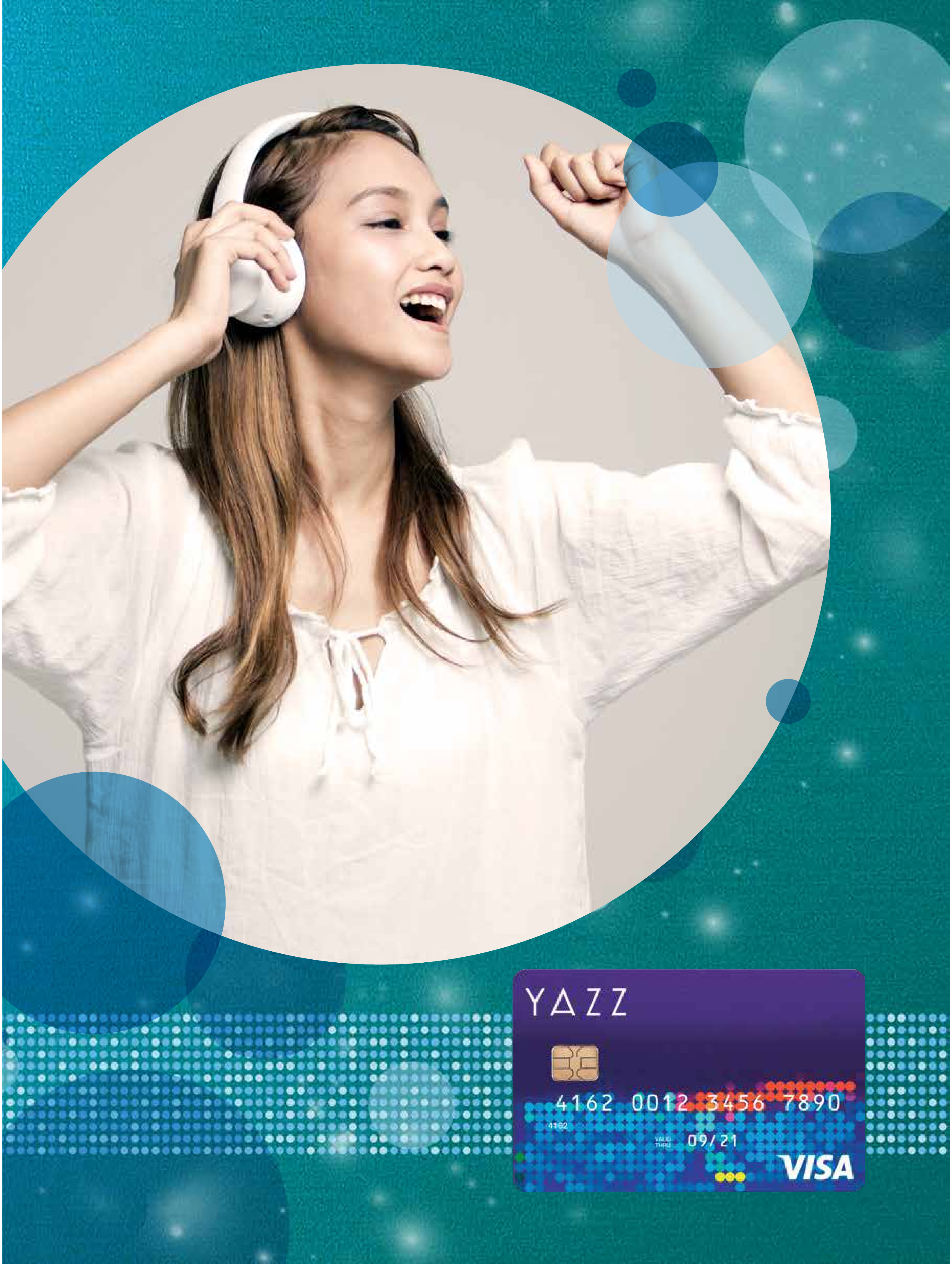
FINANCIAL STATEMENTS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Metrobank Card Corporation

A Finance Company

Financial Statements
December 31, 2016 and 2015

And

Independent Auditor's Report

Metrobank Card Corporation
(A Finance Company)

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

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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

The Stockholders and the Board of Directors
Metrobank Card Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metrobank Card Corporation *(A Finance Company)* (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended 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 Financial Statements* section of our report. We are independent of the 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 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on the Supplementary Information Required Under Revenue Regulations 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 15-2010 in Note 29 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 Metrobank Card Corporation. 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.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
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October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 5908666, January 3, 2017, Makati City

February 27, 2017

METROBANK CARD CORPO RATION
(A Finance Company)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 23)	**₱728,729,249**	₱1,040,500,296
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	**8,890,805,143**	7,636,375,790
Accounts receivable (Notes 8 and 23)	**38,765,245,766**	36,086,922,602
Prepaid expenses and other current assets (Note 23)	**71,544,170**	59,323,239
	48,456,324,328	44,823,121,927
Noncurrent Assets		
Available-for-sale investments (Note 7)	**5,678,480**	5,678,480
Accounts receivable (Notes 8 and 23)	**9,724,799,840**	5,334,354,658
Property and equipment (Note 9)	**662,288,206**	674,176,148
Deferred tax assets (Note 22)	**1,030,768,761**	888,204,546
Intangibles and other assets (Note 10)	**554,224,940**	443,923,392
	11,977,760,227	7,346,337,224
	₱60,434,084,555	₱52,169,459,151
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Accounts payable (Notes 12 and 23):		
Merchants	**₱1,055,504,290**	₱1,342,621,741
Others	**670,248,801**	513,989,664
	1,725,753,091	1,856,611,405
Bills payable (Notes 13 and 23)	**22,824,657,073**	18,537,412,463
Notes payable (Notes 16 and 23)	**6,803,748,337**	10,134,411,493
Deferred revenue (Note 14)	**1,046,041,696**	896,284,990
Income tax payable	**276,731,607**	246,060,095
Accrued interest, taxes and other expenses (Notes 17 and 23)	**767,755,186**	682,642,055
	33,444,686,990	32,353,422,501
Noncurrent Liabilities		
Bills payable (Notes 13 and 23)	**10,661,868,389**	5,314,673,064
Notes payable (Notes 16 and 23)	**6,300,102,063**	5,877,394,143
Subordinated debt (Note 15)	**1,162,428,486**	1,161,328,192
Retirement liability (Note 21)	**430,759,451**	388,459,127
	18,555,158,389	12,741,854,526
	51,999,845,379	45,095,277,027
Equity		
Capital stock (Note 18)	**1,000,000,000**	1,000,000,000
Additional paid-in capital	**76,071,752**	76,071,752
Retained earnings (Notes 18 and 27):		
Unappropriated	**3,944,436,126**	3,353,411,959
Appropriated	**3,700,000,000**	2,877,000,000
Remeasurement losses on retirement plan (Note 21)	**(286,268,702)**	(232,301,587)
	8,434,239,176	7,074,182,124
	₱60,434,084,555	₱52,169,459,151

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
REVENUES		
Interest and penalties	**₱9,608,949,002**	₱9,047,068,458
Discounts earned (Note 23)	**1,747,746,824**	1,550,045,910
Membership fees and dues (Note 14)	**948,936,927**	820,657,455
Recoveries of accounts written-off	**423,582,818**	411,962,884
Awards revenue (Note 14)	**74,983,404**	76,979,167
Interest income from banks (Notes 6 and 23)	**3,505,137**	17,860,808
Miscellaneous (Notes 19 and 23)	**721,231,692**	691,534,404
	13,528,935,804	12,616,109,086
EXPENSES		
Provision for credit losses (Note 11)	**3,815,339,757**	3,380,427,128
Compensation and fringe benefits (Notes 17, 21 and 23)	**1,374,097,274**	1,297,488,686
Interest expense (Notes 13, 15, 16 and 23)	**1,369,709,805**	1,218,354,034
Taxes, duties and license fees (Note 17)	**924,594,040**	866,716,711
Advertising and promotions (Note 17)	**432,455,153**	448,849,774
Communications (Notes 17 and 23)	**388,730,711**	433,035,211
Rent, light and water (Notes 20 and 23)	**150,662,414**	153,001,547
Amortization of intangible assets (Note 10)	**148,581,194**	59,607,785
Loyalty expense (Note 14)	**126,340,340**	102,749,403
Depreciation of property and equipment (Note 9)	**111,989,298**	100,472,366
Distribution costs (Note 23)	**93,332,801**	93,342,505
Computer-related expenses (Notes 17 and 23)	**85,142,695**	178,960,610
Stationery, office supplies and printing	**61,775,828**	70,747,464
Management and professional fees (Notes 17 and 23)	**37,266,553**	28,208,813
Security, messengerial and janitorial (Note 23)	**21,020,739**	19,826,673
Transportation and travel	**6,501,747**	7,812,018
Entertainment, amusement and recreation (Note 22)	**830,909**	921,331
Miscellaneous (Notes 19 and 23)	**356,985,364**	311,054,143
	9,505,356,622	8,771,576,202
INCOME BEFORE INCOME TAX	**4,023,579,182**	3,844,532,884
PROVISION FOR INCOME TAX (Note 22)		
Corporate	**1,328,653,737**	1,223,478,909
Deferred	**(119,435,451)**	(66,169,462)
Final	**336,729**	1,735,280
	1,209,555,015	1,159,044,727
NET INCOME	**₱2,814,024,167**	₱2,685,488,157

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME	**₱2,814,024,167**	₱2,685,488,157
OTHER COMPREHENSIVE LOSS		
Items that recycle to profit or loss in subsequent periods:		
Net changes in unrealized loss on cash flow hedge	**–**	3,901,693
Income tax effect (Note 22)	**–**	(1,170,508)
	–	2,731,185
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement losses on retirement plan (Note 21)	**(77,095,879)**	(114,713,052)
Income tax effect (Note 22)	**23,128,764**	34,413,916
	(53,967,115)	(80,299,136)
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(53,967,115)**	(77,567,951)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱2,760,057,052**	₱2,607,920,206

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF CHANGES IN EQUITY

			Retained Earnings				
	Capital Stock (Note 18)	Additional Paid-in Capital	Unappropriated (Note 27)	Appropriated (Note 18)	Net Unrealized Loss on Cash Flow Hedge	Remeasurement Losses on Retirement Plan (Note 21)	Total
Balance at January 1, 2016	**₱1,000,000,000**	**₱76,071,752**	**₱3,353,411,959**	**₱2,877,000,000**	**₱–**	**(₱232,301,587)**	**₱7,074,182,124**
Total comprehensive income for the year	–	–	**2,814,024,167**	–	–	**(53,967,115)**	**2,760,057,052**
Net appropriations	–	–	**(2,223,000,000)**	**2,223,000,000**	–	–	–
Dividends paid	–	–	-	**(1,400,000,000)**	–	–	**(1,400,000,000)**
Balance at December 31, 2016	**₱1,000,000,000**	**₱76,071,752**	**₱3,944,436,126**	**₱3,700,000,000**	**₱–**	**(₱286,268,702)**	**₱8,434,239,176**
Balance at January 1, 2015	₱1,000,000,000	₱76,071,752	₱3,510,923,802	₱2,149,000,000	(₱2,731,185)	(₱152,002,451)	₱6,581,261,918
Total comprehensive income for the year	–	–	2,685,488,157	–	2,731,185	(80,299,136)	2,607,920,206
Net appropriations	–	–	(2,728,000,000)	2,728,000,000	–	–	–
Dividends paid	–	–	(115,000,000)	(2,000,000,000)	–	–	(2,115,000,000)
Balance at December 31, 2015	₱1,000,000,000	₱76,071,752	₱3,353,411,959	₱2,877,000,000	₱–	(₱232,301,587)	₱7,074,182,124

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,023,579,182**	₱3,844,532,884
Adjustments for:		
Amortization of:		
Intangible assets (Note 10)	**148,581,194**	59,607,785
Debt issuance cost (Notes 13, 15 and 16)	**38,643,241**	37,541,330
Retirement expense (Note 21)	**118,661,201**	135,832,288
Depreciation of property and equipment (Note 9)	**111,989,298**	100,472,366
Unrealized foreign exchange gain (Note 19)	**(17,809,163)**	(17,276,831)
Gain on sale of property and equipment (Note 19)	**(875,721)**	(268,698)
Realized loss on settled derivatives	**–**	14,499,998
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Accounts receivable	**(7,068,768,346)**	(3,670,883,268)
Prepaid expenses and other assets	**(12,953,478)**	7,168,847
Increase (decrease) in the amounts of:		
Bills payable	**9,600,121,752**	2,989,727,238
Deferred revenue	**149,756,706**	80,008,796
Accounts payable	**(130,858,314)**	68,999,181
Accrued interest, taxes and other liabilities	**85,113,131**	58,007,069
Net cash generated from operations	**7,045,180,683**	3,707,968,985
Income taxes paid	**(1,298,318,955)**	(1,244,968,634)
Net cash provided by operating activities	**5,746,861,728**	2,463,000,351
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment (Note 9)	**8,831,995**	18,233,817
Acquisitions of:		
Intangible assets (Note 10)	**(260,649,530)**	(201,566,480)
Property and equipment (Note 9)	**(108,057,630)**	(119,318,567)
Contribution to the retirement plan (Note 21)	**(153,456,756)**	(87,654,658)
Net cash used in investing activities	**(513,331,921)**	(390,305,888)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of notes payable	**14,729,680,580**	8,049,838,965
Payments of:		
Notes payable	**(17,620,551,749)**	(9,188,127,367)
Dividends (Note 18)	**(1,400,000,000)**	(2,115,000,000)
Net cash used in financing activities	**(4,290,871,169)**	(3,253,288,402)
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(332)**	140,030
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**942,658,306**	(1,180,453,909)

(Forward)

	Years Ended December 31	
	2016	2015
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash	**₱1,040,500,296**	₱1,832,732,475
Due from Bangko Sentral ng Pilipinas	**7,636,375,790**	7,085,597,520
Interbank loans receivable and securities purchased under resale agreement	**–**	939,000,000
	8,676,876,086	9,857,329,995
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)		
Cash	**728,729,249**	1,040,500,296
Due from Bangko Sentral ng Pilipinas	**8,890,805,143**	7,636,375,790
	₱9,619,534,392	₱8,676,876,086

OPERATING CASH FLOWS FROM INTERESTS AND DIVIDENDS		
Interest received	**₱9,073,675,164**	₱8,379,703,203
Interest paid	**(1,289,624,372)**	(1,169,714,280)
	₱7,784,050,792	₱7,209,988,923

See accompanying Notes to Financial Statements.

