4.1300%	June 21, 2021
Deposit Substitutes	2		2	4.0000%	June 22, 2021
Deposit Substitutes	10		10	4.1300%	June 24, 2021
Deposit Substitutes	20		19	4.1300%	June 30, 2021
Deposit Substitutes	3		3	4.1300%	July 12, 2021
Deposit Substitutes	6		6	4.1300%	July 14, 2021
Deposit Substitutes	3		3	4.1300%	July 19, 2021
Deposit Substitutes	12		12	4.1300%	July 28, 2021
Deposit Substitutes	1		1	4.1300%	August 2, 2021
Deposit Substitutes	15		15	4.2500%	August 3, 2021
Deposit Substitutes	7		6	4.1300%	August 4, 2021
Deposit Substitutes	2		2	4.1300%	August 9, 2021
Deposit Substitutes	23		22	4.1300%	August 10, 2021
Deposit Substitutes	1		1	4.1300%	August 11, 2021
Deposit Substitutes	8		8	4.0000%	August 16, 2021
Deposit Substitutes	5		5	4.1300%	August 16, 2021
Deposit Substitutes	11		11	4.0000%	August 23, 2021
Deposit Substitutes	2		2	3.7500%	August 25, 2021
Deposit Substitutes	5		5	4.0000%	August 25, 2021
Deposit Substitutes	1		1	3.7500%	August 26, 2021
Deposit Substitutes	1		1	3.7500%	August 30, 2021
Deposit Substitutes	15		15	4.0000%	August 30, 2021
Deposit Substitutes	12		12	4.0000%	September 1, 2021
Deposit Substitutes	10		10	4.0000%	September 6, 2021
Deposit Substitutes	18		18	4.0000%	September 7, 2021
Deposit Substitutes	8		8	3.7500%	September 9, 2021
Deposit Substitutes	1		1	3.7500%	September 14, 2021
Deposit Substitutes	4		4	3.7500%	September 15, 2021
Deposit Substitutes	16		15	4.0000%	September 20, 2021
Deposit Substitutes	2		2	3.7500%	September 29, 2021
Deposit Substitutes	5		5	4.0000%	September 29, 2021
Deposit Substitutes	5		4	3.7500%	October 4, 2021
Deposit Substitutes	250		249	4.0000%	October 4, 2021

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture (in P millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in P millions)	Interest Rates	Maturity Dates
Deposit Substitutes	5		5	3.7500%	October 5, 2021
Deposit Substitutes	1		1	3.7500%	October 12, 2021
Deposit Substitutes	4		4	4.0000%	October 12, 2021
Deposit Substitutes	1		1	3.7500%	October 18, 2021
Deposit Substitutes	88		88	4.0000%	October 25, 2021
Deposit Substitutes	1		1	3.7500%	November 2, 2021
Deposit Substitutes	1		1	3.7500%	November 3, 2021
Deposit Substitutes	6		6	4.0600%	November 8, 2021
Deposit Substitutes	1		1	3.7500%	November 15, 2021
Deposit Substitutes	10		10	4.0000%	November 15, 2021
Deposit Substitutes	2		1	3.7500%	November 22, 2021
Deposit Substitutes	10		10	4.0000%	November 23, 2021
Deposit Substitutes	1		1	4.0000%	November 29, 2021
Deposit Substitutes	4		4	3.8800%	December 6, 2021
Deposit Substitutes	15		15	4.0000%	December 6, 2021
Deposit Substitutes	4		3	4.1300%	December 6, 2021
Deposit Substitutes	30		30	4.0000%	December 7, 2021
Deposit Substitutes	6		6	3.8800%	December 13, 2021
Deposit Substitutes	25		25	4.0000%	December 13, 2021
Deposit Substitutes	2		2	3.8800%	December 15, 2021
Deposit Substitutes	1		1	4.0000%	January 11, 2022
Deposit Substitutes	4		4	3.8800%	January 19, 2022
Deposit Substitutes	3		3	3.8800%	January 24, 2022
Deposit Substitutes	5		5	4.0000%	January 24, 2022
Deposit Substitutes	6		6	3.8800%	January 26, 2022
Deposit Substitutes	3		3	3.8800%	February 2, 2022
Deposit Substitutes	5		5	3.7500%	February 22, 2022
Deposit Substitutes	10		10	3.8800%	February 24, 2022
Deposit Substitutes	6		5	3.7500%	February 28, 2022
Deposit Substitutes	2		2	3.8800%	March 7, 2022
Deposit Substitutes	2		2	3.7500%	March 15, 2022
Deposit Substitutes	2		2	3.7500%	March 28, 2022
Deposit Substitutes	2		2	3.7500%	May 16, 2022
Deposit Substitutes	1		1	4.0000%	May 31, 2022
Deposit Substitutes	15		15	4.1300%	June 6, 2022
Deposit Substitutes	1		1	4.0000%	June 8, 2022
Deposit Substitutes	5		5	4.1300%	June 20, 2022
Deposit Substitutes	8		8	4.2500%	June 20, 2022
Deposit Substitutes	3		3	4.1300%	June 21, 2022
Deposit Substitutes	5		5	4.2500%	June 22, 2022
Deposit Substitutes	1		1	4.1300%	July 4, 2022
Deposit Substitutes	16		15	5.1300%	September 14, 2022
Deposit Substitutes	8		8	5.1300%	September 21, 2022

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture (in P millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in P millions)	Interest Rates	Maturity Dates
Deposit Substitutes	5		5	5.1300%	November 3, 2022
Deposit Substitutes	1		1	5.1300%	November 7, 2022
Deposit Substitutes	4		4	5.1300%	November 14, 2022
Deposit Substitutes	15		15	5.1300%	December 1, 2022
Deposit Substitutes	1		1	4.6300%	December 19, 2022
Deposit Substitutes	2		2	5.1300%	January 16, 2023
Deposit Substitutes	25		25	5.2500%	January 24, 2023
Deposit Substitutes	23		23	5.2500%	January 25, 2023
Deposit Substitutes	1		1	5.2500%	January 26, 2023
Deposit Substitutes	9		9	5.2500%	January 30, 2023
Deposit Substitutes	3		3	5.2500%	February 6, 2023
Deposit Substitutes	5		5	5.1300%	February 13, 2023
Deposit Substitutes	25		25	5.1300%	March 2, 2023
Deposit Substitutes	1		1	5.1300%	March 15, 2023
Deposit Substitutes	4		4	5.1300%	March 16, 2023
Deposit Substitutes	2		2	5.1300%	March 28, 2023
Deposit Substitutes	1		1	5.0000%	April 5, 2023
Deposit Substitutes	1		1	5.0000%	April 13, 2023
Deposit Substitutes	7		7	5.0000%	April 27, 2023
Deposit Substitutes	4		4	5.0000%	May 4, 2023
Deposit Substitutes	4		4	5.0000%	May 17, 2023
Deposit Substitutes	2		1	5.0000%	June 1, 2023
Deposit Substitutes	1		1	5.0000%	June 14, 2023
Deposit Substitutes	6		6	5.0000%	June 15, 2023
Deposit Substitutes	6		6	5.0000%	June 21, 2023
Deposit Substitutes	2		2	5.0000%	July 20, 2023
Deposit Substitutes	6		6	5.0000%	July 27, 2023
Deposit Substitutes	5		5	5.0000%	August 3, 2023
Deposit Substitutes	1		1	5.0000%	August 9, 2023
Deposit Substitutes	4		4	5.0000%	August 10, 2023
Deposit Substitutes	5		5	4.1300%	August 24, 2023
Deposit Substitutes	1		1	4.1300%	August 28, 2023
Deposit Substitutes	3		3	4.1300%	September 20, 2023
Deposit Substitutes	1		1	4.1300%	September 26, 2023
Deposit Substitutes	4		4	4.3800%	September 26, 2023
Deposit Substitutes	4		4	4.1300%	October 9, 2023
Deposit Substitutes	4		4	4.3800%	October 11, 2023
Deposit Substitutes	4		4	4.3800%	October 16, 2023
Deposit Substitutes	2		1	4.1300%	November 21, 2023
Deposit Substitutes	1		1	4.1300%	November 23, 2023
Deposit Substitutes	7		7	4.1300%	November 27, 2023
Deposit Substitutes	1		1	4.2500%	January 9, 2024
Deposit Substitutes	3		2	4.1300%	February 8, 2024