1. Corporate Information

Metrobank Card Corporation (*A Finance Company*) (the Company) was initially incorporated in the Philippines as a credit card company on August 6, 1985, as Unibancard Corporation. On June 4, 2002, the Company changed its name to Metrobank Card Corporation after its merger with AB Card and Solid Card. On March 27, 2008, the Company received its license from the Securities and Exchange Commission (SEC) to operate as a finance company. Also, on June 5, 2008, the Bangko Sentral ng Pilipinas (BSP) issued a quasi-banking license to the Company, which allows borrowings from more than 19 lenders for the purpose of funding working capital.

The Company offers and issues credit cards branded as Metrobank Visa, Metrobank Mastercard, Philippine Savings Bank (PSBank) Credit Mastercard, Robinsons Mastercard, Toyota Mastercard, and YAZZ prepaid cards. Its principal place of business is located at MCC Center, 6778 Ayala Avenue, Makati City.

The Company is 60.0%-owned by Metropolitan Bank and Trust Company (Metrobank or Parent Company) and 40.0%-owned by Australia and New Zealand Funds Pty. Ltd. (ANZ).

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements of the Company have been prepared on a historical cost basis. The Company's financial statements are presented in Philippine peso, the Company's functional currency, and all values are rounded to the nearest peso, except when otherwise indicated.

Statement of compliance
The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of financial statements
The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 4.

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. The Company 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 Company and all of the counterparties.

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 Company.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new pronouncements which were adopted beginning on or after January 1, 2016.

These pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to PFRS 10, PFRS 12, and PAS 28 - *Investment Entities: Applying the Consolidation Exception*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1 - *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38*, Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture - Bearer Plants*
- Amendments to PAS 27 - *Equity Method in Separate Financial Statements*

Annual Improvements to PFRSs (2012 – 2014 cycle)
- Amendments to PFRS 5 - *Changes in Methods of Disposal*
- Amendments to PFRS 7 - *Servicing Contracts*
- Amendments to PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- Amendments to PAS 19 - *Discount Rate: Regional Market Issue*
- Amendments to PAS 34 - *Disclosure Information 'Elsewhere in the Interim Financial Report'*

Significant accounting policies

Current and Noncurrent Classification
The Company presents assets and liabilities in the statement of financial position based on current and noncurrent classification.

An asset or liability is current when it is:

- expected to be realized or intended to be sold or consumed or settled in normal operating cycle;
- held primarily for the purpose of trading; or
- expected to be realized or due to be settled within twelve months after the reporting period.

An asset is also current when it is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. A liability is also current when there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other assets or liabilities are classified as noncurrent. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Foreign currency translations – transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of the transaction.

Foreign currency-denominated monetary assets and liabilities are translated using the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date; income and expenses are translated at PDS weighted average rates prevailing at transaction dates.

Exchange differences arising from reporting foreign currency monetary items at rates different from those at which they were previously recorded, as well as foreign exchange gains or losses arising from foreign currency transactions are credited to or charged against current operations in the year on which the rates changed.

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

Fair value measurement
Fair value is the estimated 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 Company.

The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial 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 Company 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; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company 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.

For the purpose of fair value disclosures, the Company 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 (Note 5).

Cash and cash equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks, amounts due from BSP and interbank loans receivable and securities purchased under resale agreements (SPURA) with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP for debt obligations considered as deposit substitutes.

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 a loan to the Company, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreement 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 as a loan to the counterparty. The Company is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. The difference between the purchase price and resale price is treated as interest income in the statement of income and is accrued over the life of the agreement using the effective interest rate (EIR) method.

Financial instruments - initial recognition and subsequent measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date - the date that an asset is delivered to or by the Company. Amounts due to banks and customers and loans are recognized when cash is received by the Company or advanced to the borrowers.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for financial assets and liabilities valued at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments (HTM), AFS investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. Financial liabilities are classified into financial liabilities at FVPL and financial liabilities at

amortized cost. The Company has no financial instruments at FVPL and HTM investments as of December 31, 2016 and 2015.

'Day 1' profit or loss
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the statement of income under 'Miscellaneous income or expense' unless it qualifies for recognition as some other type of asset.

In cases where use 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 Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

AFS investments
Financial assets classified as AFS are those non-derivative investments which are designated as such and do not qualify to be classified or designated as held-for-trading, FVPL or loans and receivables. After initial measurement, AFS investments are subsequently measured at fair value. AFS investments are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

The unrealized gains and losses from measuring AFS instruments at fair value are recognized directly in equity (other comprehensive income or loss) under 'Net unrealized gain (loss) on AFS investments' account in the statement of financial position. When the investment is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the statement of income. Where the Company holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned while holding AFS debt investments is reported as interest income using the effective interest method. Dividends earned while holding AFS equity investments are recognized in the statement of income when the right of payment has been established. The losses arising from impairment of such investments are recognized in the statement of income and removed from the 'Net unrealized gain (loss) on AFS investments' account.

Loans and receivables
This accounting policy relates to the Company's 'Cash and cash equivalents' (excluding cash on hand), 'Due from BSP', 'Interbank loans receivable and SPURA', 'Accounts receivable' and refundable deposits under 'Other assets'. These are non-derivative 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'.

Purchases by the Company's cardholders which are collected on installments are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned interest income, shown as a deduction from accounts receivable.

Deferred acquisition cost, which is part of 'Accounts receivable', represents capitalized expenses related to incremental direct cost associated with the successful origination of credit card facilities which are amortized over two years, the average relationship life with customers.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest 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 and penalties' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of income.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognized at fair value less directly attributable transaction costs and have not have been designated as at FVPL. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated taking into account any underwriting and debt issue costs that are integral part of EIR.

Issued financial instruments or their components are classified as liabilities under 'Bills payable', 'Notes payable', 'Subordinated debt', 'Accrued interest payable' and other appropriate financial liability accounts (i.e., 'Accounts payable' and 'Accrued expenses') where the substance of the contractual arrangement results in the Company 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 fixed amount of cash or another financial asset.

Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process.

Impairment of financial assets
The Company assesses at each statement of financial position 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 group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or the 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 measureable 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 classified and measured at amortized cost such as loans and receivables and due from other banks, the Company 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).

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as to 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.

The Company's accounts receivable, which significantly represent receivables from credit cardholders, are assessed for impairment collectively because these receivables are not individually significant.

Collective impairment is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from account-level monitoring of monthly peso movements between different stage buckets, from 1 day past due to 180 days 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 days 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.

The carrying amount of the asset is reduced through the 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. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the reporting date, the impairment loss is increased or reduced by adjusting the allowance account. 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. The assets, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral, if any, have been realized or if the accounts are 180 days past due. If a future write-off is later recovered, any amounts formerly charged are credited to the statement of income. Past due accounts include accounts with no payments or with payments but less than the minimum amount due on or before the due dates.

AFS investments
The Company assesses at each statement of financial position date whether there is objective evidence that its AFS investments are impaired.

In the case of 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 'Net unrealized gain (loss) on AFS investments' in other comprehensive income (OCI) and recognized in 'Provision for credit losses' 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.

Renegotiated loans
Where possible, the Company seeks to restructure loans rather than to take possession of any sort of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the

original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated 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.

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:

- the rights to receive cash flows from the asset have expired; or
- the Company 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; and either

    a. has transferred substantially all the risks and rewards of the asset, or
    b. has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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.

Lease
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).

Company as lessee
Leases which do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are 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 payable are recognized as an expense in the period in which they are incurred.

Company as lessor
Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset 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 rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The following specific recognition criteria must also be met before revenue is recognized:

Interest and penalties
Generally, interest and penalties are recognized based on the accrual method of accounting, except for interest and penalties on accounts that are past due for 90 days and over which are recognized only as income upon collection from cardholders.

Interest on interest-bearing placements with banks and securities are recognized as the interest accrues, taking into account the effective yield of the asset.

Unearned interest income on installment purchases by cardholders is recognized as income over the installment terms using the effective interest method.

Discounts earned
Discounts are taken up as income upon receipt from member establishments of charges arising from credit availments by the Company's cardholders and other credit companies' cardholders when the Company 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.

Awards revenue
The Company operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Company. The points can then be redeemed for free products subject to a minimum number of points being obtained.

A proportion of revenue from discounts earned and interchange fees from credit cards is allocated to the reward points. The allocated revenue that corresponds to the total fair value of the reward points is determined by applying statistical analysis. The fair value of the points issued is deferred and recorded under 'Deferred revenue' and recognized as revenue when the points are redeemed.

Membership fees and dues
Membership fees that are periodically charged to cardholders are deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card.

Miscellaneous income
'Over credit limit fee', 'Gross international fee', 'Service fee', 'Business process outsourcing fee' and 'Transaction processing fee' are recognized as income when the related services are rendered.

'Gain on sale of properties' is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer, usually on the date of delivery, and the collectability of the sales price is reasonably assured.

Expense recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Operating expenses
Operating expenses constitute costs which arise in the normal course of business and are recognized when incurred.

Loyalty expense
Costs of rewards are recognized as expense and recorded under 'Loyalty expense' when the related loyalty points are redeemed by the cardholder.

Taxes, duties and license fees
This includes all other taxes, local and national, including gross receipt taxes, documentary stamp taxes, fringe benefit taxes, license and permit fees that are recognized when incurred.

Debt Issue Costs
Issuance and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Property and equipment
Depreciable properties such as building, office condominium units, furniture, fixtures and equipment, transportation equipment, building and leasehold improvements are carried at cost less accumulated depreciation and amortization and accumulated impairment in value, if any. Land is carried at cost less any impairment loss.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment in value, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The annual depreciation and amortization rates follow:

Building	3.3%
Office condominium units	5.0%
Furniture, fixtures and equipment	20.0% to 33.0%
Transportation equipment	20.0%
Building improvements	20.0% or the life of the building, whichever is shorter
Leasehold improvements	20.0% or the term of the lease, whichever is shorter

An item of property and equipment and any significant part initially recognized 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 when the asset is derecognized.

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

The carrying value of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable (see accounting policy on Impairment of nonfinancial assets).

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. 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 the expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. As of December 31, 2016 and 2015, the Company does not have intangible assets with indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

The useful lives of the Company's intangible assets are summarized as follows:

	License fees	Capitalized software
Useful lives	3 to 5 years	1 to 5 years
Amortization method	Amortized on a straight-line basis over the related terms of the contracts	Amortized on a straight-line basis over its useful economic life

License fees
License fees represent the amount paid for the privilege to use software modules and manuals. Following initial recognition, license fees are carried at cost less accumulated amortization and any accumulated impairment losses.

Capitalized software
Capitalized software acquired separately is measured at cost on initial recognition. Following initial recognition, capitalized software is carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful life of the capitalized software is assessed and reviewed periodically. Changes in the expected useful life are accounted for by changing the amortization period and method, as appropriate, and treated as changes in accounting estimates. The amortization expense of the capitalized software is recorded in the statement of income.

Project in progress
Research costs are expensed as incurred. Development expenditures on an individual project are recognized when the Company can demonstrate:

a. the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
b. its intention to complete and its ability and intention to use or sell the asset;
c. how the asset will generate future economic benefits;
d. the availability of resources to complete the asset; and
e. the ability to measure reliably the expenditure during development.

Upon completion of development, the project cost is reclassified to 'Capitalized software'. Amortization of the asset begins when development is complete and the asset is available for use.

Impairment of nonfinancial assets

Property and equipment and intangible assets

At reporting date, or more frequently if events or changes in circumstances indicate that the carrying values may not be recoverable, the carrying values of property and equipment and intangible assets are reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. In assessing 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income. A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to a paid-in capital account.

Retained earnings represent all current and prior period results of operations as reported in the statements of income, reduced by the amounts of dividends declared.

Dividends on common shares

Dividends on common shares are recognized as liability and deducted from equity when they are approved by the Company's Board of Directors (BOD). Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved by the Company's BOD after the statement of financial position date are disclosed as events after the statement of financial position date.

Retirement benefits

The Company operates a defined benefit plan, which requires contributions to be made to a separately administered fund.

Defined benefit plan

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.

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:

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 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 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 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.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. 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 Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and 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 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions and contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, 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. 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 an interest expense.

Contingent liabilities are not recognized but are disclosed in the financial statements 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
Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

Current tax
Current tax assets and liabilities for the current period 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 have been enacted or substantially enacted at the statement of financial position date.

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all 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. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred 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 profit nor taxable profit or loss.

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 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 profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to 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 OCI are also recognized in OCI and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Events after the statement of financial position date

Post-year-end events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Company's accounting policies, management has exercised judgment and made estimates in determining the amounts recognized in the financial statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as these 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.

Judgment

Contingencies

The Company is involved in various legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the outside legal counsel handling the Company's legal proceedings and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will significantly affect the results of operations (Note 25).

Estimates and Assumptions

a. *Estimation of allowance for credit losses on receivables*

   The Company reviews impairment of accounts receivables on a monthly basis. Impairment loss on accounts receivable is determined on a collective basis using the net flow to write-off methodology, reduced by estimated recoveries. The net flow to write-off methodology and the recovery rates are based on historical data for the recent 12 months.

   The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized a different estimate or methodology. Additional credit losses are recorded as provision for credit losses and presented as a separate line item in the statement of income.

   The provision for credit losses on accounts receivable is disclosed in more detail in Note 11.

b. *Revenue recognition for customer loyalty program*

   The Company estimates the fair value of the points awarded under the customer loyalty program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of the products that will be available for redemption in the future, and customer preferences.

   As points issued under the program do not expire, such estimates are subject to significant uncertainty. The estimated liability for unredeemed points is disclosed in Note 14.

c. *Estimation of retirement liability*
The cost of the Company's defined benefit retirement plan is determined using actuarial valuations, which involve various assumptions. These assumptions include the determination of discount rates, future salary increase rates, mortality rates of employees and future pension increases. The defined benefit obligation is highly sensitive to changes in underlying assumptions due to the complexity of the valuation and its long-term nature.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payouts as of the statement of financial position date.

Mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates in the Philippines.

All assumptions are reviewed at each reporting date. The details of assumptions used in the actuarial valuation and amounts of retirement liability as of December 31, 2016 and 2015 are disclosed in Note 21.

d. *Recognition of deferred tax assets*
Deferred tax assets are recognized for all 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.

There were no unrecognized deferred tax assets as of December 31, 2016 and 2015. The carrying value of recognized deferred tax assets is disclosed in Note 22.