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
Schedule E - Long Term Debt
December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture (in P millions)	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet (in P millions)	Interest Rates	Maturity Dates
Deposit Substitutes	1		1	4.1300%	February 13, 2024
Deposit Substitutes	1		1	4.1300%	March 6, 2024
Deposit Substitutes	1		1	4.2500%	May 9, 2024
	5,615		5,598		
Total Bills Payable	30,630		30,607		
Other Liabilities					
Bonds Payable - Fixed Rate Corporate Bonds	3,000		2,910	5.7500%	August 10, 2019
	3,000		2,910		
	60,300		60,097		

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule F - Indebtedness to Related Parties (Long-Term Loans from Related Companies)

December 31, 2017

Name of Related Party	Balance at Beginning of Period	Balance at End of Period

NOT APPLICABLE

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule G - Guarantees of Securities of Other Issuers

December 31, 2017

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which this Statement is Filed	Nature of Guarantee

NOT APPLICABLE

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Schedule H - Capital Stock

December 31, 2017

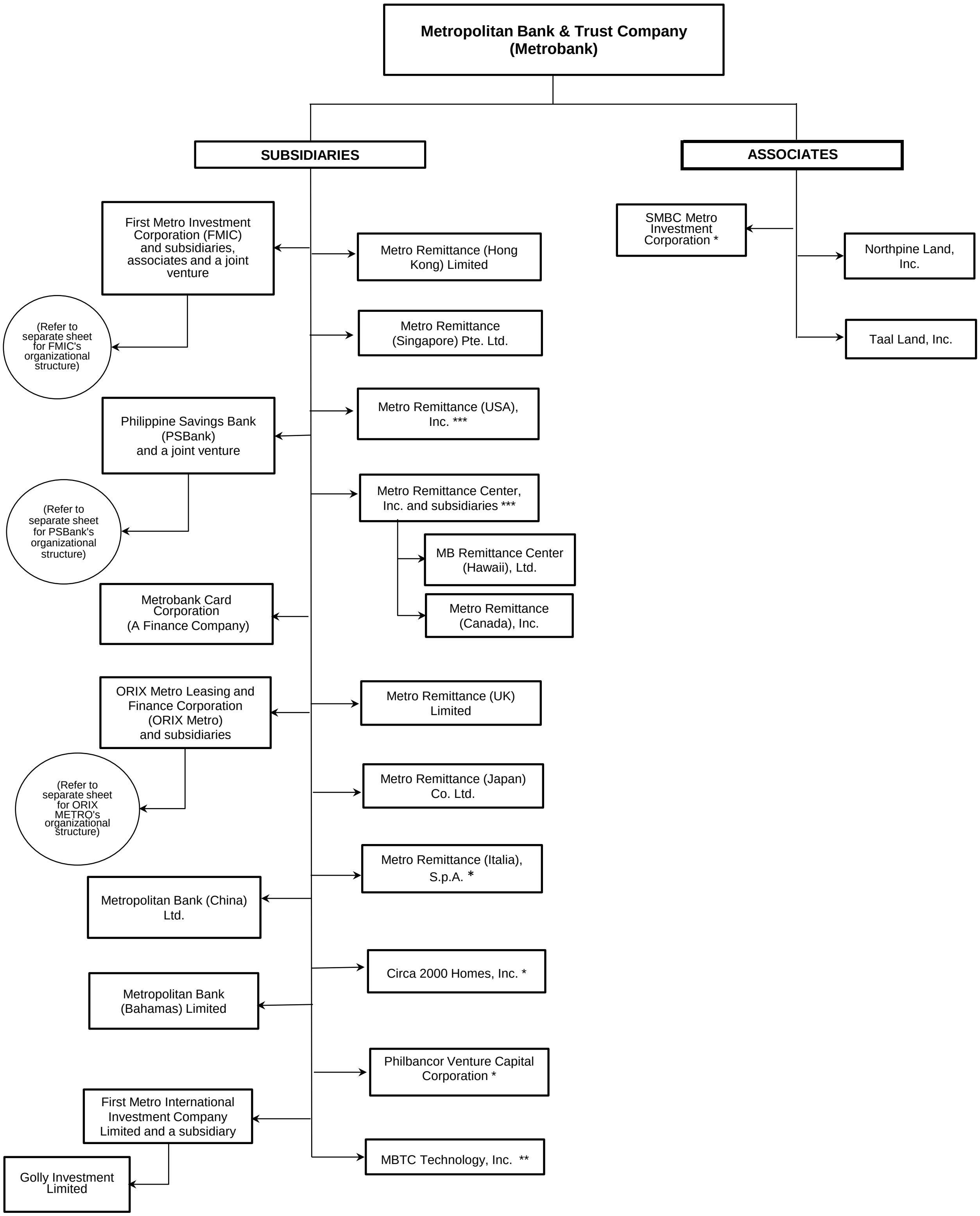
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Authorized						
Preferred stock - P20 par value	1,000,000,000					
Common stock - P20 par value	4,000,000,000					
Issued and outstanding						
Common stock - P20 par value		3,180,172,786		1,585,927,876	36,279,724	1,557,965,186

METROPOLITAN BANK & TRUST COMPANY
SURPLUS AVAILABLE FOR DIVIDENDS *
AS OF DECEMBER 31, 2017
(In ₱ Millions)

UNAPPROPRIATED SURPLUS, BEGINNING AS PREVIOUSLY PRESENTED	₱	101,900
Adjustments:		
Less: Non-actual/unrealized income net of tax:		
Accumulated share in net income of subsidiaries, associates and joint venture - net of dividends		28,829
Fair value adjustments (mark-to-market gains)		729
Recognized deferred tax asset		5,017
Unrealized gains on foreclosure of investment properties - net of accumulated depreciation		426
		35,001
UNAPPROPRIATED SURPLUS AS ADJUSTED TO AVAILABLE FOR DIVIDEND DISTRIBUTION AT BEGINNING OF YEAR		**66,899**
Add: Net income actually earned/realized during the year:		
Net income during the year closed to Surplus		18,223
Less: Non-actual/unrealized income net of tax:		
Fair value adjustment (mark-to-market gains)		900
Equity in net income of subsidiaries, associates and a joint venture - net of dividends		3,340
		4,240
Net income actually earned during the year		**13,983**
Less:		
Dividend declarations during the year		3,180
Appropriations of Retained Earnings during the year		157
		3,337
UNAPPROPRIATED SURPLUS AVAILABLE FOR DIVIDENDS, END	**₱**	**77,545**