4. Financial Risk and Capital Management

Risk is inherent in the Company's operations but is managed through a process of ongoing identification, measurement and monitoring of various risk management parameters, limits and other controls. This process of risk management is critical to the Company's going concern and the Company's management is aware and responsible for the risk exposures relating to the Company's business activities that include, but are not limited to, the following areas:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk management framework
The Company's BOD has overall responsibility for the oversight of the Company's risk management process. Supporting the BOD in this function are BOD-level committees such as the Audit Committee, Risk Oversight Committee, Executive Committee as well as the Management Committee.

The Audit Committee and the Risk Oversight Committee are responsible for monitoring the Company's compliance with regulatory requirements, risk management policies and procedures, and for reviewing the adequacy of these policies and procedures in regard to the risks faced by the Company. Both Committees are supported in these functions by the Risk Management, Finance, Compliance and Internal Audit, through the Executive and Management Committees.

The Audit Committee and the Risk Oversight Committee are each composed of at least three members of the BOD, at least two of whom are independent directors, including the Chairman, with accounting, auditing or related financial management expertise or experience.

The principal responsibilities of the Audit Committee include annual review and reporting to the BOD on its own performance and to provide oversight of internal, compliance and external audit functions. The Risk Oversight Committee is required to identify major credit, operating, liquidity, market risks and other risk issues and shall assess the probability of each risk becoming a reality, estimate its possible effect and cost, and prioritize areas of concern where those risks will most likely occur. Moreover, the Committee ensures that all risk management strategies and policies for all types of risk are developed, properly documented, implemented and effectively communicated to the Company.

The Risk Oversight Committee oversees the Risk Management Division (RMD) in strengthening the Company's policies and procedures.

The RMD of the Company is composed of the Head of Acquisition Risk and Strategy Management, Head of Portfolio Risk, Head of Risk Management Analytics (RMA), Head of Operating Risk, Head of Liquidity Risk, and the Business Information Security Officer (BISO), all of whom report to the Head of Risk Management, who then reports directly to the Risk Oversight Committee.

The risk management process involves the following:

Chief Financial Officer (CFO)
The CFO oversees all financial aspects of the business operation which includes directing and overseeing all financial activities of the Company, including preparation of current financial reports as well as summaries and forecasts for future business growth and general economic outlook. The CFO provides leadership and coordination in the accounting, business planning, management information and budgeting efforts of the Company.

Risk Management Head
The Risk Management Head is accountable for ensuring the efficient and effective governance of significant risks and related opportunities of the business. The Risk Management Head manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks such as credit, market, liquidity and operations that could interfere with the Company's objectives and goals. It is usually the Risk Management Head's responsibility to ensure that the Company is in substantial compliance with its internal operating policies and procedures and any external legal, regulatory or contractual requirements.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

The Company leverages on its relationship with ANZ in strengthening its credit policies and procedures. The Company has established the Credit Risk Unit (CRU), composed of Acquisition Risk and Portfolio Risk, as part of RMD, which continues to modernize and streamline the Company's Credit Risk Management practices and processes. ANZ has direct oversight of the Company's credit function through its Asian Head of Retail Credit Risk.

It is the Company's policy, which is set and approved by the Risk Management Committee, that all individuals who apply for a credit card are subjected to minimum risk acceptance criteria and credit verification procedures. Assignment of credit limit is controlled by using the individual cardholders' risk profile. Where appropriate, a hold-out deposit with affiliated local banks is obtained from customers who fail on certain credit policy requirements. Receivable balances are being monitored monthly to minimize exposure to delinquent cardholders while maximizing revenue of the portfolio.

The Company has continuously focused on process improvement, investments in new technology and enhancement in management information systems (MIS). The Company has also developed and continuously enhances an internal credit scoring system to have a more robust credit risk assessment. Through these efforts, the Company believes that the portfolio can be well-managed, quality of customer base will be improved and sustainability of the business is ensured.

The Company manages credit risk guided by the following principles:

- Strict compliance to credit policies.
- Credit policies should be in consultation with business units and, where appropriate, supported by MIS reports. This covers credit assessment and process, compliance and regulatory requirements and account management.
- Minimize losses by establishing robust credit policies and processes.
- Approval of credit facilities should be based on authorization limits approved by the BOD.
- Expansion to new markets is controlled through credit testing and full use of available credit scoring facilities and credit bureau information.
- Management of portfolio through regular monitoring and analysis of acquisition, line management and usage programs with the goal of controlling exposure to bad accounts while maximizing revenue through effective line management and usage campaigns.
- Delinquent accounts are managed by implementing robust collection strategies and efficient management of collection resources.
- A conscious effort to continuously challenge existing strategies and processes to adapt to changes in the market and maintain the Company's competitiveness.

To track the performance of the portfolio, CRU develops, implements and reviews the credit strategies, policies, models, processes and MIS.

a. Credit risk exposure

Maximum exposure to credit risk after collateral held or other credit enhancements.
The tables below provide the analysis of the maximum exposure to credit risk of the Company's financial instruments, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit:

	2016			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Credit risk exposure relating to on balance sheet assets are as follow:				
Accounts receivable:				
Cardholders:				
Fully secured	**₱204,077,190**	**₱204,077,190**	**₱–**	**₱204,077,190**

	2015			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Credit risk exposure relating to on balance sheet assets are as follow:				
Accounts receivable:				
Cardholders:				
Fully secured	₱254,953,690	₱254,953,690	₱–	₱254,953,690

Collateral and other credit enhancements
The fair value of hold-out cash deposits, that serve as collateral for certain customers, approximate their carrying value due to their short-term maturities.

Offsetting of financial instruments
The Company does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

b. Concentration risk

Concentrations arise when a number of counterparties belong to a group controlled by a family or a conglomerate or are engaged in similar business activities or activities in the same geographical region, or have some similar economic, political, or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

While concentration of credit risks are inherent in the Company's business and cannot be totally eliminated, they are limited and reduced through the Company's risk control and diversification strategies. Safeguarding against credit risk concentrations is an important component of the Company's risk management system.

The BOD is responsible for establishing and monitoring compliance with policies governing large exposures and credit risk concentrations of the Company. The BOD reviews these policies regularly (at least annually) to ensure that they remain adequate and appropriate for the Company. Subsequent changes to the established policies are approved by the BOD.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentration of risk at the statement of financial position date based on the carrying amount of financial instruments is shown below:

	2016				
	Loans and Receivables	**Loans and Advances to Banks***	**AFS Investments**	**Others****	**Total**
Concentration by industry:					
Personal activities	**₱53,010,443,663**	**₱–**	**₱–**	**₱132,900,796,106**	**₱185,911,239,769**
Philippine government	**–**	**8,890,805,143**	**–**	**–**	**8,890,805,143**
Financial intermediaries	**113,214,832**	**728,716,749**	**4,980,480**	**12,641,590**	**859,553,651**
Transport, storage and communications	**–**	**–**	**698,000**	**–**	**698,000**
	53,123,658,495	**9,619,521,892**	**5,678,480**	**132,913,437,696**	**195,662,296,563**
Unearned interest and other deferred income	**(2,787,134,072)**	**–**	**–**	**–**	**(2,787,134,072)**
Allowance for credit losses	**(1,846,478,817)**	**–**	**–**	**–**	**(1,846,478,817)**
	₱48,490,045,606	**₱9,619,521,892**	**₱5,678,480**	**₱132,913,437,696**	**₱191,028,683,674**
Concentration by location:					
Metro Manila	**₱25,014,134,684**	**₱9,619,521,892**	**₱5,678,480**	**₱61,922,403,935**	**₱96,561,738,991**
Luzon (except Metro Manila)	**17,452,711,866**	**–**	**–**	**44,077,091,652**	**61,529,803,518**
Visayas	**5,467,244,255**	**–**	**–**	**13,807,609,268**	**19,274,853,523**
Mindanao	**5,189,567,690**	**–**	**–**	**13,106,332,841**	**18,295,900,531**
	53,123,658,495	**9,619,521,892**	**5,678,480**	**132,913,437,696**	**195,662,296,563**
Unearned interest and other deferred income	**(2,787,134,072)**	**–**	**–**	**–**	**(2,787,134,072)**
Allowance for credit losses	**(1,846,478,817)**	**–**	**–**	**–**	**(1,846,478,817)**
	₱48,490,045,606	**₱9,619,521,892**	**₱5,678,480**	**₱132,913,437,696**	**₱191,028,683,674**

**Comprised of Cash in banks and Due from BSP*
***Comprised of Commitments and contingencies and refundable deposits*

	2015				
	Loans and Receivables	Loans and Advances to Banks*	AFS Investments	Others**	Total
Concentration by industry:					
Personal activities	₱44,974,383,238	₱–	₱–	₱97,964,161,289	₱142,938,544,527
Philippine government	–	7,636,375,790	–	–	7,636,375,790
Financial intermediaries	101,762,935	1,040,427,796	4,980,480	12,022,966	1,159,194,177
Transport, storage and communications	–	–	698,000	–	698,000
	45,076,146,173	8,676,803,586	5,678,480	97,976,184,255	151,734,812,494
Unearned interest and other deferred income	(1,958,420,546)	–	–	–	(1,958,420,546)
Allowance for credit losses	(1,696,448,367)	–	–	–	(1,696,448,367)
	₱41,421,277,260	₱8,676,803,586	₱5,678,480	₱97,976,184,255	₱148,079,943,581
Concentration by location:					
Metro Manila	₱21,950,016,279	₱8,676,803,586	₱5,678,480	₱47,716,077,496	₱78,348,575,841
Luzon (except Metro Manila)	14,446,478,069	–	–	31,396,586,172	45,843,064,241
Visayas	4,320,403,525	–	–	9,389,549,544	13,709,953,069
Mindanao	4,359,248,300	–	–	9,473,971,043	13,833,219,343
	45,076,146,173	8,676,803,586	5,678,480	97,976,184,255	151,734,812,494
Unearned interest and other deferred income	(1,958,420,546)	–	–	–	(1,958,420,546)
Allowance for credit losses	(1,696,448,367)	–	–	–	(1,696,448,367)
	₱41,421,277,260	₱8,676,803,586	₱5,678,480	₱97,976,184,255	₱148,079,943,581

** Comprised of Cash in banks and Due from BSP*
***Comprised of Commitments and contingencies and refundable deposits*

c. Credit quality of financial assets

Loans and receivables
The Company classifies and measures the quality of its receivables from cardholders by number of days past due as follows:

i. Neither past due nor impaired

Receivables from cardholders where principal payments or contractual interests are current as of reporting date, but with historical past due incidence of up to 179 days.

ii. Past due but not impaired

Receivables from cardholders where principal payments or contractual interests are 1 to 89 days past due as of reporting date, but the Company believes that impairment is not appropriate based on the cash flows of the available collateral or status of collection of the amounts due to the Company.

Where appropriate, a hold-out deposit is obtained from customers who fail on certain credit policy requirements. These collaterals are hold-out cash deposits with affiliated local banks (see table disclosure on maximum exposure to credit risk for amounts of receivable from customers secured by assignment of deposits).

iii. Impaired receivables

Receivables from cardholders for which the Company determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the receivables. These are receivables from cardholders that are 90 to 179 days past due as of reporting date. Receivables from cardholders that are 180 days past due are written-off.

Loans and advances to banks, AFS investments and other assets
Financial instruments other than credit card receivables for which the Company has not yet established a credit rating system are classified as unrated. These financial assets include:

i. Cash and cash equivalents

Cash and cash equivalents include deposits with various banks and deposit accounts with the BSP. There is a high assurance of timely payment of interest and principal.

ii. AFS investments

This account represents the Company’s holdings in unquoted equity shares.

iii. Other assets

This account pertains to refundable deposits.

The following tables show the credit quality of the Company's financial assets (amounts in thousands):

	2016						
	Loans and Receivables			Loans and Advances to Banks*	AFS Investments	Others**	Total
	Cardholders	**Others**	**Total**				
Neither past due nor impaired	**₱49,153,362**	**₱576,788**	**₱49,730,150**	**₱9,619,522**	**₱5,678**	**₱12,642**	**₱59,367,992**
Past due but not impaired	**2,351,661**	**–**	**2,351,661**	**–**	**–**	**–**	**2,351,661**
Impaired	**1,041,847**	**–**	**1,041,847**	**–**	**–**	**–**	**1,041,847**
	52,546,870	**576,788**	**53,123,658**	**9,619,522**	**5,678**	**12,642**	**62,761,500**
Unearned interest and other deferred income	**(2,787,134)**	**–**	**(2,787,134)**	**–**	**–**	**–**	**(2,787,134)**
Allowance for credit losses	**(1,833,487)**	**(12,992)**	**(1,846,479)**	**–**	**–**	**–**	**(1,846,479)**
	₱47,926,249	**₱563,796**	**₱48,490,045**	**₱9,619,522**	**₱5,678**	**₱12,642**	**₱58,127,887**

**Comprised of Cash in banks and Due from BSP*
***Comprised of refundable deposits*

	2015						
	Loans and Receivables			Loans and Advances to Banks*	AFS Investments	Others**	Total
	Cardholders	Others	Total				
Neither past due nor impaired	₱41,077,911	₱893,837	₱41,971,748	₱8,676,804	₱5,678	₱12,023	₱50,666,253
Past due but not impaired	2,161,195	–	2,161,195	–	–	–	2,161,195
Impaired	943,203	–	943,203	–	–	–	943,203
	44,182,309	893,837	45,076,146	8,676,804	5,678	12,023	53,770,651
Unearned interest and other deferred income	(1,958,421	-	(1,958,421	-	-	-	(1,958,421
Allowance for credit losses	(1,685,738	(10,710	(1,696,448	-	-	-	(1,696,448
	₱40,538,150	₱883,127	₱41,421,277	₱8,676,804	₱5,678	₱12,023	₱50,115,782

**Comprised of Cash in banks and Due from BSP*
***Comprised of refundable deposits*

The table below shows the credit quality of neither past due nor impaired accounts receivable from cardholders based on historical past due incidence (amounts in thousands).

	2016		2015	
	Amount	**Percentage**	Amount	Percentage
Current and never past due	**₱45,530,964**	**92.6%**	₱38,123,766	92.80%
Balances of accounts with 1 to 29 days past due history	**2,817,635**	**5.7**	2,287,021	5.6
Balances of accounts with 30 to 59 days past due history	**464,402**	**1.0**	422,885	1.0
Balances of accounts with 60 to 89 days past due history	**213,097**	**0.4**	154,154	0.4
Balances of accounts with 90 days and up past due history	**127,264**	**0.3**	90,085	0.2
	₱49,153,362	**100.0%**	₱41,077,911	100.0%

The aging analysis of past due but not impaired accounts receivable from cardholders is shown below (amounts in thousands).

	2016		2015	
	Amount	**Percentage**	Amount	Percentage
1 to 29 days	**₱1,181,304**	**50.2%**	₱1,122,709	51.9%
30 to 59 days	**655,199**	**27.9**	565,674	26.2
60 to 89 days	**515,158**	**21.9**	472,812	21.9
	₱2,351,661	**100.0%**	₱2,161,195	100.0%

Fair value of collateral
Of the total aggregate amount of gross past due but not impaired loans, the fair value of collateral held as of December 31, 2016 and 2015, amounted to ₱4.6 million and ₱7.0 million, respectively. These collaterals obtained from credit cardholders are hold-out cash deposits with affiliated local banks. The fair value of these cash deposits approximate their carrying value due to their short-term maturities.

Market Risk
Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Company focuses on two market risk areas, which are interest rate risk and foreign currency risk.

a. Interest rate risk

Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value. The Company's borrowings consist of a mix of fixed rate notes and monthly repriceable loans, in order to ensure that any adverse effects of interest rate fluctuations are minimized.

The Treasury unit is primarily responsible in managing the liquidity, as well as, the interest rate risk of the Company. They ensure borrowings from various sources of funds are availed at the cheapest possible cost at acceptable terms. In measuring interest rate risk, the Company employs gap analysis wherein an interest rate gap report is prepared by breaking down the statements of financial position accounts according to their contractual maturities or repricing dates, whichever is applicable. The difference in the amount of assets and liabilities maturing or being repriced in any pre-specified time band would be treated as an indicator of the Company's exposure to the risk of potential changes in net interest income.

A funding policy guides the Company's management in determining appropriate levels of term funding that addresses, among other things, interest rate risk, maturity concentration and funding diversification.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax (amounts in millions):

	2016			
	Changes in interest rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change in income before income tax	**₱334.9**	**₱167.4**	**(₱334.9)**	**(₱167.4)**
As percentage of the Company's income before income tax	**8.3%**	**4.2%**	**(8.3%)**	**(4.2%)**

	2015			
	Changes in interest rates (in basis points)			
	(100)	(50)	100	50
Change in income before income tax	₱238.5	₱119.3	(₱238.5)	(₱119.3)
As percentage of the Company's income before income tax	6.2%	3.1%	(6.2%)	(3.1%)

This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure and loan volumes. Actual changes in net income will vary from the model. Other than the potential impact on the Company's income before income tax there is no other effect in equity.

The RMD prepares a quantitative risk model on interest rate risk called the Earnings-at-Risk (EaR). EaR is used to measure any mismatch between assets and liabilities in terms of interest rate repricing. RMD developed EaR limit over a 1-year period. The limit is established to reduce the potential exposure of earnings and/or capital from changes in interest rates. Such method of measuring and controlling interest rate risk is applied during the year. For 2016 and 2015, the EaR limit approved by the BOD is a maximum of 1 month average (approximately 8.3%) of the planned full year net profit after tax.

b. Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency, which is the currency other than the functional currency in which the Company is measured.

Information on the Company's United States dollar (US$) denominated monetary assets and liabilities as of December 31, 2016 and 2015 and their Philippine peso equivalents are as follows (amounts in thousands):

	2016		2015	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Financial Assets				
Cash in banks	**US$2,216**	**₱110,166**	US$3,554	₱167,252
Accounts receivable	**5,930**	**294,863**	5,958	280,395
	8,146	**405,029**	9,512	447,647
(Forward)				
Financial Liabilities				
Notes payable	**US$4,390**	**₱218,271**	US$8,180	₱384,951
Accrued interest payable	**19**	**952**	7	331
	4,409	**219,223**	8,187	385,282
Net foreign currency-denominated assets	**US$3,737**	**₱185,806**	US$1,325	₱62,365

The following tables demonstrate the sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Company's income before income tax (amounts in millions):

	2016			
	Changes in foreign exchange rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change on annualized net income	**(₱185.8)**	**(₱92.9)**	**₱185.8**	**₱92.9**
As percentage of the Company's net income before income tax	**(4.6%)**	**(2.3%)**	**4.6%**	**2.3%**

	2015			
	Changes in foreign exchange rates (in basis points)			
	(100)	(50)	100	50
Change on annualized net income	(₱62.4)	(₱31.2)	₱62.4	₱31.2
As percentage of the Company's net income before income tax	(1.6%)	(0.8%)	1.6%	0.8%

Liquidity Risk and Funding Management

Liquidity and funding management is the ability of the Company to meet financial obligations as they fall due. Liquidity risk is the current and prospective risk to earnings or capital arising from the Company's inability to meet its financial obligations as they fall due.

Liquidity and funding management involves setting a strategy, ensuring effective board and senior management oversight, as well as operating under a sound process for measuring, monitoring and controlling liquidity risk. It requires the Company not only to measure its liquidity position on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

A strong liquidity management system in particular is characterized by an effective analysis of net funding requirements under alternative scenarios and diversification of funding sources. The Company is continuously working on developing diversified funding sources to support its asset growth, as well as to minimize liquidity and interest rate risks.

The Treasury unit, on a daily basis, monitors the cash position of the Company. They ensure that the Company has ample liquidity to settle financial obligations that are due as of a given period. The Treasury unit employs various liquidity or funding tools to determine the expected funding requirements for a particular period.

The RMD prepares the monthly Maximum Cumulative Outflow (MCO) report to measure the liquidity mismatch risk as of a given period. The MCO report provides quantitative information on the potential liquidity risk exposure based on pre-specified time bands. The Company has established MCO limit to aid in controlling liquidity risk. The positive and negative MCO limit of ₱10.8 billion corresponds to 80% of aggregate Wholesale Borrowing Limit (WBL) less utilized WBL. Aside from the MCO report, the RMD also prepares monthly Liquidity Stress testing to augment in measuring potential liquidity risk exposures under different stress scenarios.

The tables below show the MCO report of the Company as of December 31, 2016 and 2015 (amounts in millions):

	2016						
	Up to 1 Month	**1 to 2 Months**	**2 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Assets	**₱15,782**	**₱4,904**	**₱4,137**	**₱8,770**	**₱8,258**	**₱17,066**	**₱58,917**
Liabilities	**11,471**	**3,207**	**2,864**	**10,828**	**4,789**	**18,243**	**51,402**
Periodic Gap	**₱4,311**	**₱1,697**	**₱1,273**	**(₱2,058)**	**₱3,469**	**(₱1,177)**	**₱7,515**
Cumulative Gap	**₱4,311**	**₱6,008**	**₱7,281**	**₱5,223**	**₱8,692**	**₱7,515**	

	2015						
	Up to 1 Month	1 to 2 Months	2 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Assets	₱14,697	₱4,262	₱3,498	₱7,451	₱6,718	₱13,751	₱50,377
Liabilities	12,420	4,895	2,338	7,474	4,930	12,420	44,477
Periodic Gap	₱2,277	(₱633)	₱1,160	(₱23)	₱1,788	₱1,331	₱5,900
Cumulative Gap	₱2,277	₱1,644	₱2,804	₱2,781	₱4,569	₱5,900	

The tables below summarize the maturity profile of the undiscounted remaining contractual maturities of the Company's financial assets and liabilities as of December 31, 2016 and 2015 (amounts in thousands).

	2016					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Cash and cash equivalents	**₱728,735**	**₱–**	**₱–**	**₱–**	**₱–**	**₱728,735**
Due from BSP	**8,890,805**	**–**	**–**	**–**	**–**	**8,890,805**
Accounts receivable:						
Cardholders	**13,562,957**	**16,517,452**	**3,458,373**	**6,570,316**	**12,437,384**	**52,546,482**
Others	**438,641**	**–**	**–**	**138,147**	**–**	**576,788**
	23,621,138	**16,517,452**	**3,458,373**	**6,708,463**	**12,437,384**	**62,742,810**
Financial Liabilities						
Accounts payable:						
Merchants	**1,055,504**	**–**	**–**	**–**	**–**	**1,055,504**
Others	**458,799**	**–**	**–**	**–**	**–**	**458,799**
	1,514,303	**–**	**–**	**–**	**–**	**1,514,303**
Bills payable	**7,170,803**	**5,542,490**	**7,578,462**	**2,648,205**	**11,586,343**	**34,526,303**
Notes payable	**1,545,534**	**–**	**3,290,152**	**2,052,217**	**7,380,453**	**14,268,356**
Subordinated debt	**–**	**18,164**	**36,329**	**72,657**	**1,547,823**	**1,674,973**
Accrued interest and other expenses:						
Accrued interest payable	**34,998**	**45,056**	**43,143**	**27,936**	**81,514**	**232,647**
Accrued advertising	**101,269**	**–**	**–**	**–**	**–**	**101,269**
Accrued other expenses	**433,839**	**–**	**–**	**–**	**–**	**433,839**
	10,800,746	**5,605,710**	**10,948,086**	**4,801,015**	**20,596,133**	**52,751,690**
Net undiscounted financial assets (liabilities)	**₱12,820,392**	**₱10,911,742**	**(₱7,489,713)**	**₱1,907,448**	**(₱8,158,749)**	**₱9,991,120**

	2015					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Cash and cash equivalents	₱1,040,666	₱–	₱–	₱–	₱–	₱1,040,666
Due from BSP	7,636,376	–	–	–	–	7,636,376
Accounts receivable:						
Cardholders	10,142,508	17,329,280	2,276,761	6,043,598	8,692,941	44,485,088
Others	768,028	–	–	125,809	–	893,837
	19,587,578	17,329,280	2,276,761	6,169,407	8,692,941	54,055,967
Financial Liabilities						
Accounts payable:						
Merchants	1,342,622	–	–	–	–	1,342,622
Others	324,445	–	–	–	–	324,445
	1,667,067	–	–	–	–	1,667,067
Bills payable	1,321,724	4,765,208	10,168,584	2,392,235	5,753,741	24,401,492
Notes payable	2,452,559	1,904,481	3,378,813	2,652,229	5,906,317	16,294,399
Subordinated debt	–	18,164	36,329	72,657	1,621,691	1,748,841
Accrued interest and other expenses:						
Accrued interest payable	28,763	37,030	35,458	22,960	66,994	191,205
Accrued advertising	70,285	–	–	–	–	70,285
Accrued other expenses	343,781	–	–	–	–	343,781
	5,884,179	6,724,883	13,619,184	5,140,081	13,348,743	44,717,070
Net undiscounted financial assets (liabilities)	₱13,703,399	₱10,604,397	(₱11,342,423)	₱1,029,326	(₱4,655,802)	₱9,338,897

a. Liquidity risk management and control

As part of a sound liquidity risk management process and at the same time, to adhere to its policy that is, to maintain adequate liquidity at all times, the Company has established liquidity risk limits. These limits are used to control the risk emanating from the funding activities of the Company. These limits are recommended by the RMD, in coordination with Treasury unit, reviewed and approved by ALCO and BOD through RMC.

These limits are reviewed periodically, at least annually, to assess its suitability and reasonableness given the current market and economic conditions.

The current Liquidity Risk Limits utilized by the Company are shown below.

MCO limit	80.0% of aggregate WBL net of unutilized WBL
Current Ratio	1:1
Debt to Equity Ratio	7.5:1
Commitment Guidelines	Less than or equal to 10.0% of the aggregate available credit limits granted to its cardholder
Reserve Requirements mandated by the BSP	20.0% of total deposit substitutes (liabilities)

Actual figures are compared with the above liquidity risk limits and any breaches are immediately escalated or reported to the head of Treasury and CFO, as well as, to the ALCO. The Treasury Unit will explain or justify any breaches and likewise recommend corrective measures within a specified period.

Aside from the established limits mentioned above, the Company has also adopted a Contingency Funding Plan (CFP) for handling liquidity crisis. The CFP outlines the policies and procedures that shall be followed at the onset, during and after the liquidity crisis. It also provides information on the types of events that may trigger to activate the plan, the roles and responsibilities of members of the crisis management team and critical business units, sources of contingency funds, and communication plan.

The CFP helps the Company to ensure sufficient liquidity is maintained even in times of liquidity crisis. The CFP is reviewed and, if necessary, updated annually.

The Company has various credit line and interbank call loan (IBCL) facilities that it can access to meet liquidity needs. Access to sources of funding is sufficiently available and debt maturing within 12 months may be rolled over with existing lenders. As of December 31, 2016 and 2015, the Company has available credit and IBCL lines amounting to ₱17.0 billion and ₱11.9 billion, respectively.

Liquidity Stress Testing
The Company also employs different stress scenarios in evaluating the liquidity position as of a given cut-off date. Stress scenarios applied involves the following stress assumptions and parameters:

a. level of pre-termination of retail promissory notes;

b. significant decrease in the payment levels of cardholders due to increase in delinquencies; and
c. decrease in the level of funding access from wholesale market.

Analysis of the resulting gaps serves as an additional tool in managing exposure in case a liquidity stress scenario should happen. Stress testing report is also prepared monthly by RMD in addition to the MCO reports and liquidity ratios.

The Stress Scenarios currently being employed by RMD are shown below.

a. 25.0% of Retail PN holders (MD> 30 days) pre-terminates; 25.0% of WBL from other banks not accessible. PDR increases to 12.0% at end of 1 year, resulting to decrease in monthly collections
b. 50.0% of Retail PN holders (MD> 30 days) pre-terminates; 50.0% of WBL from other banks not accessible. PDR increases to 16.0% at end of 1 year, resulting to decrease in monthly collections
c. 75.0% of Retail PN holders (MD> 30 days) pre-terminates; 75.0% of WBL from other banks not accessible. PDR increases to greater than 16.0% at end of 1 year, resulting to decrease in monthly collections

Capital Management
Capital management pertains to utilizing efficient processes and or measures to ensure adequate capital is maintained at all times.

The Company's capital management objectives are:

- to maintain sufficient capital, at all times, to meet the minimum regulatory capital requirements set by the BSP;
- to maintain adequate capital that will support the Company's business growth;
- to maintain an adequate capital buffer, at all times, to cover for risk from potential stress events and to attain the desired internal capital adequacy ratio; and
- to ensure that the Company meets the debt to equity ratio as required in the Omnibus Notes Facility Agreement.

As a financial institution, the Company is required to meet the minimum capital adequacy ratio and maintain adequate capital commensurate to the risk of its business and operations.