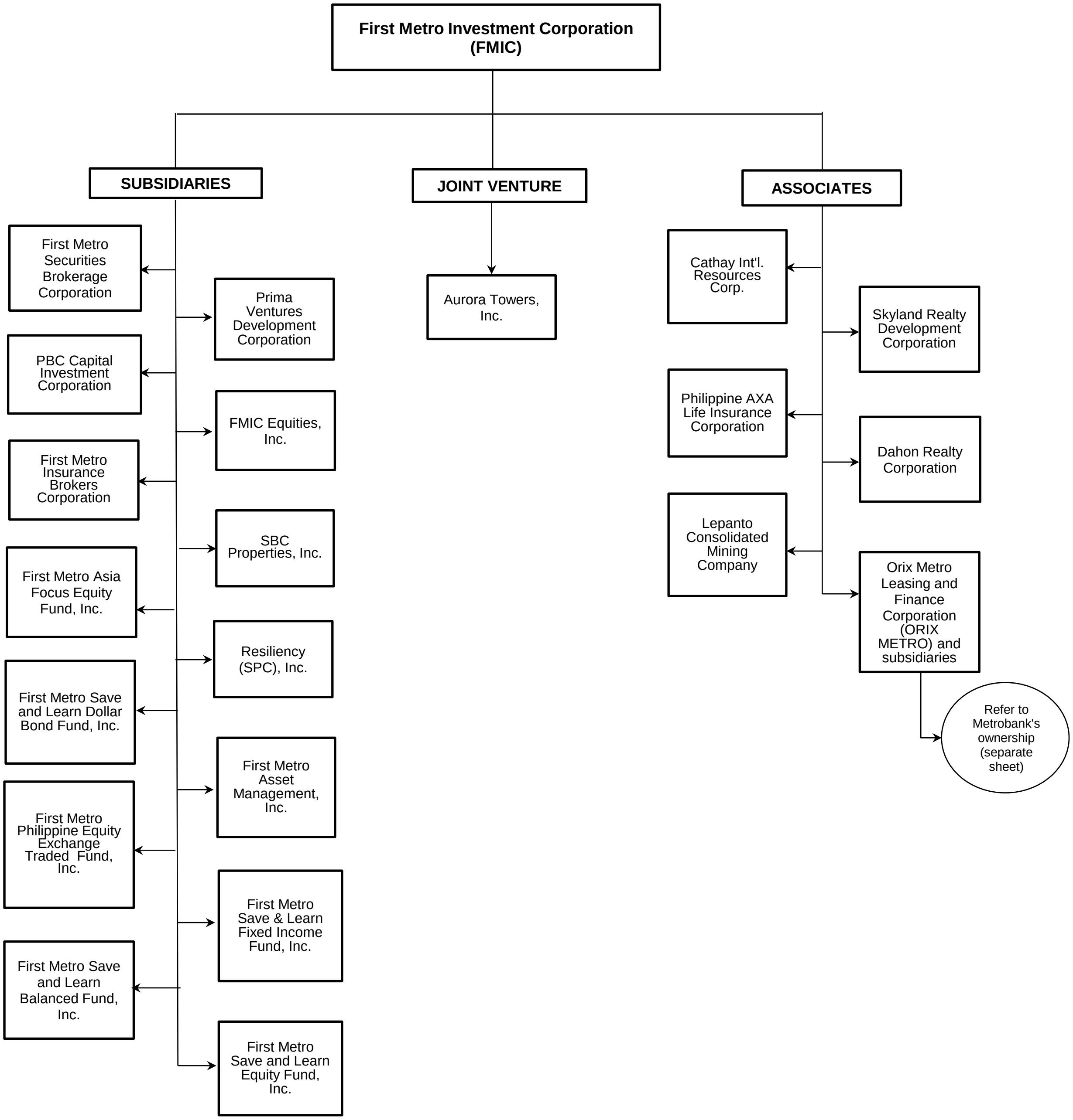
* The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following Bangko Sentral ng Pilipinas guidelines.

Metropolitan Bank & Trust Company
Subsidiaries and Associates
As of December 31, 2017