Accordingly, the Company should likewise be adequately capitalized to enable it to effectively discharge its functions and withstand any foreseeable problems. In addition, as one of the principal objectives of supervision is the protection of cardholders and creditors, banking regulators monitor the adequacy of capital of the Company to ensure that capital recognized in capital adequacy measures is readily available for those creditors.

The BOD ensures that the above objectives are met by the Company in any given time while the management ensures BOD-approved capital management policies are adhered to.

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

In addition, the risk-based capital adequacy ratio (CAR) of the Company with quasi-banking operations, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0%. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Risk-weighted assets consist of total assets less cash on hand, amounts due from BSP, loans covered by hold-out 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. Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge.

On January 15, 2013, the BSP issued Circular No. 781, *Basel 3 Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework and introduced other minimum capital ratios such as Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratio of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5% comprised of CET1 shall also be imposed. BSP Circular No. 781 is effective January 1, 2014.

The CAR of the Company, as reported to BSP, is shown in the table below (amounts in millions except for ratio):

	2016	2015
Tier 1 capital	**₱7,048**	₱6,007
Tier 2 capital	**1,686**	1,609
Gross qualifying capital	**₱8,734**	₱7,616
Credit risk-weighted assets	**₱52,361**	₱44,760
Operational risk-weighted assets	**19,321**	17,099
Total risk weighted assets	**₱71,682**	₱61,859
Risk-based CAR	**12.2%**	12.3%

The regulatory qualifying capital of the Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprise paid-up common stock, unappropriated retained earnings including current year profit, appropriated retained earnings less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI). Tier 2 is composed of Fixed-Rate Unsecured Subordinated Notes (Note 15).

As of December 31, 2016 and 2015, the Company met and complied with the CAR requirement set by the BSP.

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 Metrobank Group (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 pronouncements. The Company follows the Group’s ICAAP framework and submits the result of its assessment to the Parent Company. The BSP requires submission of an ICAAP document on a group-wide basis every January 31.

The Company maintains strong credit standings and capital ratios in order to support its business and maximize stockholder value. The Company is required to maintain a maximum debt-to-equity ratio (total liabilities over equity) of 7.5 times based on the audited financial statements as required in the Company's Omnibus Notes Facility Agreement with various banks. Debt-to-equity ratio of the Company as of December 31, 2016 and 2015 is computed as follows (in millions, except for ratios):

	2016	2015
Total Liabilities (TL)	**₱52,000**	₱45,095
Total Equity (TE)	**8,434**	7,074
Debt-to-Equity Ratio (TL/TE)	**6.2**	6.4

The Company, as a finance company, is also subject to the capital requirement under Sections 2(b) and 6(c) of Republic Act (RA) No. 8556 (The Financing Company Act of 1998). RA No. 8556 prescribes finance companies that at least forty percent (40.0%) of the voting stock of the corporation shall be owned by citizens of the Philippines and should maintain a minimum paid up capital of ₱10.0 million for financing companies located in Metro Manila.

In case the finance company has a branch, agency extension office or unit, additional paid up capital will be required for each as follows:

Location of a branch, agency extension office or unit	Additional capital requirement
Metro Manila and other 1st class cities	₱1,000,000
Other classes of cities	500,000
Municipalities	250,000

As of December 31, 2016 and 2015, the Company is sixty percent (60.0%) owned by Metrobank, a wholly owned Filipino company. For both years, the Company has a paid up capital of ₱1.0 billion which covers the additional ₱3.0 million capital requirement for its extension office in Cebu City, Davao City and Pasay City. As of December 31, 2016 and 2015, the Company has complied with the capital requirements of RA No. 8556.

Operational risk

Operational risk is the risk arising from day to day operational activities which may result from inadequate or failed internal processes, people and systems or from external events, including legal and reputational risks but excludes strategic risks.

The Operating Risk Head is responsible for a) the overall management of operational risk that may pose threat to the Company's business, profitability, reputation, customers, and staff; b) the effective operational risk management of all business initiatives, inter and intra department processes; c) the development of an appropriate risk management environment and structure for the Company; and d) the effectiveness of the areas of business continuity management.

The operational risk management process consists of a staged approach involving establishing the context, risk identification, risk analysis, risk management and mitigation strategies and risk monitoring and review.

Establishing the context provides the Company strategic organizational context of the local business environment. This will assist in determining the appropriate resources for risk management activities, ensuring compliance with the law and enable alignment of the Company's strategies, so the risks that present the greatest risk or impact to the Company are identified and managed effectively.

Risk identification allows the Company to identify the end-to-end risks facing the business. It is important to understand operational risks relative to the area, process, business initiative, product, service or project being examined. Risks identified need to be analyzed in terms of likelihood and consequence of their occurrence.

Where risks are acceptable, the Company records risk acceptance and indicates requirements for testing and monitoring of controls. Where the outcome of the risk analysis step reveals an unacceptable risk, the Company implements risk mitigation and control strategies to eliminate or minimize the risk within acceptable limits.

Risk monitoring and review is the final stage of the risk assessment process where ongoing monitoring, review and reporting are done to ensure changing circumstances are managed in line with risk priorities. This includes the ongoing review of the risk management program to ensure its continued suitability, adequacy, and effectiveness.

Information Security Risk
The Business Information Security Office is responsible for overseeing conduct of independent risk assessment and governance of the Company's information security program, including oversight of information technology risk. This includes establishing, implementing, monitoring and improving controls to ensure protection of the Company's information assets, as well as maintaining and improving the overall information security awareness of the organization.

The unit also oversees the overall implementation and compliance of the Company to the Payment Card Industry Data Security Standards (PCI DSS) as mandated by the payment brands. The PCI DSS compliance program aims to pursue certification in the near future and maintain full compliance thereafter. In coordination with Internal Audit, annual compliance reviews are performed and results are submitted to Visa and MasterCard.

5. Fair Value Measurement

The methods of assumptions used by the Company in estimating the fair value of its financial instruments are as follow:

Cash and cash equivalents and Due from BSP
Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

AFS investments - unquoted equity securities
These are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at a reliable fair value. As at December 31, 2016 and 2015, there were no impairment losses on unquoted equity securities.

Accounts receivable - cardholders
The fair values of accounts receivable from straight payment transactions and short-term installment approximate carrying amounts, net of allowance, while the fair values of long-term installment receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of receivables.

Accounts receivable - others, other assets, accounts payable and accrued interest payable
The carrying amounts, net of allowance, approximate their fair values due to either the demand feature or the relatively short-term maturities of these receivables and payables. Refundable deposits are carried at cost and are not significant to the Company's portfolio of assets.

Bills payable, notes payable and subordinated debt
The carrying value approximates fair value for borrowings with relatively short maturities. For certain borrowings which are long-term in nature, fair values are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of borrowings.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique (amounts in thousands):

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

	2016				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Accounts receivable:					
Cardholders	**₱47,799,655**	**₱–**	**₱–**	**₱51,625,705**	**₱51,625,705**
Financial liabilities					
Bills payable	**₱33,486,525**	**₱–**	**₱–**	**₱33,736,568**	**₱33,736,568**
Notes payable	**13,103,850**	**–**	**–**	**14,722,251**	**14,722,251**
Subordinated debt	**1,162,428**	**–**	**–**	**1,314,115**	**1,314,115**
	₱47,752,803	**₱–**	**₱–**	**₱49,772,934**	**₱49,772,934**

	2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Accounts receivable:					
Cardholders	₱40,354,060	₱–	₱–	₱43,713,144	₱43,713,144
Financial liabilities					
Bills payable	₱23,852,086	₱–	₱–	₱24,369,033	₱24,369,033
Notes payable	16,011,806	–	–	16,261,079	16,261,079
Subordinated debt	1,161,328	–	–	1,739,693	1,739,693
	₱41,025,220	₱–	₱–	₱42,369,805	₱42,369,805

During the years ended December 31, 2016 and 2015, there were no transfers of financial instruments between Level 1 and 2, and no transfers in and out of Level 3.

6. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand	**₱12,500**	₱72,500
Cash in banks	**728,716,749**	1,040,427,796
	728,729,249	1,040,500,296
Due from BSP (Note 13)	**8,890,805,143**	7,636,375,790
	₱9,619,534,392	₱8,676,876,086

Cash in banks include current and savings deposit accounts and foreign currency deposits with related parties (Note 23). In 2016 and 2015, savings account and foreign currency deposits bear annual interest rates of 0.5% and 0.1%, respectively.

Due from BSP is a noninterest-bearing demand deposit account. In compliance with existing BSP regulations, the Company maintains a required statutory reserve for its debt obligations considered as deposit substitutes (Note 13). As of December 31, 2016 and 2015, the total statutory reserves, as reported to the BSP, amounted to ₱8.9 billion and ₱7.6 billion, respectively.

In 2016 and 2015, interbank loans receivable and SPURA have terms of 1 to 11 days and 14 to 19 days, respectively. Interbank loans receivable bears annual interest rate of 2.5% and 2.4% in 2016 and 2015, respectively. SPURA bears annual interest rates ranging from 3.0% to 4.0% and from 3.1% to 4.0% in 2016 and 2015, respectively. There were no interbank loans receivable and SPURA as of December 31, 2016 and 2015.

Interest income earned on cash and other cash items consists of:

	2016	2015
Interbank loans receivable and SPURA	**₱1,864,025**	₱17,366,651
Short-term deposits	**1,545,930**	364,583
Deposits with banks	**95,182**	129,574
	₱3,505,137	₱17,860,808

7. AFS Investments

As of December 31, 2016 and 2015, AFS investments comprised of unquoted equity securities representing holdings in credit union and preferred shares amounting to ₱5.7 million.

8. Accounts Receivable

This account consists of receivables from:

	2016	2015
Cardholders	**₱52,433,267,641**	₱44,008,929,191
Others (Note 23)	**576,787,798**	893,836,794
	53,010,055,439	44,902,765,985
Deferred acquisition cost	**113,603,056**	173,380,188
Unearned interest and other deferred income	**(2,787,134,072)**	(1,958,420,546)
	50,336,524,423	43,117,725,627
Allowance for credit losses (Note 11)	**(1,846,478,817)**	(1,696,448,367)
	₱48,490,045,606	₱41,421,277,260

Total accounts receivable as shown in the statements of financial position follow:

	2016	2015
Current portion	**₱38,765,245,766**	₱36,086,922,602
Noncurrent portion	**9,724,799,840**	5,334,354,658
	₱48,490,045,606	₱41,421,277,260

As of December 31, 2016 and 2015, the Company has outstanding installment credit card receivables amounting to ₱23.9 billion and ₱17.9 billion, respectively, and unearned interest income amounting to ₱2.8 billion and ₱2.0 billion, respectively.

The Company recognized interest income from regular and installment credit card receivables amounting to ₱5.9 billion and ₱3.2 billion in 2016, respectively, and ₱5.8 billion and ₱2.7 billion in 2015, respectively. Credit card receivables include accrued interest receivables amounting to ₱0.3 billion as of December 31, 2016 and 2015.

Credit card receivables include past due accounts amounting to ₱3.4 billion and ₱3.1 billion as of December 31, 2016 and 2015, respectively. There were no unearned interest income from accounts that are past due for over 90 days.

Deferred acquisition cost represents capitalized commissions paid to third-party brokers for successfully originated credit card accounts. Others include advances to officers and employees and receivables from Metrobank (Note 23).

BSP Reporting

The BSP considers that loan concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. As of December 31, 2016 and 2015, 99.8% of the Company's accounts receivable are classified under personal activities.

As of December 31, 2016 and 2015, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2016	2015
Total NPLs	**₱1,041,846,968**	₱943,203,463
Less NPLs fully covered by allowance for credit losses	**1,141,387**	878,267
	₱1,040,705,581	₱942,325,196

NPLs are classified as impaired and refer to loans or receivables whose principal and/or interest is unpaid for 90 to 179 days after due date.

9. Property and Equipment

The components of and movements in this account are as follows:

	2016						
	Land	**Building**	**Building Improvements**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost							
Balances at beginning of year	**₱283,410,974**	**₱222,745,925**	**₱117,808,912**	**₱329,250,918**	**₱208,952,315**	**₱73,425,171**	**₱1,235,594,215**
Acquisitions	–	–	**7,094,415**	**60,524,994**	**39,299,718**	**1,138,503**	**108,057,630**
Disposals	–	–	–	**(6,570,390)**	**(37,808,041)**	–	**(44,378,431)**
Balances at end of year	**283,410,974**	**222,745,925**	**124,903,327**	**383,205,522**	**210,443,992**	**74,563,674**	**1,299,273,414**
Accumulated Depreciation and Amortization							
Balances at beginning of year	–	**58,729,986**	**99,563,469**	**245,565,973**	**102,551,777**	**55,006,862**	**561,418,067**
Depreciation and amortization	–	**7,424,864**	**7,918,926**	**42,556,428**	**39,247,849**	**14,841,231**	**111,989,298**
Disposals	–	–	–	**(6,524,510)**	**(29,897,647)**	–	**(36,422,157)**
Balances at end of year	–	**66,154,850**	**107,482,395**	**281,597,891**	**111,901,979**	**69,848,093**	**636,985,208**
Net Book Value at End of Year	**₱283,410,974**	**₱156,591,075**	**₱17,420,932**	**₱101,607,631**	**₱98,542,013**	**₱4,715,581**	**₱662,288,206**

	2015						
	Land	Building	Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost							
Balances at beginning of year	₱283,410,974	₱222,745,925	₱110,135,145	₱287,595,320	₱213,410,634	₱71,781,992	₱1,189,079,990
Acquisitions	–	–	7,673,767	66,761,498	43,240,123	1,643,179	119,318,567
Disposals	–	–	–	(25,105,900)	(47,698,442)	–	(72,804,342)
Balances at end of year	283,410,974	222,745,925	117,808,912	329,250,918	208,952,315	73,425,171	1,235,594,215
Accumulated Depreciation and Amortization							
Balances at beginning of year	–	51,305,123	91,837,615	234,706,637	97,788,776	40,146,773	515,784,924
Depreciation and amortization	–	7,424,863	7,248,322	32,713,608	38,246,765	14,838,808	100,472,366
Disposals	–	–	–	(21,290,826)	(33,548,397)	–	(54,839,223)
Reclassifications	–	–	477,532	(563,446)	64,633	21,281	–
Balances at end of year	–	58,729,986	99,563,469	245,565,973	102,551,777	55,006,862	561,418,067
Net Book Value at End of Year	₱283,410,974	₱164,015,939	₱18,245,443	₱83,684,945	₱106,400,538	₱18,418,309	₱674,176,148

As of December 31, 2016 and 2015, the cost of fully depreciated property and equipment that are still in use amounted to ₱216.1 million and ₱190.9 million, respectively. Gain on sale of property and equipment amounted to ₱0.9 million and ₱0.3 million in 2016 and 2015, respectively (Note 19).

10. **Intangibles and Other Assets**

This account consists of:

	2016	2015
Intangible assets	**₱530,415,137**	₱418,346,801
Refundable deposits	**12,641,590**	12,022,966
Miscellaneous	**11,168,213**	13,553,625
	₱554,224,940	₱443,923,392

The composition and movements of intangible assets are as follows:

	2016		
	Capitalized Software and License Fees	**Project in Progress**	**Total**
Cost			
Balances at beginning of year	**₱365,782,228**	**₱304,051,187**	**₱669,833,415**
Acquisitions	**9,774,749**	**250,874,781**	**260,649,530**
Reclassifications	**511,650,694**	**(511,650,694)**	**–**
Balance at end of year	**887,207,671**	**43,275,274**	**930,482,945**
Accumulated Amortization			
Balances at beginning of year	**251,486,614**	**–**	**251,486,614**
Amortization	**148,581,194**	**–**	**148,581,194**
Balances at end of year	**400,067,808**	**–**	**400,067,808**
Net Book Value at End of Year	**₱487,139,863**	**₱43,275,274**	**₱530,415,137**

	2015		
	Capitalized Software and License Fees	Project in Progress	Total
Cost			
Balances at beginning of year	₱305,615,513	₱162,852,685	₱468,468,198
Acquisitions	27,564,698	174,001,782	201,566,480
Reclassifications	32,803,280	(32,803,280)	–
Write-offs	(201,263)	–	(201,263)
Balance at end of year	365,782,228	304,051,187	669,833,415
Accumulated Amortization			
Balances at beginning of year	192,080,092	–	192,080,092
Amortization	59,607,785	–	59,607,785
Write-offs	(201,263)	–	(201,263)
Balances at end of year	251,486,614	–	251,486,614
Net Book Value at End of Year	₱114,295,614	₱304,051,187	₱418,346,801

Capitalized software and license fees
Capitalized software includes costs related to software purchased by the Company for use in operations. License fees represent the amount paid for the privilege to use software modules and manuals.

In 2016, the Company migrated its core card and collection management systems to Prime and Tallyman, respectively. The two systems have combined cost of ₱479.4 million.

Project in progress
In 2016 and 2015, the Company reclassified cost of individual projects, which were completed and available-for-use, amounting to ₱511.7 million and ₱32.8 million, respectively, to capitalized software and license fees.

11. Allowance for Credit Losses

Changes in the allowance for credit losses are as follows:

	2016		
	Cardholders	**Others**	**Total**
Balances at beginning of year	**₱1,685,738,159**	**₱10,710,208**	**₱1,696,448,367**
Provision for credit losses	**3,767,928,875**	**47,410,882**	**3,815,339,757**
Accounts written-off	**(3,620,180,521)**	**(45,128,786)**	**(3,665,309,307)**
Balances at end of year	**₱1,833,486,513**	**₱12,992,304**	**₱1,846,478,817**

	2015		
	Cardholders	Others	Total
Balances at beginning of year	₱1,645,400,943	₱6,730,154	₱1,652,131,097
Provision for credit losses	3,347,322,849	33,104,279	3,380,427,128
Accounts written-off	(3,306,985,633)	(29,124,225)	(3,336,109,858)
Balances at end of year	₱1,685,738,159	₱10,710,208	₱1,696,448,367

At the current level of allowance for credit losses, management believes that the Company has sufficient allowance to cover any losses that may be incurred from the nonrealization of its accounts receivable.

As of December 31, 2016 and 2015, the Company's allowance for credit losses for accounts receivable is in compliance with the requirements of Section 9(f) of RA No. 8556. The Company's accounts receivable is written-off if the account is 180 days past due or when there is no realistic prospect of future recovery and all collateral, if any, have been realized.

12. Accounts Payable

This account consists of:

	2016	2015
Payable to merchants	**₱1,055,504,290**	₱1,342,621,741
Others:		
Financial:		
Advance payments from cardholders	**167,873,712**	126,845,538
Payable to Visa/MasterCard	**163,761,188**	88,605,638
Payable to suppliers and service providers (Note 23)	**113,461,252**	95,327,084
Collection fees	**9,030,432**	9,785,790
Miscellaneous	**4,672,444**	3,880,891
	458,799,028	324,444,941

(Forward)

	2016	2015
Nonfinancial:		
Withholding taxes payable	**₱135,628,810**	₱123,852,457
Gross receipts tax (GRT) payable	**64,498,817**	58,524,909
Documentary stamp tax payable	**9,276,143**	5,154,191
Payable to SSS/Pag-ibig	**2,046,003**	2,013,166
	211,449,773	189,544,723
	670,248,801	513,989,664
	₱1,725,753,091	₱1,856,611,405

Payable to merchants represent the amount due to various member establishments for the Company's acquiring transactions. Settlement occurs 1 day after the transaction date.

Miscellaneous account consists of insurance premium payables and stale checks.

13. **Bills Payable**

This account consists of:

	2016	2015
Deposit substitutes	**₱33,271,525,462**	₱23,102,085,527
Interbank loans payable	**215,000,000**	750,000,000
	₱33,486,525,462	₱23,852,085,527

The total bills payable as shown in the statements of financial position follow:

	2016	2015
Current portion of promissory notes issued to:		
Consumers	**₱14,786,827,445**	₱11,942,393,591
Corporates	**7,822,829,628**	5,845,018,872
	22,609,657,073	17,787,412,463
Interbank loans payable	**215,000,000**	750,000,000
	22,824,657,073	18,537,412,463
Noncurrent portion of promissory notes issued to:		
Consumers	**8,704,478,033**	4,739,687,180
Corporates	**1,957,390,356**	574,985,884
	10,661,868,389	5,314,673,064
	₱33,486,525,462	₱23,852,085,527

As of December 31, 2016 and 2015, deposit substitutes have maturities of 15 days to 7 years. Deposit substitutes bear annual interest rates ranging from 0.5% to 5.2% in 2016 and from 0.6% to 5.5% in 2015.

Under the existing BSP regulations, the Company's deposit substitutes are subject to statutory reserves of 20.0% in 2016 and 2015. The total statutory reserves maintained by the Company, as reported to the BSP, is disclosed in Note 6.

Interbank loans payable bear annual interest rates ranging from 2.5% to 2.6% in 2016 and 2015.

Interest expense on the Company's borrowings consists of:

	2016	2015
Bills payable	**₱748,580,593**	₱573,950,452
Notes payable (Note 16)	**547,261,262**	544,320,433
Subordinated debt (Note 15)	**73,867,950**	74,757,449
Cross-currency swap cost	**–**	25,325,700
	₱1,369,709,805	₱1,218,354,034

As of December 31, 2016 and 2015, the unamortized issuance costs on bills payable amounted to ₱50.0 million and ₱28.6 million, respectively.

Amortization of issuance costs on bills payable amounting to ₱34.2 million and ₱31.7 million in 2016 and 2015, respectively, were charged to 'Interest expense' in the statements of income.

14. Deferred Revenue

This account consists of:

	2016	2015
Deferred awards revenue	**₱629,401,177**	₱480,478,400
Deferred membership fees and dues	**416,640,519**	415,806,590
	₱1,046,041,696	₱896,284,990

The changes and movements in these accounts are as follows:

	2016		
	Awards Revenue	**Membership Fees and Dues**	**Total**
Balances at beginning of year	**₱480,478,400**	**₱415,806,590**	**₱896,284,990**
Deferred during the year	**223,906,181**	**949,770,856**	**1,173,677,037**
Recognized to income during the year	**(74,983,404)**	**(948,936,927)**	**(1,023,920,331)**
Balances at end of year	**₱629,401,177**	**₱416,640,519**	**₱1,046,041,696**

	2015		
	Awards Revenue	Membership Fees and Dues	Total
Balances at beginning of year	₱407,144,449	₱409,131,745	₱816,276,194
Deferred during the year	150,313,118	827,332,300	977,645,418
Recognized to income during the year	(76,979,167)	(820,657,455)	(897,636,622)
Balances at end of year	₱480,478,400	₱415,806,590	₱896,284,990

In 2016 and 2015, the cost of redemption of loyalty points, recognized under 'Loyalty expense' in the statements of income, amounted to ₱126.3 million and ₱102.7 million, respectively.

15. **Subordinated Debt**

On February 28, 2013, the Company's BOD approved the issuance of ₱1.2 billion worth of Fixed-Rate Unsecured Subordinated Notes Eligible as Tier 2 Capital due 2023, callable in 2018 (the Notes) pursuant to the BSP Circular No. 280 and No. 781, Series of 2001 and 2013, as amended.

Among the significant terms and conditions of the issuance of the Notes pursuant to the authority granted by the BSP to the Company on October 22, 2013 follow:

a. Issue price at 100.0% of face value.

b. The Notes bear interest at 6.2% per annum from and including December 20, 2013 and thereafter. Interest will be payable quarterly in arrears at the end of each interest period on March 20, June 20, September 20 and December 20 in each year, except for the last interest period which will end on the maturity date.

   Unless previously redeemed, the Notes will be redeemed at their principal amount on the maturity date of December 20, 2023.

c. The Notes will constitute direct, unsecured and subordinated obligations of the Company, and will, at all times, 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 Company, except obligations mandatorily preferred by law.

d. Noteholders are prohibited by the BSP from having the Notes redeemed at their option prior to its maturity. Noteholders, may sell their Notes in the secondary market, however, this is subject to the limitation that the Notes shall be sold only to qualified buyers. Any sale or transfer of the Notes in the secondary market is then subject to market prices and the limitation on the number of allowable holders.

e. The Notes contain provisions relating to loss absorption upon the occurrence of a non-viability trigger event of the Company or Metrobank as determined by the BSP, pursuant to which the Company may be required immediately and irrevocably (without the need for the consent of the holders of the Notes) to effect a write-off in whole or in part of the outstanding principal and accrued and unpaid interest in respect of the Notes or, in the case of non-viability of Metrobank, the Notes may be converted to such number of common shares of the Company.

f. If a non-viability trigger event occurs, a Noteholder will have no claim against the Company at all in respect of any Notes or any portion of the Notes that have been written down and/or terminated.

The Notes shall not be used as collateral for any loan made by the Company or any of its affiliates.

As of December 31, 2016 and 2015, the unamortized issuance costs on subordinated debt amounted to ₱7.6 million and ₱8.7 million, respectively.

Amortization of issuance costs on subordinated debt amounting to ₱1.1 million in 2016 and 2015 were charged to 'Interest expense' in the statements of income (Note 13).

16. **Notes Payable**

This account consists of:

	Maturities	Interest Rates	2016	2015
Current interest-bearing notes (net of unamortized issuance costs):				
Peso-denominated notes:				
Omnibus notes from local banks:				
₱6.2 billion loan facility	**2017**	**2.4% to 2.5%**	**₱4,300,000,000**	₱5,150,000,000
₱2.0 billion loan facility	**2017**	**2.3% to 2.5%**	**1,000,000,000**	2,000,000,000
₱1.0 billion loan facility	**2017**	**6.2%**	**959,497,537**	–
Loans from Metrobank:				
₱2.4 billion credit facility agreement	**2017**	**2.3%**	**500,000,000**	1,800,000,000
₱0.8 billion credit facility agreement	**2016**	**5.6%**	**–**	799,460,693
Dollar-denominated notes:				
Loans from ANZ:				
US$20.0 million credit facility agreement	**2017**	**2.0%**	**44,250,800**	384,950,800
			6,803,748,337	10,134,411,493
Noncurrent interest-bearing notes (net of unamortized issuance costs):				
Peso-denominated notes:				
Omnibus notes from local banks:				
₱2.0 billion loan facility	**2019**	**6.3%**	**1,914,794,575**	1,932,572,207
₱1.0 billion loan facility	**2017**	**6.2%**	**–**	967,936,716
Loans from local banks:				
5Y bilateral loans	**2019**	**5.3% to 5.3%**	**1,442,525,008**	1,493,042,285
5Y bilateral loans	**2020**	**4.8%**	**498,186,543**	497,625,821
5Y bilateral loans	**2021**	**4.7% to 4.7%**	**1,294,231,928**	–
7Y bilateral loans	**2021**	**5.5%**	**976,926,085**	986,217,114
Dollar-denominated notes:				
Loans from ANZ:				
US$5.0 million credit facility agreement	**2019**	**3.2%**	**173,437,924**	–
			6,300,102,063	5,877,394,143
			₱13,103,850,400	₱16,011,805,636

As of December 31, 2016 and 2015, notes payable amounting to ₱1.0 billion and ₱0.8 billion, respectively, which are presented under current liabilities, pertains to long-term notes which are due within one year.

Unamortized issuance costs on notes payable amounted to ₱20.4 million and ₱21.1 million as of December 31, 2016 and 2015, respectively. In 2016 and 2015, amortization of issuance costs on notes payable amounting to ₱3.3 million and ₱4.7 million, respectively, were charged to 'Interest expense' in the statements of income (Note 13).

Following are the significant terms and conditions of the Company's peso and dollar-denominated notes payable:

Bilateral Loans
Interests are due upon maturity and quarterly for short-term notes and long-term notes, respectively. The principal is due upon maturity of the notes. All loans are unsecured and subject to the following standard default provisions that would make the loan due and demandable upon:

- Technical defaults, subject to curing period; or

- Default in payment, loan is immediately due and demandable.

In April 2014, the Company's BOD and management decided to exercise its right to redeem the ₱2.0 billion corporate notes maturing in 2015. This was refinanced via bilateral loans totaling ₱2.5 billion maturing in 2019 and 2021.

Loans from Metrobank
Unsecured loans with quarterly interest payments subject to the following standard default provisions that would make the loan due and demandable upon:

- Use of proceeds other than purpose; or
- Default in payment.

Loans from ANZ
Unsecured loans with interest payable upon maturity and quarterly for short-term notes and long-term notes, respectively. The loans are subject to the following undertakings and provisions:

- Information undertakings, the Company must provide its financial statements and notify events with material adverse effect on the Company;
- Negative pledge provision with an exception to the securitization of credit card receivables;
- Provision to not enter into merger, disposal of assets or to make substantial change to the general nature of the business;
- Other general undertakings such as compliance of laws and payment of taxes; and
- Acceleration clause, the loan becomes due and demandable upon occurrence of an event of default.