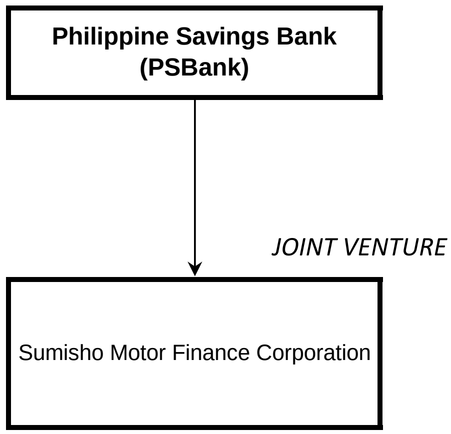


** In process of dissolution*
*** In process of liquidation*
**** With approved agreement of merger*

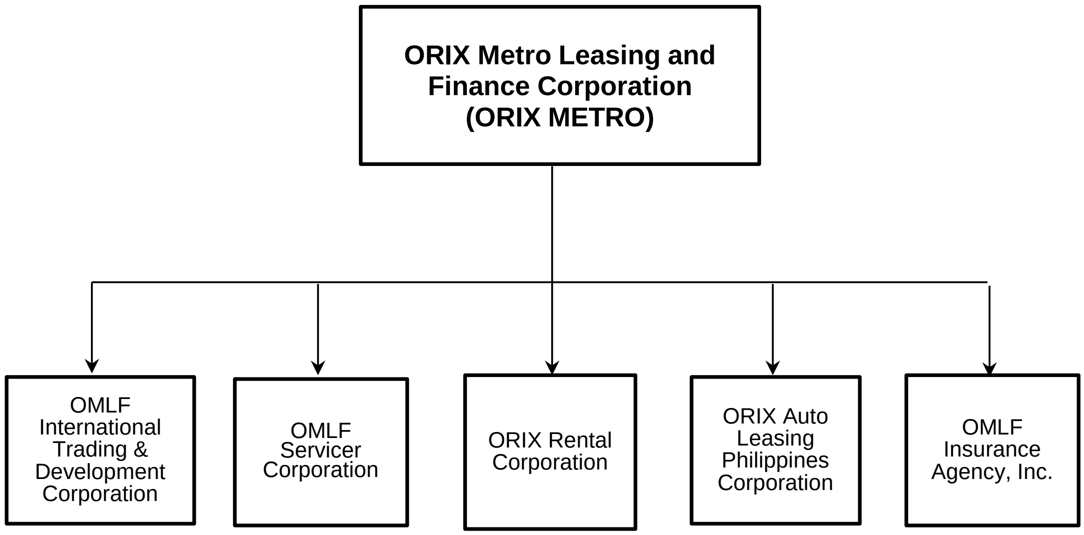
First Metro Investment Corporation Subsidiaries, Joint Venture and Associates



Philippine Savings Bank
Joint Venture
As of December 31, 2017



ORIX Metro Leasing and Finance Corporation (ORIX METRO)
Subsidiaries
As of December 31, 2017



Metropolitan Bank & Trust Company and Subsidiaries
Schedule of All the Effective Standards and Interpretations
December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Conceptual Framework for Financial Reporting		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemption for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1 – Deletion of short-term exemptions for first-time adopters			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in methods of disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓ Effective January 1, 2018 (not early adopted)	
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9		✓ Effective January 1, 2018 (not early adopted)	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	PFRS 9, Financial Instruments		✓	
	Amendments to PFRS 9, Prepayment Features with Negative Compensation		Effective January 1, 2019*	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture		**	
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosures of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 12: Clarification of the scope of the standard	✓		
	Amendments to PFRS 12: Investment Entities Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		Effective January 1, 2018 (not early adopted)	
	Amendments to PFRS 15, Clarifications to PFRS 15		Effective January 1, 2018 (not early adopted)	
PFRS 16	Leases		Effective January 1, 2019 (not early adopted)	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments 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, Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	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	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments for investment entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		**	
	Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures		Effective January 1, 2019* (not early adopted)	
	Amendments to PAS 28 – Measuring an associate or joint venture at fair value		Effective January 1, 2018 (not early adopted)	
	Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendment to PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
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 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
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		Effective January 1, 2018 (not early adopted)	
IFRIC 23	Uncertainty over Income Tax Treatments		Effective January 1, 2019* (not early adopted)	
SIC-7	Introduction of the Euro	✓		
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes- Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

* *Subject to approval by the Board of Accountancy*

** *Original effective date of January 1, 2016 for the amendment was postponed by the FRSC on January 13, 2016, until the IASB has completed its broader review of the research project on equity accounting.*

Standards and Interpretations applicable to annual periods beginning on or after January 1, 2018 (where early application is allowed) will be adopted by the Group as they become effective.

Exhibit 6

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF DECEMBER 31, 2017 AND 2016

		2017	2016
a)	Liquidity Ratio	36.25%	40.27%
b)	Loans to Deposits Ratio	82.60%	76.25%
c)	Debt to Equity Ratio	929.02%	852.26%
d)	Asset to Equity Ratio	1,030.08%	957.14%
e)	Return on Average Equity	9.16%	9.28%
f)	Return on Average Assets	0.92%	0.99%
g)	Net Interest Margin on Average Earning Assets	3.75%	3.54%
h)	Operating Efficiency Ratio	56.82%	56.73%
i)	Capital Adequacy Ratio	14.35%	15.45%
j)	Common Equity Tier 1 Ratio	11.79%	12.54%