Omnibus Agreements
The Omnibus Agreements with various local banks include a cross-default clause wherein it provides that if the Company fails to pay any amount due under any other agreement of document evidencing, guaranteeing or relating to the indebtedness of the Company or other occurrence of event of default or material breach on the part of the Company under any agreement or document, the liability shall be declared due and payable. The loans are unsecured and are obtained to finance credit card receivables.

17. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2016	2015
Accrued interest (Note 23)	**₱232,647,010**	₱191,204,818
Accrued advertising	**101,269,407**	70,285,230
Accrued rewards	**32,386,453**	27,142,182
Accrued taxes	**9,567,326**	23,382,613
Accrued other expenses	**391,884,990**	370,627,212
	₱767,755,186	₱682,642,055

The table below shows the breakdown of accrued other expenses:

	2016	2015
Compensation and fringe benefits (Note 23)	**₱138,626,430**	₱131,043,227
Service fee	**86,862,852**	77,278,351
Communications expense (Note 23)	**58,168,563**	70,244,319
Rental and office-related expenses (Note 23)	**36,286,493**	30,209,969
Computer-related expenses (Note 23)	**7,143,604**	16,293,456
Membership fees	**6,481,935**	12,491,804
Management and professional fees (Note 23)	**3,413,026**	3,824,833
Maintenance cost	**3,401,653**	2,394,817
Miscellaneous expenses	**51,500,434**	26,846,436
	₱391,884,990	₱370,627,212

18. **Equity**

The details of the Company's capital stock as of December 31, 2016 and 2015 are as follows:

	Shares	Amount
Capital stock - ₱1.0 par value		
Authorized	2,000,000,000	₱2,000,000,000
Issued and outstanding		
Balance at beginning and end of year	1,000,000,000	1,000,000,000

Retained Earnings
Under the Corporation Code of the Philippines (the Code), a stock corporation is prohibited from retaining surplus profits in excess of 100.0% of its paid-in capital stock, except when:

a. justified by definite corporate expansion projects or programs approved by the board of directors; or

b. the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its or his consent, and such consent has not yet been secured; or

c. it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies.

The Company retains profit in line with its capital management policy (Note 4).

Appropriations
On February 24, 2016, the BOD approved the net appropriation of retained earnings in the amount of ₱5.3 billion for the following:

1. Appropriation of retained earnings as capital reserves amounting to ₱3.7 billion. The appropriation, in line with the capital management policy (Note 4), is aimed at strengthening the Company's capital to comply with the debt to equity ratio of 7.5:1 per loan covenants and to meet the Capital Adequacy Ratio with due consideration of the impact of adopting the expected credit loss model under PFRS 9. The amount includes re-appropriation of ₱2.5 billion and additional appropriation of ₱1.2 billion during the year.

2. Appropriation of retained earnings for cash dividend declaration of up to ₱1.6 billion which was subsequently declared and paid on August 10, 2016 for a total amount of ₱1.4 billion.

3. Appropriation made in 2015 for various Business Technology projects were released during the year amounting to ₱377.0 million.

Cash Dividends
The following cash dividends were declared and paid in 2016 and 2015:

	Dividend				
Date of Declaration	Per Share	Total Amount	Record Date	Amount Paid	Payment Date
August 8, 2016	₱1.4	₱1,400.0 million	July 8, 2016	₱1,400.0 million	August 10, 2016
June 3, 2015	2.1	2,115.0 million	July 16, 2015	2,115.0 million	August 6, 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 as compared with the computation per BSP guidelines.

19. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2016	2015
Over credit limit fees	**₱293,061,775**	₱313,617,109
Gross international fees	**212,251,730**	188,307,560
Service fees	**103,260,062**	104,532,683
Transaction processing fees	**48,141,513**	19,470,630
Rental income (Notes 20 and 23)	**33,477,993**	32,903,369
Unrealized foreign exchange gain	**17,809,163**	17,276,831
Business process outsourcing fees	**5,327,383**	8,541,778
Gain on sale of property and equipment (Note 9)	**875,721**	268,698
Others	**7,026,352**	6,615,746
	₱721,231,692	₱691,534,404

Over credit limit fees represent charges to cardholders when their outstanding balance exceeded the credit limit allowed by the Company.

Others include quasi-cash fees, card replacement fees and various income generating charges.

Miscellaneous expenses consist of:

	2016	2015
Collection fees	**₱144,571,548**	₱115,476,370
Maintenance costs (Note 23)	**98,553,045**	102,505,070
Verification costs	**46,612,796**	45,513,548
Recruitment costs	**5,762,952**	4,815,355

(Forward)

	2016	2015
Insurance (Note 23)	**₱4,480,619**	₱4,561,583
Employee relations expenses	**3,013,054**	5,004,089
Membership fees (Note 23)	**1,909,435**	2,138,159
Donations	**165,000**	165,000
Others	**51,916,915**	30,874,969
	₱356,985,364	₱311,054,143

20. Leases

Company as lessee

The Company entered into lease agreements with Metrobank for 5 years which ended on December 31, 2016 (with annual escalation of 5%) and for 1 year which will end on September 15, 2017 for the premises that the Company uses in Metropolitan Park and Metrobank Plaza, respectively. The Company signed a new lease renewal offer for 5 years (with annual escalation of 5%) for the premises that the Company uses in Metropolitan Park.

The Company also entered into lease agreements to lease units of point-of-sale terminals for a minimum period of 3 to 5 years. These are cancellable and can be terminated after the specified period stated in the lease agreements.

The future minimum lease commitments under operating lease are as follows:

	2016	2015
Within one year	**₱210,963,735**	₱143,685,828
After one year but not more than five years	**252,735,837**	283,385,702
	₱463,699,572	₱427,071,530

In 2016 and 2015, rental expense included under 'Rent, light and water' in the statements of income amounted to ₱135.11 million and ₱127.3 million, respectively. There were no direct costs incurred in relation to these leases.

Company as lessor

The Company entered into a lease agreement with ANZ and a nonrelated party for 2 years which will end on January 16, 2018 with annual escalation rate of 5.0% for the use of office space for sales and service retail branch.

The future minimum lease commitments under operating lease are as follows:

	2016	2015
Within one year	**₱17,259,565**	₱2,370,474
After one year but not more than five years	**736,305**	2,975,476
	₱17,995,870	₱5,345,950

In 2016 and 2015, rental income included under 'Miscellaneous income' amounted to ₱17.3 million and ₱16.7 million, respectively. There were no direct costs incurred in relation to these leases.

21. **Retirement Liability**

The Company has a funded noncontributory defined benefit plan covering all of its officers and regular employees. The funds are being administered by the Trust Banking Group (TBG) of Metrobank under the supervision of the Retirement Committee.

The Retirement Committee is responsible for giving direction to the Trustee on the investment of the assets of the fund. The Retirement Committee defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants.

When defining the investment strategy, the Retirement Committee takes into account the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure or investment policy.

The Retirement Committee delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller oversees the entire investment process.

Under the existing regulatory framework, Republic Act 7641 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.

On October 23, 2015, the Company's Retirement Committee approved the changes in the retirement benefit plan such as increase in retirement benefits. The principal actuarial assumptions used in determining the retirement liability for the Company's retirement plan as of December 31, 2016 and 2015 are as follow:

	2016	2015
Discount rate	**4.8%**	5.2%
Future salary increases:		
For officers	**8.5%**	8.7%
For staff	**₱1,940**	₱1,930
Average years of service	**7.8 years**	7.4 years
Average remaining working life	**12 years**	12 years
Retirement age	**50 years**	50 years

The changes in retirement liability, present value of defined benefit obligation and fair value of plan assets follow:

2016

		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Past service cost	Net interest	Subtotal*	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Benefits paid	Contribution by employer	December 31, 2016
Present value of defined benefit obligation	₱818,516,526	₱102,123,168	₱–	₱41,869,630	₱143,992,798	₱–	₱27,799,486	₱24,248,225	₱52,047,711	(₱47,266,931)	₱–	₱967,290,104
Fair value of plan assets	(430,057,399)	–	–	(25,331,597)	(25,331,597)	25,048,168	–	–	25,048,168	47,266,931	(153,456,756)	(536,530,653)
Net defined benefit liability	₱388,459,127	₱102,123,168	₱–	₱16,538,033	₱118,661,201	₱25,048,168	₱27,799,486	₱24,248,225	₱77,095,879	₱–	(₱153,456,756)	₱430,759,451

2015

		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2015	Current service cost	Past service cost	Net interest	Subtotal*	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Benefits paid	Contribution by employer	December 31, 2015
Present value of defined benefit obligation	₱576,055,894	₱77,072,978	₱47,932,024	₱27,650,684	₱152,655,686	₱–	₱160,485,276	(₱68,531,725)	₱91,953,551	(₱2,148,605)	₱–	₱818,516,526
Fair value of plan assets	(350,487,449)	–	–	(16,823,398)	(16,823,398)	22,759,501	–	–	22,759,501	2,148,605	(87,654,658)	(430,057,399)
Net defined benefit liability	₱225,568,445	₱77,072,978	₱47,932,024	₱10,827,286	₱135,832,288	₱22,759,501	₱160,485,276	(₱68,531,725)	₱114,713,052	₱–	(₱87,654,658)	₱388,459,127

** Presented under 'Compensation and fringe benefits' in the statements of income.*

The Company expects to contribute ₱151.6 million to its defined benefit pension plan in 2017.

The fair value of plan assets by class are as follow:

	2016		2015	
	Amount	**%**	Amount	%
Deposits in bank	**₱60,441,464**	**11.3%**	₱53,331,921	12.4%
Equity securities	**156,750**	**–**	160,500	–
Debt securities:				
Government	**367,170,095**	**68.4**	319,047,030	74.2
Private	**52,921,902**	**9.9**	4,642,326	1.1
Unit investment trust fund	**53,422,565**	**10.0**	49,466,997	11.5
Others	**2,417,877**	**0.4**	3,408,625	0.8
	₱536,530,653	**100.0%**	₱430,057,399	100.0%

All equity and debt instruments held have quoted prices in active market. The fair value of other assets and liabilities, which include accrued interest receivable and trust fee payables, approximate their carrying amount due to the short-term nature of these accounts.

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

		Increase (Decrease)	
	Possible fluctuations	**2016**	2015
Discount rate			
	1.0%	**(₱108,271,756)**	(₱91,619,531)
	(1.0%)	**127,026,692**	107,858,109
Future salary increase rate			
	1.0%	**97,217,087**	78,613,198
	(1.0%)	**(89,400,323)**	(69,009,564)

Shown below is the maturity analysis of undiscounted benefits payments:

	2016	2015
Less than one year	**₱23,671,134**	₱35,899,972
More than one year to five years	**152,258,560**	178,140,361
More than five years to 10 years	**446,752,148**	434,294,030
More than 10 years to 15 years	**1,226,670,873**	1,171,837,228
More than 15 years to 20 years	**1,732,785,656**	1,708,138,525
More than 20 years	**1,921,569,295**	1,710,849,003

The average duration of the defined benefit obligation as of December 31, 2016 and 2015 is 16.8 years and 17.4 years, respectively.

22. Income Taxes

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0% and 7.5% on peso-denominated and foreign currency-denominated cash in banks, respectively, which is a final withholding tax on gross interest income.

The RCIT rate shall be 30.0% and interest allowed as deductible expense shall be reduced by 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of MCIT of 2.0% on the gross income as of the end of the taxable year beginning on the fourth (4^{th}) taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

In addition, the NIRC of 1997 allows the Company to deduct from its taxable income for the current year its accumulated net operating losses for the immediately preceding three consecutive taxable years.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (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 is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. In 2016 and 2015, EAR expenses amounted to ₱0.8 million and ₱0.9 million respectively.

Deferred tax asset - net
The components of net deferred tax assets follow:

	2016	2015
Deferred tax asset on:		
Allowance for credit losses (Note 11)	**₱553,943,645**	₱508,934,510
Deferred awards revenue (Note 14)	**188,820,353**	144,143,520
Retirement liability (Note 21)	**129,227,835**	116,537,739
Deferred membership fees and dues (Note 14)	**124,992,156**	124,741,977
Accrued expenses	**39,449,257**	28,703,485
Unamortized past service cost	**33,759,181**	22,340,420
	1,070,192,427	945,401,651
Deferred tax liability on:		
Deferred acquisition costs (Note 8)	**(34,080,917)**	(52,014,056)
Unrealized foreign exchange gain	**(5,342,749)**	(5,183,049)
	(39,423,666)	(57,197,105)
Net deferred tax asset	**₱1,030,768,761**	₱888,204,546

Management believes that the current level of deferred tax assets will be utilized in the future.

A reconciliation of the Company's statutory income tax to effective income tax follows:

	2016	2015
Statutory income tax	**₱1,207,073,755**	₱1,153,359,865
Tax effects of:		
Nondeductible expenses	**2,649,625**	6,377,883
Income subjected to final tax	**(168,365)**	(875,796)
Others	–	182,775
Effective income tax	**₱1,209,555,015**	₱1,159,044,727

23. 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. The Company's related parties include:

- Parent Company:
  - Metrobank

- Significant Investor:
  - ANZ

- Affiliates or other related parties, which are associates, subsidiaries, and joint ventures of the Parent Company. Affiliates with which the Company has related party transactions in 2016 and 2015 follow:
  - Charter Ping An Insurance Corporation
  - Federal Land, Inc.
  - First Metro Investment Corporation
  - Metro Remittance Center, Inc.
  - Metro Remittance (Hongkong) Ltd.
  - Metro Remittance (Italia), S.p.A.
  - Metro Remittance (Japan) Co. Ltd.
  - Metro Remittance (Singapore) Pte. Ltd.
  - Metro Remittance (UK) Ltd.
  - Metro Remittance (USA), Inc.
  - ORIX Metro Leasing and Finance Corporation
  - Philippine Axa Life Insurance Corporation
  - Philbancor Venture Capital Corporation
  - PSBank
  - SMBC Metro Investment Corporation
  - Taal Land, Inc.
  - Toyota Cubao, Inc.
  - Toyota Financial Services Philippines Corporation
  - Toyota Manila Bay Corporation
  - Toyota Motor Philippines Corporation
  - GT Capital Holdings
  - Global Business Power

- Post-employment benefit plans for the benefit of the Company's employees.

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members.

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

The Company has a Related Party Committee (RPC) which is 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 business resources of the Company are not misappropriated or misapplied. After appropriate review, the RPC discloses all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPC are appointed annually by the BOD. Currently, the RPC is composed of two (2) independent directors (including the Chairman of the Committee); two (2) regular directors; and the head of Compliance and Internal Audit (as Secretary). The RPC meets on a quarterly basis or as the need arises.

The RPC's review of proposed related party transactions covers 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; (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; and (j) extent that such transaction or relationship would present an improper conflict of interest.

In the ordinary course of business, the Company has transactions with Metrobank and other related companies. The major transactions include availments of loans, short-term cash placements and other regular banking transactions. The branch network of Metrobank and PSBank also acts as servicing units of the Company for the acceptance of payments from cardholders. Metrobank and PSBank charge the Company for every payment and processing of transaction which are recorded under 'Distribution costs' and 'Computer-related expenses' in the statements of income, respectively.

The following table presents the balances of material intercompany transactions of the Company as of and for the years ended December 31, 2016 and 2015 (amounts in thousands):

	December 31, 2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Parent Company			
Cash and cash equivalents		**₱297,205**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively
Deposits	**₱642,526,921**		
Withdrawals	**(642,833,806)**		
Short-term placements		–	Short-term deposits and various overnight placements with terms of 1 to 15 days and bear annual interest rates ranging from 2.0% to 4.0%
Placements	**4,685,000**		
Maturities	**(4,685,000)**		
Accounts receivable	**11,573**	**113,215**	Billings on merchant discount subsidy, outsourcing fees, Point-of-Sale (POS) rentals and charges for use of Visa Banking Identification Number (BIN)
Accounts payable	**1,549**	**2,818**	Service fees on availments of bills payable
Accrued expense payable	**16,146**	**33,201**	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs
Accrued interest payable	**(4,547)**	**722**	Accrued interest payable on interest-bearing notes
Bills payable		**2,300,000**	Overnight borrowings with interest rates ranging from 2.0% to 2.5% and terms of 1 to 15 days
Availments	**500,000**		
Maturities	–		
Notes payable		–	Interest-bearing note with an interest rate of 5.6% and term of 5 years (gross of unamortized issuance cost)
Availments	–		
Maturities	**(800,000)**		
Interest income	**581**		Interest earned on bank deposits and overnight lending

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2016		
Merchant discount	**₱23,077**		Income earned on merchant discount subsidy
Miscellaneous income	**5,327**		Income earned on outsourcing fees
Interest expense	**61,698**		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Rent, light and water	**35,966**		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer-related expense	**68,175**		Transaction processing charges
Communications	**861**		Telephone and courier card delivery charges
Distribution cost	**62,370**		Over-the-counter charges for the accommodation of cardholder payments
Security, messengerial and janitorial	**20**		Administrative expenses
Miscellaneous expense	**6,886**		Other membership and maintenance fees
Significant Investor			
Cash and cash equivalents		**₱52,577**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively
Deposits	**14,859,940**		
Withdrawals	**(14,869,444)**		
Accrued expense payable	**(484)**	**1,424**	Accrual of management and other professional fees and check writer transactions
Accrued interest payable	**565**	**952**	Accrued interest payable on interest-bearing notes
Notes payable		**1,592,189**	Interest-bearing notes with annual interest rate of 1.7% and terms of 14 to 31 days
Availments	**10,040,500**		
Maturities	**(9,699,800)**		
Interest income	**16**		Interest earned on bank deposits
Miscellaneous income	**16,646**		Income earned on leased office space at Metrobank Card Center
Interest expense	**9,795**		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Affiliates			
Cash and cash equivalents		**40,386**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively
Deposits	**6,032,594**		
Withdrawals	**(6,068,475)**		
Short-term placements		**–**	Short-term deposits and various overnight placements with terms of 1 to 3 days and bear annual interest rates ranging from 2.5% to 3.0%
Placements	**6,730,000**		
Maturities	**(6,730,000)**		
Accounts receivable	**206**	**6,609**	Accounts receivable from corporate credit card transactions
Prepaid expenses and other current assets	**(187)**	**421**	Advance payment for insurance premiums
Bills payable		**1,027,815**	Overnight borrowings with interest rate of 2.5% and terms of 1 to 4 days and deposit substitutes with interest rates ranging from 1.0% to 5.5% and terms of 15 to 5 years
Availments	**11,615,183**		
Maturities	**(11,855,061)**		
Notes payable		**50,000**	Interest-bearing note with annual interest rate of 8.5% and term of 5 years (gross of unamortized issuance cost)
Availments	**–**		
Maturities	**–**		
Accrued interest payable	**(3,397)**	**1,307**	Accrued interest payable on deposit substitutes and interest-bearing notes
Accrued expense payable	**(794)**	**1,130**	Over-the-counter charges for the accommodation of cardholder payments and other accrued expenses
Membership fees and dues	**1,635**		Annual membership fee for corporate credit cards
Interest expense	**34,610**		Interest expense on interbank loans payable, deposit substitutes and interest-bearing notes
Distribution cost	**4,222**		Over-the-counter charges for the accommodation of cardholder payments
Rent, light and water	**3,970**		Rentals and utility expenses
Insurance expense	**4,481**		Insurance expenses

	December 31, 2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Parent Company			
Cash and cash equivalents		₱604,090	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively
Deposits	₱560,233,023		
Withdrawals	(560,060,684)		
Short-term placements		–	Short-term deposits and various overnight placements with terms of 1 to 15 days and bear annual interest rates ranging from 2.0% to 4.0%
Placements	16,590,000		
Maturities	(17,590,000)		
Interbank loans receivable		–	Overnight borrowings with interest rates ranging from 1.8% to 3.1%
Placements	–		
Maturities	(400,000)		
Accounts receivable		101,642	Billings on merchant discount subsidy, outsourcing fees, POS rentals and charges for use of Visa BIN
Accounts payable		1,269	Service fees on availments of bills payable
Accrued expense payable		17,055	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs
Accrued interest payable		5,269	Accrued interest payable on interest-bearing notes
Bills payable		1,800,000	Overnight borrowings with interest rates ranging from 2.0% to 2.5% and terms of 1 to 6 days
Availments	1,800,000		
Maturities	–		
Notes payable		800,000	Interest-bearing note with annual interest rate of 5.6% and term of 5 years (gross of unamortized issuance cost)
Availments	–		
Maturities	–		
Interest income	2,811		Interest earned on bank deposits and overnight lending
Merchant discount	65,186		Income earned on merchant discount subsidy
Miscellaneous income	8,542		Income earned on outsourcing fees
Interest expense	69,926		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Rent, light and water	37,714		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer-related expense	173,337		Transaction processing charges
Communications	821		Telephone and courier card delivery charges
Distribution cost	62,303		Over-the-counter charges for the accommodation of cardholder payments
Security, messengerial and janitorial	36		Administrative expenses
Miscellaneous expense	3,893		Other membership and maintenance fees
Significant Investor			
Cash and cash equivalents		62,081	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively
Deposits	11,631,240		
Withdrawals	(11,604,271)		
Accrued expense payable		1,908	Accrual of management and other professional fees
Accrued interest payable		387	Accrued interest payable on interest-bearing notes
Notes payable		1,251,489	Interest-bearing notes with annual interest rate of 1.7% and tenor of 14 to 31 days
Availments	4,558,501		
Maturities	(4,125,178)		
Interest income	46		Interest earned on bank deposits
Miscellaneous income	8,542		Income earned on leased office space at Metrobank Card Center
Interest expense	57,832		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Affiliates			
Cash and cash equivalents		76,267	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively
Deposits	9,750,383		
Withdrawals	(9,734,746)		
Short-term placements		–	Short-term deposits and various overnight placements with terms of 1 to 3 days and bear annual interest rates ranging from 2.5% to 3.0%
Placements	16,630,000		
Maturities	(16,630,000)		
Accounts receivable		6,403	Accounts receivable from corporate credit card transactions
Prepaid expenses and other current assets		608	Advance payment for insurance premiums
Bills payable		1,267,693	Overnight borrowings with interest rates ranging from 2.5% to 2.6% and terms of 1 to 6 days and deposit substitutes with interest rates ranging from 0.6% to 5.5% and terms of 15 to 5 years
Availments	27,815,294		
Maturities	(29,213,833)		

(Forward)

Category	Amount/ Volume	Outstanding Balance	December 31, 2015 Nature, Terms and Conditions
Notes payable		₱50,000	Interest-bearing note with annual interest of 8.5% and term of 5 years (gross of unamortized issuance cost)
Availments	₱–		
Maturities	–		
Accrued interest payable		4,704	Accrued interest payable on deposit substitutes and interest-bearing notes
Accrued expense payable		1,924	Over-the-counter charges for the accommodation of cardholder payments and other accrued expenses
Interest income	1,412		Interest earned on bank deposits and overnight lending
Membership fees and dues	814		Annual membership fee for corporate credit cards
Interest expense	58,172		Interest expense on interbank loans payable, deposit substitutes and interest-bearing notes
Distribution cost	4,922		Over-the-counter charges for the accommodation of cardholder payments
Rent, light and water	4,139		Rentals and utility expenses
Insurance expense	4,562		Insurance expenses

Terms and conditions of transactions with related parties
Outstanding balances as of December 31, 2016 and 2015 are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. An impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

In 2016 and 2015, no provisions for credit losses were provided for receivables from related parties.

Transactions with post-employment benefit plan
Included in the Company's retirement plan assets are time deposits with Metrobank and investments in unit investment trust fund that are being managed by the TBG of Metrobank.

In 2016 and 2015, time deposits with Metrobank bear annual interest rates ranging from 1.0% to 2.5% and 0.4% to 2.8%, respectively. The total carrying value and fair value of the retirement plan assets as of December 31, 2016 and 2015 are disclosed in Note 21.

Remuneration of directors and other key management personnel
The remuneration of directors and key management personnel (included under 'Compensation and fringe benefits' and 'Management and professional fees' in the statements of income) are as follow:

	2016	2015
Salaries and wages and other short-term benefits	**₱138,727,291**	₱132,695,127
Retirement benefits	**26,483,888**	31,103,738
Management fees	**18,000,000**	18,000,000
Directors fees	**10,440,000**	6,870,000
	₱193,651,179	₱188,668,865

The Company's key management personnel includes vice-presidents and above and a seconded officer from ANZ.

There is no agreement between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

Regulatory Reporting

In the ordinary course of business, the Company has various transactions with its affiliates and with certain DOSRI. These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Company, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Company. In the aggregate, loans to DOSRI generally should not exceed the lower of the Company's total regulatory capital or 15.0% of the total loan portfolio.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI loans as reported to the BSP:

	2016	2015
Total outstanding DOSRI loans	**₱176,304,101**	₱64,776,595
Percent of DOSRI loans to total loans	**0.35%**	0.15%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.50%**	1.36%
Percent of past due DOSRI loans to total DOSRI loans	**0.50%**	1.36%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.50%**	1.36%

Under BSP Circular No. 423, loans and other credit accommodations and guarantees secured by assets are considered as non-risk by the MB and therefore excluded from DOSRI individual and aggregate ceilings.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% 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 of December 31, 2016 and 2015, the total outstanding loans, other credit accommodations and guarantees to each of the Company's affiliates and certain DOSRI did not exceed 10.0% of the net worth of the Company, and the unsecured portion of which did not exceed 5.0% of such net worth.

24. Financial Performance

As of December 31, 2016 and 2015, the basic ratios which measure the financial performance of the Company are as follows:

	2016	2015
Return on average equity	**36.3%**	39.3%
Net interest margin on average earning assets	**13.5%**	14.5%
Return on average assets	**5.0%**	5.3%

25. Commitments and Contingencies

In the normal course of operations, the Company has outstanding commitments to extend credit to credit cardholders which are not reflected in the financial statements. The Company does not anticipate losses that will materially affect its assets and liabilities as a result of these transactions.

As of December 31, 2016 and 2015, credit cardholders' unused credit limit amounted to ₱132.9 billion and ₱98.0 billion, respectively.

Various suits and claims by the Company against cardholders, and vice-versa remain unsettled as of December 31, 2016 and 2015. The estimates of the probable cost for the resolution of claims have been developed in consultation with the aid of the outside legal counsel handling the Company's defense in these matters and are based upon analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. 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 these proceedings.

26. Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the future adoption of these pronouncements are not expected to have any significant impact on the financial statements of the Company. The Company intends to adopt the following pronouncements, if applicable, when they become effective.

Effective beginning on or after January 1, 2017

- Amendments to PFRS 12 - *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9 with PFRS 4*
- Amendments to PAS 28 - *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property - Transfers of Investment Property*
- Philippine Interpretation IFRIC-22 - *Foreign Currency Transactions and Advance Consideration*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Pronouncements that are deemed to have significant impact on the financial statements of the Company are described below.

Effective beginning on or after January 1, 2017

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

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

Effective beginning on or after January 1, 2018

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

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's amount of credit losses. The Company 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 PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

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 Company is currently assessing the impact of adopting PFRS 16.

27. Subsequent Events

On February 27, 2017, the BOD approved the net appropriation of retained earnings in the amount of ₱6.6 billion for capital reserves. The appropriation, in line with the capital management framework (Note 4), is aimed at strengthening the Company's capital to comply with the debt to equity ratio of 7.5:1 per loan covenants and to meet the Capital Adequacy Ratio with due consideration of the impact of adopting the expected credit loss model under PFRS 9. The amount includes re-appropriation of ₱3.7 billion and additional appropriation of ₱2.9 billion.

28. Approval of Release of Financial Statements

The accompanying comparative financial statements of the Company were authorized and approved for issuance by the BOD on February 27, 2017.

29. Supplementary Information Required Under RR 15-2010

In 2016, the Company reported and/or paid the following taxes which are included under 'Taxes, duties and license fees' in the statement of income:

GRT	₱712,329,094
Documentary stamp tax (DST)	157,935,497
Local taxes	27,431,910
Fringe benefit tax	9,351,314
License fee	3,781,245
Others	13,764,980
	₱924,594,040

DST payments of ₱119.9 million and ₱38.0 million, respectively, are related to bills payable and notes payable issuances in 2016.

Withholding Taxes
As of December 31, 2016, total remittances and balance of withholding taxes are as follows:

	Total remittances	Balance
Expanded withholding tax	₱566,097,470	₱117,134,620
Withholding tax on compensation and benefits	206,420,721	11,459,009
Withholding value-added tax	11,515,374	1,781,451
Final withholding tax	255,247,201	5,253,730
	₱1,039,280,766	₱135,628,810

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